

WORKSHOP MEETING OF THE  
BOARD OF DIRECTORS WITH MET DIRECTORS  
MUNICIPAL WATER DISTRICT OF ORANGE COUNTY  
18700 Ward Street, Board Room, Fountain Valley, California  
April 6, 2016, 8:30 a.m.

**AGENDA**

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**PLEDGE OF ALLEGIANCE**

**ROLL CALL**

**PUBLIC PARTICIPATION/COMMENTS**

At this time members of the public will be given an opportunity to address the Board concerning items within the subject matter jurisdiction of the Board. Members of the public may also address the Board about a particular Agenda item at the time it is considered by the Board and before action is taken.

The Board requests, but does not require, that members of the public who want to address the Board complete a voluntary "Request to be Heard" form available from the Board Secretary prior to the meeting.

**ITEMS RECEIVED TOO LATE TO BE AGENDIZED**

Determine need and take action to agendize item(s), which arose subsequent to the posting of the Agenda. (ROLL CALL VOTE: Adoption of this recommendation requires a two-thirds vote of the Board members present or, if less than two-thirds of the Board members are present, a unanimous vote.)

**ITEMS DISTRIBUTED TO THE BOARD LESS THAN 72 HOURS PRIOR TO MEETING**

Pursuant to Government Code Section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection in the lobby of the District's business office located at 18700 Ward Street, Fountain Valley, California 92708, during regular business hours. When practical, these public records will also be made available on the District's Internet Web site, accessible at <http://www.mwdoc.com>.

**(NEXT RESOLUTION NO. 2029)**

**PRESENTATION/DISCUSSION/INFORMATION ITEMS**

**1. OTHER INPUT OR QUESTIONS ON MET ISSUES FROM THE MEMBER AGENCIES/MET DIRECTOR REPORTS**

*Recommendation: Receive input and discuss the information.*

**2. ORANGE COUNTY'S DROUGHT PERFORMANCE – JANUARY 2016 REPORT**

*Recommendation: Review and discuss the information presented.*

**3. UPDATE ON MWD'S PROPOSED BIENNIAL BUDGET AND RATES FOR FISCAL YEARS 2016/17 AND 2017/18 (Approximate Presentation Time: 20 minutes)**

*Recommendation: Review and discuss the information presented.*

**4. STATUS REPORT ON THE INTEGRATED RESOURCES PLAN (IRP) PHASE 2**

*Recommendation: Review and discuss the information presented.*

**5. MET ITEMS CRITICAL TO ORANGE COUNTY** (The following items are for informational purposes only – a write up on each item is included in the packet. Discussion is not necessary unless requested by a Director)

- a. MET's Water Supply Conditions
- b. MET's Finance and Rate Issues
- c. Colorado River Issues
- d. Bay Delta/State Water Project Issues
- e. MET's Ocean Desalination Policy and Potential Participation by MET in the Doheny Desalination Project and in the Huntington Beach Ocean Desalination Project (Poseidon Desalination Project)
- f. Orange County Reliability Projects
- g. East Orange County Feeder No. 2

*Recommendation: Discuss and provide input on information relative to the MET items of critical interest to Orange County.*

**6. METROPOLITAN (MET) BOARD AND COMMITTEE AGENDA DISCUSSION ITEMS**

- a. Summary regarding March MET Board Meeting
- b. Review items of significance for MET Board and Committee Agendas

*Recommendation: Review and discuss the information presented.*

**ADJOURNMENT**

Note: Accommodations for the Disabled. Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by telephoning Maribeth Goldsby, District Secretary, at (714) 963-3058, or writing to Municipal Water District of Orange County at P.O. Box 20895, Fountain Valley, CA 92728. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so that District staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the District to provide the requested accommodation.



## Item No. 1

### DISCUSSION ITEM

April 6, 2016

**TO:** Board of Directors

**FROM:** Robert Hunter,  
General Manager

**SUBJECT: OTHER INPUT OR QUESTIONS ON MET ISSUES FROM THE MEMBER AGENCIES/MET DIRECTOR REPORTS**

### STAFF RECOMMENDATION

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Staff recommends the Board of Directors: Receive input and questions as well as report on MET issues.

### DETAILED REPORT

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Pursuant to discussion with the member agencies, this item is available to the agencies to provide input and ask questions, as well as provide a time for the MWDOC MET Directors to report on MET issues.

<b>Budgeted (Y/N):</b>	<b>Budgeted amount:</b>	<b>Core __</b>	<b>Choice __</b>
<b>Action item amount:</b>	<b>Line item:</b>		
<b>Fiscal Impact (explain if unbudgeted):</b>			



## DISCUSSION ITEM

April 6, 2016

**TO:** Board of Directors

**FROM:** Robert Hunter  
General Manager

Staff Contact: Harvey De La Torre/  
Kevin Hostert

**SUBJECT: ORANGE COUNTY'S DROUGHT PERFORMANCE – January 2016  
REPORT**

### STAFF RECOMMENDATION

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Staff recommends the Board of Directors review and discuss this information

### BACKGROUND

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Last year Governor Brown issued an Executive Order calling for statewide mandatory water reductions for all urban water retail agencies. The purpose was to reduce water consumption in response to the record-breaking drought throughout the state of California. While each Orange County retail agency was assigned a conservation target by the State Water Resource Control Board (State Board) that ranged between 8% and 36%, the aggregated water savings target among all of the retail agencies in Orange County is approximately 21.73%.

At the same time, the Metropolitan Board implemented its water supply allocation plan at Level 3, effective July 1, 2015 for all of its member agencies. This called for a reduction, no greater than 15%, in imported water usage for a twelve month period - ending June 30, 2016.

The reports below demonstrate how: (1) Orange County, as a whole, has been performing under the State Board's water saving targets; and (2) how MWDOC has been tracking under MET's imported water supply allocation targets. Please note, these targets are calculated differently and are based on different factors.

Budgeted (Y/N): n/a	Budgeted amount: n/a	Core _X_	Choice __
Action item amount: n/a	Line item:		
Fiscal Impact (explain if unbudgeted):			



## Report

**Orange County's Performance under the SWRCB Mandatory Reduction Targets****Orange County monthly % Savings vs. SWRCB Target**

(As of March 29, 2016)

	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan
Orange County SWRCB Savings Target*	21.73% - Monthly Saving Target							
Orange County Actual Savings	23.86%	29.18%	25.12%	28.45%	23.47%	15.58%	17.67%	18.00%
Savings beyond the Target	2.13%	7.43%	3.39%	6.72%	1.74%	-6.15%	-4.06%	-3.73%

For the month of January 2016, Orange County retail water agencies reported a total water saving of 18.00% (note this is compared to January 2013 water usage). This is ***below*** our Orange County month conservation target of 21.73% by -3.73%. However, the cumulative savings for the six months of the State Board's mandatory regulations total 23.37% for Orange County.

**NOTE:** At the time of preparing this report, the State Board had not released its numbers for the month of February 2016. Depending on when the new numbers are released, staff will present the new savings amount at the Board workshop on April 6.

**MWDOC's performance under the MET's Water Supply Allocation Plan****MWDOC Actual Imported Water Usage vs. Imported Allocation Target**

(As of March 29, 2016)

(In Acre-Feet)

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb	Total
Allocation Monthly Target*	22,815	23,121	20,877	16,810	13,986	11,646	10,846	9,812	129,913
Actual Imported Usage**	15,951	15,791	12,476	14,132	17,966	12,545	7,651	8,206	104,719

[\*] Estimated monthly imported water allocation targets per the MWDOC's WSAP model.

[\*\*] This includes all MWDOC imported water purchases – Full Service Treated and Full Service untreated (Replenishment purchases are included)

**Note:** These targets are subject to change based on actual local supply production and WSAP calculations.

As of March 28, the actual imported water usage for July through February totals 104,719 AF, this is 25,194 AF below our estimated allocation target (this includes OCWD purchases).

Based on our actual imported water usage, we are tracking comfortably below our allocation targets. This is mainly due to retail agency response to the State Board's mandatory reduction targets. As a result of these savings, the MWDOC Board authorized the General Manager to offer our member agencies a "secondary assignment" of unused imported water from our MET's Allocation with appropriate conditions. Below is a summary of the offers of "secondary assignment" unused imported water to OCWD.

- **October 2015** - OCWD responded to this offer taking 17,000 AF of untreated water to their spreading basins.
- **November 25, 2015** - OCWD requested to take only 3,000 AF of the 7,000 AF offered. This brought OCWD's total purchases of imported water to 20,000 AF and a total 24,000 AF of "secondary assignment" offered.
- **February 23, 2016** - MWDOC sent an offer letter to OCWD providing an additional 11,000 AF of untreated water, this brought the total "secondary assignment" amount to 35,000 AF.
- **March 28, 2016** - MWDOC sent an offer letter to OCWD of providing an additional 10,000 AF of untreated water, this will bring the total secondary assignment" amount to 45,000 AF.

MWDOC will continue to monitor and inform our Board and member agencies of our imported water usage and unused allocation on a monthly basis.



# Orange County Drought Performance & Water Supply Report

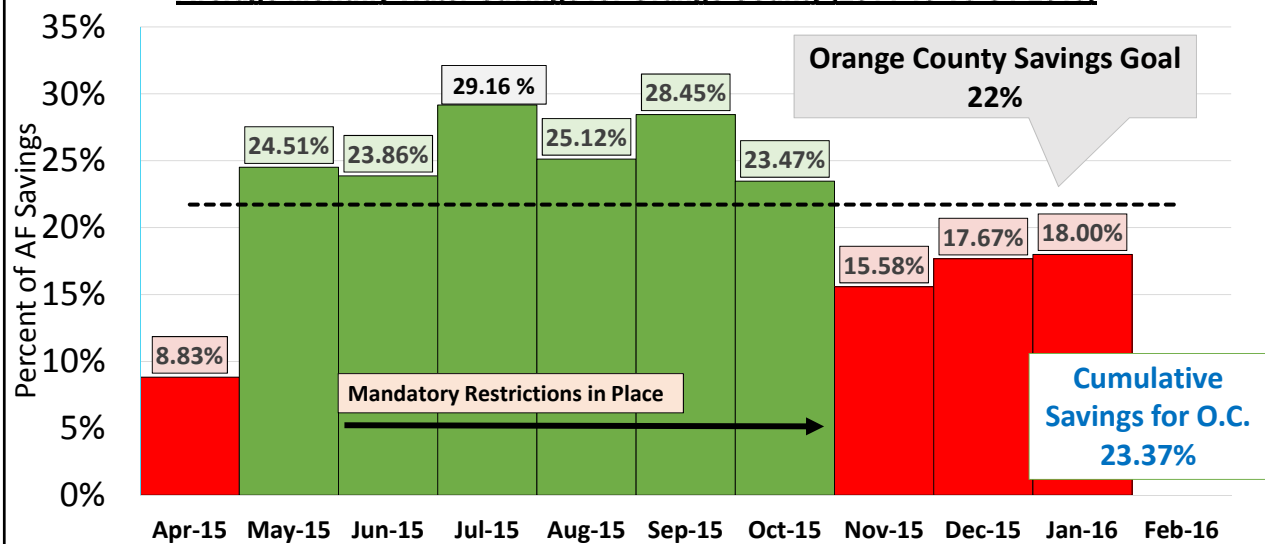
April 6, 2016

Municipal Water District of Orange County

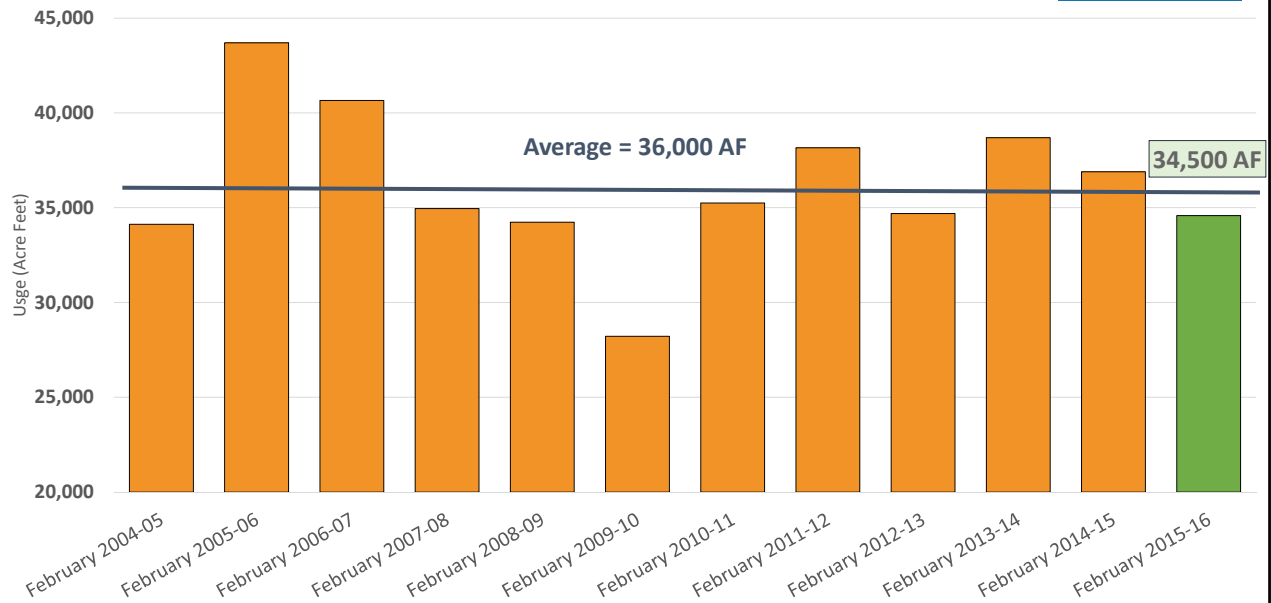
## O.C. Water Savings Reported to SWRCB



### Average Monthly Water Savings for Orange County (2014-15 Vs CY 2013)



## OC Historical *February* Water Usage



## FY Annual Precipitation (Santa Ana)



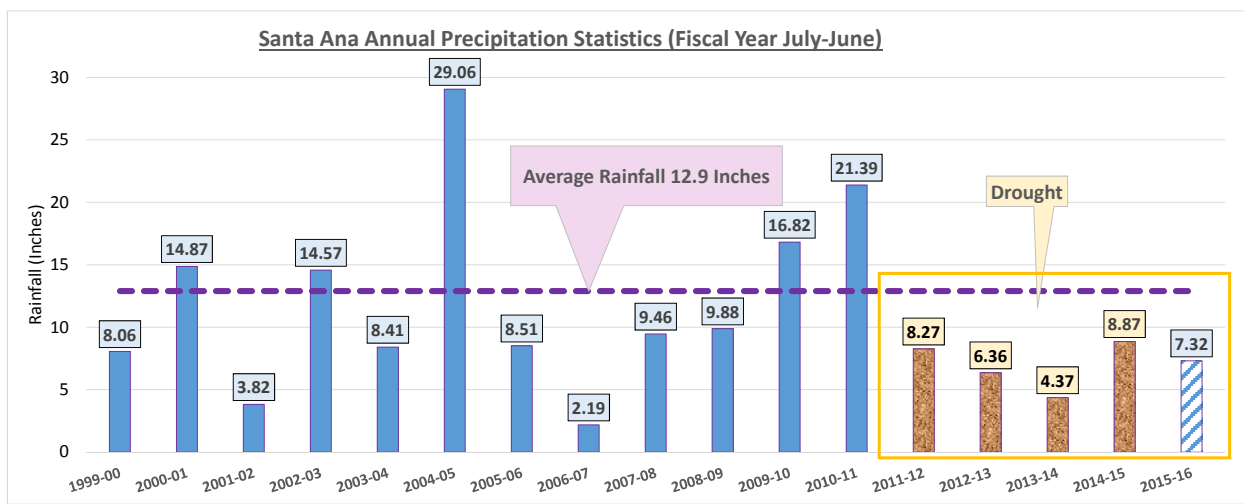
Cumulative Year-to-Date

Average Annual Rainfall: 12.9"

Average: 10.74"

**5-Year Deficit: 28.07" (2011-12 to Present)**

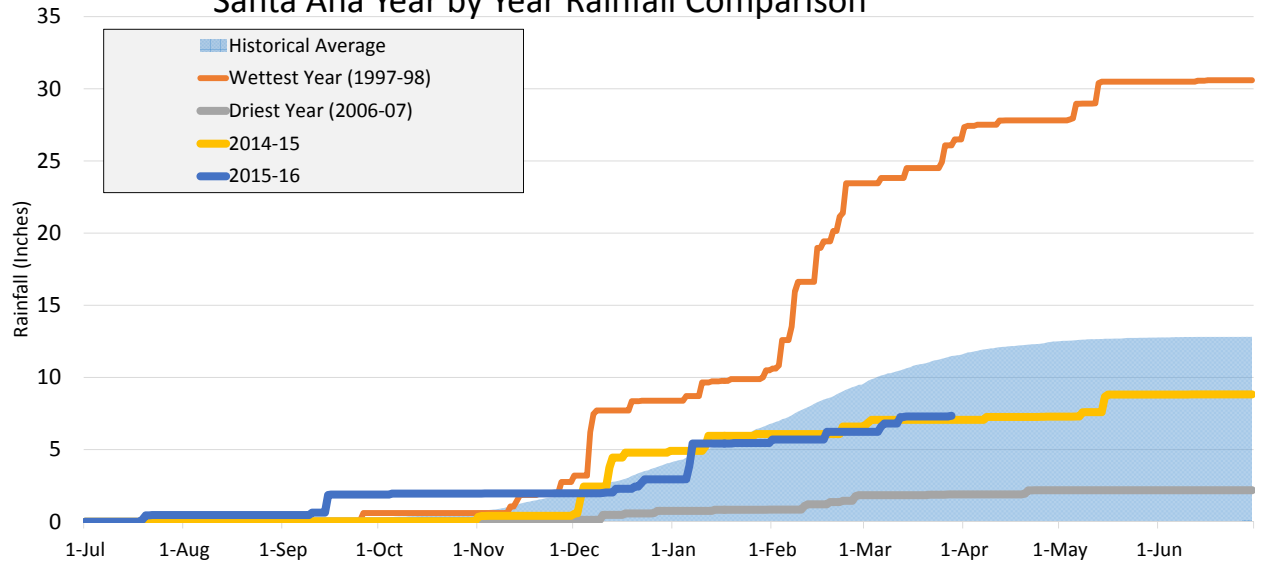
2015-16: 7.32"



## FYD Rainfall Compared to Past



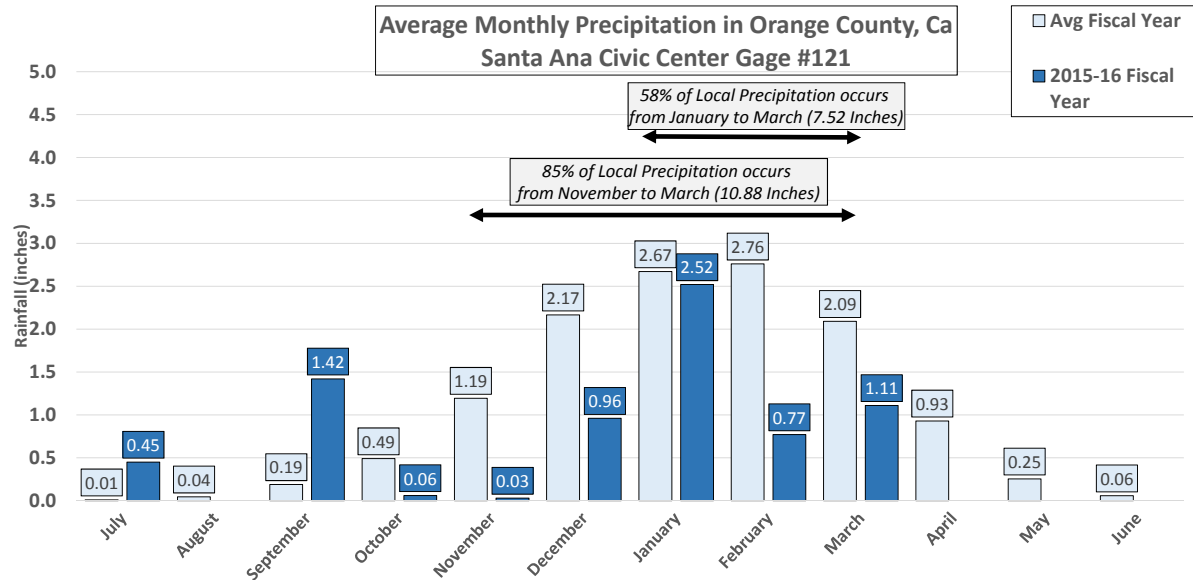
Santa Ana Year by Year Rainfall Comparison



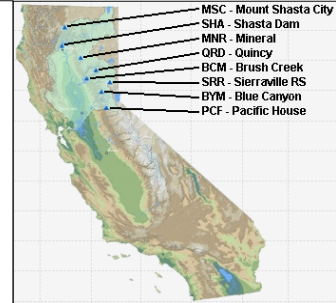
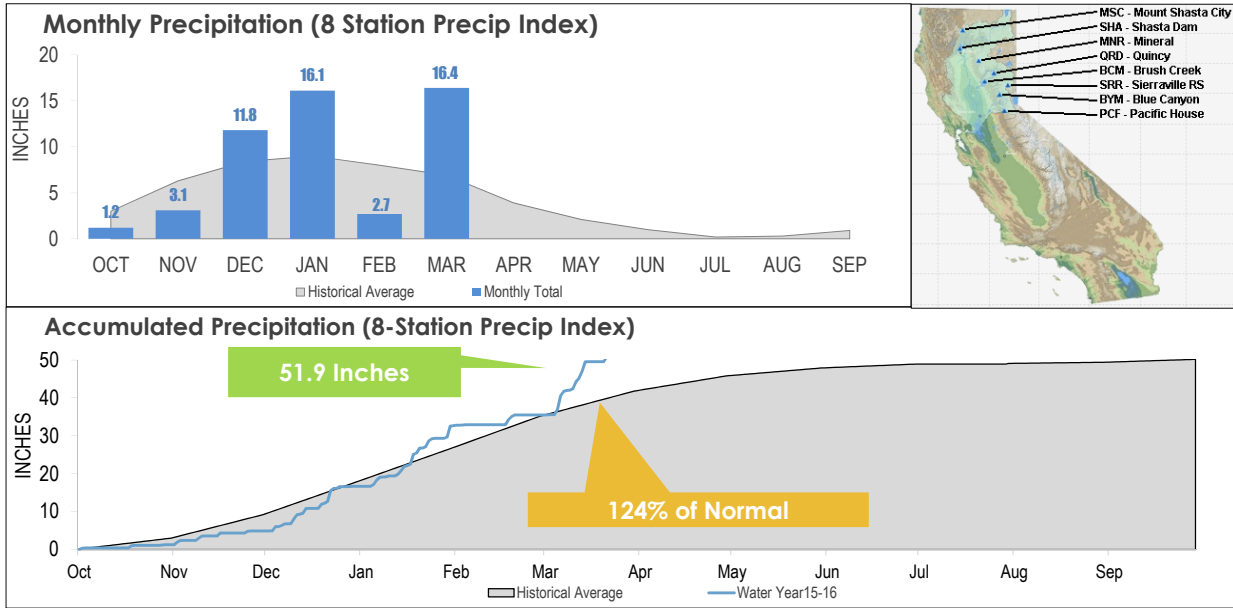
## 2015-16 FY Rainfall



Average Monthly Precipitation in Orange County, Ca  
Santa Ana Civic Center Gage #121



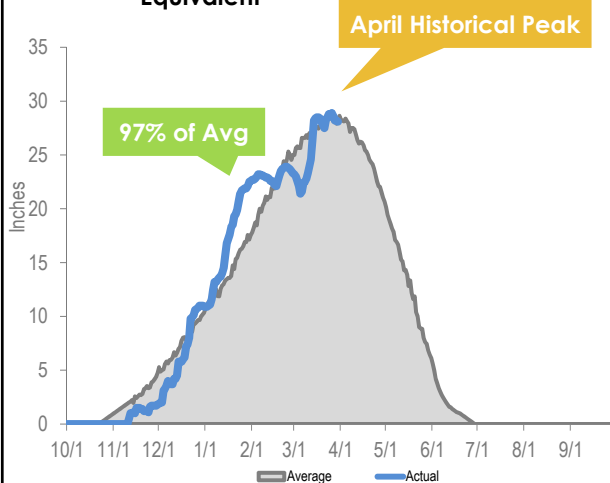
## Northern California Accumulated Precipitation



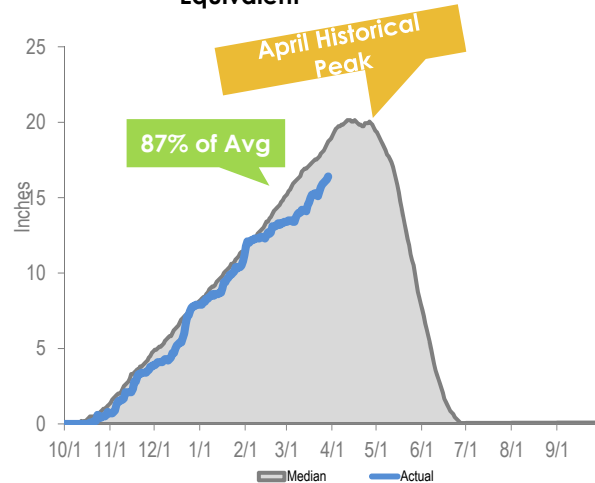
## Snowpack



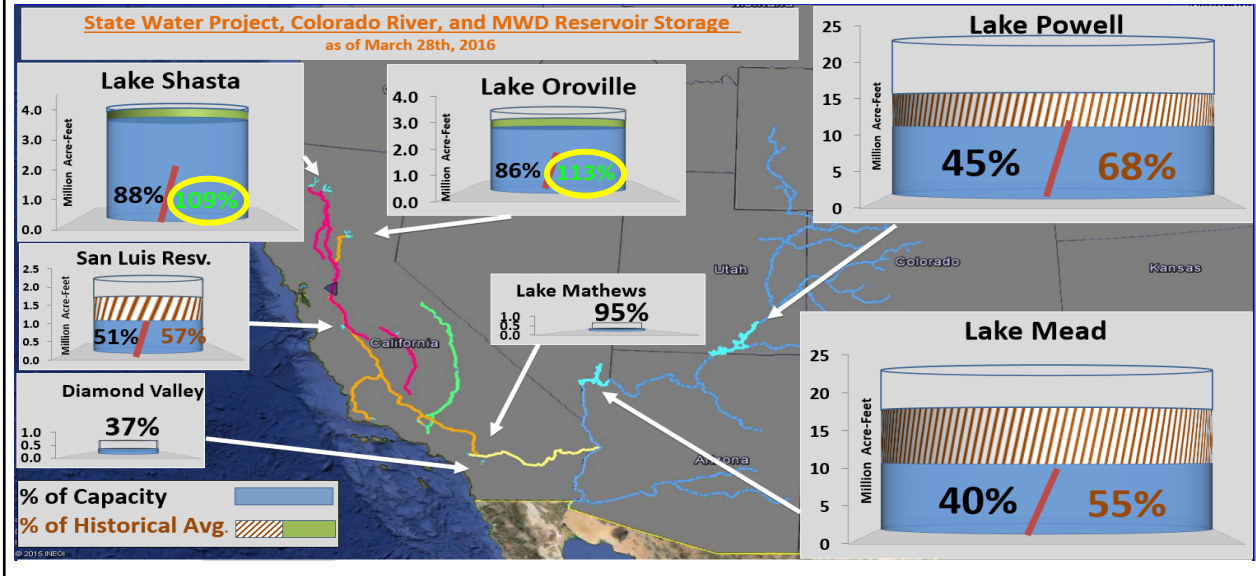
### Northern Sierra Snowpack Water Equivalent



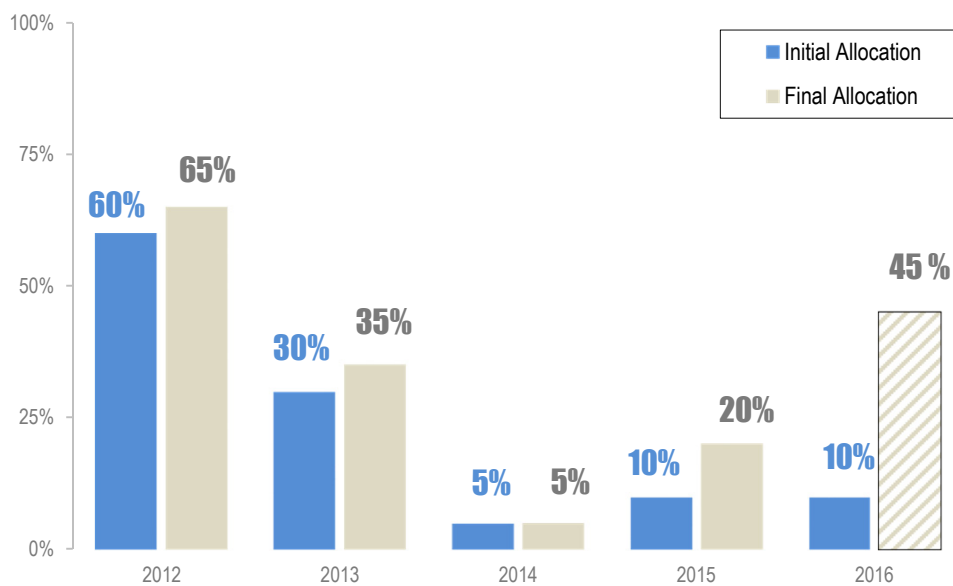
### Colorado River Basin Snowpack Water Equivalent



# Reservoir Storage

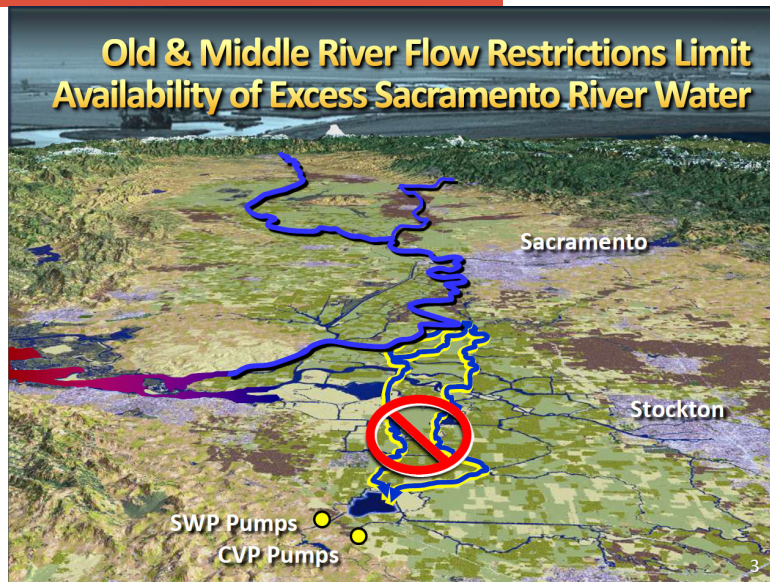


## Table A SWP Allocation

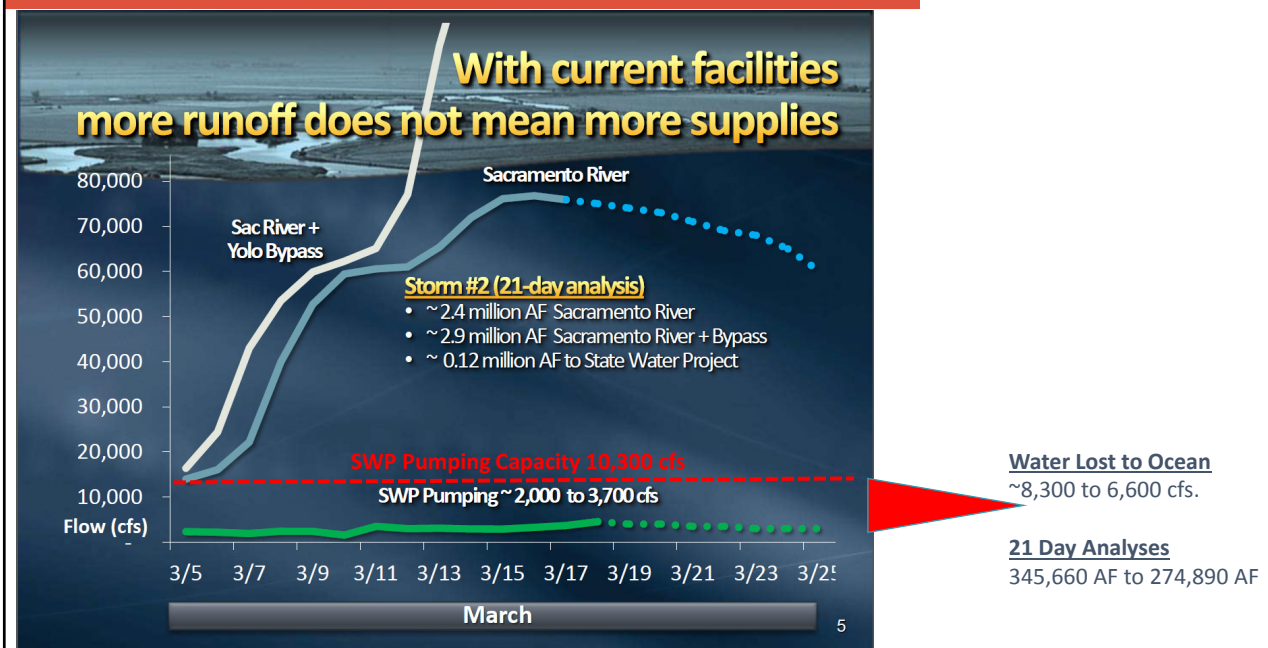




## Delta Winter Restrictions

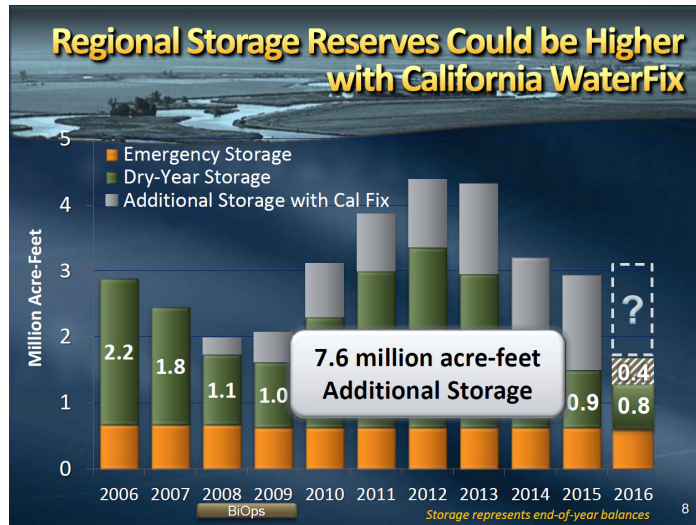


## Delta Pumping Restrictions March 2016

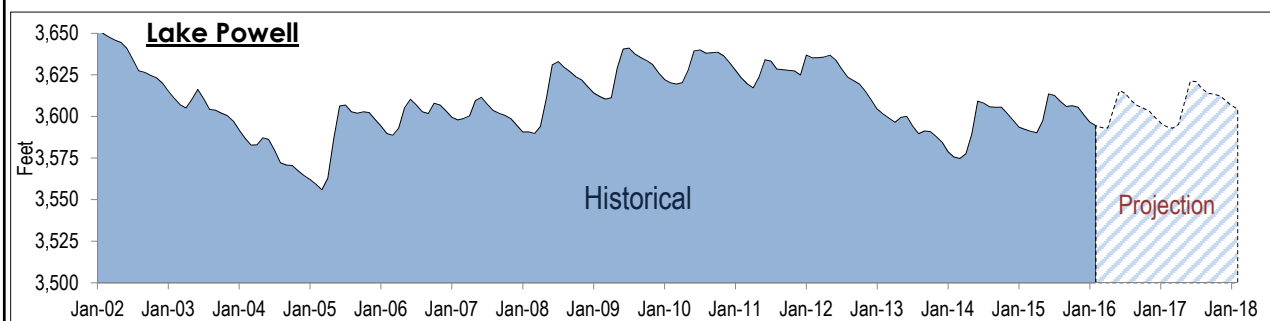
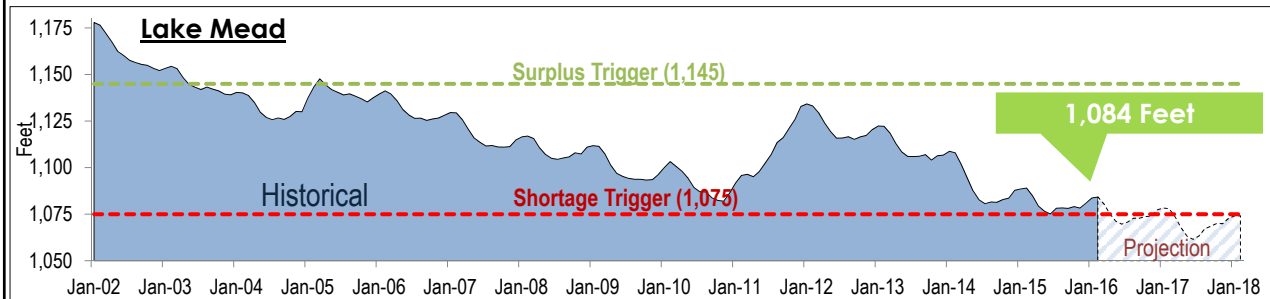




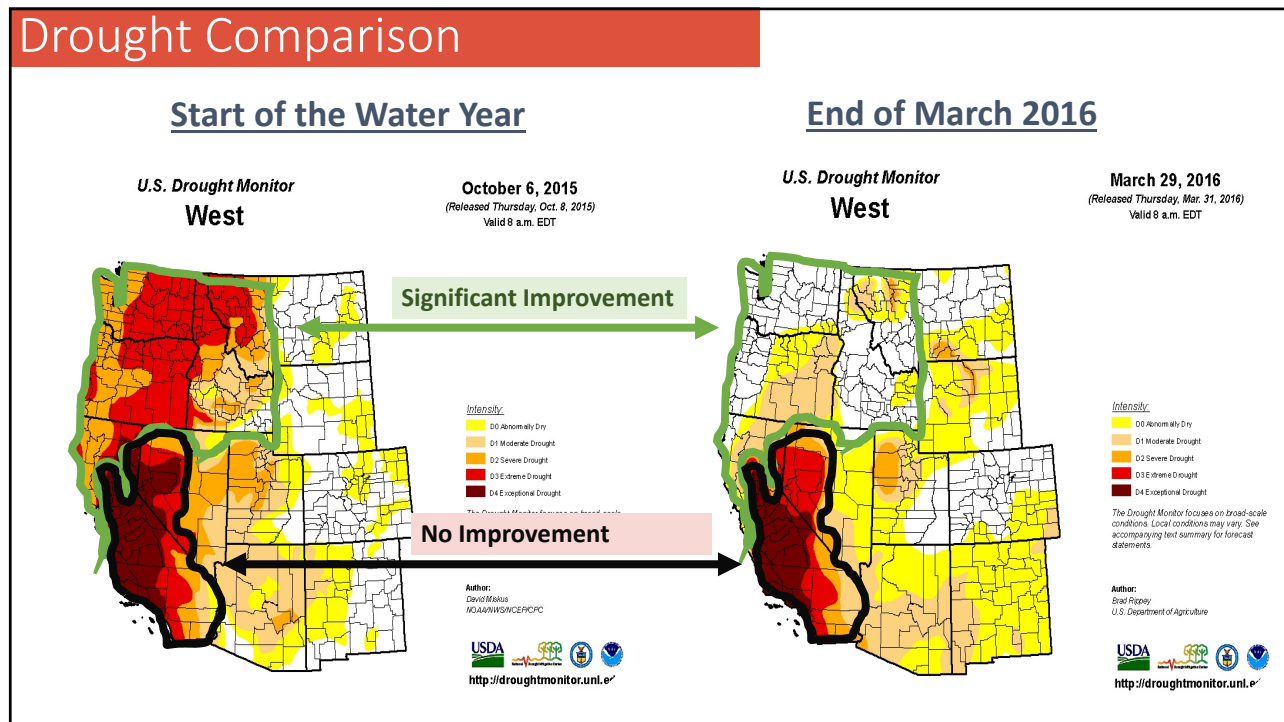
## MWD Lost Storage



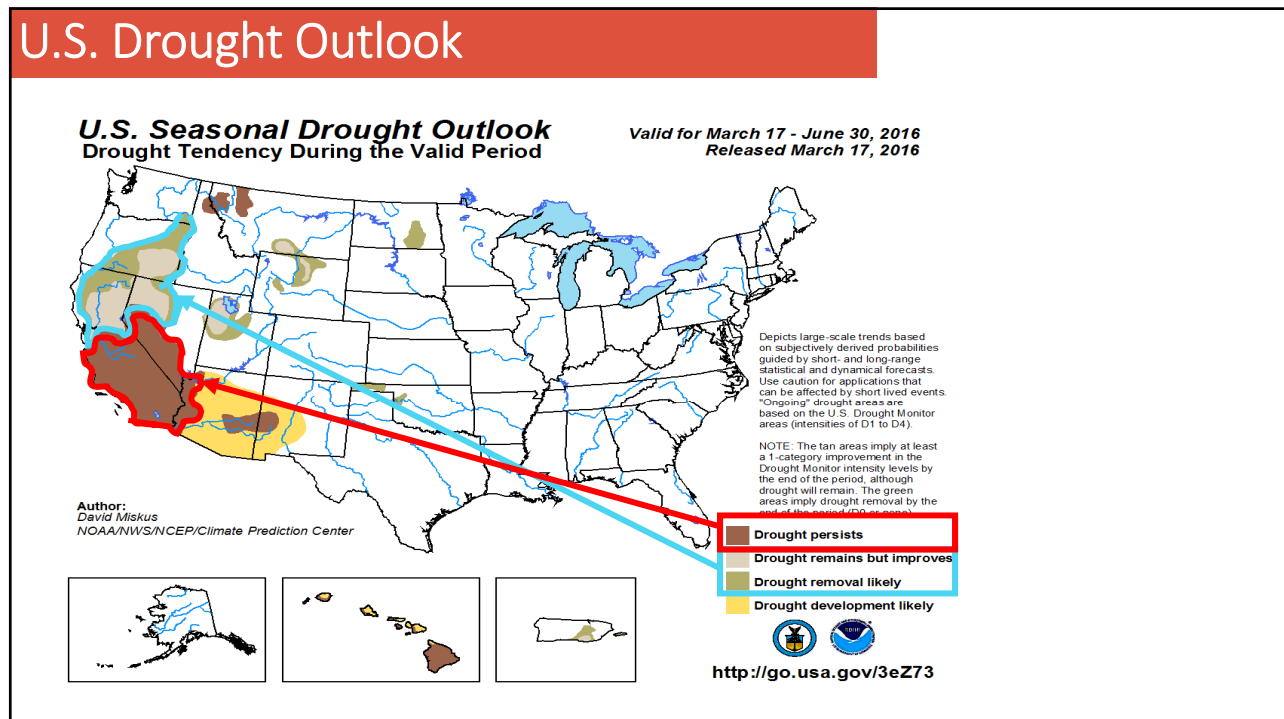
## CRA Storage



## Drought Comparison

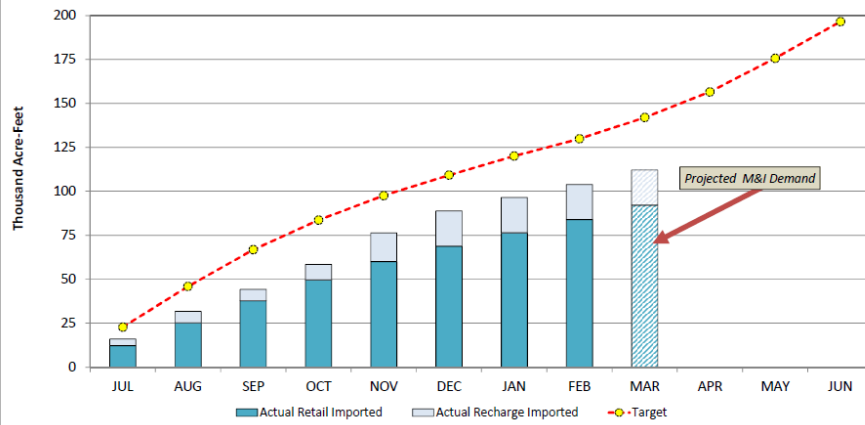


## U.S. Drought Outlook

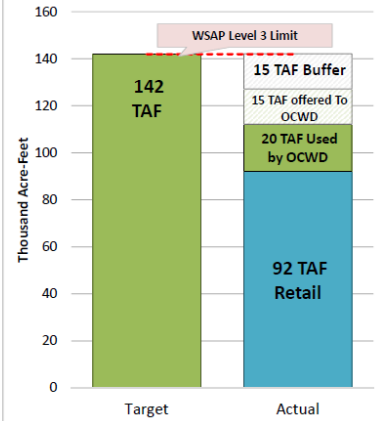


# MWDOC's Stage III Allocated Water

Cumulative Imported Water Usage vs. Allocation Target



YTD Imported Water Usage Vs. Allocation Target





## DISCUSSION ITEM

April 6, 2016

**TO:** Board of Directors

**FROM:** Robert Hunter  
General Manager

Staff Contact: Harvey De La Torre/  
Melissa Baum-Haley

**SUBJECT: Update on MET's Proposed Biennial Budget and Rates for Fiscal Years 2016/17 and 2017/18**

### STAFF RECOMMENDATION

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Staff recommends the Board of Directors review and discuss this information

### Summary

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This report provides an update on Metropolitan Water District's (MET) proposed Biennial Budget for FY 2016/17 and FY 2017/18 and MET's proposed Fixed Treatment Charge, which will be considered for Board action on April 12.

### Report

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In March, Metropolitan held its Budget Board Workshop #3 and #4 which included an extensive review of the key components of the proposed Budget and Rates, a review of MET's Cost of Service report, MET's Capital Improvement Program, and proposed Fixed Treatment Charge. Also on March 8, Metropolitan held its public hearing on the proposed rates and charges along with the proposal to suspend the tax rate restriction in Section 124.5 of the MET Act and continue with its Ad Valorem property tax rate.

Metropolitan's proposed revenue requirements will total \$1.575 billion and \$1.574 billion for FY 2016/17 and FY 2017/18, respectively. To meet these revenue requirements MET staff is proposing it overall water Rates and Charges to increase 4.0% for both for 2017 and 2018.

Below is a table summarizing MET's key expenditures:

Budgeted (Y/N): n/a	Budgeted amount: n/a	Core _X_	Choice __
Action item amount: n/a	Line item:		
Fiscal Impact (explain if unbudgeted):			

	2015/16 Adopted	2016/17 Proposed Budget	2017/18 Proposed Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

As described in the MET Board Action Item 8-2 (Attached), the following are key areas to note in the proposed Biennial Budget and Rates:

- **SDCWA Exchange Agreement Set-Aside** totaling \$235.5 million to be held in a separate financial reserve until the SDCWA's rate litigation appellate process is completed. This amount totals the SDCWA payments under the Imperial Irrigation District exchange agreement that is under dispute, along with interest earned thereon. These funds would be separate from Metropolitan's Water Rate Stabilization Fund and Revenue Remainder Fund and would continue to be invested with Metropolitan's short-term investments.
- **Recommended Use of Unspent Conservation Program Fund** projected to total \$60 million at the end of the fiscal year. MET staff seeks authorization to use these unspent funds in the following manner:
  - Extend the Onsite Recycled Water Retrofit Program through June 30, 2018 and authorize the use of \$10 million in funding for the program during the biennial budget period 2016/17-2017/18;
  - Authorize staff to process applications for turf removal that were placed on a waiting list pending review of funding status. Processing of these applications could begin July 1, 2016 or as soon as availability of funding is verified. Total funding of these applications and the associated administrative fees could be as much as \$23 million, if all participants complete their projects; and
  - Authorize all remaining unspent conservation funds, after items A and B above, to be used to augment the conservation program budget for the biennial period of 2016/17-2017/18.

MET staff believe, *"The actions listed above would continue to provide funding for highly popular programs that conserve water and develop recycled water supplies. These programs provide long-term benefits in conserving and developing water supplies at the local level, and reducing demands on Metropolitan's system, and also continuing Metropolitan's drought response in the near-term"*

- **Suspension of the Ad Valorem Tax Rate** is estimated to generate \$199 million over the next two fiscal years, providing \$88 million to pay for general obligation and

State Water Contract (SWC) Burns-Porter bond debt service and \$111 million to offset other SWC costs. In addition, maintaining the ad valorem tax rate helps to maintain a balance between fixed and variable revenues and mitigate the need for future water rate increases. If the ad valorem tax rate restriction is not suspended when the MET Board sets the tax rate in August, the projected rate increases in FY 2016/17 and FY 2017/18 will need to be 3% higher; in this event, the MET Board would need to waive the requirements of Administrative Code Section 4304 and direct MET staff to return to the MET Board at its regular May 2016 meeting with a revised Biennial Budget, revenue requirements, and rates and charges to produce the necessary revenue.

### **Treated Water Cost Recovery – Proposal for a Fixed Treatment Charge**

For a number of years, the question has been raised in reference to how MET's treated fixed costs are recovered 100% by the volumetric rate and member agencies pay only when taking treated water. In effect, this requires all other system users to bear the cost burden for the demand or standby capacity fixed costs. Making it financially beneficial for member agencies to "get off" of the MET treatment system for baseload demand and coming on-line during peak conditions. In addition, through the years MET has invested in treatment capacity to serve all of its member agencies expected treated demands. That said, today they do not require the beneficiaries of demand or standby capacity to pay anything for the cost of this dedicated capacity.

To address these issues and concerns, MET hired Raftelis Financial to determine the proper cost of service to develop a fixed treatment charge. In essence, created a charge that would align MET's fixed treatment cost with the service level and investment MET has made in the capacity and treatment processes at its treatments plants.

Based on Raftelis analysis they calculated that 38% of the total treatment costs should be recovered through a fixed charge, while the remaining 62% continue to be recovered via the volumetric rate – treatment surcharge.

A number of options were reviewed and presented to the MET Board during the Budget Process. However, the following two options received the most consideration for the 38% Treated Water Fixed Charge:

- **Option #1a (MET Staff Recommendation)** - A fixed charge made up of two components. The first component recovers the Fixed Standby costs (\$56.7 million in FY 2016/17, 22%) and is apportioned to member agencies based on the average treated water sales by member agency for the most recent ten fiscal years (ten-year rolling average). The second component recovers the Fixed Demand costs (\$40.8 million in FY 2016/17, 16%) and is apportioned to member agencies based on each agency's peak treated water demand for the last three summer seasons, defined as the highest daily treated water demand for May through September. This proposal has no set minimum amount.
- **Option #1b** - A fixed charge that is apportioned to member agencies based on the higher of the average treated water sales by member agency for fiscal years 1998 through 2007, or the most recent ten fiscal years (ten-year rolling average) and recovers both the Fixed Standby costs and the Fixed Demand costs through one

sum (\$97.5 million in FY 2016/17, 38%). This proposal would maintain a minimum amount for each member agency on a go-forward basis

- **Option #2** – Status Quo continue placing all of the treatment costs on the volumetric rate i.e. Treatment Surcharge

Below are the different Rate Options for Board consideration:

**Option #1a: Proposed Rates and Charges with a Fixed Treatment Charge**

Rates & Charges (Effective Jan. 1)	2016 (Current)	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
<b>Full Service Untreated Volumetric Costs (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge (\$/AF)</b>	<b>\$348</b>	<b>\$195</b>		<b>\$197</b>	
<b>Full Service Treated Volumetric Costs (\$/AF)</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
<b>Treated Water Fixed Charge</b>					
<b>Standby Charge (\$M)</b>	-	<b>\$57</b>		<b>\$59</b>	
<b>On-Demand Charge (\$M)</b>	-	<b>\$41</b>		<b>\$43</b>	
<b>Overall Rate Increase</b>			<b>4.0%</b>		<b>4.0%</b>

**Option #1b: Proposed Rates and Charges with a Fixed Treatment Charge**

Rates & Charges (Effective Jan. 1)	2016 (Current)	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
<b>Full Service Untreated Volumetric Costs (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge (\$/AF)</b>	<b>\$348</b>	<b>\$195</b>		<b>\$197</b>	
<b>Full Service Treated Volumetric Costs (\$/AF)</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
<b>Treated Water Fixed Charge (\$M)</b>	-	<b>\$98</b>		<b>\$102</b>	
<b>Overall Rate Increase</b>			<b>4.0%</b>		<b>4.0%</b>

**Option #2: Status Quo**

Rates & Charges (Effective Jan. 1)	2016 (Current)	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
<b>Full Service Untreated Volumetric Costs (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge (\$/AF)</b>	<b>\$348</b>	<b>\$313</b>	<b>(10.1%)</b>	<b>\$320</b>	<b>2.2%</b>
<b>Full Service Treated Volumetric Costs (\$/AF)</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
<b>Overall Rate Increase</b>			<b>4.0%</b>		<b>4.0%</b>





● **Board of Directors**  
***Finance and Insurance Committee***

4/12/2016 Board Meeting

**8-1**

**Subject**

Adopt resolutions fixing and adopting water rates and charges for 2017 and 2018; and adopt the resolution finding that continuing an ad valorem tax rate at the rate levied for fiscal year 2015/16 is essential to Metropolitan's fiscal integrity. Approve biennial budget for fiscal years 2016/17 and 2017/18, proposed ten-year forecast, proposed revenue requirements for fiscal years 2016/2017 and 2017/18, and recommended water rates and charges to be effective on January 1, 2017 and January 1, 2018;

**Executive Summary**

This letter recommends approval of the biennial budget for fiscal years (FY) 2016/17 and 2017/18 and the associated ten-year forecast, the revenue requirements for FY 2016/17 and FY 2017/18, and the recommended water rates and charges to be effective on January 1, 2017 and January 1, 2018; adoption of (1) the resolution fixing and adopting water rates to be effective on January 1, 2017 and January 1, 2018; (2) the resolution to fix and adopt the Readiness-to-Serve Charge effective January 1, 2017; (3) the resolution to fix and adopt the Capacity Charge effective January 1, 2017; and (4) the resolution to fix and adopt the Treated Water Fixed Charge effective January 1, 2017. This letter also recommends adoption of the resolution suspending the restriction in Section 124.5 of the Metropolitan Water District Act (MWD Act) and continuing an ad valorem property tax rate at the existing FY 2015/16 rate of .0035 percent for FY 2016/17 and FY 2017/18 to generate tax revenues for Metropolitan to pay the annual debt service on its general obligation bonds and a portion of its obligations to the State of California under its State Water Contract (SWC).

Metropolitan's Board, the Finance and Insurance (F&I) Committee of the Board, and Metropolitan's member agencies have been reviewing and evaluating Metropolitan's proposed biennial budget and revenue requirements, and the rates and charges necessary to support the revenue requirements. The ten-year forecast of costs, fixed charges, revenue requirements, and rates and charges were also presented and implications of near-term actions on long-term revenue requirements were discussed. The Proposed Biennial Budget, Ten-Year Financial Forecast (Ten-Year Forecast), and Capital Investment Plan (CIP) – all previously provided to the Board and posted online – are included collectively as [Attachment 1](#) – Proposed Biennial Budget FY 2016/17 and FY 2017/18. On January 28, 2016, staff provided to the Board the Proposed Biennial Budget and Ten-Year Forecast, containing revenue requirements and cost of service analysis, and the estimated rates and charges necessary to meet the revenue requirements contained in the Proposed Biennial Budget. On February 5, 2016 staff posted online the Biennial Budget, Ten-Year Forecast and CIP documents. On March 16, 2016, staff provided to the Board and posted online the updated CIP with minor revisions. On March 16, 2016, staff also provided to the Board and posted online the cost of service report. On March 30, 2016, staff provided to the Board and posted online an updated cost of service report with minor revisions as [Attachment 3](#) – Metropolitan Water District of Southern California, Fiscal Years 2016/17 and FY 2017/18 Cost of Service for Proposed Water Rates and Charges. The F&I Committee held four public workshops on February 8, 2016, February 23, 2016, March 7, 2016 and March 22, 2016, which were open to full board participation. These workshops included extensive budget, revenue requirements, and rates and charges discussions.

At Workshop #1, held on February 8, 2016, staff made an extensive presentation regarding the estimated revenue requirements that form Metropolitan's projected costs of service, an overview of the Proposed Biennial Budget,

major expenditures, reserves, Ten-Year Forecast, and the treatment of the San Diego County Water Authority (SDCWA) exchange agreement set-aside. At Workshop #2, held on February 23, 2016, staff addressed specific questions raised by the Board, provided further detail regarding the estimated revenue requirements in the Proposed Biennial Budget, and provided an overview of Metropolitan's existing rate structure and the process of determining rate components under Metropolitan's existing rate structure. Mr. Rick Giardina, Executive Vice President with Raffetis Financial Consultants, Inc. (RFC), an independent financial and rate consultant, and current Chair of the American Water Works Association (AWWA) Rates and Charges Committee, presented to the Board a proposed fixed charge alternative to recover a portion of the treatment revenue requirement that is currently recovered through the existing 100 percent volumetric Treatment Surcharge. Mr. Giardina's presentation was preceded by a presentation on this topic to the member agency managers by staff in September 2015 and by Mr. Giardina on January 15, 2016.

At Workshop #3, held on March 7, 2016, staff discussed the proposed water rates and charges and made a presentation addressing further questions from the Board. Mr. Giardina of RFC also made a presentation further addressing questions raised by the Board regarding the fixed treated water charge alternative. At Workshop #4, held on March 22, 2016, staff discussed the proposed CIP, provided an overview of the cost of service report, and addressed additional questions raised by the Board. Mr. Giardina also provided a presentation summarizing the options for a fixed treated water charge alternative.

#### **PUBLIC HEARING: Proposed Rates and Charges and Suspending the Tax Rate Restriction in Section 124.5 of the Metropolitan Water District (MWD) Act**

A public hearing on proposed rates and charges and the proposal to suspend the tax rate restriction in Section 124.5 of the MWD Act was held on March 8, 2016, where members of the public addressed the Board and provided comments. Sixteen speakers provided oral comments to the Board. In addition, two letters were received on the proposed rates and charges and made part of the record of the public hearing. A list of all member agencies, subagencies and members of the public that provided comments in response to the proposed rates and charges and proposed continuation of the ad valorem tax at the existing rate is included in [Attachment 2 – Public Hearing Comments](#). All materials received at the public hearing have been reviewed by staff and are available for review in the office of the Chief Financial Officer and on the Directors' and Metropolitan's websites.

#### **Details**

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#### **BIENNIAL BUDGET AND RATES AND CHARGES**

Based on the Board discussions over the past two months, the Proposed Biennial Budget for FY 2016/17 and FY 2017/18, revenue requirements for FY 2016/17 and FY 2017/18 to support the Proposed Biennial Budget, and rates and charges for calendar years 2017 and 2018 are presented for the Board's consideration as described below. The proposal meets the Board's financial policies by providing anticipated revenues that meet the anticipated cost of service, as shown in the biennial budget proposal and cost of service report, meets the fixed charge coverage target, provides funding from revenues for the CIP, and promotes long-term fiscal sustainability goals as reflected in the Ten-Year Forecast. The proposal also allocates costs so that payers bear their fair and reasonable share.

The Proposed Biennial Budget and revenue requirements are based on normal conditions. Calendar year 2016 is anticipated to provide approximately a 50 percent allocation on the State Water Project (SWP) due to recent rains and snow in Northern California. The conditions in the Colorado River watershed are near normal. With a 50 percent allocation on the SWP and approximately 1.0 million acre-feet (MAF) of diversions on the Colorado River Aqueduct, Metropolitan should be able to replenish its storage reserves by approximately 200 to 300 thousand acre-feet (TAF) of water.

Metropolitan delivers a reliable water supply to the region throughout a variety of hydrologic conditions. Metropolitan has a diverse water supply portfolio and has made long-term investments in storage programs, conservation, local resource development, and drought response to help meet customer demands by storing in wet years to manage through dry years. Historically, Metropolitan's water sales have varied widely. Over the last twenty years, annual sales have averaged 2.0 MAF. Over the last five years, annual sales have averaged

1.8 MAF. Therefore, it is reasonable for Metropolitan to base the Proposed Biennial Budget and revenue requirements on a conservative annual sales estimate of 1.70 MAF, SWP deliveries of approximately 955 TAF, and Colorado River diversions of 1.0 MAF for each of FY 2016/17 and FY 2017/18. Variations in revenues and costs due to hydrology will be managed by use of financial reserves established for this purpose.

**Attachment 1** – Proposed Biennial Budget FY 2016/17 and 2017/18 – provides an overview of the biennial budget; departmental budget detail; information on Metropolitan’s SWP costs, CRA power costs, Supply Programs, Demand Management Programs and Capital Financing; and information on the CIP. The Proposed Biennial Budget also includes the Ten-Year Forecast.

**Table 1: FY 2016/17 and 2017/18 Proposed Operating and Capital Appropriations, \$ millions**

Proposed Budget	FY 2016/17	FY 2017/18	Total Biennium
Operating Budget	\$1,200.2	\$1,231.2	\$2,431.4
Debt Service	\$328.5	\$344.1	\$672.6
PAYGo	\$120.0	\$120.0	\$240.0
Grand Total	\$1,648.7	\$1,695.3	\$3,344.0

The Proposed Biennial Budget, revenue requirements and rates and charges assumes the Board maintains the ad valorem tax rate at its current level when the rate is set in August of 2016 and 2017. The current ad valorem tax rate is estimated to generate \$199 million over the next two fiscal years, providing \$88 million to pay for general obligation and State Water Contract (SWC) Burns-Porter bond debt service and \$111 million to offset other SWC costs. In addition, maintaining the ad valorem tax rate helps to maintain a balance between fixed and variable revenues and mitigate the need for future water rate increases. If the ad valorem tax rate restriction is not suspended when the Board sets the tax rate in August, the projected rate increases in FY 2016/17 and FY 2017/18 will need to be 3 percent higher; in this event, the Board would need to waive the requirements of Administrative Code Section 4304 and direct staff to return to the Board at its regular May 2016 meeting with a revised Biennial Budget, revenue requirements, and rates and charges to produce the necessary revenue.

### **Proposed Rates and Charges for Board Consideration**

The Staff Recommendation is proposed overall rate increases of 4.0 percent in FY 2016/17 and 4.0 percent in FY 2017/18. These increases continue funding the Board’s key priorities as described in the February 9, 2016 Board Letter 9-2, including:

- Funding for the CIP of \$400 million for the biennial period of FY 2016/17 and FY 2017/18, of which \$240 million will be funded from revenues. This level of revenue-funded capital is appropriate given the significant portion of the capital program that is focused on replacement and refurbishment of capital facilities, and lessens the pressure on water rates from debt service in future years. This level of revenue-funded capital will cover 60 percent of the projected capital spending for the next two fiscal years.

The level of revenue-funded capital that the water rates and charges are set to generate in FY 2016/17 and FY 2017/18 is lower than the \$221 million for FY 2015/16. This lower level of revenue-funded capital provides cost relief as other budgeted costs are increasing.

- Continued funding of \$161 million for the biennial period of FY 2016/17 and FY 2017/18 for Supply Programs in the region, the Central Valley, and the Colorado River system to cover the costs of storing or withdrawing supplies. This initiative helps reduce the likelihood that Metropolitan will need to declare a Water Supply Allocation in future dry years.
- Continued funding of Demand Management Programs at \$151 million for the biennial period of FY 2016/17 and FY 2017/18 to help Metropolitan’s member agencies and their retail water subagencies meet the state-mandated 20 percent by 2020 goal of reduced per capita water consumption and meet the 2015 Integrated Resources Plan Update goals for local resource development. These programs reduce the need to transport water into the Metropolitan service area or within Metropolitan’s distribution system.

- Funding of \$838 million for the biennial period of FY 2016/17 and FY 2017/18 for Operations and Maintenance (O&M), including labor and benefits, water treatment chemicals, solids handling, professional services, and operating equipment purchases. This proposed O&M funding includes increased benefit costs, including retirement-related benefits, and merit increases.
- Funding of \$1,282 million for the SWC and Colorado River power costs for the biennial period of FY 2016/17 and FY 2017/18 to ensure a reliable water supply to southern California.
- Rate increases in the remaining eight years of the Ten-Year Forecast ranging from 4 to 5 percent, which meet all financial policy guidelines.

As noted, the cost of service report supporting the proposed rates and charges for 2017 and 2018 is provided as [Attachment 3](#) – Metropolitan Water District of Southern California, Fiscal Years 2016/17 and FY 2017/18 Cost of Service for Proposed Water Rates and Charges.

## REVENUE REQUIREMENTS

Table 2 summarizes the revenue requirements for FY 2016/17 and FY 2017/18, which incorporates the expenditures described above, as well as revenues from sources other than water rates and charges that offset the amount to be generated by water rates and charges.

**Table 2: Revenue Requirements, \$ in millions**

<b>Fiscal Year Ending</b>	<b>2015/16 Adopted</b>	<b>2016/17 Proposed</b>	<b>2017/18 Proposed</b>
Departmental and Other O&M	390	393	395
Variable Treatment	28	24	25
State Water Project (without Variable Power)	328	435	447
State Water Project Variable Power	187	147	153
CRA Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Change in Required Reserves	18	65	25
<b>Subtotal Expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Metropolitan's Board establishes rates and charges for water services that, so far as practicable, result in revenues to pay for Metropolitan's operations and maintenance expenses, operating equipment, power costs on the CRA, SWP operations, maintenance, power and replacements costs, SWP capital charges, demand management programs, and supply programs. To develop each biennial budget proposal and establish Metropolitan's revenue requirement for a given period, Metropolitan staff assemble and calculate Metropolitan's operating expenses, capital financing costs and other requirements expected to be incurred during the fiscal years in the budget period – the cost of service. Staff also estimates offsetting revenue sources. This information is used to develop the Proposed Biennial Budget and revenue requirements.

## RATES AND CHARGES

The detailed rates and charges to support the biennial budget expenditures and resulting revenue requirements are shown in Table 3.

**Table 3: Proposed Water Rates by Element and Charges**

<b>Rates and Charges Effective January 1st</b>	<b>2016</b>	<b>Option #1a</b>		<b>Option #1b</b>		<b>Option #2</b>	
		<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>
Tier 1 Supply Rates (\$/AF)	\$156	\$201	\$209	\$201	\$209	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295	\$295	\$295	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299	\$289	\$299	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55	\$52	\$55	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132	\$124	\$132	\$124	\$132
Full Service Untreated Volumetric Cost (\$/AF)							
Tier 1	\$594	\$666	\$695	\$666	\$695	\$666	\$695
Tier 2	\$728	\$760	\$781	\$760	\$781	\$760	\$781
Treatment Surcharge (\$/AF)	\$348	\$195	\$197	\$195	\$197	\$313	\$320
Full Service Treated Volumetric Cost (\$/AF)							
Tier 1	\$942	\$861	\$892	\$861	\$892	\$979	\$1,015
Tier 2	\$1,076	\$955	\$978	\$955	\$978	\$1,073	\$1,101
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140	\$135	\$140	\$135	\$140
Capacity Charge (\$/cfs)	\$10,900	\$8,000	\$8,700	\$8,000	\$8,700	\$8,000	\$8,700
Treated Water Fixed Charge (\$M)		\$98	\$102	\$98	\$102		

Options #1a and #1b include a Fixed Treated Water Charge to recover \$97.5 million in FY 2016/17 and \$101.7 million in FY 2017/18. The balance of the treatment costs are recovered through the Treatment Surcharge. The difference between Option #1a and Option #1b is how the Treated Water Fixed Charge is apportioned among member agencies with treated water purchases.

Option #2 does not include a Treated Water Fixed Charge; treatment costs are recovered solely through the 100 percent volumetric Treatment Surcharge.

All other rates and charges are the same under Options #1a, #1b, and #2.

Table 3 also shows the bundled full-service untreated and full-service treated cost for purposes of demonstrating the combined impact of the rate elements. The volumetric rate components of the bundled full-service untreated cost are increasing, with the exception of the System Power Rate, due to increased costs for Supply Programs, the SWC, Demand Management Programs, and Departmental O&M. These increased costs are partially offset by lower overall power costs recovered through the System Power Rate.

In comparison, the bundled full-service Tier 1 treated cost is increasing only slightly due to lower treatment costs, as described in the February 9, 2016 board letter.

The Readiness-to-Serve Charge (RTS) and Capacity Charge are decreasing from the amounts set effective January 1, 2016. As explained in the February 9, 2016 board letter, these charges recover only capital financing costs, and are therefore sensitive to changes in the components of capital financing, which are PAYGo (capital funded from revenues) and debt service. As explained above, the amount of revenue-funded capital included in the revenue requirement decreased from \$221 million for FY 2015/16 to \$120 million in FY 2016/17 and FY 2017/18. This reduction is causing the RTS and Capacity Charge to decrease from the January 1, 2016 amounts.

The Ten-Year Forecast provides planning beyond the budget period and provides information to the Board on the impacts of different rate proposals and funding assumptions over a longer planning horizon.

Actual revenues and expenses may vary from budgeted amounts for a variety of reasons. Administrative Code Section 5202(e) contemplates variation in actuals to budget and provides policy guidance to the Board. Metropolitan's financial obligations may include liabilities and future commitments, such as retiree obligations



and debt service, that are not reflected in the budget but that can be addressed in a fiscally prudent manner to reduce future obligations and keep future rate increases reasonable within the policy guidance provided by Administrative Code Section 5202(e).

Staff will provide a mid-cycle biennial budget review in June 2017.

### **TREATED WATER FIXED CHARGE**

A proposal for a Treated Water Fixed Charge has been provided to the Board. The proposal is cost of service (COS)-based, as it uses the information from Metropolitan's COS report to identify the costs allocated to Fixed Demand and Fixed Standby for recovery through a fixed charge. The proposal aligns the fixed charge with the service level and investment Metropolitan has made in the capacity and treatment processes at its five treatment plants. A Treated Water Fixed Charge ensures that a portion of Metropolitan's treatment costs, of which 91 percent are fixed, are covered regardless of volumes sold, thereby improving revenue stability.

A Treated Water Fixed Charge would recover the sum of the Fixed Demand and Fixed Standby costs, which are approximately 38 percent of the Treatment Revenue Requirement in FY 2016/17 and FY 2017/18, or \$97.5 million and \$101.7 million, respectively. A Treated Water Fixed Charge would be apportioned among the member agencies with historical treated water purchases.

The remaining Treatment Revenue Requirement, approximately 62 percent, would be recovered through a volumetric rate of \$195 per acre-foot effective January 1, 2017 and \$197 per acre-foot effective January 1, 2018.

Options for a Treated Water Fixed Charge are provided in [Attachment 7](#) – Resolution Fixing and Adopting a Treated Water Charge, and include:

- A fixed charge made up of two components. The first component recovers the Fixed Standby costs (\$56.7 million in FY 2016/17) and is apportioned to member agencies based on the average treated water sales by member agency for the most recent ten fiscal years (ten-year rolling average). The second component recovers the Fixed Demand costs (\$40.8 million in FY 2016/17) and is apportioned to member agencies based on each agency's peak treated water demand for the last three summer seasons, defined as the highest daily treated water demand for May through September. This proposal has no minimum amount.
- A fixed charge that is apportioned to member agencies based on the higher of the average treated water sales by member agency for fiscal years 1998 through 2007, or the most recent ten fiscal years (ten-year rolling average) and recovers both the Fixed Standby costs and the Fixed Demand costs (\$97.5 million in FY 2016/17). This proposal would maintain a minimum amount for each member agency on a go-forward basis.

### **SDCWA EXCHANGE AGREEMENT SET-ASIDE**

Due to SDCWA's litigation challenging Metropolitan's rates, Metropolitan currently holds \$235.5 million in its financial reserves in accordance with the 2003 Amended and Restated Exchange Agreement between Metropolitan and SDCWA (exchange agreement). This amount includes \$188.3 million associated with exchange agreement water deliveries from January 2011 through December 2014, \$42.2 million associated with exchange agreement water deliveries since January 2015, and accumulated interest on both amounts. Amounts held pursuant to the exchange agreement will continue to accumulate while the litigation, including all appeals, is pending based on the quantities of exchange agreement water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. In accordance with the exchange agreement, the amounts held are SDCWA's payments under the exchange agreement that are in dispute and interest earned thereon, which is based on Metropolitan's investment portfolio. The amounts held do not include the statutory prejudgment interest award or statutory post-judgment interest, nor awards of costs or attorneys' fees, none of which the exchange agreement requires to be held.

To provide greater clarity on the amount of the exchange agreement set-aside, Metropolitan proposes to establish a designated fund to hold these amounts, the Exchange Agreement Set-Aside Fund. The fund would be separate from Metropolitan's Water Rate Stabilization Fund and Revenue Remainder Fund. Disputed amounts will be

transferred to the Exchange Agreement Set-Aside Fund as SDCWA payments are received and would continue to be invested with Metropolitan's short-term investments managed by the Treasurer until such time as the litigation is resolved.

### **UNSPENT CONSERVATION PROGRAM FUNDS**

The Board-approved conservation program budget for the current biennial period ending June 30, 2016 is \$450 million. Staff estimates that expenditures for the conservation program will be approximately \$60 million below budget at \$390 million. The amount of unspent funds will be subject to final verification at the end of the fiscal year. Staff seeks authorization to use these unspent funds in the following manner:

- A. Extend the Onsite Recycled Water Retrofit Program through June 30, 2018 and authorize the use of \$10 million in funding for the program during the biennial budget period 2016/17-2017/18; and
- B. Authorize staff to process applications for turf removal that were placed on a waiting list pending review of funding status. Processing of these applications could begin July 1, 2016 or as soon as availability of funding is verified. Total funding of these applications and the associated administrative fees could be as much as \$23 million, if all participants complete their projects; and
- C. Authorize all remaining unspent conservation funds, after items A and B above, to be used to augment the conservation program budget for the biennial period of 2016/17-2017/18.

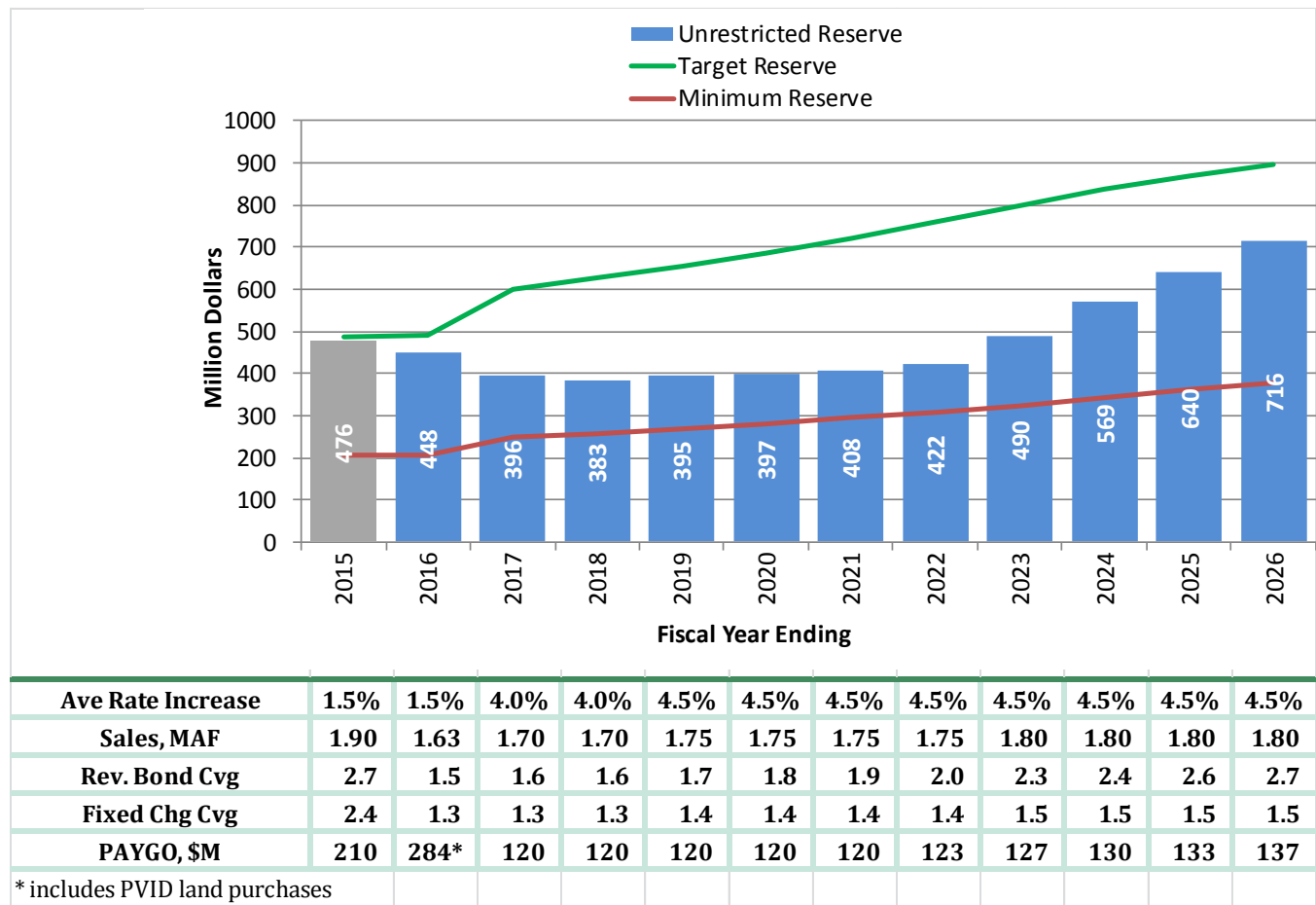
The actions listed above would continue to provide funding for highly popular programs that conserve water and develop recycled water supplies. These programs provide long-term benefits in conserving and developing water supplies at the local level, and reducing demands on Metropolitan's system, and also continuing Metropolitan's drought response in the near-term.

### **TEN-YEAR FINANCIAL FORECAST**

The Proposed Biennial Budget and Ten-Year Forecast comprise Metropolitan's long-range financial plan. The Biennial Budget establishes the foundation for a ten-year forecast of water sales, expenditures, revenues, projected rate increases and financial indicators. Incorporating a ten-year financial forecast within the biennial budget process helps ensure the long-range financial plan is continuously updated every two years to reflect any changes in underlying assumptions and/or financial policies. This approach is well suited to the dynamic environment Metropolitan operates in, rather than periodic updates of a stand-alone long-term financial planning document. The Ten-Year Forecast is included in [Attachment 1](#) – Proposed Biennial Budget FY 2016/17 and FY 2017/18.

The Proposed Biennial Budget sets the stage for predictable and reasonable rate increases over the ten-year planning period. Use of operating revenue funding for the CIP will result in lower revenue requirements in later years of the forecast, as the use of operating revenues to fund the CIP will reduce any needed new money bond issues. Over the ten-year forecast, the higher proposed levels of revenue funding for the CIP will result in debt service by FY 2025/26 that is approximately \$20 million less than FY 2016/17. These lower costs combined with maintaining the ad valorem tax rate at its current level throughout the ten-year period will mitigate increases in future water rates and charges.

Key financial indicators of the ten-year forecast are summarized in Figure 1.

**Figure 1: Projected Rate Increases, Reserves, and Financial Indicators**

The Ten-Year Forecast, which is included in [Attachment 1](#), assumes the following:

- Sales are forecasted to range from 1.70 MAF in FY 2016/17 to 1.80 MAF in FY 2025/26;
- Beginning in FY 2016/17, 60 percent of the CIP is revenue funded. Revenue-funding a percentage of the CIP costs rather than using a fixed dollar amount allow revenue-based funding to adjust to changes in the CIP over time;
- Metropolitan's investments in storage programs continue, providing regional supply reliability; and
- Demand management programs continue to be funded to help ensure that Metropolitan's member agencies and their retail water subagencies meet the 20 percent by 2020 goal of reduced per capita water consumption.

Resulting rate increases beyond the biennial budget period are in a range of 4 percent to 5 percent each year.

#### **SUSPENSION OF THE TAX RATE RESTRICTION IN SECTION 124.5 OF THE MWD ACT**

Since FY 1990/91, Section 124.5 of the Metropolitan Water District Act (MWD Act) has limited property tax collections to the amount necessary to pay the total of annual debt service on Metropolitan's general obligation bonds plus a small portion of its SWC payment obligation, limited to the preexisting debt service on state general obligation bonds (Burns-Porter bonds) for facilities benefitting Metropolitan. Section 124.5 permits Metropolitan to suspend this restriction if, following a public hearing, the Board finds that such revenue is essential to the fiscal integrity of the District. Metropolitan held public hearings under Section 124.5 for FY 2013/14, FY 2014/15, and FY 2015/16 and adopted the resolutions suspending the rate restriction and continuing the current ad valorem property tax rate at the rate levied since FY 2012/13 (of .0035 percent of assessed valuation). This letter proposes



the Board again consider suspending the Section 124.5 restriction for FY 2016/17 and FY 2017/18 by adopting the resolution included in **Attachment 8** – Resolution Finding that Continuing an Ad Valorem Property Tax Rate at the Rate Levied for Fiscal Year 2015/16 is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction.

Metropolitan has assessed ad valorem property taxes in its service area since its inception. Metropolitan has constitutional and statutory authority, as well as voter authorization, to collect revenues through ad valorem taxes assessed on real property within its service territory.

Generally, Metropolitan may collect ad valorem property taxes to cover its general obligation bonds and its SWC obligations, as described below. Since FY 1990/91, Section 124.5 of the MWD Act has limited property tax collections to the amount necessary to pay the total of annual debt service on Metropolitan's general obligation bonds plus a small portion of its SWC payment obligation, limited to the preexisting debt service on state general obligation bonds (Burns-Porter bonds) for facilities. Under Section 124.5's restriction, the ad valorem property tax rate has been decreasing, and will continue to decrease, as the bonds are paid off. In the meantime, Metropolitan's SWC obligations have been increasing and will continue to increase. For example, the state is expecting substantial costs associated with repair and replacement of the 50-year-old State Water Project (SWP) infrastructure. Further, implementation of the proposed California WaterFix would lead to increased SWC payments. A significant portion of Metropolitan's SWC costs are fixed charges that must be paid regardless of the volume of water Metropolitan receives from the SWP. It is appropriate and fiscally prudent to pay such fixed costs from fixed, rather than volumetric, revenues to the extent possible.

Section 124.5 permits Metropolitan to suspend the tax rate restriction if, following a public hearing, the Board finds that such revenue is essential to the fiscal integrity of the District. The Board conducted a public hearing at its March 8, 2016 regular meeting to consider suspending the tax restriction clause of Section 124.5 for the limited purpose of maintaining the ad valorem tax at current levels. Notices of the public hearing were filed with the offices of the Speaker of the Assembly and the President pro Tempore of the Senate on February 22, 2016. After carefully considering the comments from the public hearing, as well as board presentations, workshops and underlying materials described in this board letter, the Board may consider the proposal to suspend the limitation in Section 124.5 to maintain the ad valorem property tax rate at the current level of .0035 percent of assessed valuation resulting in approximately \$98 million in FY 2016/17 and \$101 million in FY 2017/18, as incorporated in the proposed Biennial Budget for FY 2016/17 and FY 2017/18.

Continuing the current ad valorem tax rate will significantly contribute to Metropolitan's long-term fiscal health and stability by providing a diverse, fixed revenue source, balancing the mechanisms for funding the immediate and anticipated obligations of the SWC, helping to maintain Metropolitan's creditworthiness, and providing the Board with flexibility as it funds Metropolitan's SWC obligations and other obligations, including refurbishment and replacement of Metropolitan's infrastructure, continued funding of retiree medical and pension costs, and cost impacts of replenishing storage, which was drawn down during the recent multiyear drought.

Metropolitan continually evaluates its financial condition, including its long-term fiscal health and stability. Over the past five years, beginning with rate refinement discussions involving Metropolitan staff and member agencies, Metropolitan has examined the contributions of ad valorem property taxes and other fixed and variable revenue sources to its financial strength. Board letters, presentations, and board reports from August 2011 through March 2016, presentations to member agencies, correspondence, contracts and reports on water rates and charges, potential revenue sources, revenues and expenses, the SWP and SWC, financings and financial planning, and other materials relating to Metropolitan's long-term fiscal health and stability are available at [www.mwdh2o.com](http://www.mwdh2o.com).

#### *Historical Revenue Sources*

Metropolitan assesses ad valorem taxes pursuant to authority to "levy and collect taxes on all property within the district for the purposes of carrying on the operations and paying the obligations of the district." (MWD Act, Section 124.) Prior to 1942, Metropolitan was constructing the Colorado River Aqueduct and had no water to sell so all of its revenues came from ad valorem taxes. In FY 1941/42, Metropolitan began to sell water, but the majority of Metropolitan's revenues were still derived from ad valorem taxes. Not until 1974 did 50 percent of Metropolitan's revenues come from water sales, with the remainder derived primarily from ad valorem taxes.

Metropolitan executed its SWC in 1960. The ability to levy property taxes to satisfy payment obligations under the SWC is expressly provided for in the contract. (See “State Water Contract Obligations” below.) Indeed, under certain circumstances, upon written notice from the state, Metropolitan *must* levy a property tax sufficient to satisfy SWC obligations then due or coming due.

In 1984, the Legislature adopted SB 1445, amending the MWD Act to add Section 124.5, and other sections. Effective FY 1990/91, Section 124.5 limits Metropolitan's annual property tax levy at the amount needed to pay the total of annual debt service on Metropolitan's general obligation bonds and the then-existing portion of the SWC obligation for debt service on State Burns-Porter bonds for facilities benefitting Metropolitan, unless after notice and hearing the Board finds that not reducing the tax rate is essential to the District's fiscal integrity. Due to the formula to decrease tax rates as bonds are paid off, Section 124.5 accelerated the shift to revenue from the sale and delivery of water so that today over 80 percent of Metropolitan's revenue is derived from volumetric water rates.

SB 1445 also authorized alternative sources of fixed revenue, including standby or readiness-to-serve charges and benefit assessments. It was not until FY 1992/93, when standby charges were initially adopted, that Metropolitan had any fixed revenue other than property tax. Now, however, those fixed-revenue alternatives are likely governed by additional legal requirements not in place or contemplated when the Legislature enacted SB 1445. Further, the precise scope of those requirements is uncertain, meaning that uncertainty and potential risk will accompany reliance on any new fixed revenue alternative authorized by SB 1445.

#### *State Water Contract Obligations*

Metropolitan is one of 29 agencies that contract with the state for use of and deliveries from the SWP. Metropolitan's SWC was the first contract executed and the prototype for the state water contracts that followed, and its terms were validated by the California Supreme Court in *Metropolitan Water Dist. v. Marquardt* (1963) 59 Cal.2d 159. Metropolitan is the largest agency in terms of the number of residents in its service area, the allocation of SWP water that it has contracted to potentially receive, and the allocation of SWP infrastructure and power costs that results in Metropolitan paying the highest percentage of total annual payments made to the Department of Water Resources of all of the agencies with state water contracts.

Under the SWC, Metropolitan is obligated to pay allocable portions of the cost of construction of the SWP system and ongoing operating and maintenance costs. Metropolitan is obligated to pay these fixed costs regardless of quantities of water available from the project and received. In contrast, a smaller portion of payments are based on deliveries requested and actual deliveries received, costs of power required for actual deliveries of water, and offsets for credits received. Approximately 70 to 80 percent of Metropolitan's SWC obligations are fixed, or unrelated to the quantity of water delivered.

The ability of state water contractors to levy property taxes sufficient to satisfy their contractual obligations was a foundation of the Burns-Porter Act and a factor relied on by California voters in approving it. *Goodman v. County of Riverside* (1983) 140 Cal.App.3d 900, 905-06; *see also, Alameda County Flood Control v. Department of Water Resources, Antelope Valley-East Kern Water Agency* (2013) 213 Cal. App. 4th 1163. In approving the Burns-Porter Act, California's voters approved “an indebtedness in the amount necessary for building, operating, maintaining, and replacing the [State Water] Project, and they intended that the costs were to be met by payments from local agencies with water contracts. Further, the voters necessarily approved the use of local property taxes whenever the boards of directors of the agencies determined such use to be necessary to fund their water contract obligations . . .” *Goodman*, 140 Cal.App.3d at 910. Thus, SWC obligations are voter-approved indebtedness that may be funded by override property taxes (taxes above the one percent general tax limit established by Article XIII A (Proposition 13) of the state constitution).

Most of the other state water contractors substantially rely on ad valorem property taxes to satisfy their SWC obligations. Metropolitan is unique in that it collects only a declining portion of the state general obligation bond debt service (the Burns-Porter bonds)—which is a small portion of its SWC payment obligation—through its ad valorem tax rate.

*Continuing an Ad Valorem Property Tax Rate at the FY 2015/16 Rate is Essential to Fiscal Integrity*

As noted above, Section 124.5 provides Metropolitan's Board with the flexibility to suspend the rate restriction "... if the board of directors of the district, following a hearing held to consider that issue, finds that a tax in excess of these restrictions is essential to the fiscal integrity of the district ..." SB 1445 did not define "essential" or "fiscal integrity" but the full text of the provision, the legislative context, and the legislative history provide guidance to their intended meaning.

Fundamental to Metropolitan's fiscal health is consideration of current and anticipated SWC obligations and a balancing of proper mechanisms for funding immediate and anticipated obligations. SWC obligations have steadily increased since Section 124.5 was added to the MWD Act in ways that the Legislature did not anticipate, and those obligations are expected to continue to increase. Budgeted SWC costs are \$582 million in FY 2016/17 and \$599 million in FY 2017/18, comprise approximately 35 percent of Metropolitan's annual expenditures and are Metropolitan's single largest cost category. If ad valorem taxes are reduced, in FY 2016/17 the amount of property taxes available to satisfy SWC obligations will be approximately \$26.5 million and the proportion of SWC obligations that would be covered would be approximately 4.5 percent. By FY 2025/26, SWC obligations are expected to increase to \$1,131 million if the proposed California WaterFix is implemented. The amount of property taxes available to satisfy SWC obligations will be zero.

Ad valorem taxes are important to fiscal health because they help Metropolitan equitably distribute the costs of Metropolitan's services. As a wholesale water agency, Metropolitan's customers are its 26 member agencies. Each member agency pays volumetric rates based on the amount of water Metropolitan sells and delivers to it. In contrast, ad valorem taxes are levied directly on residents and businesses that are property owners within Metropolitan's service area. All property owners within Metropolitan's service area benefit from the water system that allows water to be sold and delivered in Southern California. Ad valorem taxes ensure that residences and businesses pay a share of costs of the system.

Similarly important to fiscal health is a diverse portfolio of revenue sources and, as only one of three fixed revenue sources, ad valorem taxes are fundamental to Metropolitan's diverse portfolio. Diverse revenues help maintain Metropolitan's strong credit ratings, which lower interest costs, increase access to credit markets allowing greater flexibility to respond to market changes, and increase the affordability of Metropolitan's services. The Board's willingness to make difficult rate decisions and follow through with planned financial actions demonstrates strong financial management. Metropolitan has adopted a set of financial policies, including revenue bond coverage and fixed charge coverage targets, capital paid for from revenues (Pay-As-You-Go, or PAYGo), and reserve policies that support Metropolitan's strong credit ratings. An important element of these financial policies is a diversity of revenue sources and fixed revenue sources.

A diverse portfolio of revenue sources also preserves equity across member agencies. Metropolitan ensures a reliable supplemental water supply to a broad service area. Although its member agencies rely on Metropolitan's supplemental supplies to varying degrees, the entire region and its substantial economy benefit from the availability of Metropolitan water. An agency that normally purchases small amounts of Metropolitan water may need to substantially increase its reliance on Metropolitan, such as in the event of a local source interruption or other emergency. A mix of fixed and volumetric revenues balances the burdens so that each member agency bears a fair share of costs.

Also important to fiscal health is a fair and appropriate balance between fixed costs and fixed revenues (revenues from charges such as property taxes and Metropolitan's standby and readiness-to-serve (RTS) charges and capacity charges that do not vary directly depending on the amount of water purchased and delivered). In FY 2016/17, approximately 80 percent of Metropolitan's budgeted costs are fixed, while approximately 17 percent of Metropolitan's budgeted revenues are from fixed sources. The ad valorem property tax contributes approximately 6 percent, or one-third of fixed revenues. By FY 2025/26, the RTS and capacity charges will contribute about 11 percent to Metropolitan's forecasted total revenues, but ad valorem taxes will be near zero. Absent maintenance of the tax rate or other changes, fixed revenues as a percentage of total revenues will decline from 17 percent to 11 percent.

An analysis of fiscal health and stability must consider long-term circumstances, and the full spectrum of facts and circumstances, including the appropriate mix of property taxes and water rates and charges that will best allow Metropolitan to satisfy the region's long-term water supply and delivery needs. Metropolitan's fixed costs, particularly fixed SWC obligations, are increasing—and increasing in ways unforeseen by the Legislature in 1984. Fixed revenue alternatives to the property tax are unavailable or impractical—another circumstance unforeseen by the Legislature in 1984. Metropolitan's long-term fiscal well-being in significant part turns on the balance between water rates, charges and property taxes. Suspension of the Section 124.5 restriction is necessary and appropriate to allow Metropolitan to maintain a critical fixed revenue source at a meaningful level. It is also essential to satisfy Metropolitan's SWC obligations, which will allow Metropolitan to ensure the region's water supply, delivery, and water quality for the long term.

Continuing the ad valorem property tax rate at the FY 2015/16 rate of .0035 percent would maintain a modest portion of Metropolitan's revenues, about 6 percent, on the tax roll. For example, a house with a \$400,000 assessed valuation in Metropolitan's service area currently pays about \$14 a year in taxes towards Metropolitan's costs. Importantly, maintaining the ad valorem tax revenues helps mitigate future rate increases that would be needed to make up for the loss of tax revenues. By helping mitigate future rate increases, this action provides Metropolitan's Board with flexibility as it considers funding for programs such as ongoing needed repair and replacement work; conservation, recycling and reclamation projects; groundwater clean-up efforts; environmental mitigation work; the impacts of climate change; and the many other costs associated with ensuring a safe and reliable supply of water for Southern California.

## **Policy**

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Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Water District Act Section 124.5: Ad Valorem Tax Limitation

Metropolitan Water District Act Section 130: General Powers to Provide Water Services

Metropolitan Water District Act Section 133: Fixing of Water Rates

Metropolitan Water District Act Section 134: Adequacy of Water Rates; Uniformity of Rates

Metropolitan Water District Act Section 134.5: Water Standby or Availability of Service Charge

Metropolitan Water District Administrative Code 4301(a): Cost of Service and Revenue Requirement

Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates

Metropolitan Water District Administrative Code Section 5107: Biennial Budget Process

Metropolitan Water District Administrative Code Section 5109: Capital Funding from Current Revenues

Metropolitan Water District Administrative Code Section 5200(b): Funds Established

Metropolitan Water District Administrative Code Section 5202(e): Fund Parameters (Water Rate Stabilization Fund)

## **California Environmental Quality Act (CEQA)**

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### **CEQA determination for Option #1, #2, and #3:**

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not defined as a project under CEQA and is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

## Board Options

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### Option #1

Adopt the CEQA determination that the proposed action is not defined as a project under CEQA and is not subject to CEQA, and

- a. Approve the FY 2016/17 and FY 2017/18 biennial budget;
- b. Appropriate \$2,431.4 million for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs;
- c. Appropriate as a continuing appropriation, \$672.6 million for FY 2016/17 and FY 2017/18 debt service on Metropolitan general obligation and revenue bonds;
- d. Authorize the use of \$240 million in operating revenues to fund the Capital Investment Plan;
- e. Determine that the revenue requirements to be paid from rates and charges are \$1,575.0 million in FY 2016/17 and \$1,574.3 million in FY 2017/18;
- f. Approve water rates effective January 1, 2017, and January 1, 2018, as shown in Table 3, Option #1a above;
- g. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2017 and 2018, in the form of [Attachment 4](#), using the rates shown in Section 1, Option #1a in the Resolution;
- h. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2017, in the form of [Attachment 5](#), using the charge shown in Section 6 of the Resolution;
- i. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2017, in the form of [Attachment 6](#), using the charge shown in Section 6 of the Resolution;
- j. Adopt the Resolution Fixing and Adopting A Treated Water Charge Effective January 1, 2017, in the form of [Attachment 7](#), using the charge shown under Option #1a in Section 6 of the Resolution;
- k. Approve the Ten-Year Financial Forecast, as shown in the Proposed Biennial Budget FY 2016/17 and FY 2017/18 in [Attachment 1](#);
- l. Adopt the Resolution Finding that Continuing an Ad Valorem Property Tax Rate at the Rate Levied for FY 2015/16 is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction for FY 2016/17 and FY 2017/18, in the form of [Attachment 8](#);
- m. Authorize establishment and use of the Exchange Agreement Set-Aside Fund as set forth in this letter; and
- n. Authorize use of unspent conservation funding, including extension of the Onsite Recycled Water Retrofit Program through the biennial budget period, as set forth in this letter.

**Fiscal Impact:** Fiscal Impact: Revenues from rates and charges of \$1,487.5 million in FY 2016/17, and \$1,548.1 million in FY 2017/18, and an increase in the overall effective rate of 4.0 percent in 2017 and 4.0 percent in 2017 if the rates and charges are adopted as recommended.

### Option #2

Adopt the CEQA determination that the proposed action is not defined as a project under CEQA and is not subject to CEQA, and

- a. Approve the FY 2016/17 and FY 2017/18 biennial budget ;
- b. Appropriate \$2,431.4 million for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP

- capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs;
- c. Appropriate as a continuing appropriation, \$672.6 million for FY 2016/17 and FY 2017/18 debt service on Metropolitan general obligation and revenue bonds;
  - d. Authorize the use of \$240 million in operating revenues to fund the Capital Investment Plan;
  - e. Determine that the revenue requirements to be paid from rates and charges are \$1,575.0 million in FY 2016/17 and \$1,574.3 million in FY 2017/18;
  - f. Approve water rates effective January 1, 2017, and January 1, 2018, as shown in Table 3, Option #1b above;
  - g. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2017 and 2018, in the form of **Attachment 4**, using the rates shown in Section 1, Option #1b of the Resolution;
  - h. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2017, in the form of **Attachment 5**, using the charge shown in Section 6 of the Resolution;
  - i. Adopt the Resolution Fixing and Adopting a Capacity Charge Effective January 1, 2017, in the form of **Attachment 6**, using the charge shown in Section 6 of the Resolution;
  - j. Adopt the Resolution Fixing and Adopting A Treated Water Charge Effective January 1, 2017, in the form of **Attachment 7**, using the charge shown under Option #1b in Section 6 of the Resolution;
  - k. Approve the Ten-Year Financial Forecast, as shown in the Proposed Biennial Budget FY 2016/17 and FY 2017/18 in **Attachment 1**;
  - l. Adopt the Resolution Finding that Continuing an Ad Valorem Property Tax Rate at the Rate Levied for FY 2015/16 is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction for FY 2016/17 and FY 2017/18, in the form of **Attachment 8**;
  - m. Authorize establishment and use of the Exchange Agreement Set-Aside Fund as set forth in this letter; and
  - n. Authorize use of unspent conservation funding, including extension of the Onsite Recycled Water Retrofit Program through the biennial budget period, as set forth in this letter.

**Fiscal Impact:** Revenues from rates and charges of \$1,487.5 million in FY 2016/17, and \$1,548.1 million in FY 2017/18, and an increase in the overall effective rate of 4.0 percent in 2017 and 4.0 percent in 2017 if the rates and charges are adopted as recommended.

### Option #3

Adopt the CEQA determination that the proposed action is not defined as a project under CEQA and is not subject to CEQA, and

- a. Approve the FY 2016/17 and FY 2017/18 biennial budget and;
- b. Appropriate \$2,431.4 million for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs;
- c. Appropriate as a continuing appropriation, \$672.6 million for FY 2016/17 and FY 2017/18 debt service on Metropolitan general obligation and revenue bonds;
- d. Authorize the use of \$240 million in operating revenues to fund the Capital Investment Plan;
- e. Determine that the revenue requirements to be paid from rates and charges are \$1,575.0 million in FY 2016/17 and \$1,574.3 million in FY 2017/18;
- f. Approve water rates effective January 1, 2017, and January 1, 2018, as shown in Table 3, Option #2 above;
- g. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2017 and 2018, in the form of **Attachment 4**, using the rates shown in Section 1, Option #2 in the Resolution;
- h. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2017, in the form of **Attachment 5**, using the charge shown in Section 6 of the Resolution;
- i. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2017, in the form of **Attachment 6**, using the charge shown in Section 6 of the Resolution;
- j. Approve the Ten-Year Financial Forecast, as shown in the Proposed Biennial Budget FY 2016/17 and FY 2017/18 in **Attachment 1**;

- k. Adopt the Resolution Finding that Continuing an Ad Valorem Property Tax Rate at the Rate Levied for FY 2015/16 is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction for FY 2016/17 and FY 2017/18, in the form of [Attachment 8](#);
- l. Authorize establishment and use of the Exchange Agreement Set-Aside Fund as set forth in this letter; and
- m. Authorize use of unspent conservation funding, including the extension of the Onsite Recycled Water Retrofit Program through the biennial budget period, as set forth in this letter.

**Fiscal Impact:** Revenues from rates and charges of \$1,487.5 million in FY 2016/17, and \$1,548.1 million in FY 2017/18, and an increase in the overall effective rate of 4.0 percent in 2017 and 4.0 percent in 2017 if the rates and charges are adopted as recommended.

#### Option #4

Do not adopt the CEQA determination, and do not adopt the proposed biennial budget and rates and charges; provide staff direction and waive Administrative Code Section 4304.

#### Staff Recommendation

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##### Option #1

  
 Gary Breaux  
 Assistant General Manager/Chief Financial Officer

3/30/2016  
Date

  
 Jeffrey Kightlinger  
 General Manager

3/30/2016  
Date

- Attachment 1 – Proposed Biennial Budget FY 2016/17 and FY 2017/18 (including Ten-Year Financial Forecast and Capital Investment Plan)**
- Attachment 2 – Public Hearing Comments**
- Attachment 3 – Metropolitan Water District of Southern California, Fiscal Years 2016/17 and 2017/18 Cost of Service for Proposed Water Rates and Charges**
- Attachment 4 – Resolution Fixing and Adopting Water Rates to be Effective January 1, 2017 and 2018**
- Attachment 5 – Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2017**
- Attachment 6 – Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2017**
- Attachment 7 – Resolution Fixing and Adopting A Treated Water Charge Effective January 1, 2017**
- Attachment 8 – Resolution Finding that Continuing an Ad Valorem Property Tax Rate at the Rate Levied for Fiscal Year 2015/16 is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction for Fiscal Years 2016/17 and 2017/18**





## Update on Metropolitan's Proposed Budget and Water Rates & Charges for FY 2016/17 and FY 2017/18

Municipal Water District of Orange County  
Joint Board Workshop on MET Issues  
April 6, 2016

### Key Budget Assumptions

Fiscal Year Ending	2017	2018
Overall increase January 2017 & 2018	4.0%	4.0%
Total Water Sales and Exchanges	1.70 MAF	1.70 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Diversions	1.01 MAF	1.04 MAF
Capital Investment Plan	\$200 M	\$200 M
PAYGO	\$120M	\$120M





## Proposed Budget Revenue Requirement for FY 2016/17 & FY 2017/18

	2015/16 Adopted	2016/17 Proposed Budget	2017/18 Proposed Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

\*Totals may not foot due to rounding



## Key Budget Observations

- 💧 Lower water sales projection of 1.7 MAF in both fiscal years result in higher volumetric rates
- 💧 Draw of ~\$50 million from Reserves in FY 2016/17 lowers rates
  - 💧 In the second year, rate increase due to using less reserves
- 💧 Increases in the State Water Contract costs is the main driver in the untreated rate
- 💧 The RTS, Capacity Charge, and treatment surcharge are impacted by the decrease in PAYGo



## Suspension of the Ad Valorem Tax Rate

- 💧 Maintaining the MWD Ad Valorem (AV) tax rate to cover fixed State Water Contract (SWC) costs
- 💧 AV is estimated to generate \$199 million over the next two fiscal years
  - 💧 \$88 million to pay for MWD's G.O. & SWC Burns-Porter bond debt service
  - 💧 \$111 million to offset other SWC costs.
- 💧 If not, the projected MWD rate increases in FY 2016/17 and FY 2017/18 will need to be 3% higher



## SDCWA Exchange Agreement Set-Aside

- 💧 Until SDCWA v. MWD Rate Litigation appellate process is completed, MWD plans to hold \$235.5 million in a separate financial reserve
- 💧 Amount totals the SDCWA payments under the Imperial Irrigation District exchange agreement that is under dispute with MWD
- 💧 These funds are separate from MWD's Water Rate Stabilization Fund and Revenue Remainder Fund



## Unspent Conservation Program Fund

- 💧 MWD staff estimates a total of \$60 million unspent conservation at the end of the fiscal year
- 💧 MWD staff seeking authorization to use these unspent funds:
  - 💡 \$10 million for extending the Onsite Recycled Water Retrofit Program through June 30, 2018; and
  - 💡 Fund \$23 million for the turf removal waiting list; and
  - 💡 Use all remaining funds to be used to augment the conservation program budget



## MWD's Proposed Treatment Fixed Charge



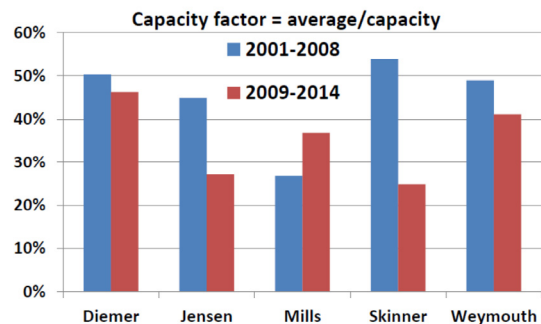
## Background

- 💧 As part of the MET Budget and Rate process, Raftelis Financial was hired to develop a Fixed Treatment Charge
  - 💡 Treatment Fixed Charge Concepts have been considered in 2005, 2012, and again today
- 💧 Currently, the volumetric treatment surcharge (\$313/AF) recovers 100% of the costs, including:
  - 💡 Costs associated with treatment and Capital/Debt Service



## Concerns w/100% Volumetric Rate

- 💧 Declining average use of treated water among certain member agencies result in NO contribution to Demand and Standby related costs
- 💧 Disproportionate share of the fixed treatment costs are being absorbed by those base loading treated water in comparison to those who “jump-on” as needed during peak conditions.
- 💧 Reduced sale volume creates an increase in the per agency treatment costs



## Issues and Considerations

- 💧 Provide MET with Revenue Stability by aligning fixed costs to fixed revenue
- 💧 Collect costs associated with providing “standby capacity”
  - 🔸 Recover the investments made in providing treatment capacity
- 💧 Collect costs associated with providing “peak capacity”
  - 🔸 Recover the costs of maintaining additional capacity beyond average day demands – “Summer time Capacity”
- 💧 Ensure it does not create a disincentive for agencies developing local supplies



## Raftelis' Methodology

Raftelis Financial determined Fixed Charge breakdown (\$ millions):

FY 2016/17 Treatment Revenue Requirement		\$257 (100%)
<b>Variable</b>		<b>\$24 (9%)</b>
<b>Fixed</b>		<b>\$233 (91%)</b>
Commodity	\$135	<div>62% of Total Charge are Volumetric</div> <div>38% of Total Charge are Fixed</div>
Demand	\$41	
Standby	\$57	



## Charge Breakdown Methodology

Status Quo Treatment Surcharge (\$/AF)	
Total Treatment Revenue Requirement	\$257,479,354
Forecast Treated Water Sales (AF)	822,000
Treated Surcharge (\$/AF)	\$313
Treatment Fixed Annual Charge (\$/AF)	
Fixed Demand	\$40,822,844
Fixed Standby	56,724,561
Total Fixed Charge Revenue Requirement	\$97,547,405
% of Total Revenue Requirement	37.9%
Treatment Volumetric Rate (\$/AF)	
Net Remaining Revenue Requirement	\$159,931,949
% of Total Revenue Requirement	62.1%
Forecast Treated Water Sales (AF)	822,000
Volumetric Rate (\$/AF)	\$195



## Options Presented to MET Board

- 💧 Ten-Year Rolling Avg. with peaking without a minimum
- 💧 Minimum charge based on greater of 1998-2007 -or- TYRA of treated water purchases (no peaking)
- 💧 Minimum charge with peaking charge
- 💧 TYRA without a minimum charge (no peaking)
- 💧 20-year rolling average without a minimum (no peaking)
- 💧 20-year rolling average with peaking without a minimum





## Options Presented to MET Board

- 💧 Ten-Year Rolling Avg. with peaking without a minimum
- 💧 Minimum charge based on greater of 1998-2007 -or- TYRA of treated water purchases (no peaking)
- ~~💧 Minimum charge with peaking charge~~
- ~~💧 TYRA without a minimum charge (no peaking)~~
- ~~💧 20-year rolling average without a minimum (no peaking)~~
- ~~💧 20-year rolling average with peaking without a minimum~~
- 💧 Status Quo

Option #1a

Option #1b

Option #2



## Option #1a - Ten-Year Rolling Avg. with Peaking

Fixed Revenue (38%) would be assessed on two charges:

1. **Standby Charge** - Demand Costs based on most recent Ten-Year (2006-2015) Rolling Average of Treated water sales
  - Covers 22% of the Treatment Costs
2. **Demand Charge** - Peaking charge to recover the on-demand costs of service based on agency's 3-year Maximum Cubic Feet per Second (cfs)
  - Covers 16% of the Treatment Costs





## MWDOC Observations: Option #1a -TYRA with Peaking Option

### Pros with this Option:

- ⚠ Addresses Revenue Stability by assessing two components
  - ⚠ Properly recovers the Standby Cost of service through the ten-year rolling average
  - ⚠ Properly recovers the On-Demand costs of service through the Peaking Charge
- ⚠ Consistent with the costs of service methodology of MET's existing Capacity Charge and RTS
- ⚠ Allows agencies to pay for their capacity use over 10-years
- ⚠ Eliminates the perpetual minimum payment, addressing the local supply development disincentive issue by providing an agency the ability to "roll-off" the fixed charge



## MWDOC Observations: Option #1a -TYRA with Peaking Option

### Cons with this Option:

- ⚠ An agency retains the assurance of the MET system if/when they have a problem with their local treated water supply, without maintaining a financial contribution beyond 10-years
- ⚠ Contains a Peaking Charge that some member agencies find more as a penalty for one-day usage rather than typical use
- ⚠ The TYRA does not effectively reflect the financial term of MET bond investments



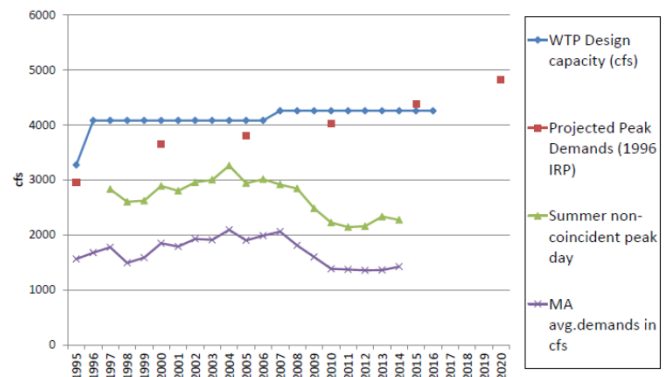
Summary of 2016/2017 MET Member Agency Treatment Revenue Requirement Impacts (HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)							
Member Agency	Status Quo 100% Volumetric Rate	TYRA and Peaking (no minimum)					
		Fixed Standby Charge: 2006-2015 TYRA	Fixed Demand Charge: 3-Year Max CFS 2013-2015	Volumetric: Est. FY 2016-17 Treated Water Purchases	Total Revenue Requirement	\$ Difference from Status Quo	% Difference from Status Quo
Aneheim	\$ 1,236,339	\$ 613,951	\$ 557,303	\$ 767,946	\$ 1,939,199	702,860	57%
Beverly Hills	\$ 3,198,758	\$ 576,484	\$ 518,578	\$ 1,986,892	\$ 3,081,953	(116,805)	-4%
Burbank	\$ 1,990,297	\$ 510,815	\$ 380,515	\$ 1,236,262	\$ 2,127,593	137,296	7%
Calleguas	\$ 27,860,081	\$ 5,807,975	\$ 4,113,264	\$ 17,305,143	\$ 27,226,382	(633,699)	-2%
Central Basis	\$ 8,750,852	\$ 2,339,048	\$ 1,239,199	\$ 5,435,546	\$ 9,013,792	262,940	3%
Compton	\$ -	\$ 97,414	\$ 48,827	\$ -	\$ 146,241	146,241	> 100%
Eastern	\$ 16,679,149	\$ 3,712,411	\$ 3,404,429	\$ 10,360,166	\$ 17,477,007	797,857	5%
Foothill	\$ 2,337,048	\$ 502,917	\$ 335,055	\$ 1,451,645	\$ 2,289,617	(47,431)	-2%
Fullerton	\$ 2,392,804	\$ 560,586	\$ 373,780	\$ 1,486,278	\$ 2,420,643	27,839	1%
Glendale	\$ 4,915,600	\$ 991,607	\$ 755,979	\$ 3,053,299	\$ 4,800,885	(114,716)	-2%
Inland Empire	\$ -	\$ -	\$ -	\$ -	\$ -	0	0%
Las Virgenes	\$ 6,363,060	\$ 1,154,891	\$ 882,256	\$ 3,952,382	\$ 5,989,529	(373,532)	-6%
Long Beach	\$ 13,278,354	\$ 1,842,814	\$ 1,141,545	\$ 8,247,780	\$ 11,232,138	(2,046,216)	-15%
Los Angeles	\$ 19,137,732	\$ 4,452,990	\$ 3,564,380	\$ 11,887,302	\$ 19,904,672	766,940	4%
MWDOC	\$ 44,255,439	\$ 10,378,074	\$ 6,273,444	\$ 27,489,033	\$ 44,140,551	(114,887)	0%
Pasadena	\$ 5,399,549	\$ 1,072,414	\$ 883,939	\$ 3,353,901	\$ 5,310,254	(89,294)	-2%
San Diego	\$ 30,467,137	\$ 7,921,613	\$ 5,827,265	\$ 18,924,502	\$ 32,673,381	2,206,243	7%
San Fernando	\$ 28,818	\$ 10,430	\$ 82,501	\$ 17,900	\$ 110,831	82,013	> 100%
San Marino	\$ 210,807	\$ 47,137	\$ 122,910	\$ 130,942	\$ 300,989	90,182	43%
Santa Ana	\$ 1,543,936	\$ 674,961	\$ 330,004	\$ 959,008	\$ 1,963,973	420,036	27%
Santa Monica	\$ 1,227,882	\$ 468,437	\$ 382,199	\$ 762,693	\$ 1,613,328	385,446	31%
Three Valleys	\$ 11,477,252	\$ 2,118,044	\$ 2,151,761	\$ 7,129,035	\$ 11,398,839	(78,413)	-1%
Torrance	\$ 4,673,156	\$ 917,939	\$ 574,140	\$ 2,902,707	\$ 4,394,785	(278,371)	-6%
Upper San Gabriel	\$ 2,615,514	\$ 371,935	\$ 355,259	\$ 1,624,613	\$ 2,351,807	(263,707)	-10%
West Basin	\$ 32,556,416	\$ 6,362,687	\$ 3,875,864	\$ 20,222,247	\$ 30,460,798	(2,095,618)	-6%
Western	\$ 14,883,372	\$ 3,216,988	\$ 2,648,451	\$ 9,244,728	\$ 15,110,167	226,795	2%
<b>Total</b>	<b>\$ 257,479,354</b>	<b>\$ 56,724,561</b>	<b>\$ 40,822,844</b>	<b>\$ 159,931,949</b>	<b>\$ 257,479,354</b>	<b>\$ -</b>	<b>0%</b>

Note: Values may differ slightly from Metropolitan due to rounding.

## Option #1b -Minimum Fixed Charge

Fixed Revenue (38%) will be assessed based on the Greater of:

- 10-year (2006-2015) rolling average (TYRA) of treated water sales
- or-
- Average of 1998-2007\* treated water sales



\*2007 was the last significant treatment plant capacity addition



## MWDOC Observations: Option #1b -Minimum Fixed Charge

### Pros with this Option:

- ⚠ Addresses Revenue Stability by maintaining a fixed Charge
- ⚠ Recovers MET's investment of providing treatment capacity based on historical and/or current treatment use
- ⚠ Member Agency payment provides insurance for the ability to "jump" back onto the treatment system



## MWDOC Observations: Option #1b -Minimum Fixed Charge

### Cons with this Option:

- ⚠ The minimum is to be paid in perpetuity
  - ⚠ Regardless of local supplies allowing an agency "roll-off" the MET system for baseload supply, results in the inability to lessen the minimum
  - ⚠ Can create a disincentive for agencies seeking to develop local resources
- ⚠ It does not properly address the issue of Peaking
  - ⚠ A 10-year average of annual water purchased does not consider the difference between an agency taking a smooth steady flow (i.e. 1 cfs for 365 days) vs. peaking off the MWD system (i.e. 365 cfs for 1 day)
- ⚠ A "one-size fit all approach" that does not allocate cost in the most equitable way



Summary of 2016/2017 MET Member Agency Treatment Revenue Requirement Impacts (HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)						
Member Agency	Status Quo 100% Volumetric Rate	Minimum Charge (no peaking)				
		Fixed Charge: Minimum > of 1998-2007 -or- 2006-2015 TYRA	Volumetric Charge: Est. FY 2016-17 Treated Water Purchases	Total Revenue Requirement	\$ Difference from Status Quo	% Difference from Status Quo
Aneheim	\$ 1,236,339	\$ 954,897	\$ 767,946	\$ 1,722,843	486,504	39%
Beverly Hills	\$ 3,198,758	\$ 945,737	\$ 1,986,892	\$ 2,932,628	(266,130)	-8%
Burbank	\$ 1,990,297	\$ 931,777	\$ 1,236,262	\$ 2,168,040	177,743	9%
Calleguas	\$ 27,860,081	\$ 8,340,047	\$ 17,305,143	\$ 25,645,190	(2,214,891)	-8%
Central Basis	\$ 8,750,852	\$ 4,885,070	\$ 5,435,546	\$ 10,320,616	1,569,763	18%
Compton	\$ -	\$ 255,483	\$ -	\$ 255,483	255,483	> 100%
Eastern	\$ 16,679,149	\$ 5,338,162	\$ 10,360,166	\$ 15,698,328	(980,821)	-6%
Foothill	\$ 2,337,048	\$ 845,041	\$ 1,451,645	\$ 2,296,686	(40,362)	-2%
Fullerton	\$ 2,392,804	\$ 837,044	\$ 1,486,278	\$ 2,323,321	(69,483)	-3%
Glendale	\$ 4,915,600	\$ 1,824,440	\$ 3,053,299	\$ 4,877,739	(37,861)	-1%
Inland Empire	\$ -	\$ -	\$ -	\$ -	0	0%
Las Virgenes	\$ 6,363,060	\$ 1,658,383	\$ 3,952,382	\$ 5,610,765	(752,295)	-12%
Long Beach	\$ 13,278,354	\$ 3,218,398	\$ 8,247,780	\$ 11,466,178	(1,812,176)	-14%
Los Angeles	\$ 19,137,732	\$ 6,394,337	\$ 11,887,302	\$ 18,281,639	(856,094)	-4%
<b>MWDDOC</b>	<b>\$ 44,255,439</b>	<b>\$ 17,754,590</b>	<b>\$ 27,489,033</b>	<b>\$ 45,243,623</b>	<b>988,185</b>	<b>2%</b>
Pasadena	\$ 5,399,549	\$ 1,583,425	\$ 3,353,901	\$ 4,937,327	(462,222)	-9%
San Diego	\$ 30,467,137	\$ 18,276,461	\$ 18,924,502	\$ 37,200,963	6,733,826	22%
San Fernando	\$ 28,818	\$ 28,137	\$ 17,900	\$ 46,036	17,219	60%
San Marino	\$ 210,807	\$ 75,685	\$ 130,942	\$ 206,627	(4,180)	-2%
Santa Ana	\$ 1,543,936	\$ 1,147,854	\$ 959,008	\$ 2,106,862	562,926	36%
Santa Monica	\$ 1,227,882	\$ 918,036	\$ 762,693	\$ 1,680,729	452,847	37%
Three Valleys	\$ 11,477,252	\$ 3,596,460	\$ 7,129,035	\$ 10,725,495	(751,757)	-7%
Torrance	\$ 4,673,156	\$ 1,530,569	\$ 2,902,707	\$ 4,433,276	(239,880)	-5%
Upper San Gabriel	\$ 2,615,514	\$ 1,015,169	\$ 1,624,613	\$ 2,639,782	24,268	1%
West Basin	\$ 32,556,416	\$ 10,572,721	\$ 20,222,247	\$ 30,794,968	(1,761,448)	-5%
Western	\$ 14,883,372	\$ 4,619,481	\$ 9,244,728	\$ 13,864,209	(1,019,162)	-7%
<b>Total</b>	<b>\$ 257,479,354</b>	<b>\$ 97,547,405</b>	<b>\$ 159,931,949</b>	<b>\$ 257,479,354</b>	<b>\$ -</b>	<b>0%</b>

Note: Values may differ slightly from Metropolitan due to rounding.

## Proposed Rates and Charges under Option #1a

MET Staff is recommending:  
Option #1a

Rates & Charges (Effective Jan. 1)	2016 (Current)	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
<b>Full Service Untreated Volumetric Costs (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge (\$/AF)</b>	<b>\$348</b>	<b>\$195</b>		<b>\$197</b>	
<b>Full Service Treated Volumetric Costs (\$/AF)</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$/M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
<b>Treated Water Fixed Charge</b>					
Standby Charge (\$/M)	-	\$57		\$59	
On-Demand Charge (\$/M)	-	\$41		\$43	
<b>Overall Rate Increase</b>			4.0%		4.0%



## Proposed Rates and Charges under Option #1b

Rates & Charges (Effective Jan. 1)	2016 (Current)	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
<b>Full Service Untreated Volumetric Costs (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge (\$/AF)</b>	<b>\$348</b>	<b>\$195</b>		<b>\$197</b>	
<b>Full Service Treated Volumetric Costs (\$/AF)</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
<b>Treated Water Fixed Charge (\$M)</b>		<b>\$98</b>		<b>\$102</b>	
Overall Rate Increase			4.0%		4.0%



## Proposed Rates and Charges under Option #2 – Status Quo

Rates & Charges (Effective Jan. 1)	2016 (Current)	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
<b>Full Service Untreated Volumetric Costs (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge (\$/AF)</b>	<b>\$348</b>	<b>\$313</b>	<b>(10.1%)</b>	<b>\$320</b>	<b>2.2%</b>
<b>Full Service Treated Volumetric Costs (\$/AF)</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
Overall Rate Increase			4.0%		4.0%



## Questions



## Backup Slides



# Financial Comparison of the Options (MWDOC Member Agencies)



Option #1a Summary of MWDOC Member Agency Treatment Revenue Requirement Impacts (HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)								
Member Agency	Status Quo 100% Volumetric Rate (Based on FY 2014-15)	TYRA and Peaking (no minimum)						
		Fixed Standby Charge: 2006-2015 TYRA	Fixed Demand Charge: 3-Year Max CFS 2013-2015	Volumetric Charge: Treated Water Purchases (Based on FY 2014-15)	Total Revenue Requirement	\$ Difference from Status Quo	% Difference from Status Quo	
Brea	\$ 934,705	\$ 210,317	\$ 159,327	\$ 580,587	\$ 950,231	15,526	2%	
Buena Park	\$ 1,030,179	\$ 274,907	\$ 114,522	\$ 639,890	\$ 1,029,319	(860)	0%	
El Toro WD	\$ 2,455,832	\$ 496,353	\$ 269,010	\$ 1,525,427	\$ 2,290,790	(165,041)	-7%	
East Orange County WD	\$ 900,361	\$ 216,573	\$ 272,911	\$ 559,254	\$ 1,048,738	148,378	16%	
Fountain Valley	\$ 745,027	\$ 170,206	\$ 42,601	\$ 462,770	\$ 675,577	(69,450)	-9%	
Garden Grove	\$ 1,889,443	\$ 468,661	\$ 451,015	\$ 1,173,617	\$ 2,093,294	203,851	11%	
Golden State WC	\$ 1,933,803	\$ 532,293	\$ 245,260	\$ 1,201,172	\$ 1,978,725	44,922	2%	
Huntington Beach	\$ 2,188,757	\$ 512,273	\$ 456,001	\$ 1,359,535	\$ 2,327,808	139,052	6%	
Irvine Ranch WD	\$ 3,670,934	\$ 1,041,071	\$ 569,992	\$ 2,280,182	\$ 3,891,245	220,310	6%	
La Habra	\$ 65,901	\$ 108,922	\$ 109,549	\$ 40,934	\$ 259,405	193,504	294%	
La Palma	\$ 153,342	\$ 32,945	\$ 43,286	\$ 95,247	\$ 171,479	18,137	12%	
Laguna Beach CWD	\$ 1,035,890	\$ 203,966	\$ 97,045	\$ 643,438	\$ 944,448	(91,442)	-9%	
Mesa Water	\$ -	\$ 214,222	\$ 241,758	\$ -	\$ 455,980	455,980	>100%	
Moulton Niguel WD	\$ 7,623,569	\$ 1,544,715	\$ 735,152	\$ 4,735,340	\$ 7,015,208	(608,362)	-8%	
Newport Beach	\$ 1,234,275	\$ 363,970	\$ 171,776	\$ 766,664	\$ 1,302,409	68,134	6%	
OCWD	\$ 4,610	\$ 1,543	\$ 7,983	\$ 2,863	\$ 12,389	7,780	169%	
Orange	\$ 1,854,216	\$ 537,835	\$ 263,247	\$ 1,151,736	\$ 1,952,819	98,603	5%	
San Clemente	\$ 2,537,411	\$ 476,817	\$ 257,306	\$ 1,576,099	\$ 2,310,222	(227,189)	-9%	
San Juan Capistrano	\$ 1,470,079	\$ 276,928	\$ 241,579	\$ 913,132	\$ 1,431,639	(38,439)	-3%	
Santa Margarita WD	\$ 7,604,493	\$ 1,495,758	\$ 814,647	\$ 4,723,491	\$ 7,033,896	(570,597)	-8%	
Seal Beach	\$ 223,909	\$ 61,495	\$ 74,288	\$ 139,080	\$ 274,863	50,954	23%	
Serrano WD	\$ -	\$ -	\$ -	\$ -	\$ -	0	0%	
South Coast WD	\$ 1,632,355	\$ 313,425	\$ 146,373	\$ 1,013,929	\$ 1,473,727	(158,628)	-10%	
Trabuco Canyon WD	\$ 124,256	\$ 16,225	\$ 17,921	\$ 77,181	\$ 111,326	(12,929)	-10%	
Tustin	\$ -	\$ -	\$ -	\$ -	\$ -	0	0%	
Westminster	\$ 925,088	\$ 221,288	\$ 66,888	\$ 574,613	\$ 862,789	(62,298)	-7%	
Yorba Linda WD	\$ 2,017,005	\$ 585,366	\$ 404,006	\$ 1,252,852	\$ 2,242,224	225,219	11%	
<b>Total</b>	<b>\$ 44,255,439</b>	<b>\$ 10,378,074</b>	<b>\$ 6,273,444</b>	<b>\$ 27,489,033</b>	<b>\$ 44,140,551</b>	<b>(114,887)</b>	<b>0%</b>	



Option #1b Summary of MWDOC Member Agency Treatment Revenue Requirement Impacts (HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)						
Member Agency	Status Quo 100% Volumetric Rate (Based on FY 2014-15)	Minimum Charge (no peaking)				
		Fixed Charge: Minimum > of 1998-2007 - or- 2006-2015 TYRA	Volumetric Charge: Treated Water Purchases (Based on FY 2014-15)	Total Revenue Requirement	\$ Difference from Status Quo	% Difference from Status Quo
Brea	\$ 934,705	\$ 399,575	\$ 580,587	\$ 980,162	45,457	5%
Buena Park	\$ 1,030,179	\$ 424,430	\$ 639,890	\$ 1,064,321	34,142	3%
El Toro WD	\$ 2,455,832	\$ 803,422	\$ 1,525,427	\$ 2,328,849	(126,983)	-5%
East Orange County WD	\$ 900,361	\$ 402,489	\$ 559,254	\$ 961,744	61,383	7%
Fountain Valley	\$ 745,027	\$ 242,187	\$ 462,770	\$ 704,957	(40,070)	-5%
Garden Grove	\$ 1,889,443	\$ 673,352	\$ 1,173,617	\$ 1,846,970	(42,473)	-2%
Golden State WC	\$ 1,933,803	\$ 933,318	\$ 1,201,172	\$ 2,134,490	200,687	10%
Huntington Beach	\$ 2,188,757	\$ 1,106,651	\$ 1,359,535	\$ 2,466,186	277,429	13%
Irvine Ranch WD	\$ 3,670,934	\$ 2,191,109	\$ 2,280,182	\$ 4,471,290	800,356	22%
La Habra	\$ 65,901	\$ 254,487	\$ 40,934	\$ 295,421	229,520	348%
La Palma	\$ 153,342	\$ 46,877	\$ 95,247	\$ 142,125	(11,217)	-7%
Laguna Beach CWD	\$ 1,035,890	\$ 338,329	\$ 643,438	\$ 981,767	(54,123)	-5%
Mesa Water	\$ -	\$ 640,877	\$ -	\$ 640,877	640,877	>100%
Moulton Niguel WD	\$ 7,623,569	\$ 2,507,202	\$ 4,735,340	\$ 7,242,542	(381,027)	-5%
Newport Beach	\$ 1,234,275	\$ 674,505	\$ 766,664	\$ 1,441,169	206,894	17%
OCWD	\$ 4,610	\$ 2,195	\$ 2,863	\$ 5,059	449	10%
Orange	\$ 1,854,216	\$ 803,726	\$ 1,151,736	\$ 1,955,462	101,246	5%
San Clemente	\$ 2,537,411	\$ 729,390	\$ 1,576,099	\$ 2,305,490	(231,921)	-9%
San Juan Capistrano	\$ 1,470,079	\$ 525,923	\$ 913,132	\$ 1,439,055	(31,024)	-2%
Santa Margarita WD	\$ 7,604,493	\$ 2,128,324	\$ 4,723,491	\$ 6,851,815	(752,679)	-10%
Seal Beach	\$ 223,909	\$ 87,502	\$ 139,080	\$ 226,582	2,672	1%
Serrano WD	\$ -	\$ -	\$ -	\$ -		
South Coast WD	\$ 1,632,355	\$ 529,625	\$ 1,013,929	\$ 1,543,554	(88,801)	-5%
Trabuco Canyon WD	\$ 124,256	\$ 23,087	\$ 77,181	\$ 100,267	(23,988)	-19%
Tustin	\$ -	\$ -	\$ -	\$ -	0	0%
Westminster	\$ 925,088	\$ 338,743	\$ 574,613	\$ 913,356	(11,731)	-1%
Yorba Linda WD	\$ 2,017,005	\$ 947,264	\$ 1,252,852	\$ 2,200,115	183,111	9%
<b>Total</b>	<b>\$ 44,255,439</b>	<b>\$ 17,754,590</b>	<b>\$ 27,489,033</b>	<b>\$ 45,243,623</b>	<b>988,185</b>	<b>2%</b>



## DISCUSSION ITEM

April 6, 2016

**TO:** Board of Directors

**FROM:** Robert Hunter  
General Manager

Staff Contact: Harvey De La Torre

**SUBJECT: Metropolitan's 2015 Integrated Resources Plan (IRP) – Phase 2: Board Discussion on Resource Implementation**

### STAFF RECOMMENDATION

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Staff recommends the Board of Directors review and discuss this information

### REPORT

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In January, the Metropolitan Water District (MET) Board of Directors adopted its 2015 Integrated Water Resource Plan (IRP) update. This update involved a year long process of updating regional data on water supplies and demands, as well as revisions to the water resource development targets through the year 2040. As part of the analysis, it also considered the potential risks and challenges impacting the region's water supply reliability.

The 2015 IRP update continues the adaptive management strategy established in the 2010 IRP to mitigate potential risks. This strategy calls for a diversified portfolio of actions that seek to stabilize and maintain our core imported supplies; increase water conservation, sustain and develop new local supplies, pursuing a comprehensive transfer and exchange strategy, and rebuilding and enhance storage.

However, what remains in progress is what MET identifies as the IRP Phase 2 - Resource Implementation Policies, chiefly: how (and in what manner) should MET create this diversified portfolio; what MET programs and policies should be changed to help meet these resource targets; and what are the associated local and regional responsibilities.

MET staff provided a list of policy issues for the second phase of the IRP discussion:

- 🔹 Regional and retail water supply reliability roles and responsibilities
- 🔹 Future water conservation program and approach
- 🔹 Local resources development and regional role

<b>Budgeted (Y/N):</b> n/a	Budgeted amount: n/a	Core <b>_X_</b>	Choice <b>__</b>
<b>Action item amount:</b> n/a	Line item:		
<b>Fiscal Impact (explain if unbudgeted):</b>			

- 💧 Storage management goals and operational framework
- 💧 Transfers and exchanges approach

In preparation of this Board discussion, Chairman Record encouraged each member agency to submit comments and/or suggestions on what they identify are the most important policy issues to Metropolitan and their agency. In response, MWDOC submitted the attached letter to MET suggesting the following IRP policy issues the Board should address:

- 💧 Encourage the further development of local resources within the Metropolitan service area
- 💧 Increase the water in Metropolitan's regional storage accounts
- 💧 Encourage sustainable groundwater management
- 💧 Optimize imported supplies
- 💧 Develop a financially sustainable approach to water conservation

**Attachment – MWDOC's Recommended IRP Policy Priorities letter to Board  
Chairman Record and IRP Committee Chairman Atwater**



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Robert J. Hunter  
*General Manager*

#### **MEMBER AGENCIES**

City of Brea  
City of Buena Park  
East Orange County Water District  
El Toro Water District  
Emerald Bay Service District  
City of Fountain Valley  
City of Garden Grove  
Golden State Water Co.  
City of Huntington Beach  
Irvine Ranch Water District  
Laguna Beach County Water District  
City of La Habra  
City of La Palma  
Mesa Water District  
Moulton Niguel Water District  
City of Newport Beach  
City of Orange  
Orange County Water District  
City of San Clemente  
City of San Juan Capistrano  
Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

March 14, 2016

Randy A. Record  
Chairman of the Board of Directors  
Metropolitan Water District of Southern California  
P. O. Box 54153  
Los Angeles, CA 90054-0153

Richard Atwater  
Chairman of the Integrated Resource Planning Committee  
Metropolitan Water District of Southern California  
P. O. Box 54153  
Los Angeles, CA 90054-0153

### **Re: Metropolitan's 2015 Integrated Resource Planning Phase 2 Policy Discussion – Recommended Principles and Policy Priorities**

Dear Board Chairman Record and Committee Chairman Atwater:

The Municipal Water District of Orange County (MWDOC) Board of Directors and MWDOC's Metropolitan Directors acknowledge and appreciate the hard work the IRP Committee, IRP Technical Workgroup and Metropolitan staff provided in the findings and recommendations of the adopted 2015 Integrated Water Resources Plan (IRP). Moreover, as we enter into this second phase of the IRP process, we look forward to providing input in the upcoming policy discussion where the Board will deliberate on a number of key policy issues. Per your request, we would like to provide the following suggestions and comments for Board discussion.

Preceding the prioritization of any policy issues, we feel it would be prudent to establish Principles to help provide the framework for a productive discussion. Principles we recommend the Board to consider are:

- ***Support the Laguna Declaration of ensuring Metropolitan's leadership role in reliably meeting the region's current and future water needs;***

- ***Ensure future investments inside and outside the service area that protect the financial and system health of Metropolitan;***
- ***Promote a business plan approach in which Metropolitan investments benefit the “collective-whole” of the region, while maintaining equitable levels of reliability among the Metropolitan member agencies.***
- ***Continue to support an adaptive management planning approach, as outlined in the IRP, as the California WaterFix becomes better defined.***

We believe that agreeing on such principles can facilitate the Board’s policy discussions and help define the types of actions Metropolitan should pursue.

Among the IRP policy issues identified to the IRP Committee, we see the following as most important to Metropolitan and Orange County:

1. **Encourage the further development of local resources within the Metropolitan service area.** Local resources are a key to future reliability. We support exploring an expanded role for Metropolitan that carefully identifies opportunities where it can develop, own, and operate local resource projects that provide regional benefits, such as the Los Angeles County Sanitation District Indirect Potable Reuse Project. This can and should also include projects where Metropolitan can be an investing partner where regional benefits are demonstrated.

In addition, we believe local supply development can and should be encouraged not just through financial incentives i.e. LRP payments, but also through credits/adjustments in Metropolitan’s Water Supply Allocation Plan. Member agencies could receive recognition for their local investments by improving their imported allocations under the Water Supply Allocation Plan, such as considering them an extraordinary supply instead of receiving a LRP incentive.

2. **Increase the water in Metropolitan’s Regional Storage Accounts** by adopting a comprehensive water transfer and exchange program that seeks to secure additional supplies in wet, normal, and dry years. Moreover, the benefit of transfers and exchanges can provide near-term relief until the California WaterFix is better defined.

In addition, within two-years Metropolitan should complete a comprehensive review of its emergency storage within its service area. This should include the expansion of in-region storage capacity.

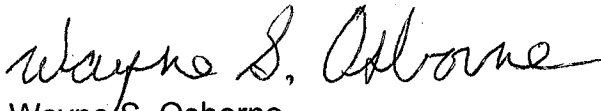
3. **Encourage sustainable groundwater management** by providing a clear recharge policy as it relates to delivering imported water during wet, normal and

dry years. In addition, identify opportunities to improve storage in local groundwater basins so they may better withstand multi-dry year periods.

4. **Optimize imported supplies** by taking actions to ensure we maintain full base supplies from the Colorado River.
5. **Develop a financially sustainable approach to water conservation** that balances cost effective incentive programs, water use knowledge, and unified messaging. There should be broad focus to encourage public awareness and understanding of water use efficiency practices with the promotion of multiple-benefits. Rebates should be established based on cost-effective metrics, in concert with efficiency targets. The conservation credits program should follow a financially sustainable model based on defined active vs. code-based efforts.

If you have any questions, please contact me or our General Manager, Robert J. Hunter at (714) 593-5026.

Sincerely,



Wayne S. Osborne  
Board President, Municipal Water District of Orange County

cc: Municipal Water District of Orange County Board of Directors  
Metropolitan Water District Board of Directors

Attached – Metropolitan Administrative Code, Section 4202 (Laguna Declaration)

## Metropolitan Administrative Code

### § 4202. Avoidance in District Service Area of Overlapping or Paralleling Governmental Authorities (Laguna Declaration).

(a) The District is prepared, with its existing governmental powers and its present and projected distribution facilities, to provide its service area with adequate supplies of water to meet expanding and increasing needs in the years ahead. When and as additional water resources are required to meet increasing needs for domestic, industrial and municipal water, the District will be prepared to deliver such supplies.

(b) Taxpayers and water users residing within the District already have obligated themselves for the construction of an aqueduct supply and distribution system. This system has been designed and constructed in a manner that permits orderly and economic extensions and enlargements to deliver the District's full share of Colorado River water and State Project water as well as water from other sources as required in the years ahead. Establishment of overlapping and paralleling governmental authorities and water distribution facilities to service Southern California areas would place a wasteful and unnecessary financial burden upon all of the people of California, and particularly the residents of Southern California.

Section 301.2 based on M.I. 14727 - December 16, 1952. Section 301.2 repealed and Section 4201 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; Section 4201 renumbered Section 4202 by M.I. 39412 - January 14, 1992.





## Item No. 5

### DISCUSSION ITEM

April 6, 2016

**TO:** Board of Directors & MET Directors

**FROM:** Robert J. Hunter  
General Manager

Staff Contact: Harvey De La Torre

**SUBJECT: Metropolitan Water District (MET) Items Critical To Orange County**

### STAFF RECOMMENDATION

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Staff recommends the Board of Directors to review and discuss this information.

### SUMMARY

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This report provides a brief update on the current status of the following key MET issues that may affect Orange County:

- a) MET's Water Supply Conditions
- b) MET's Finance and Rate Issues
- c) Colorado River Issues
- d) Bay Delta/State Water Project Issues
- e) MET's Ocean Desalination Policy and Potential Participation in the Doheny and Huntington Beach Ocean (Poseidon) Desalination Projects
- f) Orange County Reliability Projects
- g) East Orange County Feeder No. 2

## **ISSUE BRIEF # A**

**SUBJECT: MET's Water Supply Conditions**

### **RECENT ACTIVITY**

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#### **DWR increased the State Water Contractor's "Table A" Allocation from 30% to 45%**

On March 17, the California Department of Water Resource (DWR) increased its water delivery allocation for State Water Contractors (SWC) to 45% of requested SWP water for 2016. This will provide MET with close to 900,000 AF for 2016. The SWC "Table A" Allocation increased from 30% to 45% as result of much improved precipitation and snowpack levels from the early March storms boosting key state reservoir levels.

Lake Oroville in Butte County, the State Water Project's principal reservoir, is holding over 3.0 million AF, 86% of its 3.5 million AF capacity and 113% of its historical average for the date. Shasta Lake, which is north of Redding and California's and the Center Valley Project's (CVP) largest reservoir, was holding 3.9 million AF, 88% of its 4.5 million AF and 109% of its historical average. But San Luis Reservoir, a critical south-of-Delta pool for both the SWP and CVP, was holding only 1.02 million AF, 51% of its 2.0 million AF capacity and just 57% of average storage for the date. In fact, the gains in Lake Oroville have resulted in releases of water from its spillway for the first time in five years. At 86% full, releases are required by the Army Corps of Engineers to keep room available in the reservoir in case of a major flood event.

In addition, Delta pumping restrictions during the storm events in March resulted in significant losses to the ocean. According to MET staff, from March 1 to March 21 the SWP pumps were operating between 2,000 to 3,700 cubic feet per second (cfs) per day, even though the SWP pumping capacity is 10,300 cfs per day. Causing has much as 345,660 AF to be lost to the ocean over a 21 day period.

Unfortunately, the above average precipitation has not occurred for the entire state. Central and Southern California still remain near or below average conditions. This unbalance is causing DWR to state the drought has not ended for California. The gains this winter season with near-average conditions throughout the state does not compensate for the four prior years of drought, according to DWR.

*"February reminded us how quickly California's weather can turn from wet to dry. The lessons of this drought is that we all need to make daily conservation a way of life",* stated DWR Director Mark Cowin.

## **ISSUE BRIEF # B**

**SUBJECT: MET's Finance and Rate Issues**

### **RECENT ACTIVITY**

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#### **MET Financial Report**

MET held Budget Board Workshops #3 and #4 last month, where MET staff presented an overview of the major cost drivers associated with the rates adjustments, Costs of Service Study, and Capital Improvement Plan for the proposed Biennial Budget and Rates for FY 2016/17 and FY 2017/18. Along with the budget, MET staff provided a description of the methodology and calculation of a newly proposed Fixed Treatment Charge.

MWDOC staff plans to provide a detail presentation on the MET staff recommendation for the proposed biennial budget as well as a description of the proposed Fixed Treatment Charge, along with financial comparison of viable options at this month's MWDOC Board Workshop on MET Issues. The MET Board plans to take action on the Budget and Rates at its April 12 Board meeting.

## **ISSUE BRIEF # C**

**SUBJECT: Colorado River Issues**

### **RECENT ACTIVITY**

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#### **Condition on the Colorado River Basin**

The Colorado River Basin (Basin) experienced warm and dry conditions during February. As a result, the runoff forecast for the Basin was lowered to 89% of average in late February, with an expectation of a lower figure when the official March 2016 forecast is made. Last fall, long range forecasts suggested that the strong El Nino conditions favored a wet year for the Basin, but as of March 1, 2016, these conditions have not materialized, and with the updated information the Basin is now forecast to have its driest year since 2013. On March 1, 2016, Lake Mead stood at 1,082 feet; the lowest level for that date since the reservoir was initially filled. The current forecast projects the reservoir to end the year at 1,077 feet, which would avoid a first-ever shortage declaration by 2 feet. If dry conditions continue, it is possible that the Lake Mead projection could drop, triggering a shortage for 2017.

#### **Reclamation to add \$5 million for System Conservation**

On February 8, in response to ongoing drought conditions, the Bureau of Reclamation (Reclamation) approved the addition of \$5 million to the Pilot System Conservation Program (Program). The Program was approved in 2014 with contributions from Denver Water, Southern Nevada Water Authority, Central Arizona Project, Reclamation, and Metropolitan totaling \$11 million for water conservation activities in the Basin. The saved water would be added to storage in Lake Mead or Powell, depending on whether it is an Upper Basin or Lower Basin project. All of the initial funding has been obligated, and a report summarizing the Program is being developed. With the additional funding announcement from Reclamation, and potentially additional funding from the other partners, another request for conservation proposals will be released. In order to be utilized to fund the Program, Reclamation's additional contribution must be obligated by September 30 of this year.

#### **United States and Mexico Continue to Discuss Follow-up to Minute 319**

In February, representatives from the United States and Mexico continued to meet to develop a framework for a follow-up agreement to Minute 319 to the United State-Mexico International Water Treaty, which was executed in 2012. While there continues to be many aspects of the agreement that still need to be developed, it is anticipated that "Minute 32X", as it is referred to, will include the following components: (1) a conservation project in Mexico that Metropolitan would be able to partner in; (2) a release of water to the Colorado River Delta following the historic environmental pulse flow of 2014; and (3) rules for Mexico to store water in Lake Mead and for the sharing of surplus and shortage conditions with the United States. The parties have a goal to finalize the agreement by the end of 2016. If an agreement for Minute 32X is reached, the Lower Basin water agencies, including Metropolitan, would need to approve implementing agreements for Minute 32X to be effective.

## **ISSUE BRIEF # D**

**SUBJECT: Bay Delta/State Water Project Issues**

### **RECENT ACTIVITY**

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#### **Bay Delta Conservation Plan/California WaterFix**

On January 28, 2016, the State Water Resources Control Board (SWRCB) conducted a pre-hearing conference for the California WaterFix Project water right change petition hearing. The petition requests changes in water rights for the California Department of Water Resources (DWR) and the U.S. Bureau of Reclamation (USBR), which are needed to add points of diversion of water on the Sacramento River for the California WaterFix Project. Following the pre-hearing conference, the SWRCB issued a ruling on the procedural issues on February 11. The ruling modifies the hearing schedule to provide more time for interested parties, other than the petitioners, to submit their written testimony. DWR and USBR must submit opening briefs by March 1, 2016, and the hearing will begin on April 7, 2016.

However, on March 28, DWR and USBR requested a 60-day continuance on the hearings at the SWRCB. The agencies stated that they believe the extra time could help resolve or consolidate the protests from a number of environmental groups, Delta and Northern California entities. The SWRCB is considering this request for a continuance.

#### **State Water Resources Control Board (SWRCB)**

Metropolitan staff continues to coordinate with the State Water Contractors (SWC) to provide input to SWRCB Bay-Delta Water Quality Control Plan planning efforts and enforcement actions related to SWRCB-issued curtailment notices. The SWC is actively involved in depositions pertaining to SWRCB enforcement actions against two in-Delta water users: Byron-Bethany and Westside Irrigation Districts. SWC filed a notice to appear in the defense phase of the enforcement action. SWC participation will be limited to issues relevant to the SWC stored water complaint.

#### **Delta Flood Emergency Management Plan**

Metropolitan is coordinating with DWR to test the readiness of the Emergency Management Tool (ERT), a tactical predictive tool developed by DWR to estimate time and resources to repair multiple island failures in the Delta, including the development of the emergency freshwater pathway for water export resumption. The tool is capable of predicting the repair times for failures up to about fifteen islands in the central and south Delta; however, it requires additional refinement for greater island failure scenarios. Based on work done to date, the ERT suggests the freshwater pathway can be restored within the range of about six months; however larger island failure scenarios must be tested. Model refinements should be completed in several months, which will be followed by completion of the DWR Delta flood Emergency Response Plan.

The Governor's Office of Emergency Services (CalOES) reported the draft Northern California Catastrophic Flood Response Plan over a ten-county region will be developed by August 2016. This will include response to critical emergency needs such as transportation, search and rescue, medical and public health, care and shelter, and repair of critical infrastructure. DWR will be responsible for the preparation of the response brief for critical water infrastructure in the Delta, including island repair and restoration of water export capabilities, the development of the freshwater pathway and the actions necessary for declaration of state and federal emergencies.

DWR is implementing a grant program to help ensure the readiness of counties and reclamation districts in the Delta region. This program focuses on training, materials stockpiles for emergency response and communications needs. As a result, DWR and local agencies can utilize common communication equipment and facilities for emergency response, facilitated by the installation of a large radio tower on Twitchell Island.

### **Metropolitan Approves Purchase Property in Bay-Delta Region**

Metropolitan General Manager Jeff Kightlinger posted the following statement regarding MET's purchase of islands in the Bay-Delta region:

*On March 8, Metropolitan's Board authorized staff to enter into an agreement to purchase the Delta Wetlands Properties which consists of four islands and tracts in the central Sacramento-San Joaquin Delta and part of a fifth island in the far western Delta. While Metropolitan has long owned land in the Palo Verde Valley in southeastern California as part of our overall water management strategy for the Colorado River, this would represent our first ownership of land to support water supply reliability, emergency response, climate change and ecosystem activities associated with our Northern California supply via the State Water Project. Why Delta Wetlands, why now and what to do with these lands? This one-pager provides a summary of the issues (**see Attachment**). This is essentially an investment in security.*

*There are many possible uses of these islands that could advance more sustainable land practices in the Delta in the future. In the long run, that is in the interest of both the Delta and Metropolitan. As a public agency, we can take a long range view on ownership and management practices in ways that a private interest might not.*

*The Delta is officially recognized by state policy as an "evolving place" because various forces of nature are transforming this estuary over time. Converting this vast marshland into a static set of islands by constructing more than 1,100 levees created islands suitable for farming. But farming these islands since the Gold Rush has oxidized and eliminated nearly half of the soils, and it destroyed almost all wetlands habitat. Climate change is bringing additional pressures, such as rising sea levels, driving even more changes to the ecosystem. Some new approaches are worth exploring, such as:*

- *Reconstructing tidal wetlands by removing levees and allowing the daily tides to flow over the lands. This is particularly suitable for Chipps Island in the far western Delta.*
- *Restoring some farmlands with native tule vegetation to both rebuild peat soils and reduce carbon emissions, a potential offset in the future California carbon market.*
- *Creating seasonal (non-tidal) wetlands and using wildlife-friendly farming practices to improve waterfowl habitat and achieve possible mitigation requirements for these critical species.*

*From a direct water supply perspective, three of the islands and tracts can help counteract the potential of salt water intrusion in the event of levee failures from earthquakes, flooding or other causes. And two of the islands are along the proposed tunnel pipeline alignment for California WaterFix, the emerging state-federal plan to modernize the Delta water system and could have value as construction staging areas.*

*Metropolitan has a good track record when it comes to owning land. We have been good neighbors in the Palo Verde Valley with management practices that are good for farming and for reliable water supplies. We intend to bring that same ethic and commitment to the Delta.*



# Delta Wetlands: An Investment in Security



The Sacramento-San Joaquin Delta is the heart of the statewide water delivery system. Four islands and tracts long controlled entirely or partly by Zurich American Corporation are strategically located in the center of the Delta. The Metropolitan Water District of Southern California in March 2016 approved a purchase agreement for these lands and part of a fifth island in the far western Delta. Collectively, the lands known as Delta Wetlands Properties represent an important investment in a crucial part of the Delta for multiple potential values that are consistent with the state's co-equal goals of a restored Delta and a reliable water supply for California.

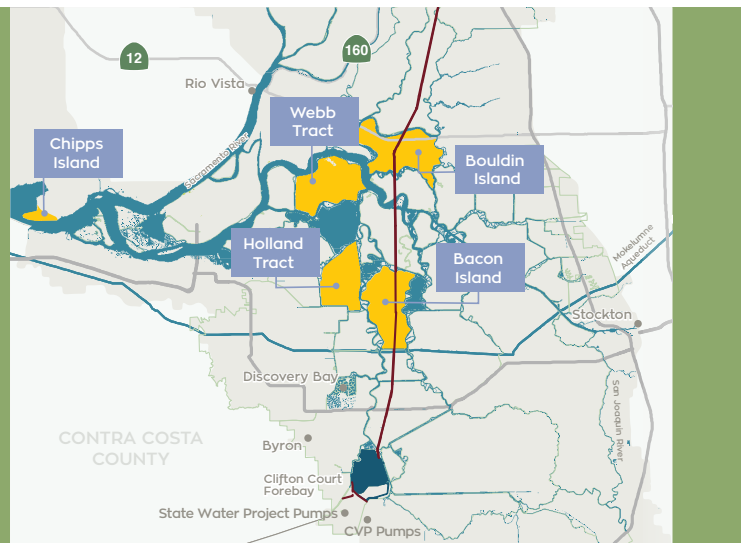
## Today's Delta: Unsustainable Land Practices

Researchers say it took natural processes more than 7,000 years to amass rich peat soils beneath what was once a vast estuary of marshlands. After the Gold Rush, the Delta was steadily converted to a static set of islands by the construction of more than 1,100 miles of levees. Farming these islands has oxidized and eliminated nearly half of the original volume of peat soils. The result is that many Delta

islands are now deeply subsided and could quickly flood if levees were to fail, threatening the environment, water quality and water supplies that move through the Delta for 26 million Californians and 3 million acres of productive farmland. Finding ways to sustainably manage these lands is in the interest of Metropolitan, the Delta itself and the rest of the state.

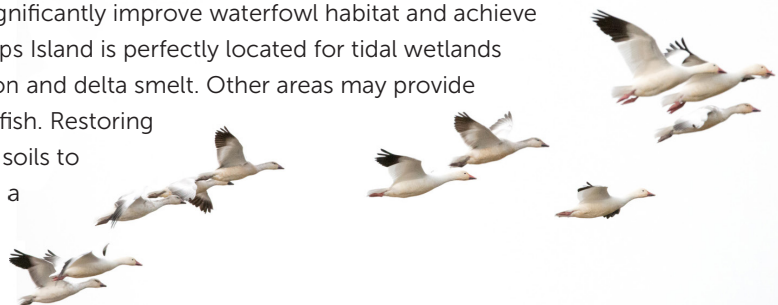
## Delta Wetlands: Strategic Locations for Water Supplies, Fish Species

The five islands and tracts that are part of Delta Wetlands are in important locations in the estuary. Water supplies for Metropolitan and the State Water Project pass by four of the parcels in the Central Delta. Chipps Island in the far western Delta, as well as Bouldin Island and Webb Tract are in the migration pathways of important fish species such as salmon and delta smelt.



## Environmental Opportunities

The properties of Delta Wetlands are located along the Pacific Flyway. Conversion of some lands to non-tidal wetlands, or preserving cultivated land with food for bird species could significantly improve waterfowl habitat and achieve possible mitigation requirements for these critical species. Chipps Island is perfectly located for tidal wetlands restoration, providing both food and shelter for migrating salmon and delta smelt. Other areas may provide good conditions to develop food production (zooplankton) for fish. Restoring some lands with native tule vegetation would both rebuild peat soils to increase land elevation and reduce carbon emissions, providing a potential offset in the California carbon market and reducing harmful compounds in drinking water supplies.



# Today's Uses, Tomorrow's Possibilities

Most of the lands owned by Delta Wetlands have long been farmed with various seasonal crops. As a public water agency looking for long-term stability in the Delta through an enhanced ecosystem and improve water supply reliability, Metropolitan seeks to explore sustainable land management options that are viable in the decades to come.

## Water Stability Today

Were Delta levees to fail due to an earthquake or other natural event, an "emergency freshwater pathway" would have to be constructed for fresh watersupplies to move north-to-south through the Delta to the existing pumping facilities of the State Water Project and Central Valley Project. Bacon Island is along this pathway. In addition, Webb and Holland tracts are two of the eight priority islands identified by the state for special protection because of their location in the western Delta, counteracting salt water intrusion. Ownership would help to assure continued progress to prepare for a future emergency response.

### EMERGENCY FRESHWATER PATHWAY



## Water Stability Tomorrow

California WaterFix proposes to modernize the Delta's water delivery systems with three new intakes in the northern Delta and a twin tunnel pipeline system to move this supply to the existing aqueducts. Bouldin and Bacon Islands are along the path of the proposed tunnel pipeline alignment. Ownership could help assure timely construction. Metropolitan has previously purchased water for transfer from Delta Wetlands, and some supplies may be available for transfer. Maintaining the reliability of existing imported supplies is Metropolitan's primary goal, as conservation and new local supplies in Southern California are anticipated to meet all future needs due to population growth.

## Responding to a Changing Climate

As a major steward of the region's water supply resources, Metropolitan has been addressing the challenges of climate change for more than a decade. Previous IRPs have moved toward a comprehensive planning and adaptation strategy. The 2015 IRP builds on these actions with continued progress in the following areas:

- Reducing greenhouse gases
- Developing renewable energy resources
- Conserving water
- Developing local supplies
- Advancing sustainability initiatives

## WHO IS METROPOLITAN

The Metropolitan Water District of Southern California is the Southland's imported water provider for a six-county region with a population of nearly 19 million. From the engineered gravity-flow of the Colorado River Aqueduct, to sustainable water recycling and groundwater replenishment, to today's investments in innovation –Metropolitan thinks ahead.

## OUR MISSION

The mission of the Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

### The Metropolitan Water District of Southern California

700 N. Alameda St.  
Los Angeles, CA 90012  
P.O. Box 54153  
Los Angeles, CA 90054-0153  
(213) 217-6000  
(800)call-mwd (255-5693)

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## **ISSUE BRIEF # E**

**SUBJECT: MET's Ocean Desalination Policy and Potential Participation in the Doheny and Huntington Beach Ocean (Poseidon) Desalination Projects**

### **RECENT ACTIVITY**

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#### **Doheny Desal**

On March 24, the South Coast Water District Board approved the Final Doheny Desal Foundational Action Report. This culminates two years of additional study effort on the project and paves the way for preparation of the CEQA documents and the preliminary design, which are both underway.

The main tasks detailed in the documents include a number of important elements, including:

- Advancement of Slant Well Technology
- Geologic, Seismic and Ocean Risk Analysis for Siting Slant Wells
- Prediction of Coastal/Ocean Groundwater Flow and Water Quality
- Modeling of Slant Well Feed Water Supply, Impacts and Mitigation Approaches
- Coastal Environmental Drawdown Issues and Regulatory Strategies

The report recommends a phased approach for the Doheny Ocean Desalination Project. The feedwater supply for Phase I Doheny Ocean Desalination Project should be 8.6 MGD (i.e., Scenario 2a), which includes the drilling of three slant wells (two operating wells and one standby well) and would result in a production of potable water in the amount of 4.3 MGD. The project would be operated to collect data on the performance before being expanded to as much as 15 MGD.

South Coast Water District has provided a Notice of Preparation (NOP) and scheduled a scoping meeting for March 31. Staff plans on attending the scoping meeting and will provide a report to the P&O Committee.

On March 22, the San Juan Basin Authority (SJBA) Board approved the Final Foundational Action Report which culminates two years of additional study effort on the project and paves the way for additional work regarding the phasing plan, participation and costs per agency and to begin, preparation of the CEQA documents and the preliminary design for decisions to be made regarding the project moving forward.

The main tasks detailed in the documents include a number of important elements, including:

- Development of Alternatives for Each Program Element of the San Juan Groundwater Management Plan
  - Extraction Barriers

- Stormwater Recharge, including rubber dams
- Recycled Water Recharge, including injection wells and rubber dams
- Adaptive Groundwater Production Management from the basin
- Evaluation of the Feasibility of All Program Elements
- Develop a Phased Implementation Plan
- Preparation of the Final Report

The SJBA Project includes the following primary elements:

- Design and build rubber dams - approximately \$33.6 million, which includes dams plus wells and treatment for pumping and treatment of water; with an anticipated yield of 1,120 AF per year. (Note, for this purpose yield is defined as water recharged, pumped out, treated and delivered for potable consumption, so it has treatment recovery losses included of about 20%; this statement applies to components below as well)
- Instream recharge of recycled water Phase 1 - approximately \$119.1 million; increases yield by 3,800 AF per year; this includes additional wells and treatment.
- Instream recharge of recycled water Phase 2 - approximately \$160.9 million; increases yield by 2,440 AF per year; this includes additional wells and treatment.

### **Poseidon Huntington Beach**

The Orange County Water District (OCWD) has continued work on evaluating the integration options for the product water from the Poseidon Project. Another workshop is anticipated for late spring or early summer. Poseidon anticipates getting in front of the Coastal Commission in July.

## **ISSUE BRIEF # F**

**SUBJECT: Orange County Reliability Projects**

### **RECENT ACTIVITY**

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#### **Central Pool Augmentation Program**

There are no updates to report.

#### **Orange County Water Reliability Study**

In March work continued in the following areas:

- Two meetings were held during the month regarding the Orange County Water Reliability Study and OCWD staff with MWDOC's consultant to discuss assumptions and operations of the OCWD groundwater basin to set the modeling assumptions for the upcoming Portfolio analyses.
- One meeting was held with the SOC agencies to discuss test Portfolios to analyze for the South Orange County Reliability study
- Work continued by the Consultant in putting together the project information for various projects in Orange County.
- The Consultant worked on incorporating the comments received on Technical Memoranda #1 and #2 so that final versions can be issued. They should be available in early April.
- The next meeting of the Workgroup (the last planned meeting) will be held on April 14. The consultant will have DRAFT Portfolio results for review and input by the agencies before the results re finalized.

Following that meeting a presentation will be prepared for the May 13 WACO Agenda. Work on documentation of the Phase 2 results is targeted for May. An outreach component will be developed.

## **ISSUE BRIEF # G**

**SUBJECT: East Orange County Feeder No. 2**

### **RECENT ACTIVITY**

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#### **Use of East Orange County Feeder No. 2 for Conveyance of Groundwater and Poseidon Water**

MWDOC staff received proposals and will be awarding an engineering contract pursuant to the **Invitation to Submit an SOQ and Input on Engineering and Operations of Pipelines in Orange County**. The purpose of the solicitation is to engage engineering firms experienced with MET's large diameter pipeline design (30" to 78" in diameter, mostly steel), and MET's pipeline specifications, operations, water quality issues, maintenance issues and hydraulic control and hydraulic transients control. Assistance was requested in several areas:

- Examine options and costs for segregating certain reaches of the EOCF#2 pipeline (or other pipelines) from one another, taking into account the potential impact on MET operations and the need to maintain water residence at 3 days or less to preserve the chloramine residual
- Outline the issues, costs and operations of a chlorine or chloramine boost facility to assist maintaining a higher chloramine residual
- Examine what occurs with an outage of a primary local supply source pumping into the EOCF#2 and/or other pipelines due to a pumping outage (surge, pressure relief, protection of the MET and other systems, change of flow in the MET system, etc.)
- Examine potential emergency outage situations where it might be prudent to allow the operations of the pipelines to be re-integrated via valving and interconnections and or pumped interconnections
- Examine options for delivery of water from the EOCF#2 pipeline via existing MET service connections and local flow control facility (as is done today) compared to a REVISED system that would involve:
  - A reverse flow of the EOCF#2 in Reach 4 combined with the bypass of the Coastal Pressure Control Structure and then re-integration of the flows either into Reach 3 of the EOCF#2 for ultimate delivery of water via existing service connections CM-10 and CM-12 (at a pressure up to an HGL of 689 feet); or,
  - Whether a NEW interconnection should be located downstream of CM-10 and/or CM-12 where pressures are reduced to an HGL of 525 feet.
- Conceptual cost estimating of large diameter pipeline construction/replacement costs including estimating remaining useful life and future replacement options
- Outline the needs for surge protection for introducing NEW water sources into pipeline(s)
- Other services related to the operations and maintenance of large diameter pipelines

- MWDOC has water quality expertise under contract that will be made available to the selected consultant (Ed Means via Means Consulting); consultants can provide their own water quality experts

Overall, this work would help with the following projects:

1. Integration of the Poseidon Water
2. Use of the EOCF#2 to move Groundwater in Orange County
3. Use of other pipelines to move Groundwater in Orange County (West Orange County Wellfield Project water conveyance)
4. Expansion of the Emergency Services Project to move emergency water to South Orange County



**Summary Report for  
The Metropolitan Water District of Southern California  
Board Meeting  
March 8, 2016**

**COMMITTEE ASSIGNMENTS**

None. (Agenda Item 5C)

**FINANCE AND INSURANCE COMMITTEE**

Adopted the Master Subordinate Resolution authorizing the issuance of subordinate water revenue bonds to finance any legal purpose of the District and providing the terms and conditions for the issuance of said bonds, as contained in the Board letter; and adopted the First Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of subordinate water revenue refunding bonds, providing the terms and conditions of such bonds and authorizing the approval of other related documents, as contained in the Board letter. (Agenda Item 8-1)

Adopted the Short-Term Certificates Resolution authorizing the sale and issuance from time to time of up to \$400 million of short-term revenue certificates and providing for credit facilities and trust agreements, as contained in the Board letter. (Agenda Item 8-2)

**ENGINEERING AND OPERATIONS COMMITTEE**

Adopted a resolution supporting Metropolitan's application to State Water Resources Control Board's (SWRCB) Water Recycling Funding Program; and authorized the General Manager to accept potential grant funding, and to enter into an agreement with SWRCB in a form approved by the General Counsel; authorized agreement with MWH Americas, Inc. in an amount not to exceed \$1.2 million for design of the demonstration-scale recycled water treatment plant; and authorized agreement with Black & Veatch Corporation, Inc. in an amount not to exceed \$1.9 million to conduct initial feasibility studies of the recycled water delivery system. (Approps. 11002 and 15493) (Agenda Item 8-3)

**ORGANIZATION, PERSONNEL AND TECHNOLOGY COMMITTEE**

Authorized the General Manager to enter into memorandums of agreement in excess of \$250,000 with Metropolitan's four bargaining units to implement a three-year, \$1,200,000 incentive payment program for Remote Location employees according to the provisions outlined in the board letter. (Agenda Item 8-4)

**EXECUTIVE COMMITTEE**

Ratified the prior action of the Executive Committee; appropriated \$13.9 million; and ratified the General Manager's award of a \$9.15-million contract to J. F. Shea Construction, Inc. for urgent prestressed concrete cylinder pipe (PCCP) repairs on the Sepulveda Feeder. (Approp. 15496) (Agenda Item 8-5)

## **REAL PROPERTY AND ASSESSMENT MANAGEMENT COMMITTEE**

Authorized the General Manager to enter into an agreement to purchase certain property from Delta Wetlands Properties in Contra Costa, San Joaquin, and Solano Counties and directed the General Manager to report on due diligence findings at a Special Board Meeting on April 26, 2016.  
**(Agenda Item 8-6)**

## **CONSENT CALENDAR**

In other action, the Board:

Appropriated \$620,000; and authorized final design to rehabilitate a blow-off structure on the Orange County Feeder; and authorized increase of \$200,000 to an agreement with Dudek, for a new not-to-exceed total of \$485,000. (Approp. 15377). **(Agenda Item 7-1)**

Appropriated \$840,000; and authorized preliminary investigations to rehabilitate the auxiliary power systems at the Colorado River Aqueduct pumping plants. (Approp. 15384) **(Agenda Item 7-2)**

Approved revised final terms for the pilot program agreement with Bard Water District and the land management and seasonal fallowing agreements with farmers of farmland in the Bard Unit.  
**(Agenda Item 7-3)**

## **OTHER MATTERS:**

In other action, the Board:

Held a public hearing to consider suspending the tax rate limitations in Section 124.5 of the Metropolitan Water District Act to maintain the ad valorem property tax rate; and to receive comments on proposed water rates and charges for calendar years 2017 and 2018 to meet revenue requirements.

**THIS INFORMATION SHOULD NOT BE CONSIDERED THE OFFICIAL MINUTES OF THE MEETING.**

Board letters related to the items in this summary are generally posted in the Board Letter Archive approximately one week after the board meeting. In order to view them and their attachments, please copy and paste the following into your browser <http://edmsidm.mwdh2o.com/idmweb/home.asp>.



**Regular Board Meeting**

**April 12, 2016**

**12:00 p.m. – Board Room**

Tuesday, April 12, 2016 Meeting Schedule		
7:00-8:00 a.m.	Rm. 1-101	Dirs. Computer Training
9:00 a.m.	Rm. 2-145	L&C
10:30 a.m.	Rm. 2-456	RP&AM
12:00 p.m.	Board Room	Board Meeting
12:30 p.m.	Rm. 2-456	IRP

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MWD Headquarters Building



700 N. Alameda Street



Los Angeles, CA 90012

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**1. Call to Order**

- (a) Invocation: Remus Arbouet, Jr., Senior Engineering Technician, Water System Operations Group
- (b) Pledge of Allegiance: Director Lorraine Paskett

**2. Roll Call**

**3. Determination of a Quorum**

- 4.** Opportunity for members of the public to address the Board on matters within the Board's jurisdiction. (As required by Gov. Code § 54954.3(a))

**5. OTHER MATTERS**

- A. Approval of the Minutes of the Meeting for March 8, 2016. (A copy has been mailed to each Director)  
Any additions, corrections, or omissions
- B. Report on Directors' events attended at Metropolitan expense for month of March

- C. Induction of new Director Mark Gold, from City of Los Angeles
  - (a) Receive credentials
  - (b) Report on credentials by General Counsel
  - (c) File credentials
  - (d) Administer Oath of Office
  - (e) File Oath
- D. Approve committee assignments
- E. Chairman's Monthly Activity Report

## **6. DEPARTMENT HEADS' REPORTS**

- A. General Manager's summary of Metropolitan's activities for the month of March
- B. General Counsel's summary of Legal Department activities for the month of March
- C. General Auditor's summary of activities for the month of March
- D. Ethics Officer's summary of activities for the month of March

## **7. CONSENT CALENDAR ITEMS — ACTION**

- 7-1** Appropriate \$1.28 million; certify the Final Program Environmental Impact Report for the Right-of-Way and Infrastructure Protection Program for the Orange County region; approve the program for the Orange County region for the purposes of the California Environmental Quality Act; and authorize: (1) environmental permitting and mitigation activities; and (2) increase of \$150,000 to an agreement with Dudek, for a new not-to-exceed total of \$3,525,000 (Approp. 15474). (E&O)

**Recommendation:**

**Option #1:**

**Certify the Final Program Environmental Impact Report for the Right-of-Way and Infrastructure Protection Program for the Orange County region; adopt the Findings of Fact and the Mitigation Monitoring and Reporting Program; approve the program for the Orange County region for the purposes of CEQA, and**

- a. Appropriate \$1.28 million;**
- b. Authorize environmental permitting and mitigation activities for the Orange County region; and**
- c. Authorize increase of \$150,000 to an agreement with Dudek, for a new not-to-exceed total of \$3,525,000.**

- 7-2** Appropriate \$330,000; and authorize design to replace valves at Service Connections CB-12 and CB-16 on the Rialto Pipeline (Approp. 15480). (E&O)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is categorically exempt, and**

- a. Appropriate \$330,000; and**
- b. Authorize design to replace calves at Service Connections CB-12 and CB-16 on the Rialto Pipeline.**

- 7-3** Authorize increase in change order authority for the seismic retrofit of the Upper Feeder's Santa Ana River Bridge (Approp. 15441). (E&O)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action has been previously addressed in the approved 2013 Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program, and that no further environmental analysis or documentation is required, and that the fiscal aspect of a change order authority is not subject to CEQA, and**

**Authorize increase of \$160,000 in change order authority for the seismic retrofit of the Upper Feeder's Santa Ana Bridge, up to an aggregate amount not to exceed \$410,000.**

- 7-4** Authorize granting a permanent easement to county of Riverside on Metropolitan-owned property located in county of Riverside. (RP&AM)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is categorically exempt, and**

**Authorize the General Manager to grant a permanent easement to the county of Riverside.**

- 7-5** Authorize granting a permanent easement to Southern California Edison on Metropolitan-owned property located in county of Orange. (RP&AM)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is categorically exempt, and**

**Authorize the General Manager to grant a permanent easement to SCE.**

**(END OF CONSENT CALENDAR)**

**8. OTHER BOARD ITEMS — ACTION**

- 8-1** Approve biennial budget for fiscal years 2016/17 and 2017/18, proposed ten-year forecast, proposed revenue requirements for fiscal years 2016/17 and 2017/18, and recommended water rates and charges to be effective on January 1, 2017 and January 1, 2018; adopt resolutions fixing and adopting water rates and charges for 2017 and 2018; and adopt the resolution finding that continuing an ad valorem tax rate at the rate levied for fiscal year 2015/16 is essential to Metropolitan's fiscal integrity. (F&I)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is not defined as a project under CEQA and is not subject to CEQA, and**

- a. Approve the FY 2016/17 and FY 2017/18 biennial budget;**
- b. Appropriate \$2,431.4 million for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs;**
- c. Appropriate as a continuing appropriation, \$672.6 million for FY 2016/17 and FY 2017/18 debt service on Metropolitan general obligation and revenue bonds;**
- d. Authorize the use of \$240 million in operating revenues to fund the Capital Investment Plan;**
- e. Determine that the revenue requirements to be paid from rates and charges are \$1,575.0 million in FY 2016/17 and \$1,574.3 million in FY 2017/18;**
- f. Approve water rates effective January 1, 2017, and January 1, 2018, as shown in Table 3, Option #1a above;**
- g. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2017 and 2018, in the form of [Attachment 4](#), using the rates shown in Section 1, Option #1a in the Resolution;**
- h. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2017, in the form of [Attachment 5](#), using the charge shown in Section 6 of the Resolution;**
- i. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2017, in the form of [Attachment 6](#), using the charge shown in Section 6 of the Resolution;**
- j. Adopt the Resolution Fixing and Adopting A Treated Water Charge Effective January 1, 2017, in the form of [Attachment 7](#), using the charge shown under Option #1a in Section 6 of the Resolution;**
- k. Approve the Ten-Year Financial Forecast, as shown in the Proposed Biennial Budget FY 2016/17 and FY 2017/18 in [Attachment 1](#);**
- l. Adopt the Resolution Finding that Continuing an Ad Valorem Property Tax Rate at the Rate Levied for FY 2015/16 is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction for FY 2016/17 and FY 2017/18, in the form of [Attachment 8](#);**
- m. Authorize establishment and use of the Exchange Agreement Set-Aside Fund as set forth in this letter; and**
- n. Authorize use of unspent conservation funding, including extension of the Onsite Recycled Water Retrofit Program through the biennial budget period, as set forth in this letter.**



- 8-2** Appropriate \$1.37 million; and ratify the General Manager's award of \$634,425 contract to Fibrwrap Construction Services, Inc. (Approp. 15497). (E&O) **(Requires four-fifths vote of the Board)**

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action was previously determined to be statutorily exempt and that no further environmental analysis or documentation is required, and**

- a. Appropriate \$1.37 million; and**
- b. Ratify the General Manager's award of a \$634,425 contract to Fibrwrap Construction Services, Inc. for emergency repairs on the Second Lower Feeder.**

- 8-3** Report on State Water Resources Control Board activities and authorize an increase in amount payable under contract with Duane Morris LLP by \$100,000 to a maximum amount of \$200,000 in connection with the Department of Water Resources and United States Bureau of Reclamation filing of a petition with the State Water Resources Control Board for an additional point of diversion on the Sacramento River as part of the California WaterFix/Bay Delta Conservation Plan. (L&C)  
**[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]**

- 8-4** Authorize sponsorship of SB 1173 (Hertzberg, D-Van Nuys) – Water conserving plumbing fixtures. (C&L) **(To be mailed separately)**

- 8-5** Express support, if amended, for AB 1755 (Dodd, D-Woodland) – The Open and Transparent Water Data Act; and express opposition, unless amended, to AB 2304 (Levine, D-Petaluma) – California Water Market Exchange. (C&L)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is not defined as a project under CEQA, and**

**Authorize the General Manager to express support for AB 1755, if amended, and opposition to AB 2304, unless amended.**

- 8-6 Express opposition to AB 2550 (Patterson, R-Fresno) – State Water Resources Control Board: instream flow curtailments: compensation. (C&L) **(To be mailed separately)**
- 8-7 Express support for ACA 8 (Bloom, D-Sana Monica) – Local government financing: water facilities and infrastructure: voter approval. (C&L) **(To be mailed separately)**
- 8-8** Authorize the General Manager to enter into the Extension of Service Area Agreement with the Eastern Municipal Water District and Pechanga Band of Luiseño Mission Indians; and adopt final resolution extending the service area for the 106th Fringe Area to Eastern Municipal Water District and Metropolitan. (F&I)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is categorically exempt, and**

- a. Authorize the General Manager to enter into the Extension of Service Area Agreement with Eastern Municipal Water District and Pechanga Band of Luiseño Mission Indians; and**
- b. Adopt the resolution granting approval for the 106<sup>th</sup> Fringe Area annexation concurrently to Eastern and Metropolitan and establish Metropolitan's terms and conditions for the extension of service area agreement, conditioned upon approval by Riverside County's Local Agency Formation Commission, and upon receipt of fees of \$2,896,442.**

- 8-9** Authorize process for management of Metropolitan's lands in the Palo Verde Irrigation District. (WP&S)

**Recommendation:**

**Option #1:**

**Adopt the CEQA determination that the proposed action is not defined as a project, and**

**Authorize staff to pursue new leases on all Metropolitan-owned lands in the Palo Verde valley through a generalized request for proposals process, with lease terms to meet Metropolitan's objectives for consumptive water use and positive revenues, and bring such leases back to the Board for final approval.**

## **9. BOARD INFORMATION ITEMS**

None

## **10. FOLLOW-UP ITEMS**

## **11. FUTURE AGENDA ITEMS**

## **12. ADJOURNMENT**

**NOTE:** At the discretion of the Board, all items appearing on this agenda and all committee agendas, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

Each agenda item with a committee designation will be considered and a recommendation may be made by one or more committees prior to consideration and final action by the full Board of Directors. The committee designation appears in parentheses at the end of the description of the agenda item e.g., (E&O, F&I). Committee agendas may be obtained from the Board Executive Secretary.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <http://www.mwdh2o.com>.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.