

WORKSHOP MEETING OF THE
BOARD OF DIRECTORS WITH MET DIRECTORS
MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
18700 Ward Street, Board Room, Fountain Valley, California
October 2, 2019, 8:30 a.m.

AGENDA

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. 2089)

PRESENTATION/DISCUSSION/INFORMATION ITEMS

1. INPUT OR QUESTIONS ON MET ISSUES FROM THE MEMBER AGENCIES/MET DIRECTOR REPORTS REGARDING MET COMMITTEE PARTICIPATION

Recommendation: Receive input and discuss the information.

2. PRESENTATION REGARDING MET'S MID-CYCLE BIENNIAL BUDGET REVIEW

Recommendation: Review and discuss the information presented.

3. WATER SUPPLY UPDATE AND STORAGE LEVELS

Recommendation: Review and discuss the information presented.

4. DELTA CONVEYANCE PROJECT ACTIVITIES UPDATE

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 in the Doheny and Huntington Beach Ocean (Poseidon) Desalination Projects
- f. South County Projects

Recommendation: Review and discuss the information presented.

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

- a. Summary regarding September 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 accommodations should make the request with adequate time before the meeting for the District to provide the requested accommodations.



DISCUSSION ITEM

October 2, 2019

TO: Board of Directors

FROM: Robert Hunter,
General Manager

Staff Contact: Harvey De La Torre

SUBJECT: PRESENTATION REGARDING METROPOLITAN'S MID-CYCLE BIENNIAL BUDGET REVIEW

STAFF RECOMMENDATION

Staff recommends the Board of Directors review and discuss the information presented.

COMMITTEE RECOMMENDATION

Committee recommends (To be determined at Committee Meeting)

REPORT

In April 2018, the Metropolitan Water District of Southern California's (Metropolitan) Board approved the biennial budget for fiscal years (FY) 2018/19 and 2019/20. As of July 1, 2019, marks the mid-cycle of the two-year budget. This is an opportunity to review results of the first year of the two-year budget, review the outlook for the second year of the budget, and highlight financial issues to be addressed in the next biennial budget and rate-setting cycle, which formally begins in February 2020.

At the midpoint of the biennial budget period, water transactions for FY 2018/19 are 1.42 MAF, which is 232 TAF or 14% less than the FY 2018/19 budget of 1.65 MAF. This is primarily due to cooler and wetter conditions of the past winter and improvement in member agencies' local supplies.

Revenues are \$206.0 million under budget due to the lower water transactions. Expenditures are \$172.9 million under the amount of the adopted budget. The outlook for

Budgeted (Y/N): N/A	Budgeted amount: None	Core <u> X </u>	Choice <u> </u>
Action item amount: N/A	Line item:		
Fiscal Impact (explain if unbudgeted):			

FY 2019/20 shows revenues will continue to be below budget and expenditures, with the exception of capital expenditures, will be slightly lower than budget.

Metropolitan will begin work in the fall on its next biennial budget, covering FY 2020/21 and FY 2021/22, and rates and charges effective January 1, 2021, and January 1, 2022.

Significant issues to consider for the next biennial budget include:

- Water Transactions: Metropolitan's fiscal year average water transactions over the last fifteen years is about 1.9 MAF. However, the average over the last five fiscal years (FY 2014/15 thru FY 2018/19) is about 1.62 MAF. Taking the FY 2019/20 forecast of 1.55 MAF into account, the five-year average of water transactions (for FY2015/16 through FY2019/20) decreases to 1.55 MAF. Changing demographics, demand management, and improved hydrologic conditions since FY 2016/17 have contributed to Metropolitan's lower water transactions. The prospect of lower, long-term transactions will have an impact on Metropolitan's future revenues and funding decisions.
- Cost to Replenish Storage: Metropolitan is projected to have a record 4 MAF in storage by December 2019 as a result of recent favorable hydrologic conditions.
- Demand Management and Resource and System Resiliency: Appropriate levels needed to fund conservation and local resource investment programs will be reviewed in the next biennial budget and long-range forecast.

Also undetermined at this time is the direction and cost of the Regional Recycled Water Program for FY 2019/20. Current estimates for environmental planning over the next three years under a traditional programmatic environmental impact report approach are \$20 million to \$33 million.

- Long-Range Financial Forecast: As part of the biennial budget and rate-setting process, the ten-year forecast will be updated to incorporate changes to water transactions, revenues and expenditures, and any other changes to underlying assumptions such as investment and funding decisions.

The estimated costs of the California WaterFix/Delta conveyance are currently factored into the ten-year forecast beginning in FY 2018/19. Metropolitan is committed to supporting and participating in the construction of a Delta conveyance project that meets the reliability level established in the 2015 Integrated Resources Plan Update. However, a revised construction schedule and updated cost estimates need to be reflected in the next biennial budget and ten-year forecast.

Harvey De La Torre, MWDOC's Associate General Manager, will present some of the highlights of the mid-cycle budget review and key issues under consider for Metropolitan's next biennial budget.

ATTACHMENT: 1) Metropolitan's Mid-cycle Biennial Budget Review Board Information Item
2) MWDOC's Presentation on Metropolitan's Mid-cycle Biennial Budget Review



- Board of Directors
Finance and Insurance Committee

9/10/2019 Board Meeting

9-2

Subject

Mid-cycle Biennial Budget Review

Executive Summary

In April 2018, the Board approved the Metropolitan Water District of Southern California's (Metropolitan) biennial budget for fiscal years (FY) 2018/19 and 2019/20. At its April and May 2018 meetings, the Board also approved the associated rates and charges for calendar year (CY) 2019 and 2020. This year, at its regular April and May meetings, the Board approved charges for CY 2020. The mid-cycle update provides an opportunity to review results of the first year of the two-year budget, review the outlook for the second year of the two-year budget, and highlight financial issues to be addressed in the next biennial budget and rate-setting cycle, which formally begins in February 2020.

At the midpoint of the biennial budget period, water transactions¹ for FY 2018/19 are 1.42 million acre-feet (MAF), 232 thousand acre-feet (TAF) or 14 percent, less than the FY 2018/19 budget of 1.65 MAF, primarily due to cooler and wetter conditions of the past winter and improvement in member agencies' local supplies. Revenues are \$206.0 million under budget due to the lower water transactions. Expenditures are \$172.9 million under the amount of the adopted budget.

As of June 30, 2019, the balance in unrestricted reserves, which are held in the Water Rate Stabilization Fund and the Revenue Remainder Fund, is \$461 million. Unrestricted reserves are \$13 million lower than the beginning of the fiscal year-end and are \$204 million over the minimum. The \$461 million balance is \$165 million lower than the target.

The outlook for FY 2019/20 shows revenues will continue to be below budget and expenditures, with the exception of capital expenditures, will be slightly lower than budget. Capital expenditures are projected to be approximately \$100 million more than the FY 2019/20 budget. For these reasons, staff proposes to adjust the financing plan for capital expenditures.

Description

FY 2018/19 Review

As presented at the Finance & Insurance Committee Meeting of August 19, 2018, water transactions for FY 2018/19 were 1.42 MAF, 232 TAF or 14 percent, less than the FY 2018/19 budget of 1.65 MAF, resulting in revenues that are about \$206.0 million under budget. Expenditures were also under budget by approximately \$173 million.

Water revenues were lower than budgeted due primarily to lower demands and to decreased deliveries to member agencies whose local supplies benefitted from the cool and wet winter. Expenditures were lower than the amount of the adopted budget for several reasons. Operations and Maintenance expenditures, which were \$456.4 million, came in under budget due to prudent management of expenses and lower third-party claims. The State Water

¹ Includes water sales, exchanges and wheeling.

Contract (SWC) expenditures were lower due to lower On-Aqueduct Power and Minimum Operations Maintenance Power & Replacement (OMP&R) expenses. Banking water in Lake Mead reduced energy expenditures. Demand Management and Supply Programs also came in lower than the amount of the adopted budget. However, the reduction in expenditures was less than the reduction in water transactions revenues. As a result, the year-end balance in unrestricted reserves declined by \$13 million to \$461 million. The \$461 million in unrestricted reserves is \$204 million over the minimum and \$165 million below the target, which in FY2018/19 is \$626 million.

Coverage ratios at fiscal year-end are calculated to be 1.43 times for Revenue Bond Debt Service coverage (Senior and Subordinate liens), below the target level of 2.0 times, and 1.40 times for Fixed Charge coverage, above the target level of 1.2 times. The adopted budget projected Revenue Bond Debt Service coverage of 1.6 times and a Fixed Charge coverage ratio of 1.5 times.

FY 2019/20 Outlook

Planning Assumptions for the Adopted Biennial Budget

Key planning assumptions for the FY 2019/20 budget year were as follows at the time the Board adopted the budget: water transactions of 1.75 MAF; use of operating revenues (\$120 million) and bond funds (\$80 million) to fund budgeted capital expenditures of \$200 million; a 50 percent allocation for the State Water Project (SWP) and approximately 838 TAF from the Colorado River Aqueduct; continued funding for conservation and the Local Resources Program (LRP) incentives and funding of supply programs in the region, the Central Valley and the Colorado River system.

Forecast at Mid-Cycle of Biennial Budget

Historically, water revenues and expenditures can quickly change under different local hydrologic conditions. Accordingly, Metropolitan sets its biennial budget and rate-setting processes on average potential conditions and relies on water storage and cash reserves to buffer water demand, revenue and cost volatility. Over the last eight fiscal years, Metropolitan has experienced five drought years² bookended by very wet years. However, in the present biennial budget period, both fiscal years have been wet years. FY 2018/19 was the wettest year ever recorded in the Feather River Watershed, and the FY 2018/19 water transactions of 1.42 MAF were the lowest since the 1980s. Metropolitan continues to experience the aftermath of very wet conditions from the winter of 2018/19, resulting in forecasted water transactions for FY 2019/20 at 1.55 MAF, 203 TAF under budget, and forecasted revenues below budget of \$201 million. While revenues are expected to be below budget, Metropolitan continues taking steps to meet future dry conditions by storing a record amount of water in storage programs, managing Operations and Maintenance expenditures, maintaining a diverse water supply portfolio, and funding conservation and local resource development.

Unbudgeted expenditures include \$26 million for Antelope Valley-East Kern Water Agency High Desert Water Bank Program (AVEK) and \$13 million for the Cyclic Cost-Offset Credit program. Authorization for any additional funding for the Regional Recycled Water program is not included in the forecast.

SWC expenditures are forecasted to be slightly over budget. OMP&R costs for CY 2020 are lower as SWC costs are forecasted to be below the projected amounts in prior Statements of Charges. These lower SWC costs are offset by higher capital costs and higher variable energy costs to pump the FY 2019/20 SWP allocation. Colorado River Aqueduct power costs are under budget due to lower energy requirements since Colorado River supplies into the region have been minimized and diverted to storage. The FY 2019/20 budget included funding of approximately \$13 million for California WaterFix. This amount remains in the budget awaiting the determination by the Newsom administration to advance a single-tunnel conveyance solution in the Delta to address climate change resiliency and protect the State Water Project Delta conveyance from earthquake risk, consistent with Governor Newsom's Executive Order N-10-19.

Variations in revenues and costs due to hydrology, local resource conditions, emergencies and outages, and economic conditions are managed by use of financial reserves, specifically the Water Rate Stabilization Fund and

² FYs 2011/12 through 2015/16

the Revenue Remainder Fund. Absent actions to manage the use of operating revenues in FY 2019/20, unrestricted reserves are projected to decrease by \$136 million to \$325 million, which is \$56 million over the minimum.

Balance of Exchange Agreement Set-Aside

The unrestricted reserves as of June 30, 2019 of \$461 million do not include funds held in the Exchange Agreement Set-Aside Fund.

Due to San Diego County Water Authority's (SDCWA) litigation challenging Metropolitan's transportation rate components and pursuant to the exchange agreement between Metropolitan and SDCWA, Metropolitan is required to set aside funds based on the quantities of exchange water that Metropolitan provides to SDCWA and the portion of the payments disputed by SDCWA. This set-aside amount includes disputed payments of the Water Stewardship Rate, paid as a component of the contract price for exchange, and interest earned thereon, which is based on the interest rate earned by Metropolitan's investment portfolio. In April 2016, Metropolitan transferred these funds from unrestricted financial reserves to a new designated fund, the Exchange Agreement Set-Aside Fund. As of June 30, 2019, Metropolitan had set aside \$56.5 million in the Exchange Agreement Set-Aside Fund. The amounts held do not include the statutory prejudgment interest, post-judgment interest, attorneys' fees, or costs awarded by the trial court, none of which the exchange agreement requires to be held. Metropolitan has suspended the collection of the Water Stewardship Rate (WSR) on Exchange Agreement deliveries through the end of calendar year 2020, pending the completion of the demand management cost allocation study. Therefore, the Set-Aside Fund balance is increasing in FY 2019/20 only to the extent there is interest earned.

Impact of Suspension of Collecting the Water Stewardship Rate on Exchange Deliveries

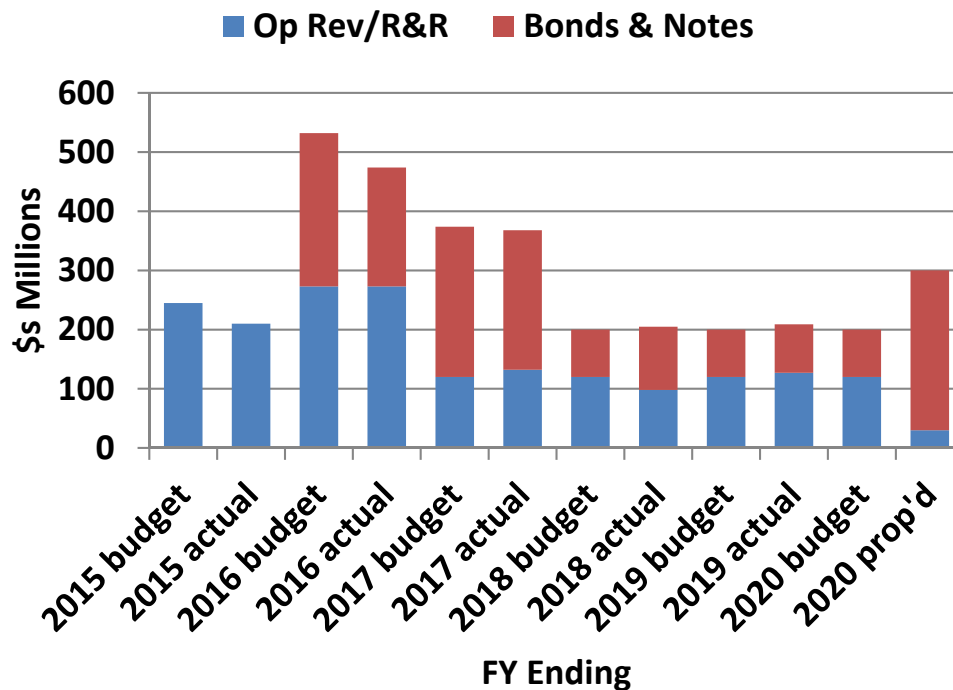
In April 2018, the Board approved suspension of billing and collection of the WSR on exchange agreement deliveries to SDCWA for calendar years 2018 through 2020. The total effect of the suspension, taking into consideration the lower revenues over the three calendar years, may be up to approximately \$45.8 million by the end of CY 2020 as shown in Table 1 below.

Table 1: Suspension of Collecting the Water Stewardship Rate on Exchange Agreement Deliveries

	Actual CY 2018	Forecasted CY 2019	Forecasted CY 2020	Total
Exchange Deliveries, AF	207,700	239,667	274,500	721,867
WSR Suspended Revenues on Exchange	\$11,423,500	\$16,537,021	\$17,842,500	\$45,803,021

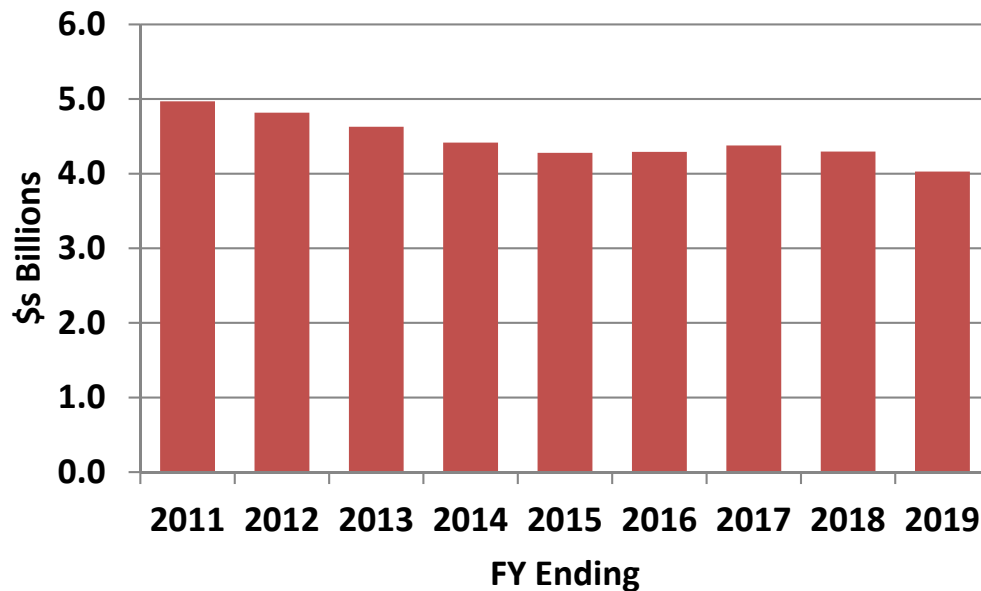
Capital Financing, Biennial Budget FY 2014/15 and 2015/16 through FY 2018/19 and 2019/20

Beginning with the FY 2014/15 budget, Metropolitan has planned to use a greater amount of operating revenues to fund capital expenditures. Over this period, a significant amount of the planned capital spending is for Rehabilitation & Replacement (R&R) projects. R&R expenditures are appropriately funded by operating revenues, as the useful life is generally less than a newly constructed facility. The use of increased amounts of operating revenues to fund capital expenditures mitigates future increases in water rates and charges, provides financial flexibility, and supports Metropolitan's high credit ratings. Using operating revenues to fund capital expenditures helps ensure that Metropolitan meets or achieves its coverage targets by generating a margin of revenues over operating and debt expenditures. The following Graph 1 shows the planned and actual use of operating revenues and bonds to fund capital expenditures.

Graph 1: Budgeted and Actual Capital Expenditure Funding

Beginning with FY 2014/15, Metropolitan has budgeted to fund 60 percent or more of capital expenditures from operating revenues. From FY 2014/15 through FY 2018/19, approximately 57 percent of the actual capital expenditures were funded from operating revenues. Consistent with the need for financial flexibility, in FY 2015/16 and 2016/17 subsequently approved capital expenditures necessitated a change to the planned capital funding

The increased use of operating revenues to fund capital expenditures has reduced the amount of bonds that need to be issued, and since FY 2010/11, the amount of outstanding debt, consisting of General Obligation bonds, Revenues Bonds, and other notes and loans, has been decreasing as shown in **Graph 2** below.

Graph 2: Outstanding Debt

Capital Expenditures, FY 2019/20

The planned capital spending as developed by Engineering Services and presented in the capital expenditures section of the FYs 2018/19 and 2019/20 Biennial Budget was estimated to be \$514 million over the biennium. Over the last several years, actual expenditures for planned capital projects have been about 20 percent below planned spending. In keeping with that trend, the capital expenditures in the FYs 2018/19 and 2019/20 Biennial Budget were set at 80 percent of Engineering's planned spending or \$200 million in each fiscal year. The capital expenditure funding as presented in the FYs 2018/19 and 2019/20 Biennial Budget consisted of \$120 million from operating revenues and \$80 million from revenue bonds for each fiscal year, or 60 percent from operating revenues and 40 percent from bonds.

Capital expenditures for FY 2018/19 were \$213 million, \$13 million over the amount of the adopted budget of \$200M. For FY 2018/19, Metropolitan issued \$80 million in bonds to fund capital expenditures and used operating revenues to fund the balance.

Capital expenditures for FY 2019/20 are forecasted at \$300 million, \$100 million higher than the amount included in the FY 2019/20 revenue requirement. Unlike the past several years, capital expenditures are forecasted to occur at a faster rate than budgeted.

Recent changes in the appropriation process streamlined capital appropriations, expediting capital project expenditures. In October 2018, the long-term practice of requiring projects to be incrementally funded by phase through detailed monthly requests to the Board of Directors was changed by:

- appropriating all of the estimated funds required to perform the planned capital work through the end of June 2020;
- authorizing the General Manager to initiate or proceed with all planned capital projects for fiscal years 2018/19 and 2019/20; and,
- delegating to the General Manager the authority to determine whether a project is exempt from the California Environmental Quality Act.

The overall result has been an expedited process to complete design work and award construction contracts, thereby also expediting capital expenditures on several major projects such as:

- replacement of the 6.9kV power cables to all nine pumps at each of the five Colorado River Aqueduct Pumping Plants – \$16.5 million;
- replacement of the Greg Avenue Pumping Facility – \$21 million;
- refurbishment of the sumps and circulating water systems at each of the five CRA Pumping Plants - \$26.9 million; and,
- seismic improvements to the Union Station Headquarters Building – \$44 million.

The long-term effort to plan and implement the relining of the Prestressed Concrete Cylinder Pipe sections of the Sepulveda and Second Lower Feeders cleared several permitting and operational hurdles, including pre-qualifying contractors and pre-ordering the steel pipe liner segments. Two major contracts have been awarded to date with steel pipe liners currently being fabricated for a third contract to be awarded in FY 2020/21.

Proposed Capital Financing, FY 2019/20

In order to maintain reserves, Metropolitan proposes to adjust the planned capital financing for FY 2019/20 while still using a combination of operating revenues and bond funds. This adjustment from the planned capital financing in the current biennial budget is a result of lower operating revenues and the anticipated acceleration of \$100 million in planned capital expenditures. It is proposed that \$30 million of capital expenditures be funded from operating revenues and \$270 million be funded from bond funds, or 10 percent from operating revenues and 90 percent from bonds. The use of bonds to fund \$270 million of capital expenditures will conserve reserves that may be necessary to buffer changes to revenues and expenditures and to mitigate future rate increases.

Over the past nine fiscal years, Metropolitan has been steadily reducing its overall debt obligations by aggressively using operating revenues to fund a significant portion of its capital expenditures and by carefully managing the overall capital expenditure budget. This policy approach allows Metropolitan the flexibility to

adjust its capital funding when changed conditions warrant adjustments. Furthermore, the current debt market is very favorable for municipal bonds, making this a good time to issue low-interest debt.

Metropolitan has executed a \$200 million Short-Term Revolving Credit Facility under which Metropolitan may borrow from time-to-time. Funds drawn under the Short-Term Revolving Credit Facility may be used for any lawful purpose. No draws were made in FY 2018/19. The current financial forecast for FY 2019/20 assumes a draw of \$100 million in October 2019 to fund capital expenditures until bonds are issued later this fiscal year, at which time the draw will be repaid.

In July 2019, the Board adopted a resolution authorizing the reimbursement of capital expenditures from bond proceeds for FYs 2018/19 and 2019/20. This resolution allows Metropolitan to issue bonds later in FY 2019/20 and reimburse the use of operating revenues used to pay for capital expenditures from May 10, 2019 (60 days prior to the adoption) forward, and makes the proposed change to the capital financing plan for FY 2019/20 feasible.

With the proposed changes to the capital financing for FY 2019/20, the unrestricted reserves at June 30, 2020, are forecasted to be \$415 million, \$146 million over the minimum. The proposed change will be effective only if the Board approves the bonds when they are brought before the Board for action.

Summary

The biennial budget adopted by the Board met the Board's financial policies by providing anticipated revenues that met the anticipated cost of Metropolitan's services, met the Fixed Charge coverage target, and promoted long-term fiscal sustainability goals as reflected in the ten-year forecast. The biennial budget also projected the Revenue Bond Debt Service coverage would meet target within five fiscal years. However, the lower revenue forecast based on the recent extraordinary wet year will result in lower financial policy coverage ratios at the end of FY 2019/20. The Revenue Bond Debt Service coverage (Senior and Subordinate liens) is forecasted to be 1.4 times, below the target level of 2.0 times, and the Fixed Charge coverage is forecasted to be 1.2 times, at the target level of 1.2 times. In addition, planned capital expenditures are accelerated by the more recent streamlined capital appropriations process, which results in capital expenditures exceeding the budget for FY 2019/20. For all these reasons, staff recommends an adjustment in financing capital expenditures to increase bond funds.

Items that May Impact the Next Biennial Budget, FY 2020/21 and FY 2021/22

Metropolitan will begin work in the fall on its next biennial budget, covering FY 2020/21 and FY 2021/22, and rates and charges effective January 1, 2021, and January 1, 2022. Significant issues to consider for the next biennial budget are discussed below.

- **Water Transactions:** Metropolitan's fiscal year average water transactions over the last fifteen years is about 1.9 MAF. However, the average over the last five fiscal years (FY 2014/15 thru FY 2018/19) is about 1.62 MAF. Taking the FY 2019/20 forecast of 1.55 MAF into account, the five-year average of water transactions (for FY2015/16 through FY2019/20) decreases to 1.55 MAF. Changing demographics, demand management, and improved hydrologic conditions since FY 2016/17 have contributed to Metropolitan's lower water transactions. While hydrologic conditions are unpredictable and cycles of low sales are expected, it may be that Metropolitan is moving to a new, lower level of water transactions. The current ten-year forecast assumes fiscal year transactions of 1.8 MAF from FY 2020/21 through FY 2027/28. Metropolitan will evaluate whether to lower budgeted transactions. The prospect of lower, long-term transactions will have an impact on Metropolitan's future revenues and funding decisions.
- **Cost to Replenish Storage:** Metropolitan is projected to have a record 4 MAF in storage by December 2019 as a result of recent favorable hydrologic conditions. Given lower water transactions and improved local conditions, Metropolitan will carefully consider implementation of future storage actions.
- **Demand Management and Resource and System Resiliency:** Metropolitan's current rates support \$43 million per year for conservation and approximately \$43 million in LRP incentives. Appropriate levels needed to fund conservation and local resource investment programs will be reviewed in the next biennial budget and long-range forecast.

Also undetermined at this time is the direction and cost of the Regional Recycled Water Program for FY 2019/20. Current estimates for environmental planning over the next three years under a traditional programmatic environmental impact report approach are \$20 million to \$33 million.

The estimated costs of the California WaterFix/Delta conveyance are currently factored into the ten-year forecast beginning in FY 2018/19. Metropolitan is committed to supporting and participating in the construction of a Delta conveyance project that meets the reliability level established in the 2015 Integrated Resources Plan Update. However, a revised construction schedule and updated cost estimates need to be reflected in the next biennial budget and ten-year forecast.

- **Long-Range Financial Forecast:** As part of the biennial budget and rate-setting process, the ten-year forecast will be updated to incorporate changes to water transactions, revenues and expenditures, and any other changes to underlying assumptions such as investment and funding decisions.

Policy

Metropolitan Administrative Code Section 5107: Biennial Budget Process

Metropolitan Administrative Code Section 5108: Appropriations

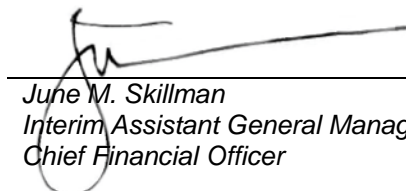
Metropolitan Administrative Code Section 5109: Capital Financing

Metropolitan Administrative Code Section 5200: Funds Established

Metropolitan Administrative Code Section 5202: Fund Parameters

Fiscal Impact

For FY 2019/20, forecasted total revenues are \$201 million below budget; using \$120 million of operating revenues to fund capital expenditures, total expenditures would be \$8 million under budget. Unrestricted reserves at June 30, 2020 would be \$325 million, \$56 million over the minimum and \$329 million below target. With the proposed change to capital financing to use \$30 million in operating revenues to fund capital expenditures with the balance funded with bond funds, total expenditures would be \$98 million under budget. Under this updated financing plan, unrestricted reserves at June 30, 2020, are forecasted to be \$415 million, \$146 million over the minimum and \$239 million below target. Revenue Bond Debt Service coverage (Senior and Subordinate liens) is forecasted to be 1.4 times, below the target level of 2.0 times, and the Fixed Charge coverage is forecasted to be 1.2 times, at the target level of 1.2 times.


June M. Skillman
Interim Assistant General Manager/
Chief Financial Officer



8/22/2019

Date


Jeffrey Kightlinger
General Manager

8/28/2019

Date

**METROPOLITAN'S
MID-CYCLE
BIENNIAL BUDGET REVIEW**

Municipal Water District of Orange County
October 2, 2019

Agenda



- 💧 Key Budget Assumptions of MET's Adopted Biennial Budget
- 💧 FY 2018/19 Budget Review & FY 2019/20 Budget Outlook
- 💧 MET's proposed actions in managing FY 2019/20 Expenditures
- 💧 Issues that may impact the next Biennial Budget (FY2020/21 & FY2021/22) & Ten-year Forecast
- 💧 MET's Demand Management Cost Study



Key Budget Assumptions

Fiscal Year Ending	Adopted	
	2019	2020
Overall increase (Effective January 1)	3.0%	3.0%
Total Water Transactions*	1.65 MAF	1.75 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Diversions	0.84 MAF	0.92 MAF
Capital Investment Plan (CIP)	\$200 M	\$200 M
PAYGo (60% of CIP)	\$120 M	\$120 M
Bonds (40% of CIP)	\$80 M	\$80 M

* Includes water sales, exchanges, and wheeling



Projected Rate Increases & Financial Metrics

Biennial Budget FY 2018/19 and 2019/20 and Ten-Year Forecast



Overall Rate Inc.	4.0%	4.0%	3.0%	3.0%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Water Transactions (MAF)**	1.54	1.55	1.65	1.75	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Rev. Bond Cvg	1.6	1.5	1.6	1.9	2.1	2.1	2.2	2.3	2.5	2.5	2.6	2.7
Fixed Chg Cvg	1.4	1.4	1.5	1.7	1.8	1.7	1.6	1.5	1.4	1.3	1.3	1.2
PAYGO, \$M	132	108	120	120	150	150	150	154	158	162	167	171

* Revenue Remainder and Water Rate Stabilization Fund; ** Includes water sales, exchanges and wheeling

Finance & Insurance Committee

9-2 Slide 8

September 9, 2019

FY 2018/19 Budget Review

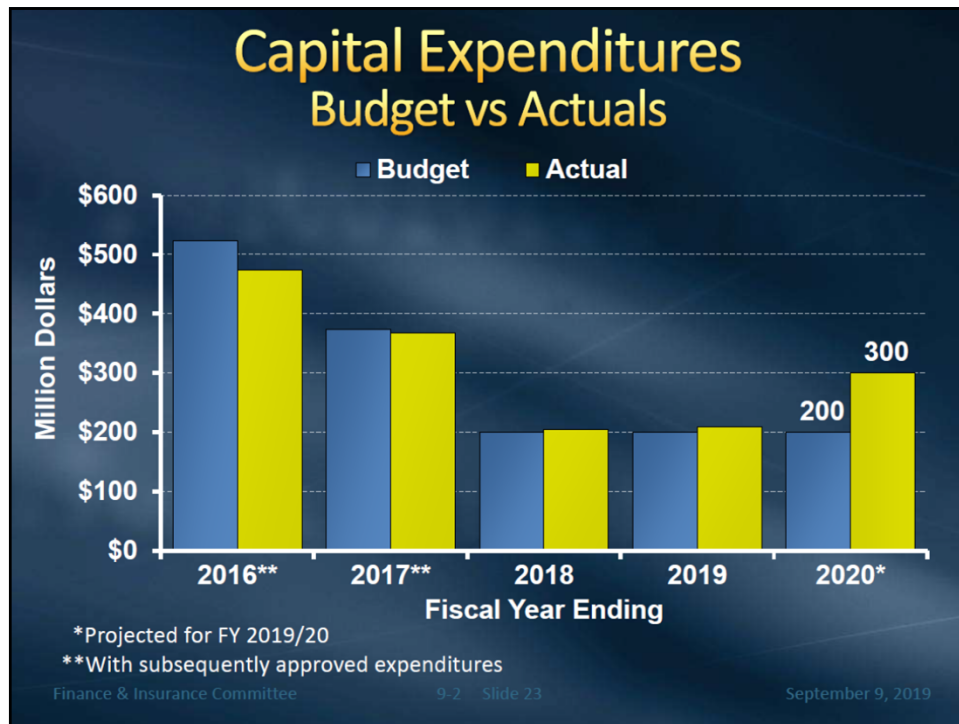
- 💧 Water Sales for FY 2018/19 totaled 1.42 MAF
 - 💧 232 TAF (14%) less than the budget assumption of 1.65 MAF
 - 💧 Resulted in Revenues \$206M under budget
- 💧 Expenditures for FY 2018/19 were under budget by \$173M
 - 💧 State Water Contract costs lower due to lower On-Aqueduct Power & O&M expenses
 - 💧 Lower Colorado River Power cost as a result of banking more water in Lake Mead
 - 💧 Lower Demand Management & Supply Program expenditures
- 💧 End-Year Balance will require approximately \$13M from unrestricted reserves



FY 2019/20 Budget Outlook

- 💧 Projecting Water Sales to be 1.55 MAF
 - 💧 200 TAF below Budget of 1.75 MAF
 - 💧 Results in water revenue reduction of \$201M
- 💧 Unbudgeted Expenditures
 - 💧 \$26.2 M for the AVEK water banking program
 - 💧 \$13.5 M for Cyclic Cost-Off Credit program
- 💧 Projected Budget Expenditures Changes
 - 💧 Higher SWC Capital costs and higher variable energy pumping costs for 2019/20 SWP allocation
 - 💧 Slight increases in Supply Programs cost
 - 💧 Anticipate lower Colorado River Power Costs
 - 💧 Reduction in Debt Service

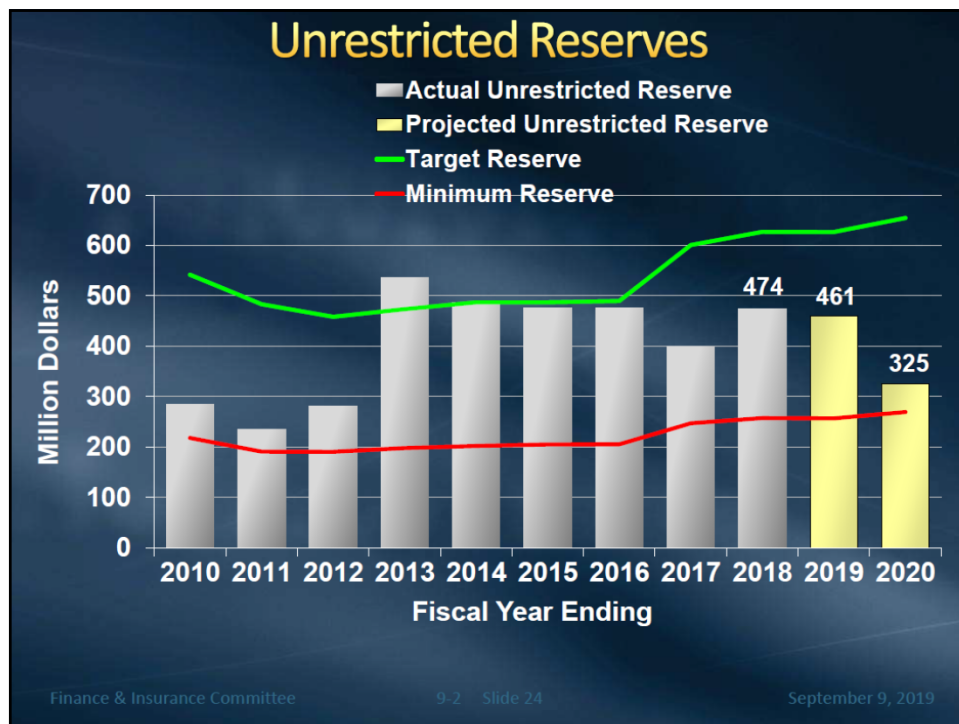




Projected Expenditures, FY 2019/20 \$ in millions

	FY 2019/20 Budget	Adjustments	FY 2019/20 Projected
Debt Service	330.9	(41.8)	289.1
PAYGo	120.0	-	120.00
State Water Contract	589.5	6.2	595.7
Delta Conveyance	13.0	-	13.0
O&M	496.4	-	496.4
Colorado River Power	53.0	(18.2)	34.8
Supply Programs	54.4	5.7	60.1
Cyclic Cost-Offset program	-	13.5	13.5
AVEK	-	26.2	26.2
Demand Management	85.8	-	85.8
Total	1,743.0	(8.4)	1,734.6

Finance & Insurance Committee 9-2 Slide 25 September 9, 2019



Managing FY 2019/20 Expenditures

- 💧 To mitigate the reduction in water sale revenue and maintain unrestricted reserves
 - 💡 MET plans to lower PAYGo amount from \$120M to \$30M
 - 💡 Use Bonds to fund the \$270M of capital expenditures anticipated for FY 2019/20 of \$300M
- 💧 MET has steadily reduced its overall debt obligation over the past nine years
- 💧 Debt Market is very favorable for municipal bonds



Projected Expenditures, FY 2019/20 with Adjustment to Capital Financing

\$ in millions

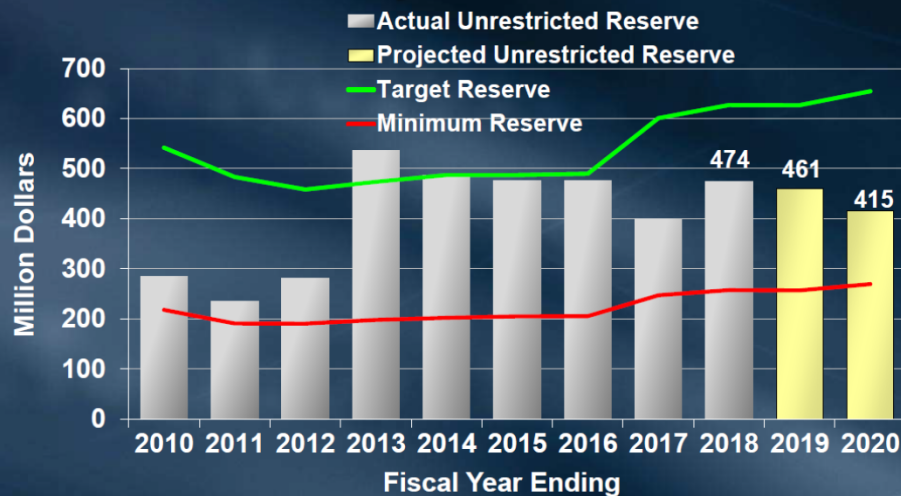
	FY 2019/20 Budget	Adjustments	FY 2019/20 Projected
Debt Service	330.9	(41.8)	289.1
PAYGo	120.0	(90.0)	30.0
State Water Contract	589.5	6.2	595.7
Delta Conveyance	13.0	-	13.0
O&M	496.4	-	496.4
Colorado River Power	53.0	(18.2)	34.8
Supply Programs	54.4	5.7	60.1
Cyclic Cost-Offset program	-	13.5	13.5
AVEK	-	26.2	26.2
Demand Management	85.8	-	85.8
Total	1,743.0	(98.4)	1,644.6

Finance & Insurance Committee

9-2 Slide 28

September 9, 2019

Unrestricted Reserves with Capital Financing Adjustment












Finance & Insurance Committee

9-2 Slide 30

September 9, 2019



Issues for the next Biennial Budget

-  **Lower Projections of MET Water Sales**
 -  Average water sales for the last five fiscal years is 1.62 MAF
-  **Review Storage and Supply Program**
 -  MET is projected to have record amount of 4 MAF in storage by Dec. 2019 (Dry-year & Emergency)
 -  Given lower water sales and improved supplies, MET to carefully consider its future storage and supply program actions
-  **Demand Management and Resource Development**
 -  Review of the appropriate funding levels of Conservation and Local Resource investment programs
 -  CA WaterFix/Delta Conveyance estimated Timing & Costs
-  **Revisions to MET's Ten-Year Forecast**



Demand Management Cost Study

April 2018 – MET Board directed staff to determine the most appropriate method for the allocation and recovery of demand management costs

-  **Phase 1:** Prepare a recommended methodology for management program costs (**WaterDM**)
-  **Phase 2:** Develop demand management cost recovery rate structure or alternative cost recovery mechanisms (**Raftelis**)

Demand Management Costs are the expenditures for MET's Water Conservation, Local Resource Program, and Future Supply Action Programs. Total Budget of \$86M



Current Cost Recovery Methods

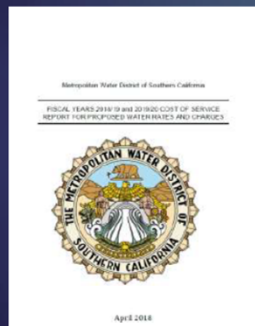
Rate Design Element	Functional Costs Recovered	Type of Charge	2019 [1]
Tier 1 Supply Rate	Supply	Volumetric (\$/af)	\$209
Tier 2 Supply Rate	Supply	Volumetric (\$/af)	\$295
System Access Rate	Conveyance/Distribution (Average Capacity)	Volumetric (\$/af)	\$326
Water Stewardship Rate	Demand Management	Volumetric (\$/af)	\$69
System Power Rate	Power	Volumetric (\$/af)	\$127
Treatment Surcharge	Treatment	Volumetric (\$/af)	\$319
Capacity Charge	Peak Distribution Capacity	Fixed (\$/cfs)	\$8,600
Readiness-to-Serve Charge	Conv./Distr./Emergency Storage & Available Capacity	Fixed (ten-year rolling average \$M)	\$133

[1] Rates and Charges effective January 1st

12

COS Process

Metropolitan Cost of Service Process



Step 1 Develop of Revenue Requirements

Step 2 Functionalize Costs

Step 3 Allocate Costs

Step 4 Distribute Costs To Rate Elements



Demand Management Cost Recovery Options

- Alt #1 – Existing COS Methodology
- Alt #2 – Modified COS Methodology
- Alt #3 – Functionalized Fixed Charge

**Under all options the Water Stewardship Rate
would be eliminated**

13

Demand Management Cost Recovery Alternatives

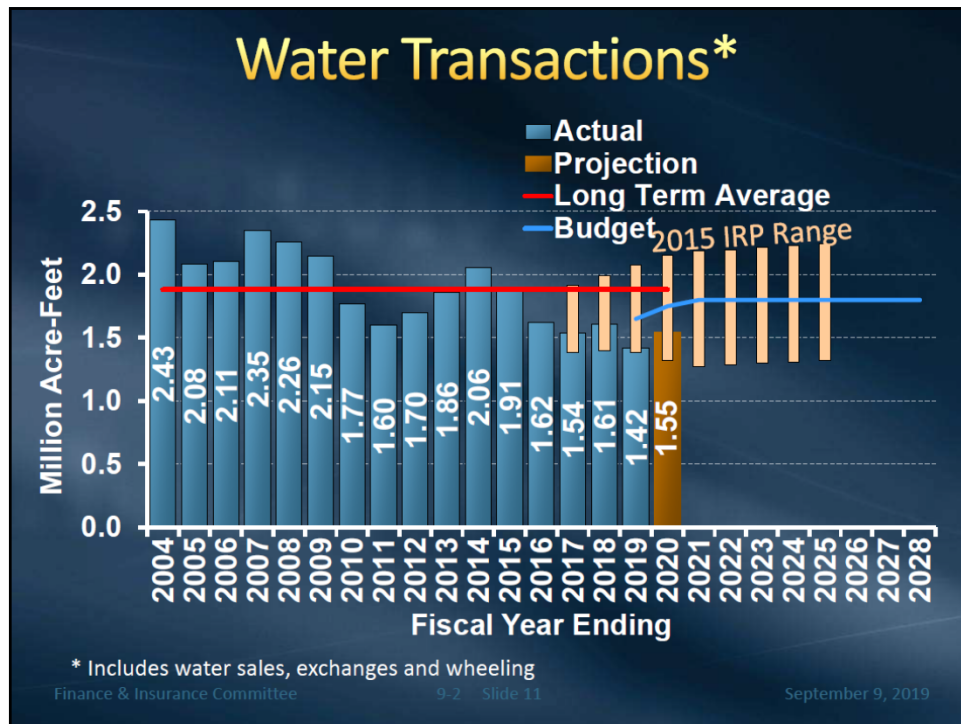
Alt	Cost Recovery Component	Approx % of DM Costs	Charge / Rate
#1	T1 Supply	25%	\$/AF
	System Access Rate	75%	\$/AF
#2	T1 Supply	25%	\$/AF
	System Access Rate	50%	\$/AF
	System Power Rate	13%	\$/AF
	Readiness-to-Serve Charge	10%	\$/M
	Capacity Charge	2%	\$/cfs
#3A	Functionalized Charge	100%	Fixed \$
#3B	Non-Functionalized Charge	100%	Fixed \$

Next Steps

- 💧 Discussions will continue at the MET Finance & Insurance Committee on Nov. 4
- 💧 Complete process before the MET Budget and Rate Cycle begins in January 2020



Backup Slides





INFORMATION ITEM

October 2, 2019

TO: Board of Directors

FROM: Robert Hunter, General Manager

Staff Contact: Kevin Hostert, Chis Lingad

SUBJECT: WATER SUPPLY UPDATE AND STORAGE LEVELS

STAFF RECOMMENDATION

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

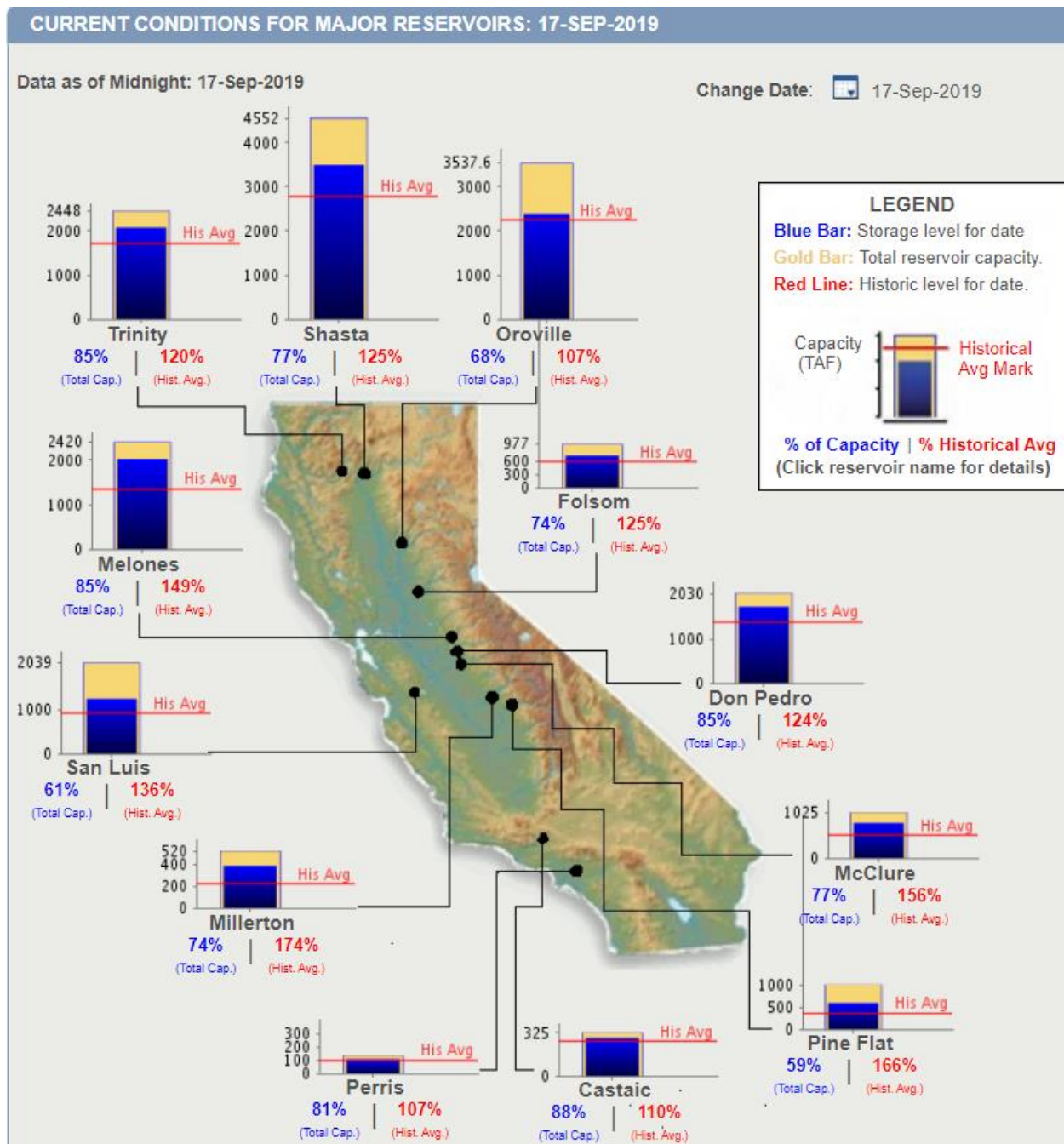
REPORT

Summary of 2018-19 Water Year

The 2018-19 Water Year (2018-19 WY) officially ended on September 30, 2019. In 2018-19 WY, the Northern California accumulated precipitation (8-Station Index) reported **70.1 inches or 140% of normal** as of September 19th. For 2018-19 WY, the Northern Sierra Snow Water Equivalent was at **48.6 inches on April 1st**, which was **172% of normal** for that day. Due to the above average precipitation/snowfall in 2018-19 WY, the Department of Water Resources (DWR) in June approved the State Water Project (SWP) **"Table A" allocation to 75%**. This allocation provides Metropolitan with approximately **1,433,625 AF in SWP deliveries this water year**. DWR's approval considered several factors including existing storage in SWP conservation reservoirs, SWP operational regulatory constraints, and the 2019 contractor demands.

As of September 17th Lake Oroville storage is at **68% of total capacity and 107% of normal**. As of September 17th San Luis Reservoir has a current volume of **61% of the reservoir's total capacity and is 136% of normal**.

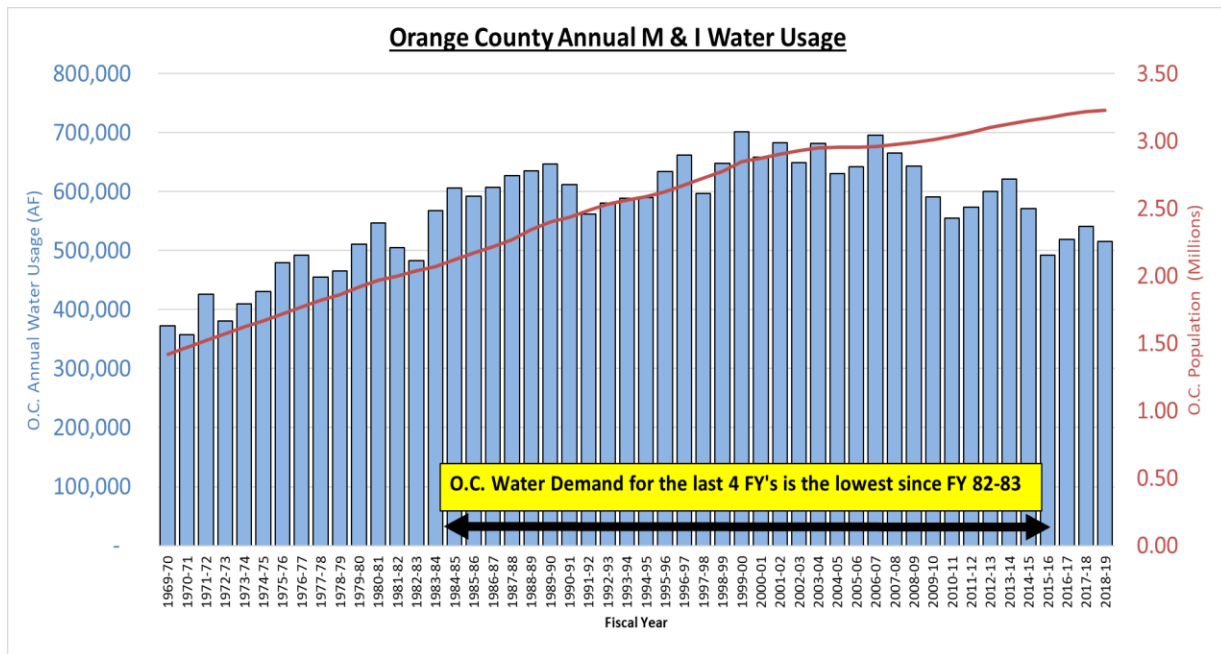
Budgeted (Y/N):	Budgeted amount: N/A	Core _X_	Choice __
Action item amount: N/A		Line item:	
Fiscal Impact (explain if unbudgeted):			



The Upper Colorado River Basin also saw positive hydrological conditions in the 2018-19 WY. The Upper Colorado River Basin accumulated precipitation is reporting **34.3 inches or 114% of normal** as of September 18th. For 2018-19 WY, the Upper Colorado River Basin Snow Water Equivalent was at **25.6 inches on April 15th**, which was **128% of normal** for that day. Due to the above average precipitation/snowfall in 2018-19 WY there is now a 0% chance of a shortage at Lake Mead in 2020 and a 4% chance of shortage in 2021.

With estimated total demands and losses of 1.5 MAF and with a 75% SWP Table A Allocation plus an additional 65 TAF of Article 21 water, Metropolitan is projecting that supplies will exceed demand levels in Calendar Year (CY) 2019. Based on this, estimated total dry-year storage for Metropolitan at the end of **CY 2019 will go up to 3.3 MAF**.

A projected dry-year storage supply of **3.3 MAF will be a record high for Metropolitan**. A large factor in the increase in water storage is because **water demands regionally have been at approximately 36-year lows**. Remarkably, the last 4 Fiscal Years (FY) water usage for Orange County has been the **lowest since the FY 1982-83**, that year displayed one of the strongest El Nino conditions on record and precipitation was **26.55 inches in Santa Ana (approximately 206% of the historical average)**. The graph below shows historical water usage (Municipal and Industrial usage) for Orange County going back to FY 1969-70.

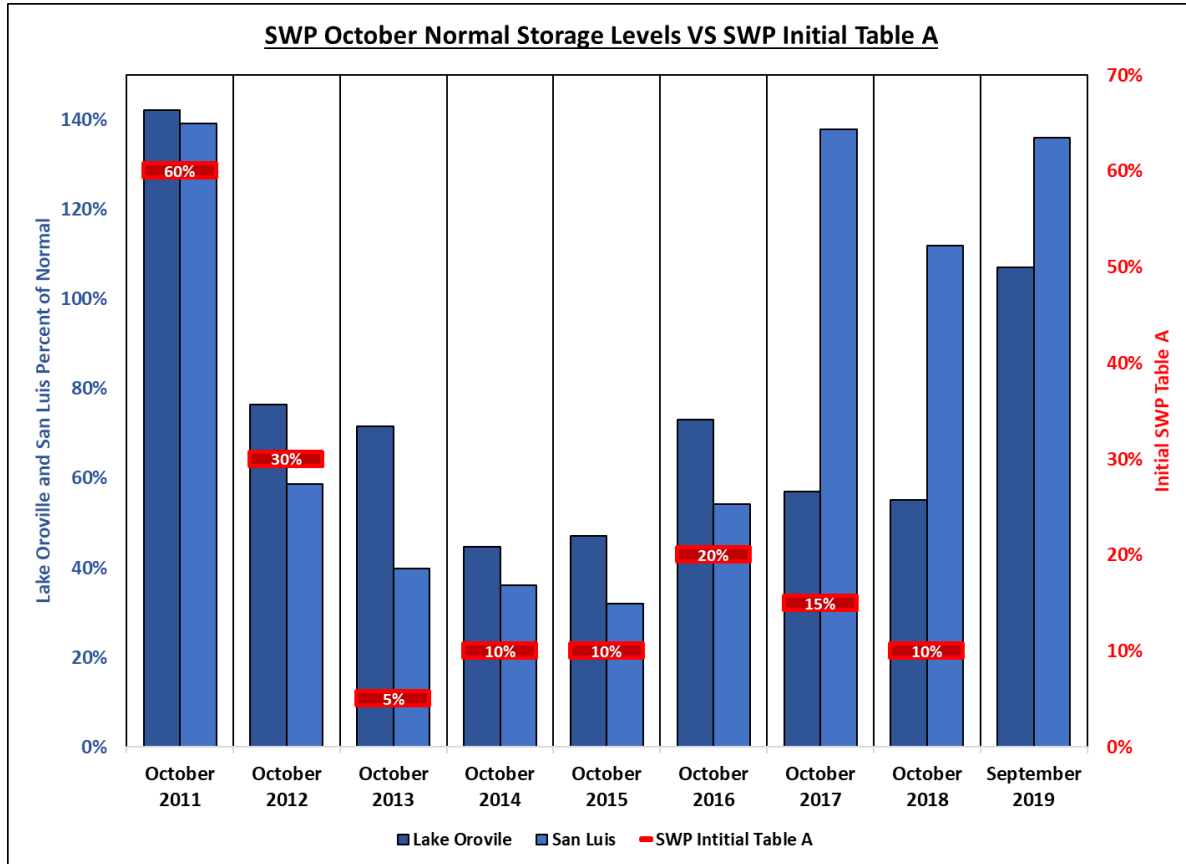


As depicted from the graph above, water usage for Orange County in FY 2018-19 was lower than in 2017-18. This can be attributed to more precipitation in FY 2018-19 versus FY 2017-18. In regards to the reported **lower water usage for the peak summer months of 2019** (July and August) compared to the previous year, it is important to note that average high temperatures for **July and August of 2019 are approximately 5 degrees (°F) cooler than July and August of 2018**.

FORECAST FOR 2019-20 Water Year

In regards to what the 2019-20 WY will bring in the amount of potential water supply, the National Oceanic and Atmospheric Administration (NOAA) has forecasted that Eastern Pacific Sea Surface Water Temperatures should be neutral meaning **no El Niño or La Niña conditions for this winter**. Typically, El Niño is associated with above average wet years while La Niña is associated with below average wet years. In respects to the initial Table A Allocation, SWP water storage is at a very high level for this time of year. The graph below displays the historical normal Lake Oroville and San Luis Reservoir levels versus the initial

SWP Table A Allocation. The graphic displays that SWP storage going into the wet season (typically November to April) is at its highest levels since the year 2011. Having this much water already in storage assures that the initial SWP Table A Allocation should be favorable compared to the last 6 years.





DISCUSSION ITEM

October 2, 2019

TO: Board of Directors

FROM: Robert Hunter,
General Manager

Staff Contact: Melissa Baum-Haley

SUBJECT: DELTA CONVEYANCE PROJECT ACTIVITIES UPDATE

STAFF RECOMMENDATION

Staff recommends the Board of Directors review and discuss the information presented.

COMMITTEE RECOMMENDATION

Committee recommends (To be determined at Committee Meeting)

REPORT

Regulatory Activities

The U.S. Bureau of Reclamation and the California Department of Water Resources have been working with the U.S. Fish and Wildlife Service (USFWS) and National Marine Fisheries Service (NMFS) on the re-initiation of consultation for the Coordinated Long-Term Operation of the Central Valley Project and State Water Project. The USFWS and NMFS released revised draft biological opinion documents on July 31, 2019 for another round of independent peer review, and for review by the public water agencies as authorized under the 2016 Water Infrastructure Improvements for the Nation Act. Metropolitan staff participated in the review of the documents.

Public Negotiations

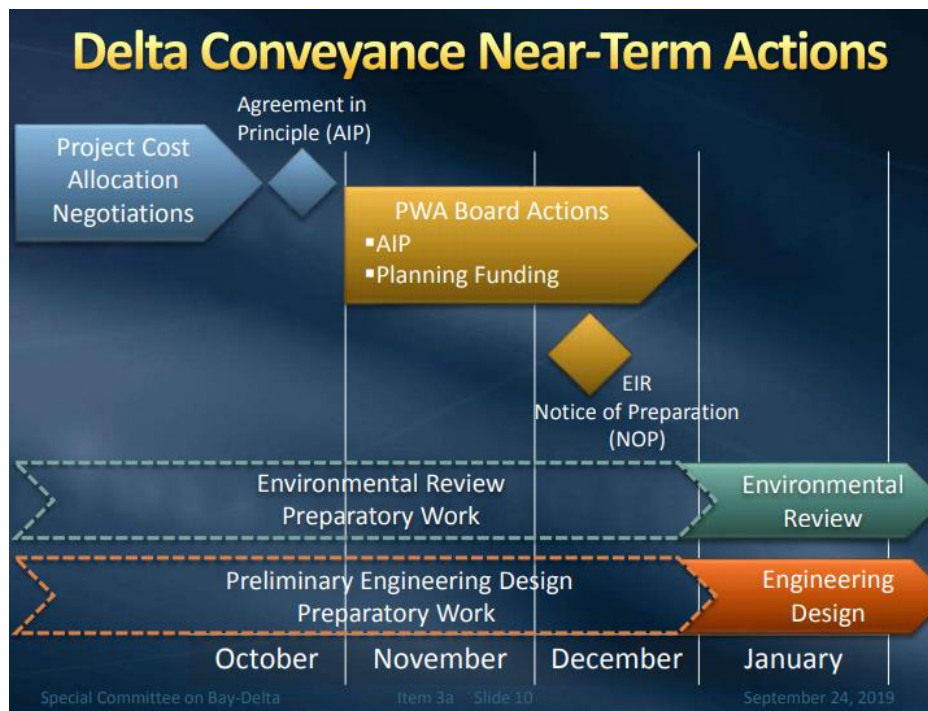
Public Negotiations between the State Water Contractors (SWC) and the Department of Water Resources (DWR) began on July 24, 2019. The negotiations are open to the public to enable members of the public to observe and comment on negotiations between the SWP

Budgeted (Y/N): N/A	Budgeted amount: None	Core <input checked="" type="checkbox"/>	Choice <input type="checkbox"/>
Action item amount: N/A	Line item:		
Fiscal Impact (explain if unbudgeted):			

Contractors and DWR. This will serve to determine amendments to the SWP water supply contracts, allocation of costs including capital costs and operating costs, and develop water accounting and management processes to ensure equity of Delta conveyance project benefits among SWP Contractors.

The negotiations plan to accomplish:

- Agreement in Principle (AIP) addressed cost allocation for water management measures among DWR and the SWP Contractors
 - Define Delta conveyance project
 - Develop methodology for cost and benefit allocation and the related matters
 - Metropolitan Board action on AIP and funding of planning phase
- Future Actions
 - Environmental Impact Report and Contract Amendment



State Water Resources Control Board

The State Water Resources Control Board is in the process of updating the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (Bay-Delta Plan). The Secretaries of the Natural Resources Agency and California Environmental Protection Agency continued to lead the separate but related effort to negotiate Voluntary Agreements (VAs) with water users to support environmental objectives through a broad set of tools, while providing water supply reliability. In August, Metropolitan staff provided technical review of the environmental and biological targets for the VAs for the Delta, and

provided comments and suggestions to better define the targets and ensure that they are achievable within the 15-year term of the VAs.

Delta Conveyance Design and Construction Authority

The Delta Conveyance Design and Construction Authority (DCA) has formed the Delta Stakeholder Engagement Committee (Committee). The Committee is comprised of two DCA Directors acting as Chair and Vice-Chair and up to sixteen public members representing various stakeholder groups throughout the Delta region. The role of the committee will be twofold: 1) to discuss and advise the DCA on matters related to the engineering and design of a potential single-tunnel conveyance project; and 2) to serve as a liaison to other stakeholders in the community. The Committee will consider engineering and design considerations in the development and design of a Delta Conveyance facility that avoid, reduce, or mitigate significant impacts to environmental and cultural resources in the Delta and affected communities. If requested by the DWR, the Committee may also act as a forum to discuss other related aspects of a proposed Delta Conveyance project.

The DCA is providing engineering and design support to DWR during DWR's consideration of a potential Delta Conveyance and alternatives under CEQA. DWR will be conducting a new CEQA process that will include a scoping process to gain input on the evaluation of a range of alternatives including a no-project alternative. That process will include opportunities for the public and Delta stakeholders to provide input on a full range of environmental matters, including measures and alternatives that could avoid or reduce impacts of the proposed project. The DCA's role is separate: to provide, at DWR's direction and subject to its oversight, the engineering and design work to inform the details of a proposed project and alternatives. This committee will aid the DCA in that work by providing a forum for the community to help guide design and engineering matters.

The Committee will not vote in the traditional sense. As a forum for input, discussions and deliberations, the Committee will offer advice and make recommendations by consensus. If consensus cannot be reached, minority opinions may be developed to fully and fairly represent the views of the committee members.

Participants on the committee are not required or expected to support any proposed conveyance project, and in fact would be encouraged to register their concerns and input through either the Secretary's Delta Water Roundtable or through DWR's planned environmental review process under the California Environmental Quality Act. The role of the committee members will be focused on making sure their and their constituency's ideas for avoiding and minimizing impacts, and creating benefits, are clearly understood by the DCA.

Additional Information

Additional information on the Bay-Delta Issues can be found in *Issue Brief D - Bay Delta/State Water Project Issues* of the Discussion Item regarding Metropolitan Water District items critical to Orange County.



DISCUSSION ITEM

October 2, 2019

TO: Board of Directors

**FROM: Robert Hunter,
General Manager**

Staff Contact: Karl Seckel
Harvey De La Torre
Melissa Baum-Haley

**SUBJECT: METROPOLITAN WATER DISTRICT (MET) ITEMS CRITICAL TO
ORANGE COUNTY**

STAFF RECOMMENDATION

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

DETAILED REPORT

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

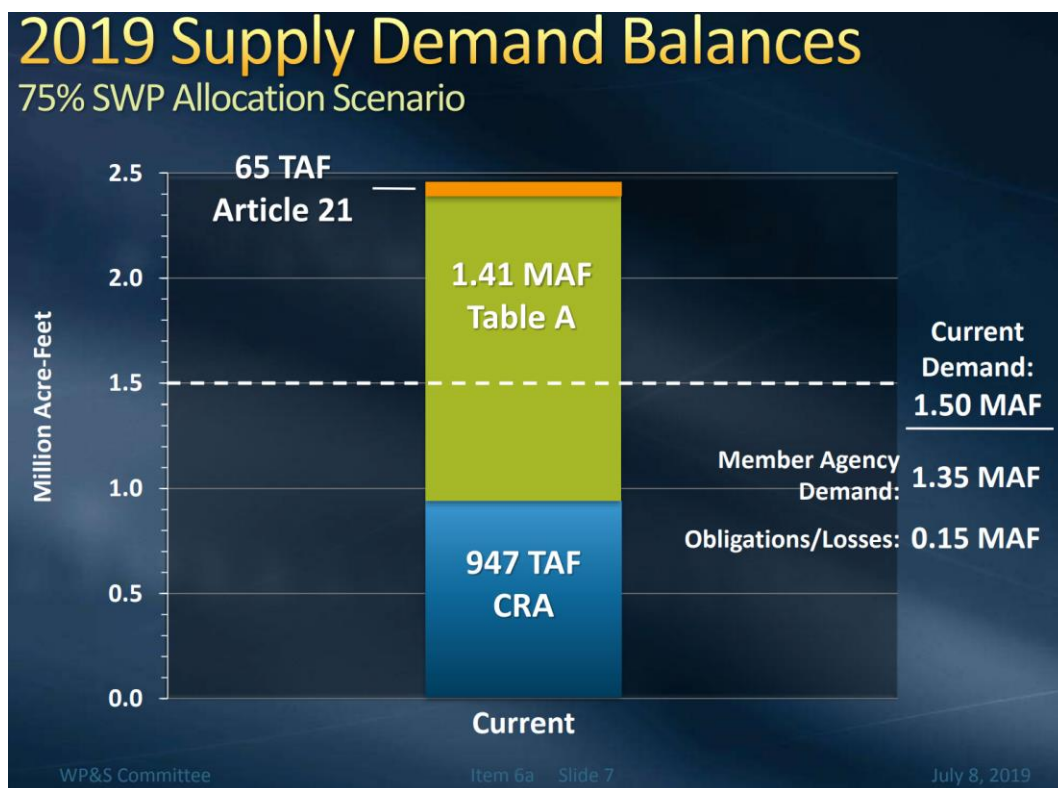
- a) MET's Water Supply Conditions
- b) MET's Finance and Rate Issues
- c) Colorado River Issues
- d) Bay Delta/State Water Project Issues
- e) MET's Ocean Desalination Policy and Potential Participation in the Doheny and Huntington Beach Ocean (Poseidon) Desalination Projects
- f) South Orange County Projects

ISSUE BRIEF # A

SUBJECT: MET's Water Supply Conditions

RECENT ACTIVITY

With estimated total demands and losses of 1.50 million acre-feet (MAF), along with 947 thousand acre-feet (TAF) of Colorado River water and a 75% SWP Table A Allocation plus an additional 65 TAF of Article 21 supplies, Metropolitan is projecting that supply will exceed demand levels in Calendar Year (CY) 2019. Based on this, estimated total dry-year storage for Metropolitan at the end of ***CY 2019 is projected to go up to 3.3 MAF.***



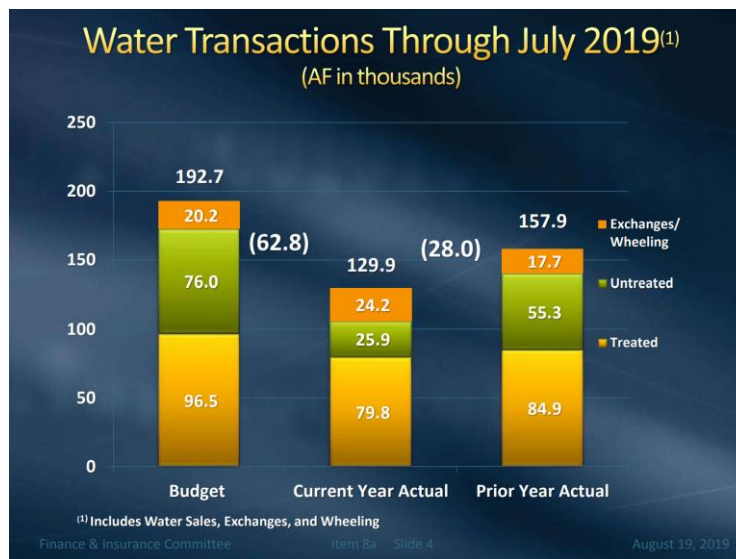
ISSUE BRIEF # B

SUBJECT: MET's Finance and Rate Issues

RECENT ACTIVITY

For the period ending June 30, 2019, the midpoint of the biennial budget period, water transactions through June were 231.7 TAF (14%) lower than budget of 1.65 MAF and 25.2 TAF (2%) lower than the 5-year average. This is primarily due to cooler and wetter conditions of the past winter and improvement in member agencies' local supplies.

Water transactions for July were 62.8TAF (\$57.5) lower than budget and 7.3 TAF lower than the 5-year average.



ISSUE BRIEF # C

SUBJECT: Colorado River Issues

RECENT ACTIVITY

Metropolitan's 2019 Intentionally Created Surplus Plan of Creation Approved

The Bureau of Reclamation (Reclamation) approved Metropolitan's 2019 Intentionally Created Surplus (ICS) Plan of Creation. As part of the Drought Contingency Plan (DCP) authorization and implementation, Metropolitan added and amended conservation programs that would qualify for the creation of Extraordinary Conservation ICS (EC ICS). The state of California's annual ICS creation limit is 400,000 acre-feet, however, the DCP authorization provides ICS creation limit flexibility if one, but not all, of the Lower Division States reaches its EC ICS creation limit in a given year. In light of this new flexibility, Metropolitan submitted an ICS Creation Plan that sought approval of up to 450,000 acre-feet of EC ICS, with the amount above the 400,000 acre-feet annual creation volume to be determined upon further accounting and determination by the other Lower Division States of whether they will use their states' total annual EC ICS creation limit by the end of the year. As such, if ICS creation space is available at the end of 2019, California's approved 2019 ICS Creation Plan would enable Metropolitan to work with Reclamation and the other Lower Division States to store more than 400,000 acre-feet of EC ICS in 2019. The actual amount of ICS the Metropolitan will store will be determined by the end of the year and will depend on operational conditions

Bureau of Reclamation Issues Colorado River Basin August 24-Month Study

Reclamation uses the August 24-Month Study to project January 1 water elevations at Lake Powell and Lake Mead. Reservoir elevations and system storage are used to set the operational tier for the coordinated operation for Water Year 2020, which will be governed by the Upper Elevation Balancing Tier. An 8.23 million acre-feet release from Lake Powell is expected, however, actual releases may vary due to hydrology through the remainder of the year. The runoff projection of unregulated inflow into Lake Powell April-July 2019 was 2.451 million acre-feet, or 225 percent of the 30-year average. Consistent with Section 2.B.5 of the 2007 Interim Guidelines, in 2018 the ICS Surplus Condition applies, which gives Metropolitan and other ICS contractors the option to order delivery of ICS.

Reclamation issued a press release with this August 24-Month Study in which Brenda Burman, Reclamation Commissioner, stated that "[w]hile we appreciate this year's above average snowpack, one good year doesn't mean the drought is over. We must remain vigilant. I applaud everyone who came together this year to get the drought contingency plans done. The additional actions under the contingency plans will help ensure the reliability of the Colorado River system for the 40 million people dependent upon it."

ISSUE BRIEF # D

SUBJECT: Bay Delta/State Water Project Issues

RECENT ACTIVITY

For information specifically relating to the Delta Conveyance Project (f.k.a. the California WaterFix) please, refer to the associated Board Item – Delta Conveyance Project Activities.

Science Activities

On August 19, the State Water Contractors (SWC) released their 2018-19 Annual Report on investments in science. The report highlights the importance of investing in science to provide a more reliable water supply and protect and restore the Delta ecosystem. The areas of SWC science investment that are highlighted in the report include water project operations to minimize fish entrainment, Delta stressors, models and technology development, habitat restoration, Delta outflow and collaborative science efforts. Staff participates in the SWC science program to provide input to science priorities, identify science projects, and review findings of science studies.

The SWC 2018-19 Annual Report on investments in science can be found at:

https://swc.org/files/SWC_2018_2019_Annual%20Science%20Report.pdf

Metropolitan staff has continued participating in the Collaborative Science and Adaptive Management Program (CSAMP), including participation on the Collaborative Adaptive Management Team (CAMT). In August, CAMT finalized the CSAMP Triennial Report 2016-18, which summarizes the activities for the program over the three-year period. CAMT also received a presentation on the Delta smelt entrainment study that is addressing questions of which factors affect Delta smelt entrainment and what are the effects of entrainment on the Delta smelt population. This study is scheduled to be completed this fall.

ISSUE BRIEF # E

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

RECENT ACTIVITY

Doheny Desal

The details of this have been moved to briefing Issue F as it pertains only to South Orange County.

Poseidon Huntington Beach

The Santa Ana Regional Water Quality Control Board (SARWQCB) continues to work with Poseidon on renewal of the NPDES Permit for the HB Desalination Project. At the June 14, 2019 SARWQCB meeting, the Regional Board staff provided an information item update on the "Identified Need" for the Poseidon project. In evaluating whether the proposed location is the "best site feasible", the Ocean Plan directs the Regional Board to evaluate, in part, if the identified need for desalinated water is consistent with applicable water planning documents. In the case of the proposed Poseidon project, the applicable water planning documents are Municipal Water District of Orange County's (MWDOC) 2015 Urban Water Management Plan (UWMP), the OC Water Reliability Study, OCWD's Long Term Facilities Plan and other OCWD planning documents. There were a considerable range of views expressed at the meeting. One of the reactions from the SARWQCB was that they did not believe they could permit a project if it was not highly probable that the project would move forward. The alternative position was noted that it is hard to agree ahead of time to move forward with the project if the full extent of terms and conditions are unknown.

The Regional Board schedule for the permit is:

Draft Permit	Will be discussed in a Fall Workshop
Final Permit	Anticipated issuance by the end of the year

Assuming success, Poseidon would then seek its final permits from the California Coastal Commission. The August 2, 2019 meeting of the Santa Ana Regional Water Quality Control Board was cancelled. The September 13, 2019 meeting did not address the HB Desalination Project permit. The next Regional Board meeting is scheduled for October 25, 2019.

ISSUE BRIEF # F

SUBJECT: South Orange County Projects

RECENT ACTIVITY

Doheny Desal Project (No New Information)

On June 27, 2019 the South Coast Water District (SCWD) Board certified the Final Environmental Impact Report (FEIR) for the Phase I Local Doheny Ocean Desalination Project, which would produce up to 5 million gallons per day (MGD) of new, drinking water supplies for the area. SCWD subsequently filed its Notice of Determination and is beginning the permitting process with various permitting agencies.

In March 2018, SCWD was awarded a \$10 million grant from the State Department of Water Resources for the Doheny Ocean Desalination Project.

In April 2019, U.S. Representative Mike Levin announced that SCWD is set to receive more than \$8.3 million in US Bureau of Reclamation (USBR) WaterSMART Desalination Construction Program grant funding for the Project. The grant is subject to pending federal appropriations and needs to be included in the E&W Appropriations list of projects for which the Secretary of Interior intends to award grants. Congressman Levin is acting as the lead office on this request in the House.

On July 11, 2019 SCWD's Board adopted a resolution pursuing a second year (round) of the USBR WaterSMART Desalination Construction Program grant funding. SCWD is eligible to receive a cumulative total of \$20 million for the Project from USBR. Approximately two to six awards are expected to be made by USBR with up to \$12 million available in this round. The recipient must provide at least 75% of the total project costs.

Next Steps:

1. Alternative Power Supply Management Study –SCWD staff is currently reviewing a proposal from engineering consultant Burns & McDonnell for a 6 month detailed study of alternative power alternatives. The study would include a District-wide assessment and Conceptual Management Plan including studying a community choice aggregation option.
2. Legislative – SCWD is working on AB 1752 to allow the District to proceed with a DBO Contract while maintaining access to State funding for the Project (both DWR grant money and SRF loans). A vote is anticipated in mid-October.
3. Project Delivery – Beginning work on the development of several documents including; Request for State of Qualifications (SOQ) for potential bidders, contract documents, and a RFP package.
4. Peer Review Cost Estimate – California American Water (CalAm), who developed the 6.4 MGD Monterey Ocean Desal Project using slant well technology, is completing a

peer review cost estimate. A Board workshop, tentatively scheduled for August 22, 2019, will present the assumptions, costs, and lessons learned.

5. Slant Well Risk Evaluation – A second workshop will be scheduled to get CalAm's perspective on the risks of slant well technology.
6. SCWD Local Potable Water System Integration – Updated hydraulic modeling and surge analysis of the SCWD system.
7. Project Partners – continuing to discuss partnering opportunities with interested agencies
8. High Level Schedule
 - a. Environmental permitting Summer 2020
 - b. DBOM Contract Develop/Award Fall 2020
 - c. Funding Fall 2020
 - d. Final Design Dec. 2020
 - e. Construction Late 2022

SMWD Trampas Canyon Recycled Water Reservoir

Trampas Canyon Reservoir and Dam (Trampas Reservoir) is a seasonal recycled water storage reservoir, with a total capacity of 5,000 AF, of which 2,500 AF is available to meet Santa Margarita Water District's projected base recycled water demands, and 2,500 AF to meet future water supply needs. When completed, the Trampas Reservoir will allow SMWD to store recycled water in the winter and draw on that water during the peak summer months.

The construction of the Trampas Canyon Recycled Water Seasonal Storage Reservoir consists of three main components:

1. Trampas Canyon Dam (Dam)
2. Conveyance facilities to transport recycled water into and out of the Reservoir (Pipelines)
3. Trampas Canyon Pump Station (Pump Station)

The construction of the facilities is being completed in three phases:

1. Preconstruction/Site Preparation for the Dam and Pump Station Construction
 - a. Project Status - Complete
2. Dam and Pipelines
 - a. Project Status - The Construction Contract was awarded in December 2017 and is approximately 53% complete.
3. Pump Station

- a. Project Status - The 100% design of this facility has been submitted by AECOM. District staff are finalizing review of the AECOM 100 percent submittal. The Board approved and District staff have pre-ordered long lead time piping, valves and pumps. Overall completion of the Pump Station construction is expected to be in June 2020, about 2 months ahead of the Reservoir and Dam completion.

San Juan Watershed Project (No New Information)

Santa Margarita Water District continues to focus on diversifying its water supply portfolio for south Orange County residents, businesses, schools, and visitors. At their recent Board meeting on June 21, 2019, they approved a significant Environmental Impact Report (EIR) and two Memorandums of Understanding for ocean desalinization projects.

The San Juan Watershed Project is being planned in three-phases and has the potential to develop an additional 4,010 to 8,240 acre-feet per year in addition to making better use of other natural supplies from the San Juan Groundwater Basin. At this time, funding is only being developed for the Phase 1 project. With the release of its EIR, the project may break ground in late 2020.

At the same meeting, SMWD also approved two non-binding Memorandums of Understanding (MOU) for ocean water desalination. One is with Orange County Water District related to Poseidon Water in Huntington Beach; the other is with Oceanus Power and Water at Camp Pendleton. The District is also following the progress of the Doheny Desalination project led by South Coast Water District. At this time, SMWD is seeking about 1,000 AF per year from ocean desalination sources.

South Orange County Emergency Service Program (No New Information)

MWDOC, IRWD, and Dudek have completed the initial draft study to determine if the existing IRWD South Orange County Interconnection capacity for providing emergency water to South Orange County can be expanded and/or extended beyond its current time horizon of 2030.

Based on the SOC meeting was held on April 11, 2019, a spin-off meeting was held with MWDOC, Dudek and operations staff from MNWD and South Coast WD. The purpose was to involve the operators to determine the flexibility of the SOC agencies to deal with variable flows coming from IRWD as outlined in the study. The flows from IRWD to SOC are dependent on the internal demands within IRWD and so will vary from hour to hour and day to day. The discussions indicated that the SOC agencies have considerable flexibility to deal with this situation. The operations group further discussed the sharing of SCADA data among the agencies to have actual flow signals as to what is going on. The operations group also discussed how the system would be operated if the SCADA systems were out. Finally, the operations group had several alternatives they thought should be researched by Dudek and MWDOC. Follow-up on these options will be pursued.

A future meeting with all SOC agencies will be scheduled over the next month or so to continue the discussions on cost-sharing facilities and operations that will ultimately involve

negotiations directly between SOC Agencies and IRWD. These discussions could also involve discussions and negotiations between SOC and other groundwater producers as well. Information being developed by OCWD and MNWD will be important to the process as well.

Strand Ranch Project (No New Information)

Staff from MWDOC and IRWD met to discuss how to capture the benefits that can be provided by the development of “extraordinary supplies” from the Strand Ranch Project. The meeting was beneficial in understanding each other’s positions relative to emergency use and drought protection. Additional work is required based on the exchange of information and another meeting will be set.

Other Information on South County Projects

If any agencies would like to have updates included herein on any projects within your service area, please email the updates to Karl Seckel at kseckel@mwdoc.com.

**Summary Report for
The Metropolitan Water District of Southern California
Board Meeting
September 10, 2019**

COMMITTEE ASSIGNMENTS

None. (**Agenda Item 5E**)

ENGINEERING AND OPERATIONS COMMITTEE

Awarded \$3,634,250 contract to RockForce Construction LLC for Whitewater Erosion Protection Structure Rehabilitation; and authorized an increase of \$50,000 to an agreement with HELIX Environmental Planning, Inc. for a new not-to-exceed total of \$515,000. (**Agenda Item 8-1**)

Approved the request for subcontractor substitution for the F.E. Weymouth Water Treatment Plant Chlorination System Upgrades construction contract. (**Agenda Item 8-2**)

REAL PROPERTY & ASSET MANAGEMENT COMMITTEE

Authorized a 30-year lease with Riverside County Regional Parks and Open Space District to operate a public recreation facility at Lake Skinner. (**Agenda Item 8-3**)

WATER PLANNING AND STEWARDSHIP COMMITTEE

Reviewed and considered the Fallbrook Public Utilities District's adopted 2016 Final EIS/EIR and Addendum, adopted the Lead Agency's findings and MMRP related to the proposed action, and authorized the General Manager to enter into a Local Resources Program agreement with San Diego County Water Authority and Fallbrook Public Utility District for the Fallbrook Groundwater Desalter Project for up to 3,100 AFY of treated groundwater water under the terms included in the Board letter. (**Agenda Item 8-4**)

Authorized \$5.0 million for the Stormwater for Direct Use Pilot Program for developing and monitoring of stormwater capture for direct-use projects consistent with the program criteria in Attachment 1 of the Board letter, with the understanding that the pilot program applies to both potable and reclaimed water projects. (**Agenda Item 8-5**)

CONSENT CALENDAR

In other actions, the Board:

Approved Metropolitan's membership in the California African American Water Education Foundation for three years and authorized payment of dues for \$25,000 per year, with a three-year total amount of \$75,000. (**Agenda Item 7-1**)

Approved The Metropolitan Water District of Southern California's salary schedules pursuant to CalPERS regulations. **(Agenda Item 7-2)**

Authorized the granting of a ten-year license with an option to renew for five additional years to Fountains La Verne MHP Associates, LP for mobile home park related purposes. **(Agenda Item 7-3)**

Reviewed and considered the Lead Agency's certified Final Environmental Impact Report and take-related CEQA actions, and authorized the granting of a 30-year license to IP Athos, LLC for power line crossings purposes. **(Agenda Item 7-4)**

Reviewed and considered the County of Riverside's certified Final Environmental Impact Report and take-related CEQA actions, and authorized the granting of a 30-year license to Desert Harvest LLC for power line crossings purposes. **(Agenda Item 7-5)**

Authorized the General Manager to increase the amount payable under its agreement with WaterWise Consulting, Inc. by \$300,000 to a maximum amount payable not-to-exceed \$500,000 per agreement year. **(Agenda Item 7-6)**

Approved the Designation of Applicant's Agent Resolution for Non-State Agencies. **(Agenda Item 7-7)**

OTHER MATTERS

Presentation of Commendatory Resolution for Director Gold representing City of Los Angeles. **(Director Gold was not present) (Agenda Item 5C)**

Presentation of Commendatory Resolution for Director Zurita representing the City of Compton. **(Director Zurita was not present) (Agenda Item 5D)**

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://mwdh2o.com/WhoWeAre/Board/Board-Meeting/Pages/search.aspx>

All current month materials, before they are moved to the Board Letter Archive, are available on the public website here: <http://mwdh2o.com/WhoWeAre/archived-board-meetings>



Regular Board Meeting

October 8, 2019

12:00 p.m. – Boardroom

Tuesday, October 8, 2019		
Meeting Schedule		
9:30 AM	L&C	Rm. 2-145
10:30 AM	C&LR	Rm. 2-456
12:00 PM	Board Mtg	Boardroom

MWD Headquarters Building

•

700 N. Alameda Street

•

Los Angeles, CA 90012

1. Call to Order

- (a) Invocation: TBD
- (b) Pledge of Allegiance: Director Larry Dick

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 Government Code Section 54954.3(a))

5. OTHER MATTERS

- A. Approval of the Minutes of the Meeting for September 10, 2019; and corrected Minutes of the Meeting for February 12, 2019 (Copies have been mailed to each Director)
Any additions, corrections, or omissions
- B. Report on Directors' events attended at Metropolitan expense for month of September 2019
- C. Approve committee assignments
- D. Chairwoman's Monthly Activity Report
- E. Adopt motion to adjourn the November Board Meeting to November 5, 2019, due to Holiday (Committees to meet on November 4 and 5, 2019)

- F. Presentation of 5-year Service Pin to Director Larry McKenney
- G. Induction of new Director Vartan Gharpetian from the City of Glendale
 - (a) Receive credentials
 - (b) Report on credentials by General Counsel
 - (c) File credentials
 - (d) Administer Oath of Office
 - (e) File Oath
- H. Induction of new Director Tracy Quinn from the 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

6. DEPARTMENT HEADS' REPORTS

- A. General Manager's summary of activities for the month of September 2019
- B. General Counsel's summary of activities for the month of September 2019
- C. General Auditor's summary of activities for the month of September 2019
- D. Ethics Officer's summary of activities for the month of September 2019

7. CONSENT CALENDAR ITEMS — ACTION

- 7-1** Award \$594,480 contract to Kaveh Engineering & Construction, Inc. for rehabilitation of Service Connection A-06 on the East Orange Feeder No. 2; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (E&O)

- 7-2** Review and consider Lead Agency's adopted Mitigated Negative Declaration and adopt Lead Agency's findings, and adopt resolution for the 52nd Fringe Area Annexation concurrently to Western Municipal Water District and Metropolitan. (F&I)
- 7-3** Review and consider the City of Camarillo's approved Final Supplemental EIR and authorize the General Manager to enter into a Local Resources Program Agreement with Calleguas Municipal Water District and the City of Camarillo for the North Pleasant Valley Desalter Project. (WP&S)

END OF CONSENT CALENDAR

8. OTHER BOARD ITEMS — ACTION

- 8-1** Authorize agreements with Arcadis U.S., Inc., HDR Inc., and Tetra Tech, Inc., in amounts not-to-exceed \$1 million per year each, for a maximum of five years, for engineering services to support board authorized Capital Investment Plan projects; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (E&O)
- 8-2** Authorize an increase of \$700,000 to an agreement with IBI Group, for a new not-to-exceed total of \$2,445,000 for preliminary design services; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (E&O)
- 8-3** Authorize co-funding of dues payments to the Alliance for Water Efficiency and its California chapter, the California Water Efficiency Partnership, on behalf of water agencies within Metropolitan's service area; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (WP&S)

9. BOARD INFORMATION ITEMS

- 9-1** Update on Conservation Program

9-2 Compliance with Fund Requirements and Bond Indenture Provisions. (F&I)

9-3 Information on Stormwater for Recharge Pilot Program. (WP&S)

10. FOLLOW-UP ITEMS

11. FUTURE AGENDA ITEMS

12. ADJOURNMENT

NOTE: 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.