

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 2, 2014, 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. 1979)**

**PRESENTATION/DISCUSSION/INFORMATION ITEMS**

**1. PRESENTATION REGARDING MET'S LEGISLATIVE POLICY PRINCIPLES BY DEE ZINKE (METROPOLITAN) (Approximate Presentation Time: 15 minutes)**

*Recommendation: Review, discuss, and take action as appropriate.*

**2. UPDATE ON MWD'S PROPOSED BIENNIAL BUDGET AND RATES FOR FISCAL YEARS 2014/15 AND 2015/16**

*Recommendation: Review, discuss, and take action as appropriate.*

**3. UPDATE ON WATER SUPPLY CONDITIONS**

**4. MET ITEMS CRITICAL TO ORANGE COUNTY**

- a. MET's Water Supply Conditions
- b. Update on 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. Second Lower Cross Feeder
- g. Orange County Reliability Projects

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

**5. OTHER INPUT OR QUESTIONS ON MET ISSUES FROM THE MEMBER AGENCIES**

**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, discuss and take action as appropriate.*

**CLOSED SESSION ITEMS**

**7. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION**  
**Initiation of litigation pursuant to paragraph (4) of subdivision (d) of Section 54956.9. One case**

**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 2, 2014

**TO:** Board of Directors

**FROM:** Robert Hunter  
General Manager

Staff Contact: Harvey De La Torre

**SUBJECT:** Discussion on Metropolitan's Legislative Priorities, Water Bond Priorities, and Outreach efforts

### STAFF RECOMMENDATION

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Staff recommends the Board of Directors review and discuss this information

### REPORT

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MWDOC has invited Metropolitan's deputy general manager for external affairs, Dee Zinke to attend our Board Workshop to discuss Metropolitan's Legislative Priorities, Water Bond Priorities and outreach efforts. Due to the legislative activities associated with the Water Bond, Bay-Delta Conservation Plan, and drought assistance; we felt it would be important to review and discuss Metropolitan's key priorities during this critical time. In addition, Ms. Zinke will highlight key components of Metropolitan's recently approved regional communications, outreach and advertising campaign aimed at promoting greater water awareness and encouraging additional conservation.

<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>			



*THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA*

## **2014 Water Bond Priorities**

1. Fund the state's share of public benefits to support the coequal goals of water supply reliability and Delta ecosystem restoration including:
  - a. Habitat restoration beyond any mitigation obligations of any party or interest;
  - b. Improvements consistent with the Bay Delta Conservation Plan; and
  - c. No local matching funds required.
2. Fund public benefits associated with Delta sustainability projects including:
  - a. Flood protection;
  - b. Water quality improvements;
  - c. Addressing other "stressors" including, but not limited to, invasive species, predator control and unscreened diversions; and
  - d. Require local matching funds as appropriate.
3. Fund multi-benefit projects to reduce future reliance on imported water supplies:
  - a. Equitably allocate funds consistent with Proposition 84 criteria.
  - b. Fund projects that require public incentives to be locally cost-effective;
  - c. Require local matching funds as appropriate;
  - d. Eligible projects in urban areas would include: conservation, recycling, groundwater remediation, storm water capture and desalination;
  - e. Eligible projects in agricultural areas would include on-farm efficiency and system improvements;
  - f. Provide special consideration for disadvantaged communities
  - g. Provide funding for watershed and reservoir management for water quality protection; and
  - h. Provide start-up funds for a low-interest revolving loan program as proposed under AB 1349 (Gatto, D-Silver Lake).
4. Fund statewide system improvements:
  - a. Fund the public benefits associated with surface and groundwater storage;
  - b. Eligible projects must meet public benefit criteria as developed by the California Water Commission (pursuant to SBX7-2/Cogdill from 2009);
  - c. Bond funds to be awarded on competitive basis; and
  - d. Require local matching funds as appropriate.



- Board of Directors  
*Communications and Legislation Committee*

12/10/2013 Board Meeting

**Revised 8-6**

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## **Subject**

Adopt Legislative Strategy for 2014

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## **Executive Summary**

This board letter outlines the state and federal 2014 legislative strategy recommended by staff for the Board's consideration and adoption.

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## **Details**

After consulting with Metropolitan member agencies in October 2013 and the Board Communications and Legislation Committee in October and November 2013, the following federal and state legislative priorities are submitted for your consideration and approval. The priorities for 2014 support Metropolitan's mission and incorporate its overall water supply reliability and water quality objectives.

### **Federal Legislative Priorities**

#### *Bay-Delta and State Water Project Improvements*

- Support administrative/legislative action and funding to keep Bay Delta Conservation Plan (BDCP) on schedule to advance conveyance and ecosystem improvements to meet the coequal goals of water supply reliability and Delta ecosystem restoration.
- Support administrative/legislative action and funding to advance emergency response and near-term Delta improvements, consistent with coequal goals.
- Promote Southern California Congressional delegation awareness and support for BDCP.

#### *Colorado River Initiatives*

- Support continued funding authorization for continued implementation of the Lower Colorado River Multi-Species Conservation Plan.
- Encourage coordination between federal and state agencies to implement the Quantification Settlement Agreement.
- Support funding for Colorado River drought resilience projects.
- Promote continued funding for the Colorado River Basin Salinity Control Program under the Departments of Agriculture and Interior.
- Protect and preserve Metropolitan's interest in water conservation programs enabled by the U.S. Water Treaty with Mexico.

#### *Regional Water Resource Management*

- Support legislation authorizing the U.S. Environmental Protection Agency (EPA) to provide grant funding to conduct research enabling water agencies to adapt to hydrologic changes.
- Support legislation authorizing U.S. EPA's *WaterSense* program and other federal incentive programs that promote water use efficiency.

*Water Quality*

- Support local jurisdictions' continued use and storage of chlorine gas as treatment disinfectant. Support authorizing U.S. EPA oversight of water system security through updated vulnerability assessments and site security plans.
- Support legislation, initiatives and funding to protect and improve water quality from various constituents, including but not limited to chromium 6, nitrate, perchlorate, salinity, uranium, MTBE and other gasoline additives, pharmaceuticals/personal care products, and other constituents of emerging concern.
- Support policies/administrative/legislative actions that protect surface water and groundwater supplies from energy development activities that may impair water resources. Covered energy development activities include, but are not limited to, enhanced oil and gas recovery techniques such as hydraulic fracturing.

*Cybersecurity*

- Support national associations and coalition efforts to develop standard guidance and best management practices for consistent and ongoing actions to reduce vulnerabilities in process control systems for major water system providers.

*Environmental Planning*

- Support administrative/legislative actions to improve clarity and workability of the National Environmental Policy Act (NEPA) and eliminate duplicative NEPA/CEQA processes.

*Invasive Species*

- Support administrative/legislative actions and funding for predation control, eradication and management of invasive species, including quagga mussels.
- Support administrative/legislative action that is consistent with, and in no way interferes with, existing interstate water transfers.

*Energy Sustainability*

- Encourage coordination to implement federal law that is consistent with Metropolitan's long-term contract for hydropower generated at Hoover Dam for the benefit of Arizona, Southern California and Nevada water users that rely on Hoover power to minimize costs to consumers.
- Support authorization for grant funding for energy efficiency, including programs to reduce greenhouse gases and develop renewable resources.
- Support legislation that provides renewable energy credits for both small and large hydroelectric facilities, irrespective of the facility's nameplate generating capacity.

*Infrastructure and Public Finance*

- Support measures to reduce the cost of financing water infrastructure planning and construction, such as tax-credit financing, tax-exempt municipal bonds, and Water Resources Development Act (WRDA) legislation, including provisions for a Water Infrastructure Finance Innovation Act (WIFIA), the Environmental Infrastructure Accounts and other funding mechanisms.
- Monitor pension reform and Other Post-Employment Benefit proposals.

*Appropriations Priorities*

- BDCP planning and implementation funding for near-term projects, including near-term and emergency response projects.
- Farm Bill/USDA programs to support habitat projects in the Delta and agricultural water use efficiency.
- Colorado River Basin Salinity Control Program.
- Colorado River drought resiliency projects.
- Water quality protection initiatives (e.g., chromium 6, nitrate, perchlorate, salinity, uranium, pharmaceuticals/personal care products, etc.).
- Predator control and eradication of invasive species.
- Solar retrofits and other renewable energy and conservation projects.

- Water conservation and water use efficiency programs.
- Lower Colorado River Multi-Species Conservation Plan.
- Bureau of Reclamation Title XVI program.
- Climate change adaptation research.

### **State Legislative Priorities**

#### *Bay-Delta and State Water Project Improvements*

- Support administrative/legislative action and funding to keep BDCP on schedule to advance conveyance and ecosystem improvements to meet coequal goals of water supply reliability and Delta ecosystem restoration.
- Support administrative/legislative action and funding to advance emergency response and near-term Delta improvements, consistent with coequal goals.
- Continue support for implementation of 2009 Delta/water management legislative package.
- Support funding for public share of Delta ecosystem restoration costs in future water bond and other bond priorities as adopted by Metropolitan's Board in March 2013. Future modifications to water bond subject to subsequent board consideration and approval.
- Support administrative/legislative action to add storage state-wide and to remove existing prohibition for state funding to raise Shasta Dam.

#### *Colorado River Initiatives*

- Encourage coordination between federal and state agencies to implement the Quantification Settlement Agreement.

#### *Regional Water Resources Management/Foundational Actions*

- Pursue administrative/legislative action to reform seawater desalination permitting process to ensure less duplication, more transparency and efficiency.
- Support administrative/legislative action to promote recycled water as a water resource.

#### *Environmental Planning*

- Support administrative/legislative action to improve clarity and workability of the California Environmental Quality Act.
- Support administrative/legislative action for environmental compliance (e.g. air, water, hazardous materials and waste) that provide for regulatory compliance flexibility, promote consistency and reduce regulatory duplication.

#### *Invasive Species*

- Support administrative/legislative action and funding for predation control, eradication and management of invasive species, including quagga mussels.

#### *Energy Sustainability*

- Support expanding definition to qualify state and local hydropower generation as renewable resource.
- Pursue allocations of Cap-and-Trade auction revenues or free allowances from the California Air Resources Board or other administering agencies for Metropolitan and Department of Water Resources/State Water Project, to be used for greenhouse gas reduction measures and related projects.

#### *Water Quality*

- Support local jurisdictions' continued use and storage of chlorine gas as a treatment disinfectant.
- Support initiatives and funding to protect/improve water quality from various constituents, including but not limited to chromium 6, nitrate, perchlorate, salinity, uranium and pharmaceuticals/personal care products.
- Support policies/regulations/legislation to protect surface water and groundwater supplies from energy development and other activities that may impair water resources. Covered energy development activities include, but are not limited to, enhanced oil and gas recovery techniques such as hydraulic fracturing.

*Infrastructure and Public Finance*

- Support “beneficiaries pay” approach as financing mechanism for statewide projects and programs.
- Oppose de facto taxes levied solely on water agencies for funding broader public benefits.
- Monitor implementation of 2012 pension reform legislation and Other Post-Employment Benefits reform initiatives for potential impacts on Metropolitan’s long-term liability.
- Support legislation/administrative action that deters metal theft and protects critical public water infrastructure.

**State Legislative Proposal**

*CEQA Reform Proposal: Proposed CoSponsorship by Association of California Water Agencies (ACWA) and California Municipal Utilities Association (CMUA)*

- Recommend that ACWA and CMUA pursue exemption from CEQA for installation of new recycled water pipelines less than eight miles in length.
- Also recommend that ACWA and CMUA facilitate dialogue among its members to identify additional reforms that clarify and streamline CEQA, without further burdening public agencies or creating new litigation risks and that support goals of improving regulatory efficiency while preserving environmental protection.

**Policy**

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Supports Metropolitan’s mission and incorporates its overall water quality and supply reliability objectives.

**California Environmental Quality Act (CEQA)**

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CEQA determination for Option #1:

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, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

**Board Options**

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**Option #1**

Adopt the CEQA determination that the proposed action is not subject to CEQA and adopt the Legislative Strategy for 2014.

**Fiscal Impact:** None

**Option #2**

Take no action.

**Fiscal Impact:** None



**Staff Recommendation**

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Option #1

  
\_\_\_\_\_  
Dee Zinke  
Interim Deputy General Manager,  
External Affairs

12/4/2013

*Date*

  
\_\_\_\_\_  
Jeffrey Lightlinger  
General Manager

12/4/2013

*Date*

Ref# ea12627399



**DISCUSSION ITEM**

April 2, 2014

**TO:** Board of Directors

**FROM:** Robert Hunter  
General Manager

Staff Contact: Harvey De La Torre

**SUBJECT: Update on MWD's Proposed Biennial Budget and Rates for Fiscal Years 2014/15 and 2015/16**

**STAFF RECOMMENDATION**

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Staff recommends the Board of Directors review and discuss this information

**Report**

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At the March Metropolitan Finance and Insurance Committee, Chairman Aaron Grunfeld sought the Committee's recommendations and direction on five particular areas for the Biennial Budget and Rates for fiscal year (FY) 2014/15 and FY 2015/16:

- **Use of \$320 million over reserves target in FY 2013/14**
  - Recommended that the use of funds be applied to Repair & Replacement, OPEB, and Water Management programs
- **Ad Valorem tax limit**
  - No Action; Seek suspension of the AV tax limit and setting of the tax rates in August
- **Treatment Water Cost Recovery**
  - No Action; Seek further review by the Board and Member agencies
- **Recommended Rates and Charges for Budget**
  - Recommended Three Rate Alternatives for review
- **One-Year versus Two-Year budget**
  - Recommended continuing with the Two-Year Budget

Attached is a detail presentation on the March's Finance and Insurance Committee discussions and recommendations, including the three proposed rate scenarios.

From these Committee actions, Metropolitan prepared the attached Board letter for the April 8, 2014 Board meeting.

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



- Board of Directors  
*Finance and Insurance Committee*

4/8/2014 Board Meeting

**8-1**

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## **Subject**

Approve proposed biennial budget for fiscal years 2014/15 and 2015/16, proposed ten-year forecast, proposed revenue requirements for fiscal years 2014/15 and 2015/16, and recommended water rates and charges to be effective on January 1, 2015 and January 1, 2016; adopt resolutions fixing and adopting water rates and charges for 2015 and 2016; and transmit the General Manager's Business Plan Strategic Priorities for FY 2014/15 and FY 2015/16

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## **Executive Summary**

This letter recommends approval of the biennial budget for fiscal year (FY) 2014/15 and FY 2015/16 and the associated ten-year forecast, and the revenue requirements for FY 2014/15 and FY 2015/16, and the recommended water rates and charges to be effective on January 1, 2015 and January 1, 2016; and adoption of (1) the resolution fixing and adopting water rates to be effective on January 1, 2015 and January 1, 2016; (2) the resolution to fix and adopt the Readiness-to-Serve Charge effective January 1, 2015; and (3) the resolution to fix and adopt the Capacity Charge effective January 1, 2015. This letter recommends specific uses of projected reserves over the maximum reserve target on June 30, 2014 to reduce future obligations.

The Board, Finance and Insurance (F&I) Committee, and member agencies have been reviewing and evaluating Metropolitan's biennial budget and revenue requirements and the rates necessary to support the revenue requirements. The ten-year forecast of costs, fixed charges, revenue requirements and rates was also presented and implications of near-term actions on long-term revenue requirements were discussed. The proposed budget, revenue requirements and recommended rates were provided to the Board on January 30, 2014, and presented on February 10, 2014. Board workshops were held on February 10, 2014 at the F&I Committee meeting, on February 25, 2014 and on March 10, 2014 at the F&I Committee, and these included extended budget, revenue requirements and rates discussions. The F&I Committee meeting on April 7, 2014 will provide an opportunity for more review and discussion.

The General Manager's Business Plan Strategic Priorities for the biennial budget period are provided in [Attachment 1](#) – General Manager's Business Plan Strategic Priorities for FY 2014/15 and FY 2015/16, and will be discussed at the Executive Committee meeting in April 2014.

## **PUBLIC HEARING: Proposed Rates and Charges**

A public hearing on proposed rates and charges was held on March 11, 2014, where members of the public addressed the Board and provided comments. Eleven speakers provided oral comments to the Board. In addition, sixteen letters have been received on the proposed rates and charges and made part of the record. A list of all member agencies, subagencies and members of the public that provided comments in response to the proposed rates and charges 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.

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

A public hearing on the proposal to suspend the tax rate restriction in Section 124.5 of the MWD Act was held on March 11, 2014, where members of the public addressed the Board and provided comments. Six speakers provided oral comments to the Board. Two letters were received on the proposal to suspend the tax rate restriction; some of the written comments on proposed rates and charges also commented on this proposal. A list of all member agencies, subagencies and members of the public that provided comments in response to the suspension of the tax rate restriction is included in [Attachment 2](#) – Public Hearing Comments.

### **Details**

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

Based on the Board discussions over the past two months, three options are presented for the Board's consideration as described below. All options substantially meet 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 reports, meet the fixed charge coverage target, provide increased funding from revenues for the Capital Investment Plan (CIP), and promote long-term fiscal sustainability goals as reflected in the proposed ten-year forecast. The options also allocate costs so that payers bear their fair and reasonable share.

Assumed in the three options is a biennial budget and revenue requirement based on normal conditions. While the state is currently experiencing drought conditions and the SWP allocation for calendar year 2014 is zero percent, Metropolitan is prepared to meet these difficult conditions. 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 if the next several years are dry. Historically, Metropolitan's water sales have varied widely during dry periods. Therefore, it is reasonable for Metropolitan to base the proposed biennial budget and revenue requirement on a conservative sales estimate of 1.75 million acre-feet (MAF), State Water Project (SWP) deliveries of 955 thousand acre-feet (TAF), and Colorado River deliveries of 880 TAF for each of FY 2014/15 and FY 2015/16. Although the SWP allocation is currently set at zero percent, the allocation is subject to change, Metropolitan anticipates moving stored water through the SWP, and there is a potential for water purchases, transfers or exchanges using the SWP facilities. Variations in revenues and costs due to hydrology will be managed by use of financial reserves established for this purpose, including the use of Water Management designated funds discussed below. [Attachment 3](#) – Biennial FY 2014/15 and 2015/16 Budget Summary provides an overview of the biennial budget.

Also, each of the three options assumes the Board maintains the ad valorem tax rate at its current level when the rate is set in August of this year. The current ad valorem tax rate is estimated to generate \$182 million over the next two fiscal years, providing \$115 million to pay for general obligation and State Water Contract (SWC) Burns-Porter bond debt service and \$67 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 revenue shortfall for the proposed biennial budget will be made up from the Replacement & Refurbishment (R&R) Fund, and projected rate increases in FY 2016/17 and 2017/18 will be 2 percent higher.

Finally, all three options provide for allocation of an estimated \$350 million in water rate stabilization reserves over the reserve target on June 30, 2014 to reduce future obligations, keep future rate increases reasonable and provide funds for water management activities in response to the current drought conditions. The biennial budget and rates and charges propose:

- \$100 million deposited to the R&R Fund. This \$100 million along with the increased funding from revenues for the CIP included in the budget proposal will delay new money bond issues until FY 2017/18 and will reduce the required debt service during the biennial budget period and over the ten-year financial plan. Also, the allowable balance in the R&R Fund at the end of the fiscal year will be increased from \$95 million to \$160 million. This will allow increased flexibility to carry over unexpended Pay-As-You-Go (PAYGo) funds from one year to the next.

- \$100 million deposited to the Other Post-Employment Benefits (OPEB) Trust. As shown in the presentation to the F&I Committee on March 10, 2014, from Bartel Associates, LLC, Metropolitan's actuary, this funding reduces the liability for benefits accruing to Metropolitan from prior years. Metropolitan's annual required contribution (ARC) is reduced by \$7.2 million in FY 2015/16 and all future years.
- Any remaining amounts over target, currently estimated at \$150 million, will be placed in a Water Management Fund to cover costs associated with replenishing storage, purchasing transfers, and providing drought response programs. The estimated costs of replenishing storage based on current operational plans would more than exhaust the \$150 million.

### **Proposed Rate Options for Board Consideration**

#### **Option #1 (Staff Recommendation)—Proposed rate increases of 1.5 percent in FY 2014/15 and 1.5 percent in FY 2015/16.**

This option continues funding the Board's key priorities as described in the February 11, 2014 Board Letter 8-1, including:

- Funding for the CIP of \$513 million for the biennial period of FY 2014/15 and FY 2015/16, of which \$466 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 higher level of revenue-funded capital combined with withdrawals from the R&R Fund will cover 100 percent of the projected capital spending for the next three fiscal years.
- Continued funding of \$132 million for the biennial period of FY 2014/15 and FY 2015/16 for storage 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 dry years.
- Continued funding of conservation programs at \$40 million for the biennial period of FY 2014/15 and FY 2015/16 to help our member agencies and retail water agencies meet the state-mandated 20 percent by 2020 goal of reduced per capita water consumption and reduce the need to transport water into the Metropolitan service area or within Metropolitan's distribution system.
- Funding for the Local Resources Program incentives at \$84 million for the biennial period of FY 2014/15 and FY 2015/16 to meet the 2010 Integrated Resources Plan Update goals for local resource development and reduce the need to transport water into the Metropolitan service area or within Metropolitan's distribution system.
- Fully funding the ARC for OPEB beginning in FY 2014/15, one year earlier than originally planned and continuing to fully fund the ARC thereafter. It is estimated that by the end of FY 2015/16, Metropolitan's OPEB liability will be approximately 45 percent funded.
- Funding of \$831 million for the biennial period of FY 2014/15 and FY 2015/16 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 positions in connection with succession planning; three new positions for Water System Operations to provide engineering support; and funding for two positions to provide additional interim support for the Bay-Delta initiative.
- Rate increases in the remaining eight years of the ten-year forecast ranging from 3 to 5 percent and meets all financial policy guidelines.

The cost-of-service reports supporting Option #1 are provided as [Attachment 4](#) – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service Option 1, and [Attachment 5](#) – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service Option 1.

Option #2—Proposed rate increases of 0.0 percent in FY 2014/15 and 1.5 percent in FY 2015/16.

This option includes all funding objectives identified in Option #1, but reduces revenue-funded capital by \$28 million to \$438 million over the biennial budget period and increases the withdrawals from the R&R Fund by a like amount. Rate increases in the remaining eight years of the ten-year forecast are slightly higher in the near term, and range from 3.5 to 5 percent, but fails to meet the revenue bond coverage policy in fiscal year 2017.

The cost-of-service reports supporting Option #2 are provided as [Attachment 6](#) – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service Option 2, and [Attachment 7](#) – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service Option 2.

Option #3—Proposed rate increases of 0.75 percent in FY 2014/15 and 1.25 percent in FY 2015/16.

This option includes all funding objectives identified in Option #1, but reduces revenue-funded capital by \$16 million to \$450 million over the biennial budget period and increases the withdrawals from the R&R Fund by a like amount. Rate increases in the remaining eight years of the ten-year forecast are slightly higher in the near term, and range from 3.1 to 5 percent.

The cost-of-service reports supporting Option #3 are provided as [Attachment 8](#) – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service Option 3, and [Attachment 9](#) – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service Option 3.

## REVENUE REQUIREMENTS

Table 1 summarizes the revenue requirements for FY 2014/15 and 2015/16 under the three options.

**Table 1. Revenue Requirements by Option**

Fiscal Year	Option 1		Option 2		Option 3	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
<b>Departmental O&amp;M</b>	\$ 386,248,712	\$ 390,951,466	\$ 386,248,712	\$ 390,951,466	\$ 386,248,712	\$ 390,951,466
<b>General District Requirements</b>						
State Water Project	495,708,877	515,004,362	495,708,877	515,004,362	495,708,877	515,004,362
Colorado River Aqueduct	29,178,396	36,503,152	29,178,396	36,503,152	29,178,396	36,503,152
Supply Programs	65,524,620	66,451,886	65,524,620	66,451,886	65,524,620	66,451,886
Demand Management	62,160,118	61,654,768	62,160,118	61,654,768	62,160,118	61,654,768
Capital Financing Program	571,258,865	545,707,370	564,258,865	524,707,370	566,258,865	534,707,370
Other O&M	27,462,998	26,634,780	27,462,998	26,634,780	27,462,998	26,634,780
Increase (Decrease) in Required Res	9,900,000	18,200,000	9,200,000	20,300,000	9,500,000	19,600,000
<b>Total</b>	<b>1,261,193,874</b>	<b>1,270,156,318</b>	<b>1,253,493,874</b>	<b>1,251,256,318</b>	<b>1,255,793,874</b>	<b>1,260,556,318</b>
<b>Revenue Offsets</b>	<b>(135,791,692)</b>	<b>(149,902,442)</b>	<b>(135,753,166)</b>	<b>(149,525,981)</b>	<b>(135,772,334)</b>	<b>(149,699,116)</b>
<b>Net Revenue Requirements</b>	<b>\$ 1,511,650,894</b>	<b>\$ 1,511,205,342</b>	<b>\$ 1,503,989,419</b>	<b>\$ 1,492,681,803</b>	<b>\$ 1,506,270,251</b>	<b>\$ 1,501,808,668</b>

Totals may not foot due to rounding

## RATES AND CHARGES BY OPTION

The detailed rates and charges under the three options are as follows:

**Table 2. Rates and Charges by Option**

Effective January 1st	2014	Option 1		Option 2		Option 3	
		2015	2016	2015	2016	2015	2016
Tier 1 Supply Rate (\$/AF)	\$148	\$158	\$156	\$155	\$154	\$157	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290	\$290	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$257	\$259	\$253	\$257	\$255	\$258
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41	\$41	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$138	\$125	\$137	\$125	\$137
Full Service Untreated Volumetric Cost (\$/AF)							
Tier 1	\$593	\$582	\$594	\$574	\$589	\$578	\$590
Tier 2	\$735	\$714	\$728	\$709	\$725	\$711	\$726
Full Service Exchange Cost (\$/AF)	\$445	\$424	\$438	\$419	\$435	\$421	\$436
Treatment Surcharge (\$/AF)	\$297	\$341	\$348	\$335	\$339	\$337	\$343
Full Service Treated Volumetric Cost (\$/AF)							
Tier 1	\$890	\$923	\$942	\$909	\$928	\$915	\$933
Tier 2	\$1,032	\$1,055	\$1,076	\$1,044	\$1,064	\$1,048	\$1,069
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$153	\$155	\$148	\$157	\$150
Capacity Charge (\$/cfs)	\$8,600	\$11,100	\$10,900	\$10,900	\$10,500	\$11,000	\$10,700

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.

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).

As approved by the F&I Committee, staff will provide a mid-cycle biennial budget review in June 2015.

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

Metropolitan has assessed ad valorem 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 taxes to cover its

general obligation bonds and its SWC payments, as described below. Since fiscal year 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 debt service on state general obligation bonds (Burns-Porter bonds) for facilities benefitting Metropolitan as of 1990/91. Under this approach, ad valorem property tax revenue has been decreasing, and will continue to decrease, as Metropolitan's general obligation bonds and the Burns-Porter bonds are paid off. In the meantime, Metropolitan's SWC obligations are increasing. For example, the State is expecting substantial costs associated with repair and replacement of the 50-year-old SWP infrastructure. Further, implementation of the Delta Habitat Conservation and Conveyance Program and Bay Delta Conservation Plan (BDCP) would lead to increased SWC payments.

Section 124.5 permits Metropolitan to suspend the restriction discussed above if, following a public hearing, the Board finds that tax revenue in excess of the restriction is essential to the fiscal integrity of Metropolitan. Notice of the public hearing was filed with the offices of the Speaker of the California Assembly and the President pro Tempore of the Senate on February 20, 2014. As described previously, the public hearing was held on March 11, 2014.

The Board will undertake consideration of suspending the tax rate restriction in August. The ad valorem tax rate is set by the Board in August of each year once the tax rolls from the County Assessor are received by Metropolitan. Taking action to suspend the restriction in August concurrent with action to set the tax rate will give the Board the flexibility to set the rate at the minimum necessary to recover the debt service on Metropolitan's General Obligation bonds and the SWP Burns-Porter bonds, or set the rate up to the current rate of 0.0035 percent of assessed valuations to cover a portion of its SWC payment obligation. As mentioned previously, if the Board decides to not suspend the tax rate restriction in August, any reduction in revenues will be made up from the R&R Fund, and projected rate increases in FY 2016/17 and FY 2017/18 will be 2 percent higher.

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

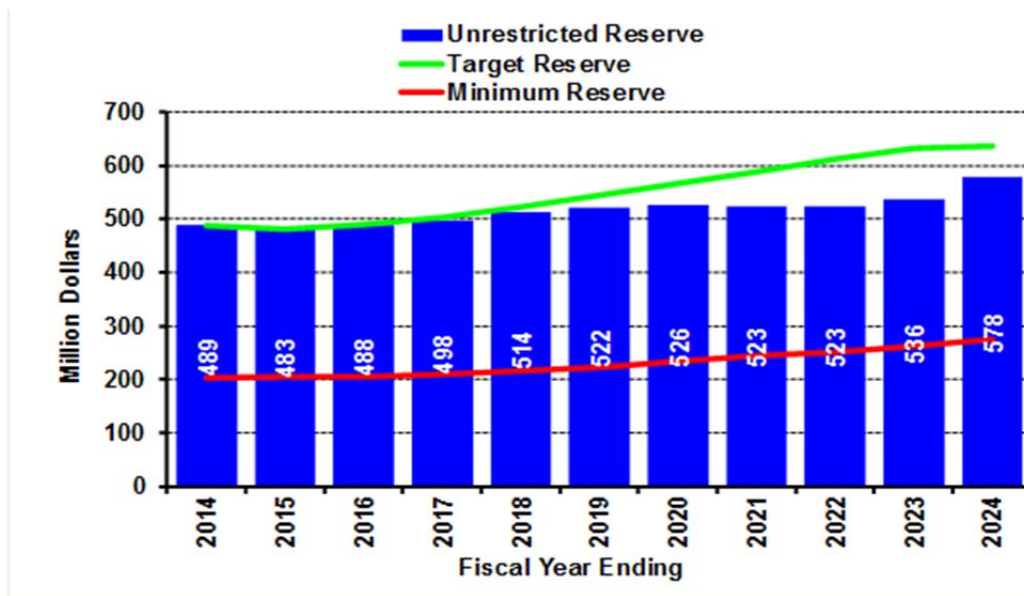
The proposed biennial budget and ten-year financial forecast comprise Metropolitan's long-range financial plan. The biennial Budget establishes the foundation for a ten-year forecast of water sales, expenditures, revenues, projected rate increases and financial indicators. Incorporating a ten-year financial 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 as [Attachment 10](#) – Ten-Year Financial Forecast to this letter.

The proposed biennial budget sets the stage for predictable and reasonable rate increases over the ten-year planning period. Use of reserves over target and higher levels of revenue funding for the CIP will result in lower revenue requirements in later years of the forecast. Depositing \$100 million to the OPEB Trust will lower operating expenses beginning in FY 2015/16 by \$7.2 million and every year thereafter extending beyond the forecast and resulting in a significant savings to Metropolitan. Use of revenues to fund the CIP will postpone and 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 2023/24 that is approximately \$50 million less than it would be under previous assumptions. 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, Option #1



Ave Rate Increase	5%	1.5%	1.5%	3.0%	3.0%	3.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

The ten-year forecast, which is presented in Attachment 2, assumes the following:

- Sales are forecasted throughout the period at 1.75 MAF;
- Beginning in FY 2019/20, sixty 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. For the first five years of the ten-year forecast, approximately 70 to 100 percent of the CIP is funded from revenues;
- OPEB will be 63 percent funded by FY 2023/24, assuming full funding of the ARC and \$100 million is deposited to the OPEB Trust at June 30, 2014;
- Metropolitan's investments in storage programs continue, providing regional supply reliability;
- Demand management programs continue to be funded to help ensure that our member agencies and retail water agencies 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 3 percent to 5 percent each year.

## Policy

MWD Act Sections 124.5 and 134

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 5202 (e): Fund Parameters (Water Rate Stabilization Fund)

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

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

## California Environmental Quality Act (CEQA)

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CEQA determination for Options #1, #2, #3 and #4:

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 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 subject to CEQA and is categorically exempt, and

- a. Approve the FY 2014/15 and FY 2015/16 biennial budget and:
  - i. Appropriate \$2,163.5 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;
  - ii. Appropriate as continuing appropriation, \$650.6 million for FY 2014/15 and 2015/16 debt service on Metropolitan general obligation and revenue bonds;
  - iii. Authorize the use of \$466.4 million in operating revenues to fund the Capital Investment Plan, and raise the end-of-fiscal-year fund balance of the R&R Fund to \$160 million on June 30, 2014 and thereafter; and
  - iv. Authorize use of reserves over target on June 30, 2014 in the manner set forth in this letter.
- b. Determine that the revenue requirement to be paid from rates and charges is \$1,511.7 million in FY 2014/15 and \$1,511.2 million in FY 2015/16;
- c. Approve water rates effective January 1, 2015, and January 1, 2016, as shown under Option #1 in Table 2 above;
- d. Adopt the Resolution Fixing and Adopting Water Rates to be effective January 1, 2015 and 2016, in the form of **Attachment 11**, using the rates shown under Option #1 in Section 1 of the Resolution;
- e. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge For Calendar Year 2015, in the form of **Attachment 12**, using the charge shown under Option #1 in Section 5 of the Resolution;
- f. Adopt the Resolution Fixing and Adopting A Capacity Charge For Calendar Year 2015, in the form of **Attachment 13**, using the charge shown under Option #1 in Section 6 of the Resolution;
- g. Approve the Ten-Year Financial Forecast; and,
- h. Determine that if the ad valorem tax rate restriction is not suspended, fixed revenues available to meet the fixed payment obligations of the SWC will continue to decline and, without other actions, the imbalance in fixed to variable revenues will increase. The revenue shortfall in the biennial budget will be made up from the R&R Fund.

**Fiscal Impact:** Revenues from rates and charges of \$1,489.5 million in FY 2014/15, and \$1,507.2 million in FY 2015/16, and an increase in the overall effective rate of 1.5 percent in 2015 and 1.5 percent in 2016 if the rates and charges are adopted as recommended.

**Option #2**

Adopt the CEQA determination that the proposed action is not subject to CEQA and is categorically exempt, and

- a. Approve the FY 2014/15 and FY 2015/16 biennial budget and:
  - i. Appropriate \$2,163.5 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;
  - ii. Appropriate as continuing appropriation, \$650.6 million for FY 2014/15 and 2015/16 debt service on Metropolitan general obligation and revenue bonds;
  - iii. Authorize the use of \$438.4 million in operating revenues to fund the Capital Investment Plan, and raise the end-of-fiscal-year fund balance of the R&R Fund to \$160 million on June 30, 2014 and thereafter ; and
  - iv. Authorize use of reserves over target on June 30, 2014 in the manner set forth in this letter.
- b. Determine that the revenue requirement to be paid from rates and charges is \$1,504.0 million in FY 2014/15 and \$1,492.7 million in FY 2015/16;
- c. Approve water rates effective January 1, 2015, and January 1, 2016, as shown under Option #2 in Table 2 above;
- d. Adopt the Resolution Fixing and Adopting Water Rates to be effective January 1, 2015 and 2016, in the form of [Attachment 11](#), using the rates shown under Option #2 in Section 1 of the Resolution;
- e. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge For Calendar Year 2015, in the form of [Attachment 12](#), using the charge shown under Option #2 in Section 5 of the Resolution;
- f. Adopt the Resolution Fixing and Adopting A Capacity Charge For Calendar Year 2015, in the form of [Attachment 13](#), using the charge shown under Option #2 in Section 6 of the Resolution;
- g. Approve the Ten-Year Financial Forecast; and,
- h. Determine that if the ad valorem tax rate restriction is not suspended fixed revenues available to meet the fixed payment obligations of the SWC will continue to decline and, without other actions, the imbalance in fixed to variable revenues will increase. The revenue shortfall in the biennial budget will be made up from the R&R Fund.

**Fiscal Impact:** Revenues from rates and charges of \$1,479.1million in FY 2014/15, and \$1,484.1 million in FY 2015/16, and an increase in the overall effective rate of 0.0 percent in 2015 and 1.5 percent in 2016 if the rates and charges are adopted as recommended.

**Option #3**

Adopt the CEQA determination that the proposed action is not subject to CEQA and is categorically exempt, and

- a. Approve the FY 2014/15 and FY 2015/16 biennial budget and:
  - i. Appropriate \$2,163.5 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;
  - ii. Appropriate as continuing appropriation, \$650.6 million for FY 2014/15 and 2015/16 debt service on Metropolitan general obligation and revenue bonds;
  - iii. Authorize the use of \$450.4 million in operating revenues to fund the Capital Investment Plan, and raise the end-of-fiscal-year fund balance of the R&R Fund to \$160 million on June 30, 2014 and thereafter; and
  - iv. Authorize use of reserves over target on June 30, 2014 in the manner set forth in this letter.
- b. Determine that the revenue requirement to be paid from rates and charges is \$1,506.3 million in FY 2014/15 and \$1,501.8 million in FY 2015/16;
- c. Approve water rates effective January 1, 2015, and January 1, 2016, as shown under Option #2 in Table 2 above;
- d. Adopt the Resolution Fixing and Adopting Water Rates to be effective January 1, 2015 and 2016, in the form of [Attachment 11](#), using the rates shown under Option #3 in Section 1 of the Resolution;

- e. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge For Calendar Year 2015, in the form of [Attachment 12](#), using the charge shown under Option #3 in Section 5 of the Resolution;
- f. Adopt the Resolution Fixing and Adopting A Capacity Charge For Calendar Year 2015, in the form of [Attachment 13](#), using the charge shown under Option #3 in Section 6 of the Resolution;
- g. Approve the Ten-Year Financial Forecast; and
- h. Determine that if the ad valorem tax rate restriction is not suspended, fixed revenues available to meet the fixed payment obligations of the SWC will continue to decline and, without other actions, the imbalance in fixed to variable revenues will increase. The revenue shortfall in the biennial budget will be made up from the R&R Fund.

**Fiscal Impact:** Revenues from rates and charges of \$1,484.1 million in FY 2014/15, and \$1,493.8 million in FY 2015/16, and an increase in the overall effective rate of 0.75 percent in 2015 and 1.25 percent in 2016 if the rates and charges are adopted as recommended.

#### **Option #4**


Adopt the CEQA determination that the proposed action is not subject to CEQA and is categorically exempt, and instruct staff to modify the proposed budgets and the recommended rates and charges as specified by the Board.

**Fiscal Impact:** Unknown

**Staff Recommendation**

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Option #1

  
\_\_\_\_\_  
Gary Breaux  
Chief Financial Officer

3/27/2014  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Jeffrey Lightlinger  
General Manager

3/27/2014  
\_\_\_\_\_  
Date

Attachment 1 – General Manager’s Business Plan Strategic Priorities for FY 2014/15 and FY 2015/16

Attachment 2 – Public Hearing Comments

Attachment 3 – Biennial FY 2014/15 and 2015/16 Budget Summary

Attachment 4 – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service Option 1

Attachment 5 – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service Option 1

Attachment 6 – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service Option 2

Attachment 7 – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service Option 2

Attachment 8 – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service Option 3

Attachment 9 – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service Option 3

Attachment 10 – Ten-Year Financial Forecast

Attachment 11 – Resolution Fixing and Adopting Water Rates to be Effective January 1, 2015 and 2016

Attachment 12 – Resolution Fixing and Adopting A Readiness-To-Serve Charge For Calendar Year 2015

Attachment 13 – Resolution Fixing and Adopting A Capacity Charge For Calendar Year 2015

**Update on Metropolitan's Proposed  
Budget and Water Rates & Charges for  
FY 2014/15 and FY 2015/16**

**Municipal Water District of Orange County  
Board Workshop on MET Issues**

**April 2, 2014**



**March F&I Committee Discussion & Actions**

- **Use of reserves over target in FY 2013/14**
  - Recommended staff proposed use of funds
- **Ad Valorem tax limit**
  - No Action; Seek Suspension & Rate in August
- **Treatment Water Cost Recovery**
  - No Action; Need Further Review
- **Recommended Rates and Charges for Budget**
  - Recommended Three Rate Alternatives for review
- **One-Year versus Two-Year budget**
  - Recommended continuing with the Two-Year Budget



## Use of Reserves over Target

- Recommendation to use \$320M over the target:
  - \$100M deposit to Refurbishment and Replacement (R&R) Fund to make up lower funding of PAYGo (\$300 million)
  - \$100M deposit to OPEB Trust to reduce the annual required contribution (ARC)
  - \$120M to a newly established Water Management Fund to cover future storage and drought related costs
    - Replenishment of storage
    - Water Transfers
    - Drought response programs



## Ad Valorem Tax Rate

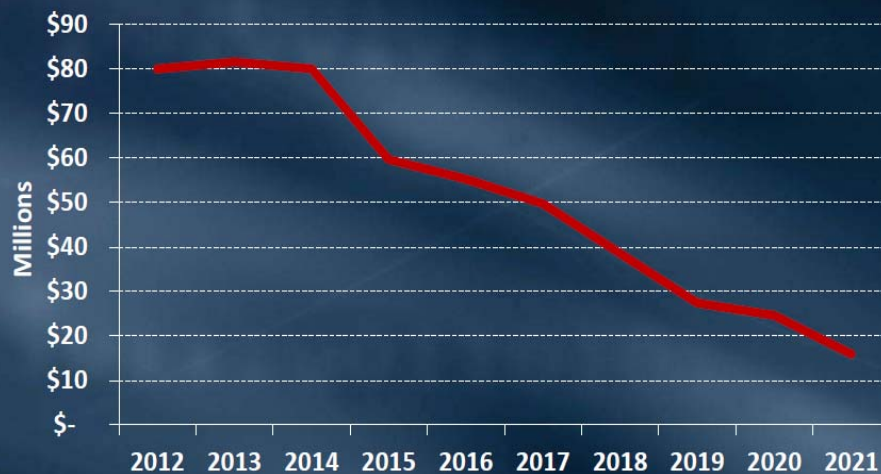




## Provisions of Metropolitan Water District Act Section 124.5

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

## Ad Valorem Tax Rate Projection







### Ad Valorem Tax Rate

- Recommended to move Board consideration of suspending the tax rate restriction to August; along with setting the AV tax rate
- If the Board does not maintain the AV tax rate, reductions in revenue will be recovered from the R&R fund and projected rate increases in FY16/17 and FY 17/18



## Treated Water Cost Recovery



## Treated Water Cost Recovery Objectives

- Infrastructure is designed to meet peak demands
- Current rate structure recovers peaking and standby costs uniformly through a volumetric charge paid by member agencies taking treated water
  - Proposed rate of \$341/AF effective January 1, 2015
- Standby and peaking costs can be recovered through fixed charges
  - Board objective of increasing fixed charges and addressing peaking and standby use

## Treated Water Cost Recovery

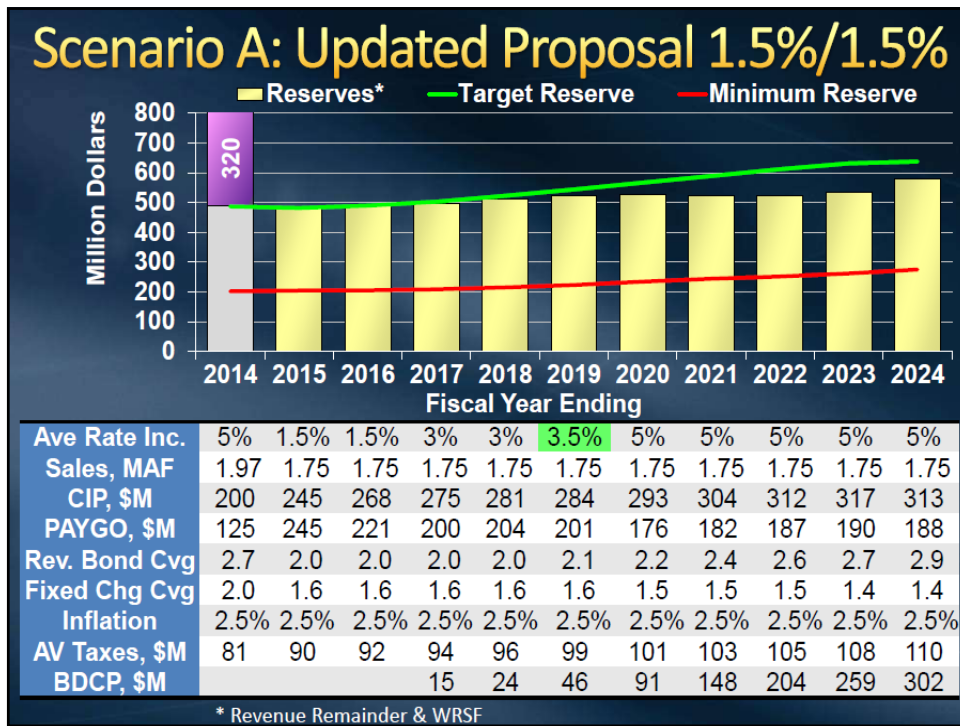
- Treated water costs for FY 2014/15 from Cost of Service report
  - Fixed Demand: \$54M assigned to peaking
  - Fixed Standby: \$66M assigned to standby
  - Fixed and Variable Commodity: \$190M volumetric
- Develop Treatment Cost Recovery consistent with the Conveyance and Distribution system cost recovery
  - Standby costs recovered through a Treatment RTS
    - 10-year rolling average of firm treated water sales
  - Peaking costs recovered through a Treated Water Capacity Charge
    - Three year look back of summer peak day demands; potentially phased-in
  - All other costs are recovered on a volumetric basis

### Rate Scenarios

- Scenario A - Staff Recommendation: 1.5% / 1.5%
- Scenario B – 0% / 1.5%
- Scenario C – 0.75% / 1.25%

*All rate scenarios assume maintaining the AV tax rate*



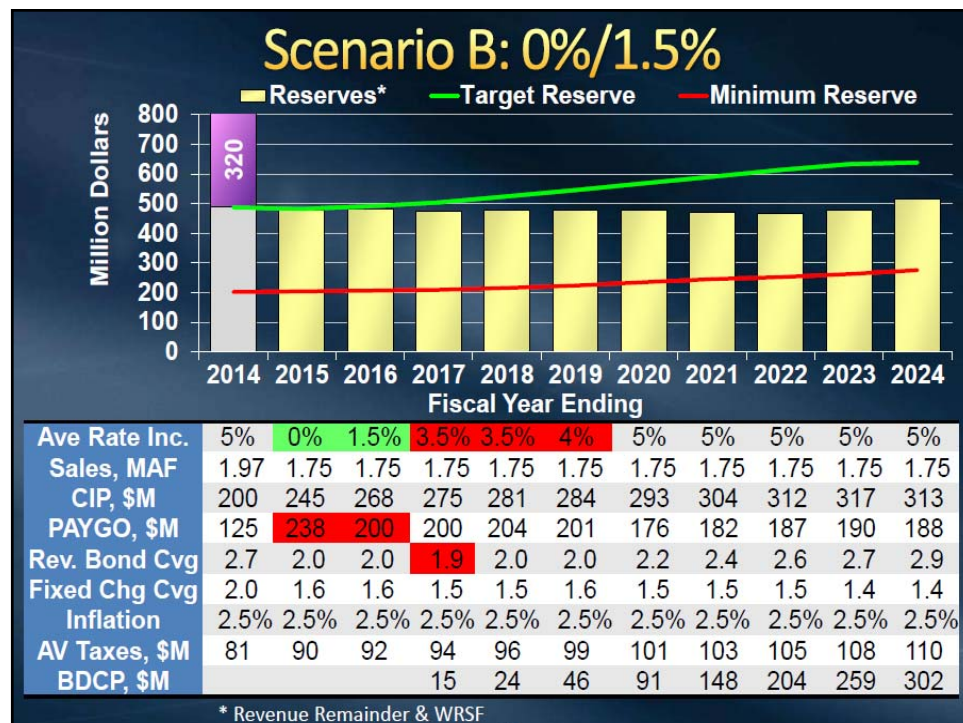


### Scenario A: Staff Recommendation

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

## Rate Scenarios (cont'd)

- **Scenario B: 0% / 1.5%**
  - Lowered revenue funded capital (PAYGo)
    - \$7 million in FY 2014/15 to \$238 million
    - \$21 million in FY 2015/16 to \$200 million
  - Increased draw on R&R fund by same amount



**Scenario B: 0%/1.5%****Full Service Rates**

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

**Rate Scenarios (cont'd)**

- **Scenario C: 0.75% / 1.25%**
  - Would provide additional revenues over biennial budget period of approximately \$13 million
  - Projected rate increases in FY2016/17 would be approximately 0.5% lower



### Scenario C: 0.75%/1.25%

#### Full Service Rates

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$593	\$578	(2.6%)	\$590	2.0%
Tier 2	\$735	\$711	(3.3%)	\$726	2.1%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$890	\$915	2.8%	\$933	1.9%
Tier 2	\$1,032	\$1,048	1.2%	\$1,069	2.0%
<b>Full Service Untreated Exchange Cost (\$/AF)</b>	\$445	\$421	(5.4%)	\$436	3.5%
<b>RTS Charge (\$M)</b>	\$166	\$157	(5.5%)	\$150	(4.5%)
<b>Capacity Charge (\$/cfs)</b>	\$8,600	\$11,000	27.9%	\$10,700	(2.8%)



### One-Year versus Two-Year budget



### One-year vs. Two-Year Budget

- Recommended maintaining the two-year Budget Cycle because it was helpful for member agencies and retail agencies to plan and set rates
- Board retains the ability to conduct a mid-cycle review if desired



### MWD Board Budget Review Schedule

- ✓ February 11, 2014 Board Action, set public hearings
- ✓ February 25, 2014 Budget Workshop
- ✓ March 10, 2014 Budget Workshop #3
- ✓ March 11, 2014 Public Hearings
- April 7, 2014 F&I Committee, Approve Biennial Budget and Water Rates and Charges
- April 8, 2014 Board, Approve Biennial Budget and Water Rates and Charges





# Questions





**DISCUSSION ITEM**

April 2, 2014

**TO:** Board of Directors

**FROM:** Robert Hunter  
General Manager

Staff Contact: Harvey De La Torre/  
Warren Greco

**SUBJECT: Update on Water Supply Conditions**

**STAFF RECOMMENDATION**

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Staff recommends the Board of Directors review and discuss this information

**REPORT**

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Compared to last month, we have seen little change in the water supply conditions in Northern California and along the Colorado River. As of March, the State Water Project (SWP) Allocation remains at zero percent. Rainfall, snowpack, and runoff into the SWP reservoirs continue to be significantly below normal for this date. DWR is prioritizing any additional flows to first meet essential health and safety needs, carryover storage from Calendar Year 2013, and then water quality issues such as salinity management, and environmental standards; before seeking to increase the SWP allocation level.

There are additional storms in the current weather forecasts for the Northern Sierras but the rainfall and snowpack are not expected to bring the totals at or above normal. Staff plans to incorporate this lastly storm's impact in our water supply conditions presentation; therefore, the powerpoint will be attached on March 31.

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



**DISCUSSION ITEM**

April 2, 2014

**TO:** Board of Directors & MWD Directors

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

Staff Contact: Harvey De La Torre/  
Warren Greco

**SUBJECT: MWD 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 MWD issues that may affect Orange County:

- a) MWD's Water Supply Conditions
- b) MWD's Finance and Rate Issues
- c) Colorado River Issues
- d) Bay Delta/State Water Project Issues
- e) MWD's Ocean Desalination Policy and Potential Participation by MWD in the Doheny Desalination Project and in the Huntington Beach Ocean Desalination Project (Poseidon Desalination Project)
- f) Second Lower Cross Feeder Project
- g) Orange County Reliability Projects

## ISSUE BRIEF # A

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

### **RECENT ACTIVITY**

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#### **State Water Project Deliveries**

*On January 30, the California Department of Water Resources (DWR) announced a projected "Table A" allocation of zero percent for water deliveries to State Water Project (SWP), marking the first time in the 54-year history of the SWP that contractors are projected to get none of their contracted supplies from Northern California. Following DWR's February snow survey, the SWP Allocation remains at zero percent. Recent improvements in hydrologic conditions will allow DWR to meet essential health and safety needs, carryover storage from Calendar Year 2013, water quality issues such as salinity management, and environmental standards.*

Hydrologic conditions in the Northern Sierras improved in late February and early March. Rainfall, snowpack, and runoff into the SWP reservoirs continue to be significantly below normal for this date. On average, only **8 inches** of precipitation in the Northern Sierras occur after April 1, and the current water year deficit, as of March 25, is **29 inches** as measured by the 8-Station Index. There are additional storms in the current weather forecasts for the Northern Sierras but the rainfall and snowpack are not expected to be above normal.

#### **State Water Project Hydrology**

As of March 25, 2014

Hydrologic Indicator	Current Total	% of Normal	% of Annual
Precipitation DWR 8-Station Index	20.9 Inches Water Equivalent	52% of 40 Inches	42% of 50 Inches
Snowpack Conditions CA Cooperative Surveys	4 Inches Water Equivalent	13% of 31 Inches	13% of April 1 Avg.

#### **State Water Project Reservoir Storage**

As of March 25, 2014

Storage Reservoir	Current Total	% of Normal	% of Capacity
Lake Oroville DWR	1.63 MAF	61% of 2.7 MAF	39% of 3.5 MAF
San Luis Reservoir DWR	0.82 MAF	46% of 1.2 MAF	33% of 1.8 MAF

### **Colorado River Deliveries**

The unregulated inflow into Lake Powell in February was 330 TAF or 84% of average. Lake Powell is nearing the anticipated seasonal low and will begin increasing in late spring as the winter season snowpack melts. As of March 25, snowpack water content is currently about 103% of median for this time of year

#### **Upper Colorado River Hydrology**

As of March 25, 2014

Hydrologic Indicator	Current Total	% of Normal	% of Annual
<b>Precipitation</b> US Bureau of Reclamation	<b>17.2 Inches</b> Water Equivalent	<b>101% of</b> 14 Inches	<b>55% of</b> 32 Inches
<b>Snowpack Conditions</b> NRCS SNOTEL Sites	<b>18.7 Inches</b> Water Equivalent	<b>103% of</b> 18 Inches	<b>93% of</b> Medium Peak

#### **Upper Colorado River Reservoir Storage**

As of March 25, 2014

Storage Reservoir	Current Total	Elevation	% of Capacity
<b>Lake Powell</b> US Bureau of Reclamation	<b>9.5 MAF</b>	<b>3,575 Feet</b>	<b>39% of</b> 24 MAF
<b>Lake Mead</b> US Bureau of Reclamation	<b>12.1 MAF</b>	<b>1,104 Feet</b>	<b>46% of</b> 26 MAF

### **Metropolitan Supply and Demand**

Metropolitan began CY 2014 with 2.37 MAF in “dry year storage” (this does not include the approximately 650,000 AF of emergency storage). Based on a current SWP “Table A” allocation of zero percent, and an estimated demand for imported water of 2.0 MAF, the estimated draw on dry year storage would be approximately 1.2 MAF. The estimated single dry year take capacity for MWD in CY 2014 is 1.44 MAF. MWD is projecting to be able to meet all demands for imported water in 2014.

## **ISSUE BRIEF # B**

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

### **RECENT ACTIVITY**

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At the March Metropolitan Finance and Insurance Committee, Chairman Aaron Grunfeld sought the Committee's recommendations and direction on five particular areas for the Biennial Budget and Rates for fiscal year (FY) 2014/15 and FY 2015/16:

- **Use of \$320 million over reserves target in FY 2013/14**
  - **Recommended that the use of funds be applied to Repair & Replacement, OPEB, and Water Management programs**
- **Ad Valorem tax limit**
  - **No Action; Seek suspension of the AV tax limit and setting of the tax rates in August**
- **Treatment Water Cost Recovery**
  - **No Action; Seek further review by the Board and Member agencies**
- **Recommended Rates and Charges for Budget**
  - **Recommended Three Rate Alternatives for review**
- **One-Year versus Two-Year budget**
  - **Recommended continuing with the Two-Year Budget**

Staff will provide a more detail description of the March's Finance and Insurance Committee discussions and recommendations, including the three proposed rate scenarios, at the April Board Workshop.

## **ISSUE BRIEF # C**

**SUBJECT: Colorado River Issues**

### **RECENT ACTIVITY**

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#### **Lower Basin Continues Development of Drought Response Plan**

In response to a request from the Assistant Secretary of the Interior Anne Castle, the Colorado River Basin states have been working to develop a drought response plan to avoid critical elevations in Lake Powell and Lake Mead. Those critical elevations relate to the ability to generate power in Lake Powell, and the Southern Nevada Water Authority's Intake levels in Lake Mead. Neither of those impacts is anticipated to occur in the next year or two, but if drought conditions continue, the critical elevations could be reached in the next five years. In February, the Lower Basin states met to explore options that could be implemented in the near term to aid reservoir levels. Those actions include: operation of the Yuma Desalting Plant, encouraging contractors to not order water that is not subsequently delivered, which ends up lost from the system; incentivizing contractors to create ICS storage credits in Lake Mead during shortages, and funding agricultural conservation activities. Once the plan is further developed, it will be discussed with Assistant Secretary Castle at a Colorado River Basin states meeting in March 2014.

## **ISSUE BRIEF # D**

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

### **RECENT ACTIVITY**

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#### **Appeals Court Ruling on Delta Smelt Biological Opinion**

On March 13, 2014 a panel of the Ninth U.S. Circuit Court of Appeals reversed a federal district court ruling and largely upheld the federal government's 2008 Biological Opinion for the delta smelt. The court sided with the Natural Resources Defense Council (NRDC), the U.S. Fish and Wildlife Agency and other federal agencies in its determination that protections for the threatened delta smelt are fully justified and necessary to restore the health of the Delta.

#### **Bay Delta Conservation Plan**

The Draft Bay Delta Conservation Plan (BDCP) and its corresponding Draft Environmental Impact Report/Environmental Impact Statement (EIR/EIS) were released in December for a 120-day public review period. On February 21, the comment period was extended by 60 days, for a 180-day review. The final four public open house meetings on the Draft BDCP and EIR/EIS were held in February. Three meetings were conducted in Southern California—Los Angeles, Ontario, and San Diego.

#### **Bay Delta Salinity Impacts**

The release of fresh water from Lake Oroville, Shasta and Folsom help reduce salinity levels in the Delta, and ensure better quality of drinking water to Bay Delta water users, including the State Water Project contractors. Unfortunately, drought conditions have resulted in increased salinity levels for delta exports to a current total dissolved solid (TDS) level to 500-600 mg/l; which is very similar to Colorado River Aqueduct supplies at 566 mg/l.

Under continued drought conditions, salinity levels could increase over the summer months to as high as 1,000 mg/l. Stakeholders in the Delta system are currently discussing options to mitigate increases in seawater intrusion, including the use of gates and additional releases. Based on previous severe drought, higher salinity levels could take several years to be flushed from the south delta.



## **ISSUE BRIEF # E**

**SUBJECT: MWD's Ocean Desalination Policy and Potential Participation by MWD in the Doheny Desal Project (formerly South Orange Coastal Ocean Desalination Project) and in the Huntington Beach Ocean Desalination Project (Poseidon Desalination Project)**

### **RECENT ACTIVITY**

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#### **1. Doheny Desalination Project**

The Phase 3 work has been completed; other work underway includes:

- Foundational Action Funding Studies (both Doheny Desal and San Juan Basin Authority) have been started to provide NEW information)
- Continue to Look for Funding Options
- Continue to Work with CALDESAL on the SWRCB Ocean Plan Amendments
- Several discussions are occurring among the five Doheny Desal Participants regarding how best to move forward. South Coast Water District and Laguna Beach County Water District are discussing development of a demonstration project at the site with details to be developed. The belief is that the current drought may allow expedited environmental processing and funding to begin moving the project forward and that a smaller demonstration size project can help to pave the way for a larger project. They have invited the other three Participants to join them.

#### **2. Huntington Beach Ocean Desalination Project (Poseidon Project)**

As part of MWD's review of the Poseidon LRP application, Poseidon provided all CEQA related work for the Huntington Beach Ocean Desalination Project to MWD. MWDOC and Poseidon are following up on other requests from MET relative to the submittal for funding via the Local Resources Program Funding.

There were no meetings of the Huntington Beach Ocean Desalination Workgroup in the month of March.

## **ISSUE BRIEF # F**

**SUBJECT: Second Lower Cross Feeder Project**

### **RECENT ACTIVITY**

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Based on information recently received from MET, the SLCF is a project that may be difficult to implement with a high degree of certainty if MET water is the only water to be conveyed in the facility. The current follow-up on this project, to be completed prior to the end of this fiscal year, is to conduct a “final” meeting with the 10 CHOICE participating agencies (from FY12-13 – two years ago) and retain the information developed from the project as potentially useful for future projects in Orange County.

## **ISSUE BRIEF # G**

**SUBJECT: Orange County Reliability Projects**

### **RECENT ACTIVITY**

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#### **1. Central Pool Augmentation Project**

There are no updates to report. MWD staff will continue to monitor the activities along the alignment and will report any updates or changes to the Board when they occur.

#### **2. MWD Investigations of System Reliability**

MWD staff has indicated they continue to work on reviewing the impacts to delivering water to various portions of their system in the event of an earthquake or other disaster.

**Summary Report for  
The Metropolitan Water District of Southern California  
Board Meetings  
March 11, 2014**

**PUBLIC HEARINGS**

Public hearing to consider suspending the tax rate limitations in Section 124.5 of the Metropolitan Water District Act to maintain the ad valorem tax rate.

Public hearing to receive comments on proposed water rates and charges.

**INDUCTION OF NEW DIRECTORS**

Director Steve Blois was inducted to the Board of Directors representing Calleguas Municipal Water District. **(Agenda Item 5C)**

Director Yvonne Arceneaux was inducted to the Board of Directors representing the city of Compton. **(Agenda Item 5D)**

**COMMITTEE ASSIGNMENTS**

Director Steve Blois was assigned to the Engineering and Operations Committee and the Finance and Insurance Committee.

Director Jennifer Fitzgerald was assigned to the Legal and Claims Committee and the Real Property and Asset Management Committee. **(Agenda Item 5F)**

**ENGINEERING AND OPERATIONS COMMITTEE**

Determined that the proposed action has been previously addressed in the 2011 categorical exemptions, and appropriated \$32.5 million; and awarded \$22,888,888 contract to S. J. Amoroso Construction Co., Inc. to construct a containment system at the Chemical Unloading Facility. (Approp. 15346) **(Agenda Item 8-1)**

Appropriated \$8.5 million; and awarded \$5,946,507 contract to J. F. Shea Construction, Inc. for PCCP repairs on the Second Lower Feeder. (Approp. 15471) **(Agenda Item 8-2)**

**WATER PLANNING AND STEWARDSHIP COMMITTEE**

Authorized entering into a Water Savings Incentive Program agreement with Altman Specialty Plants, Inc. to provide financial incentives for a water use efficiency project. **(Agenda Item 8-3)**

Authorized the General Manager to enter into an agreement for a pilot program to fund water use efficiency measures for the Colorado River System; and approved payment of up to \$2 million for the program. **(Agenda Item 8-4)**

**COMMUNICATIONS AND LEGISLATION COMMITTEE**

Authorized the General Manager to enter into a three-year contract with Fraser Communications for regional communications, including advertising services and media buys related to water awareness and conservation, not to exceed \$5.5 million annually. **(Agenda Item 8-5)**

Approved a substitute motion which authorized the General Manager to take an oppose position on H.R. 3964 (Valadao, R-CA) – Sacramento-San Joaquin Emergency Water Delivery Act. **(Agenda Item 8-6)**

Authorized the General Manager to take support, if amended, positions on S. 2016 (Feinstein, D-CA) and H.R. 4039 (Costa, D-CA) – California Emergency Drought Relief Act of 2014. **(Agenda Item 8-7)**.

Discussion on Agenda Items 8-8 and 8-9 regarding SB 103 (Senate Committee on Budget and Fiscal Review) – Budget Act of 2013 and SB 104 (Senate Committee on Budget and Fiscal Review) – Drought Relief was suspended since the bills have already been chaptered. **(Agenda Item 8-8 & 8-9)**

## **CONSENT CALENDAR**

In other action, the Board:

Granted conditional approval for the 43rd Fringe Area Annexation concurrently to Western and Metropolitan, conditioned upon receipt in full of annexation fee of \$228,595.58 to Metropolitan if completed by December 31, 2014, or if completed later, at the then-current annexation charge rate; approved Western's Water Use Efficiency Compliance Statement with the current Water Use Efficiency Guidelines in Attachment 2 of the Board letter; and adopted the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 3 of the Board letter. **(Agenda Item 7-1)**

Reviewed and considered information provided in the certified Final Environmental Impact Report (Final EIR) and adopted the Lead Agency's findings related to the proposed actions, and adopted resolution granting Calleguas' request for approval of Annexation No. 98 concurrently to Calleguas and Metropolitan and establish Metropolitan's terms and conditions for the annexation in Attachment 2 of the Board letter, conditioned upon approval by Ventura Local Agency Formation Commission, and upon receipt of annexation fee of \$487,059.66; and adopted resolution to impose water standby charge at a rate of \$9.58 per acre, or per a parcel of less than one acre, within the proposed annexation area in Attachment 3 of the Board letter. **(Agenda Item 7-2)**

Appropriated \$900,000; and authorized design to rehabilitate flocculators and traveling bridges at the Joseph Jensen Water Treatment Plant Modules Nos. 2 and 3. (Approps. 15371 and 15442). **(Agenda Item 7-3)**

## **OTHER MATTERS**

Director Fern Steiner, representing San Diego County Water Authority, received a 5-year service pin. **(Agenda Item 5D)**

Director Keith Lewinger, representing San Diego County Water Authority, received a 5-year service pin. **(Agenda Item 5E)**

## **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>.