

WORKSHOP MEETING OF THE
BOARD OF DIRECTORS WITH MET DIRECTORS
MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
18700 Ward Street, Board Room, Fountain Valley, California
March 4, 2020, 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. 2093)

PRESENTATION/DISCUSSION 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 BY METROPOLITAN WATER DISTRICT'S CHIEF FINANCE OFFICER KATANO KASAINA ON MET'S PROPOSED BIENNIAL BUDGET AND RATES FOR FISCAL YEAR 2020/21 AND 2021/22

Recommendation: Review and discuss the information presented.

INFORMATION ITEMS**3. METROPOLITAN'S 2020 INTEGRATED RESOURCES PLAN (IRP) UPDATE SCHEDULE**

Recommendation: Receive and file the information presented.

4. WATER SUPPLY CONDITION UPDATE

Recommendation: Receive and file the information presented.

5. DELTA CONVEYANCE PROJECT ACTIVITIES UPDATE

Recommendation: Receive and file the information presented.

6. 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.

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

- a. Summary regarding February MET Board Meetings
- 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

March 4, 2020

TO: Board of Directors

FROM: Robert Hunter, General Manager

Staff Contact: Harvey De La Torre
Melissa Baum-Haley

SUBJECT: PRESENTATION BY METROPOLITAN WATER DISTRICT'S CHIEF FINANCE OFFICER KATANO KASAINÉ ON MET'S PROPOSED BIENNIAL BUDGET AND RATES FOR FISCAL YEAR 2020/21 AND 2021/22

STAFF RECOMMENDATION

Staff recommends the Board of Directors receive and file the information.

COMMITTEE RECOMMENDATION

Committee recommends (To be determined at Committee Meeting)

SUMMARY

This report provides a MWD OC staff overview of Metropolitan Water District's (Metropolitan) proposed Biennial Budget for FY 2020/21 and FY 2021/22 where we highlight the key budget assumptions, main cost drivers, recommended rates and charges, and Metropolitan's ten-year water rate forecast.

REPORT

Every two years Metropolitan embarks on its Biennial Budget along with the associated rates and charges, including a ten-year financial forecast. In late January, Metropolitan released its proposed budget documents for Fiscal Year (FY) 2020/21 and FY 2021/22. These are initial documents that start the Metropolitan Board's review of the proposed Biennial Budget, the ten-year forecast, and Cost of Service (COS) analysis.

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):			

The Biennial Budget appropriates \$1.934 billion for FY 2020/21 and \$1.978 billion for FY 2021/22. The proposed budget strikes a balance between funding for Metropolitan's three strategic priorities (resiliency, sustainability, and innovation) while working to achieve and maintain all financial policy guidelines.

To achieve this, overall rate increases of 5.0% are proposed in each upcoming Calendar Year (CY) and through the third year of the ten-year forecast. The remainder of the ten-year forecast projects an increase of 3.0% annually. **The proposed overall rate increases of 5.0% are within the previous ten-year forecast projection of rate increases from 3% to 5% despite a substantially lower water transactions forecast of 1.60 million acre-feet (MAF) for the biennial budget period.**

The proposed CYs 2021 and 2022 water rates and charges are based on Metropolitan's current methodology for developing rates and charges to produce the necessary revenue required to cover costs. However, the proposed rates and charges do not include a Water Stewardship Rate, as a result of Metropolitan's Board action in December 2019 that directed staff: (1) to incorporate the use of the 2019/20 fiscal-year-end balance of the Water Stewardship Fund to fund all demand management costs in the proposed FY 2020/21 and 2021/22 Biennial Budget; and (2) to not incorporate the Water Stewardship Rate, or any other rates or charges to recover demand management costs, with the proposed rates and charges for CYs 2021 and 2022. Therefore, as a result of this board decision, the full-service rate will not include the Water Stewardship Rate element during the biennial period.

Biennial Budget Highlights

- **Capital Investment Plan (CIP):** Spending for FYs 2020/21 and 2021/22 is projected to be approximately \$500 million over the biennial period.
- **Delta Conveyance:** Includes Metropolitan's planned contribution of \$25 million per year for Delta conveyance project planning activities. Additionally, in the future, staff will recommend that the Board separately consider Metropolitan's participation in a new Delta conveyance project. These expenditures would be outside of this budget if authorized.
- **Regional Recycled Water Program:** Funding for the potential Regional Recycled Water Program of \$30 million for the preparation of a programmatic environmental impact report is included in the Biennial Budget. [Doesn't show up in the CIP b/c the project has not been approved and therefore, cannot be capitalized]
- **Demand Management Programs:** Funding for Demand Management Programs, including proposed funding for the Conservation Program set at \$43 million annually for the Biennial Budget and ten-year forecast. Should demand management costs exceed available funds, staff will seek further direction from the Board.
- **Debt service costs:** A total of \$299 million for FY 2019/20 and \$307 million for FY2020/21 decreased by \$24 million over the biennial budget period compared to the FY 2019/20 budget, primarily as a result of favorable refunding and by reduction in outstanding debt.

Key Assumptions

- **Water transaction projections:** which includes sales, exchanges, and wheeling, are projected to be 1.60 million acre-feet (MAF) for FY 2020/21 and 1.60 MAF for FY 2021/22. No wheeling transactions are projected in that period. The FYs 2020/21 and 2021/22 projections assume an average year hydrology and reflect the expectation that demands will trend lower due to consumer response to the previous drought and continued conservation initiatives.
- **State Water Project (SWP) and Colorado River Supplies:** For FYs 2020/21 and 2021/22, Metropolitan's SWP supplies are projected to be 1.06 MAF and 1.06 MAF, respectively. This is based on a 50% SWP allocation and accounts for the utilization of Metropolitan's SWP and Colorado River supply programs. For FYs 2020/21 and 2021/22, Colorado River diversions are projected to be 745 thousand acre-feet (TAF) and 733 TAF, respectively.

Prioritizing CIP expenditures and utilizing PAYGO provides significant debt management cost relief to keep future rate increases in the 3% to 5% range despite overall increasing costs for other expenditures.

- **Capital Investment Plan (CIP):** The CIP planned spending for the biennial period totals approximately \$500 million. Previously, Metropolitan budgeted 80% of CIP planned spending because historically capital expenditures regularly lagged planned spending. The proposed budget now assumes CIP expenditures will be 90% of planned spending as recent changes in the capital appropriation process streamlined capital appropriations, expediting capital project expenditures. Accordingly, for setting rates, the COS Report also uses \$450 million, which is \$50 million higher compared to the current Biennial Budget.
- **Pay As You Go (PAYGO) -** Overall, the CIP is anticipated to be funded 60% by current operating revenues (PAYGO). The PAYGO funding for FY 2020/21 and FY 2021/22 is budgeted at \$135.0 million in each fiscal year.

Proposed Rates and Charges for 2021 & 2022

An overall rate increase of 5.0% effective January 1, 2021, and January 1, 2022, is appropriate to cover the costs in the proposed Biennial Budget for FYs 2020/21 and 2021/22, meet financial policy guidelines with the exception of revenue bond coverage, and maintain steady rates for the future. The proposed increases to rates and charges ensure that Metropolitan continues to make progress towards meeting all coverage targets.

The rates and charges for FY 2020/21 are based on the estimated revenue requirements of \$1.64 billion. The existing rates, which were effective January 1, 2020, and the proposed rates under a 5.0% increase, effective January 1, 2021, would generate combined revenue of \$1.60 billion for FY 2020/21 based on total transactions of 1.60 MAF, of which 50% is treated full-service water, 276 TAF is untreated exchange agreement water, and the remainder is untreated full-service water.

The rates and charges for FY 2021/22 are based on the estimated revenue requirements of \$1.71 billion. Projected revenues from rates and charges in FY 2021/22 are \$1.67 billion on total transactions of 1.60 MAF, of which 50% is treated full-service water, 281 TAF is untreated exchange agreement water, and the remainder is untreated full-service water.

The main differences in the rates and charges for the proposed Biennial Budget in comparison to the 2020 rates and charges are highlighted in the table below:

Rates & Charges Effective January 1st	Current	Proposed	Proposed		
	2020	2021	% Change	2022	% Change
Tier 1 Supply Rate (\$/AF)	\$208	\$246	18%	\$247	0%
Tier 2 Supply Rate (\$/AF)	\$295	\$285	(3%)	\$285	0%
System Access Rate (\$/AF)	\$346	\$374	8%	\$397	6%
Water Stewardship Rate (\$/AF)	\$65	-	(100%)	-	
System Power Rate (\$/AF)	\$136	\$160	18%	\$170	6%
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$755	\$780	3%	\$814	4%
Tier 2	\$842	\$819	(3%)	\$852	4%
Treatment Surcharge (\$/AF)	\$323	\$351	9%	\$369	5%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,078	\$1,131	5%	\$1,183	5%
Tier 2	\$1,165	\$1,170	0%	\$1,221	4%
Readiness-to-Serve Charge (\$M)	\$136	\$136	0%	\$144	6%
Capacity Charge (\$/cfs)	\$8,800	\$11,200	27%	\$12,500	12%
Overall Rate Increase			5%		5%

Metropolitan's volumetric rates recover operating costs as well as the portion of the conveyance and distribution system capital costs that are associated with meeting average water demands. Individual member agency impacts may vary from 5.0% depending on whether the member agency takes treated full-service water, untreated full-service water, and their apportioned RTS and Capacity Charge. The components with larger deviation from 2020 are explained below:

- **Water Stewardship Rate:** Elimination of \$65/AF rate as a result of Board direction to staff to use the FY 2019/20 fiscal-year-end balance of the Water Stewardship Fund to fund demand management, and not to collect the Water Stewardship Rate or any other rate or charge to fund demand management costs, during the biennial period.
- **Tier 1 Supply Rate:** The Tier 1 supply rate supports a regional integrated approach through the uniform postage stamp rate. The Tier 1 Supply rate is calculated as the amount of total revenue requirement, which is not recovered by the Tier 2 Supply Rate, divided by the estimated amount of Tier 1 water transactions. The Tier 1 Supply Rate will increase 18% in 2021 due to increasing Supply Program Costs.
- **System Power Rate:** The System Power Rate recovers the costs of energy required to pump water to Southern California through the SWP and the Colorado River Aqueduct. The cost of the power is recovered through a uniform volumetric rate. The System Power Rate is increasing in 2021 primarily due to higher State Water Contract power costs. In 2022, it is increasing due to both higher State Water Contract power and Colorado River supplemental power costs.
- **Treatment Surcharge:** The Treatment Surcharge is a system-wide volumetric rate charged on water treated by Metropolitan. The Treatment Surcharge recovers the cost of providing treated water service, including commodity, demand and standby-related costs as determined in the cost of service for all five treatment plants. The Treatment Surcharge would increase 9% or \$28 per acre-foot in 2021, primarily due to lower treated water sales and higher O&M costs for treatment. The Treatment

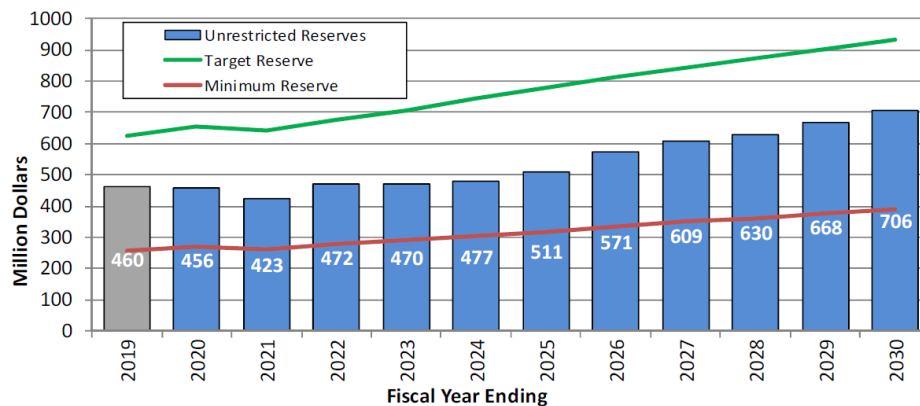
Surcharge would then increase to 5% or \$18 per acre-foot in FY 2022, due to higher O&M costs.

- **Readiness-to-Serve (RTS) Charge:** The RTS recovers the costs that provide emergency storage capacity and available capacity to meet outages and hydrologic variability. The RTS is proposed to remain unchanged at \$136 million for CY 2021 and increase to \$144 million for CY 2022, which reflects the increases in capital financing costs.
- **Capacity Charge:** The Capacity Charge recovers the costs incurred to provide peak capacity with the distribution system. Costs have shifted from the Readiness-to-Serve Charge to the Capacity Charge, because peaks have increased while average day use of the system has decreased.

MWD's Ten-Year Financial Forecast

The figure below summarizes the financial metrics of the Ten-Year Financial Forecast. Metropolitan projects that the fixed charge coverage ratio will meet the board-established target of 1.2 times throughout the ten-year period. Revenue bond coverage will meet the target of 2.0 times beginning in FY 2024/25. Reserve levels will be above minimums as established by board policy; PAYGO expenditures will range to fund between 60% and 70% of the CIP expenditures; and projected overall rate increases are expected to range from 3% to 5% per year.

The estimated overall rate increases for the ten-year forecast is a result of increases in operating and maintenance costs, higher State Water Contract costs, higher capital financing costs, increased costs for demand management, and higher power costs for the SWP and Colorado River Aqueduct. Annual expenditures are expected to increase from \$1.8 billion in FY 2020/21 to \$2.5 billion by FY 2029/30, or an annual average increase of about 4%. During this same period, capital investments are expected to be about \$2.9 billion. To finance these capital investments, the ten-year forecast anticipates funding \$1.9 billion of the CIP from water revenues or PAYGO. The balance of the CIP, or \$0.9 billion, will be financed by issuing revenue bond debt, either fixed or variable.



Overall Rate Increase	3.0%	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Transactions, MAF*	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
Rev. Bond Cvg	1.4	1.5	1.5	1.6	1.6	1.8	2.0	2.2	2.1	2.1	2.2	2.3
Fixed Chg Cvg	1.4	1.4	1.5	1.6	1.7	1.8	1.9	1.9	1.8	1.6	1.7	1.7
PAYGO, \$M	126	30	135	135	180	210	210	210	210	210	210	210

*includes water sales, exchanges, and wheeling

Next Steps

MWDOC has invited MET's Chief Finance Officer, Katano Kasaine to present on MET's Proposed Biennial Budget and Rates for Fiscal Year 2020/21 and 2021/22. Ms. Kasaine will highlight the key budget assumptions such as: water sales, expected revenues, key expenditures, PAYGo, reserves, rates and charges; including a 10-year water rate forecast.

Attachment: Presentation on Metropolitan's proposed Biennial Budget for FY 2020/21 and FY 2021/22

Link to Metropolitan proposed Biennial Budget for FY 2020/21 and FY 2021/22, the ten-year forecast, and Cost of Service analysis:

<http://www.mwdh2o.com/WhoWeAre/Pages/FY-2020-21-and-2021-22-CY-2021-22.aspx>

Proposed Biennial Budget for FYs 2020/21 and 2021/22; Proposed Water Rates and Charges for Calendar Years 2021 and 2022; Overview of Rates & Charges; Ten-Year Financial Forecast

Workshop #1



Finance & Insurance Committee
Item 9-2
February 10, 2020

Proposed Biennial Budget Workshop #1 Presentation Overview

- Overview
 - Policies
 - Strategic Priorities
 - Process
 - Key Assumptions
 - Budget Highlights
- Proposed Biennial Budget
- Overview of Rates & Charges
- Ten-Year Financial Forecast
- Q&A & Discussion
- Next Steps

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Overview

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February 10, 2020

Financial Policies & Goals

- Achieve/Maintain coverage ratios

Coverage Ratio	Target	Projected FY 2019/20	Proposed FY 2020/21	Proposed FY 2021/22
Revenue Bond*	2.0	1.5	1.5	1.6
Fixed Charge	1.2	1.4	1.5	1.6

*Target of 2.0 met by FY 2024/25

- PAYGO funding
 - Anticipate 60 percent of CIP funded from current revenues over biennial period
 - Integral to maintaining coverage targets and supporting high credit ratings
 - Provides financial flexibility

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Financial Policies & Goals

- Maintain high credit ratings
 - S&P - AAA
 - Fitch - AA+
 - Moody's - Aa1
- Reduce debt service costs
 - Decreases by \$24M from FY 2019/20 budget to FY 2021/22 budget due to favorable refundings

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GM's Strategic Priorities

- Resiliency
 - Emergency preparedness & business continuity:
 - Succession planning
 - Capital expenditures to build infrastructure reliability & redundancy
- Sustainability
 - Charting long-term course addressing challenges:
 - 2020 Integrated Water Resources Plan Update
 - Delta Conveyance
 - Regional Recycled Water Program
- Innovation
 - Creatively solving difficult challenges:
 - Employee training and engagement

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Biennial Budget and Rates Process Has Several Objectives

- Support General Manager's Strategic Priorities
- Adopt a two-year budget, which includes CIP, covering fiscal years 2020/21 and 2021/22
- Adopt rates and charges for calendar years 2021 and 2022
- Consider applicability of Section 124.5 limits on tax rates
- Update a ten-year forecast (Ten-Year Financial Forecast), including the biennial period

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Important Underlying Assumptions

Fiscal Year Ending	2021	2022
Overall increase January 2021 & 2022	5.0%	5.0%
Water Transactions*	1.60 MAF	1.60 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Diversions	0.75 MAF	0.73 MAF
CIP	\$250 M	\$250 M
PAYGO	\$135 M	\$135 M

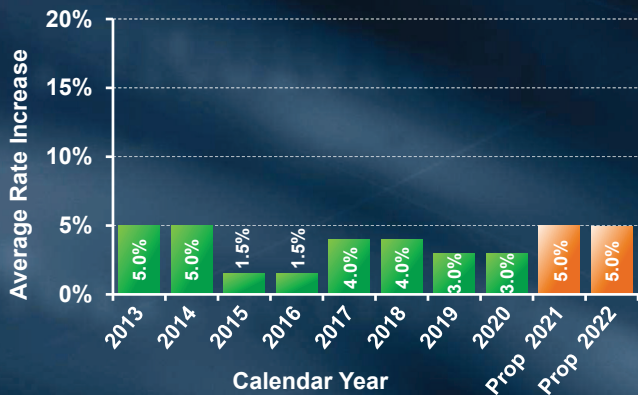
* Includes water sales, exchanges and wheeling.

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Overall Rate Increases Since 2013



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Biennial Budget Highlights

- O&M expenditures
 - Maintenance budget
 - Full-time regular positions remain at 1,907
 - Negotiated labor increases, allowable merit adjustments, and benefit increases incorporated
 - Key non-labor increases—chemicals, software licensing & support, security including Cybersecurity, and environmental and regulatory compliance & monitoring
 - Funds for succession planning
- Regional Recycled Water Program
 - Funding for planning costs at \$30M over biennium
- Delta Conveyance
 - Metropolitan's planned contribution for planning costs of \$50M over the biennium

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Biennial Budget Highlights

- Continued support for demand management programs
 - Conservation Program appropriated at \$43M per year
 - Local Resources Program expected to be lower
 - No Water Stewardship Rate
 - Demand management funded from Water Stewardship Fund balance
- Capital Investment Plan
 - Planned spending of \$500M over biennium to be appropriated
 - Estimated expenditures of \$450M - 90% of planned spending

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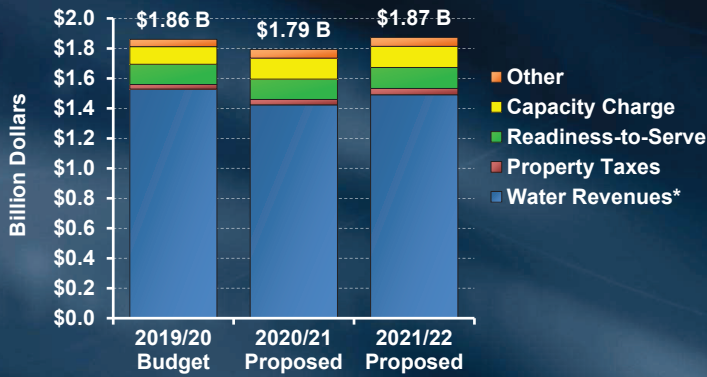
Proposed Biennial Budget

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Revenue Trend



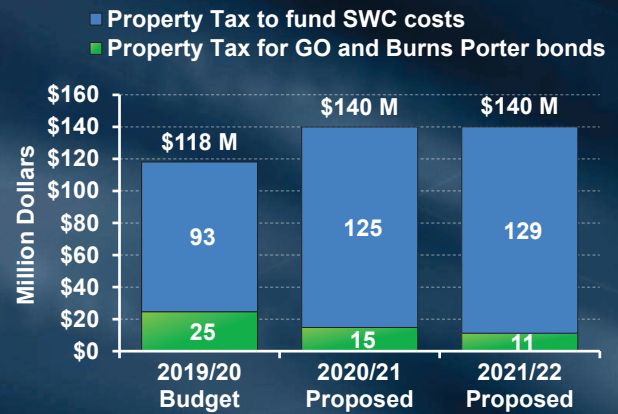
* Includes water sales, exchanges and wheeling

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Property Tax Revenue

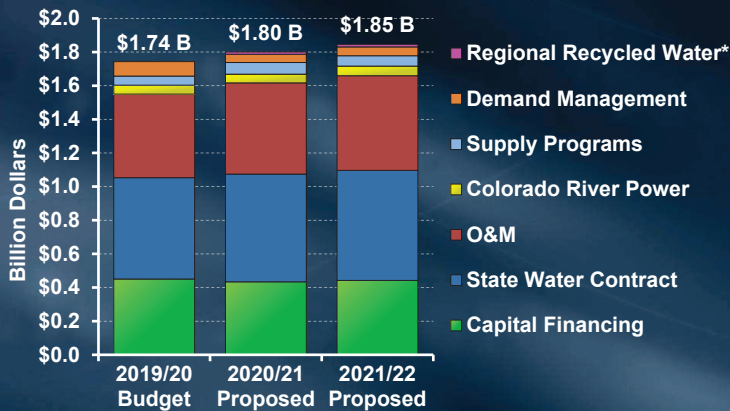


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Expenditure Trend



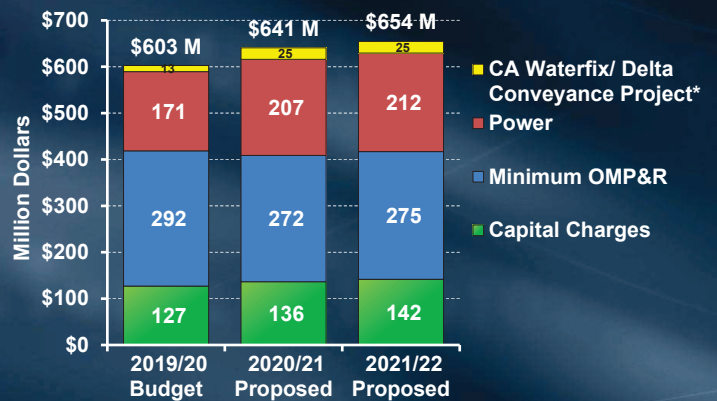
*Includes only planning costs

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State Water Contract



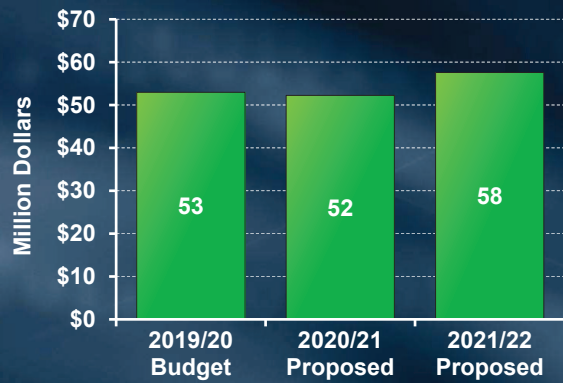
* Includes only planning costs

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Colorado River Aqueduct Power

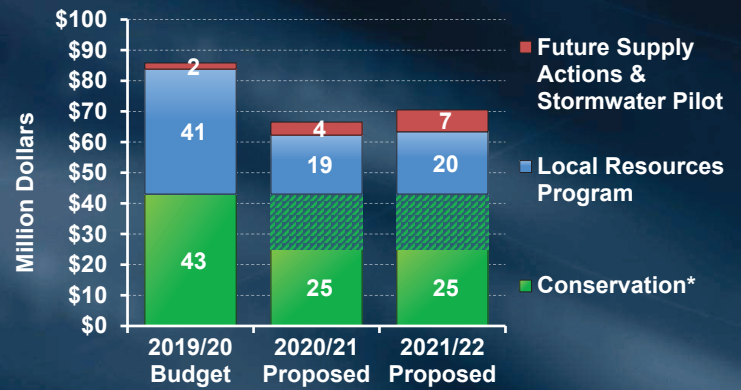


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Demand Management



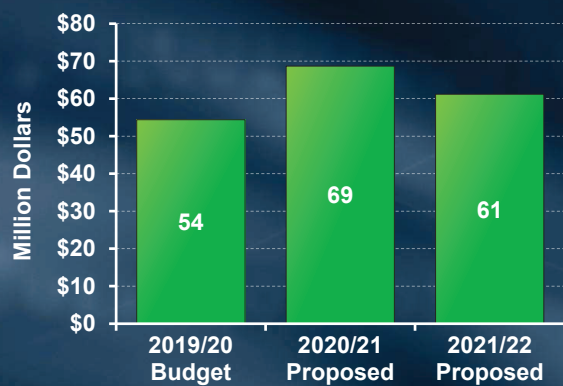
*For FY2021 and FY2022 conservation expenditures are estimated to be \$25M per year and are appropriated at \$43M per year.

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Supply Programs

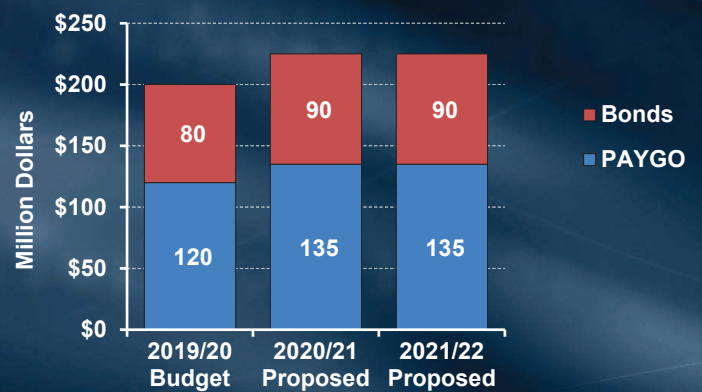


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Capital Investment Plan Expenditures

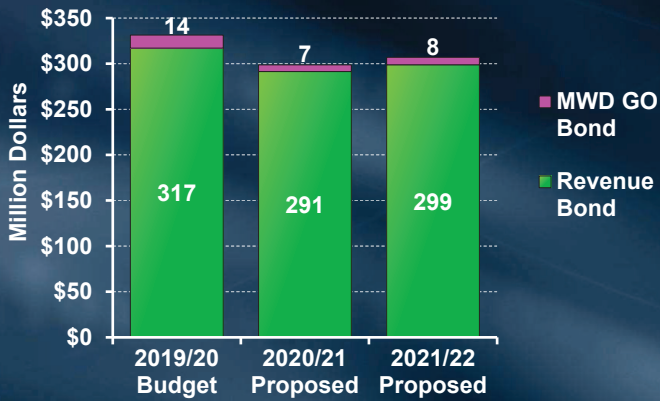


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Debt Service



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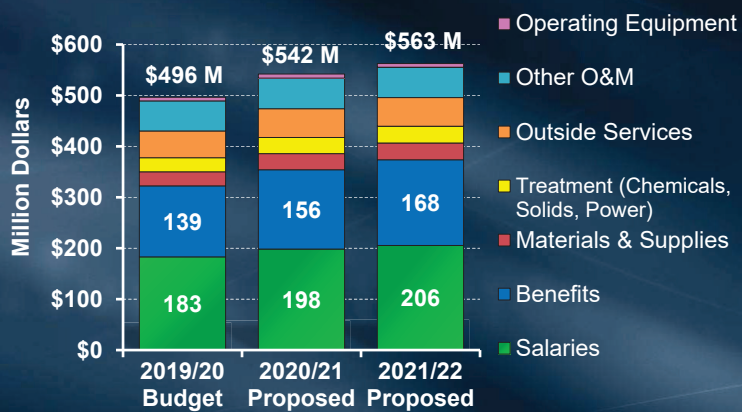
O&M Expenditure Budget

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O&M Expenditure Budget



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O&M by Expenditure Type

Millions of Dollars	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget vs 2020/21 Proposed	% Change	2020/21 Proposed vs 2021/22 Proposed	% Change
Salaries & Benefits	322.6	354.2	373.8	31.5	9.8%	19.7	5.6%
Chemicals, Solids and Power	27.7	31.6	32.8	3.9	14.2%	1.1	3.6%
Professional Services	22.8	25.3	25.8	2.5	10.8%	0.5	1.9%
Non-Professional Services/ Security & R&M	29.8	31.3	30.7	1.4	4.8%	(0.6)	-1.9%
Software Licensing & Support	6.7	9.2	10.0	2.5	36.7%	0.8	8.4%
Other Materials & Supplies	20.8	22.5	23.1	1.7	8.3%	0.6	2.5%
Communications	4.1	4.3	4.4	0.3	6.4%	0.1	3.0%
Travel & Training	5.8	6.3	6.3	0.5	9.3%	-	-0.6%
Utilities	8.4	8.5	8.7	0.1	1.6%	0.2	2.1%
Insurance/Premiums	12.8	13.2	13.4	0.3	2.6%	0.2	1.8%
Taxes & Permits	7.7	8.5	8.8	0.8	10.9%	0.3	3.3%
Rents & Leases	2.5	2.8	2.9	0.3	13.3%	-	1.1%
Memberships & Subscriptions	8.2	7.4	7.5	(0.8)	-9.3%	0.1	0.7%
Other	9.5	9.2	7.6	(0.4)	-3.8%	(1.5)	-16.8%
Operating Equipment	7.0	7.9	7.2	0.9	13.3%	(0.7)	-9.2%
Total O&M	\$496.4	\$542.2	\$562.8	\$45.8	9.2%	\$20.6	3.8%

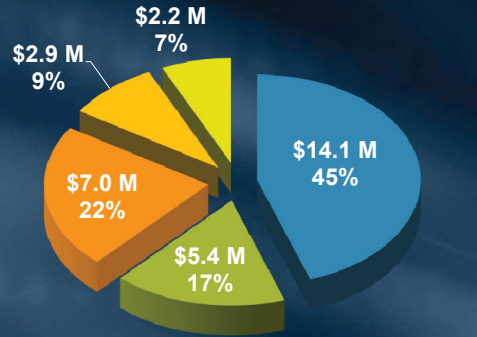
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FY 2020/21 O&M Labor Increase

\$31.5 M increase from FY 2019/20



■ COLA related salary & benefits ■ Benefits cost increase
■ Succession Planning Labor Pool ■ Temporary Labor
■ Other

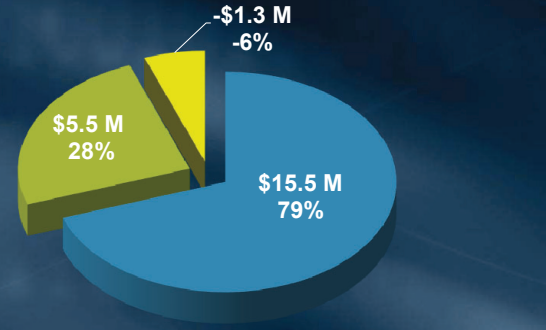
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FY 2021/22 O&M Labor Increase

\$19.7 M increase from FY 2020/21



■ COLA related salary & benefits ■ Benefits cost increase ■ Other

Finance & Insurance Committee

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Budgeted Positions

	2017/18	2018/19	2019/20	2020/21	2021/22
Regular	1,886	1,900	1,907	1,907	1,907
District Temporary	20	22	23	43	37
Authorized Positions	1,906	1,922	1,930	1,950	1,944

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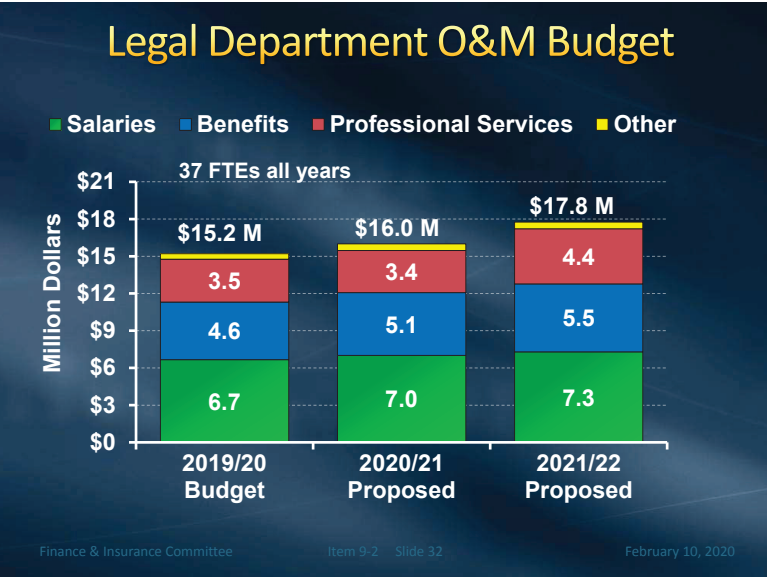
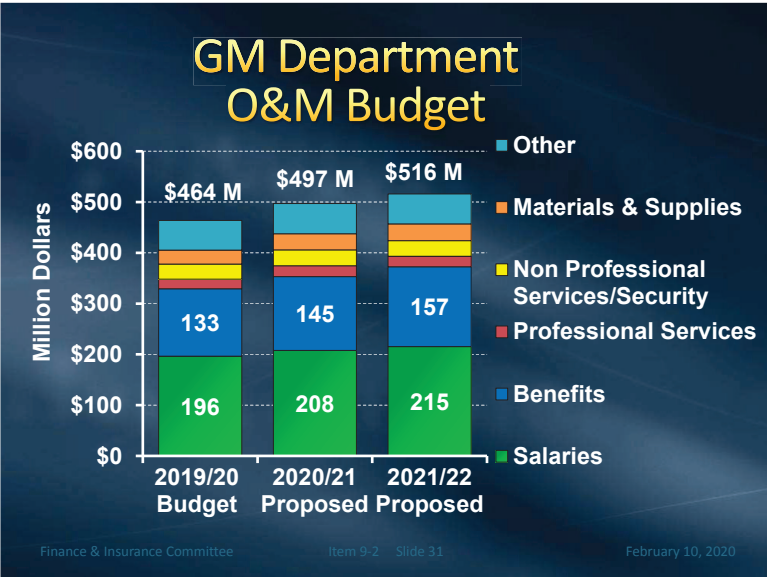
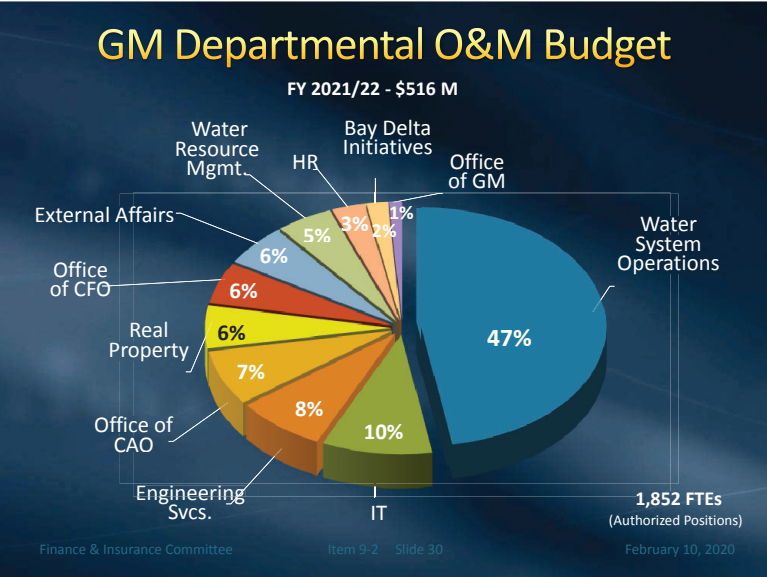
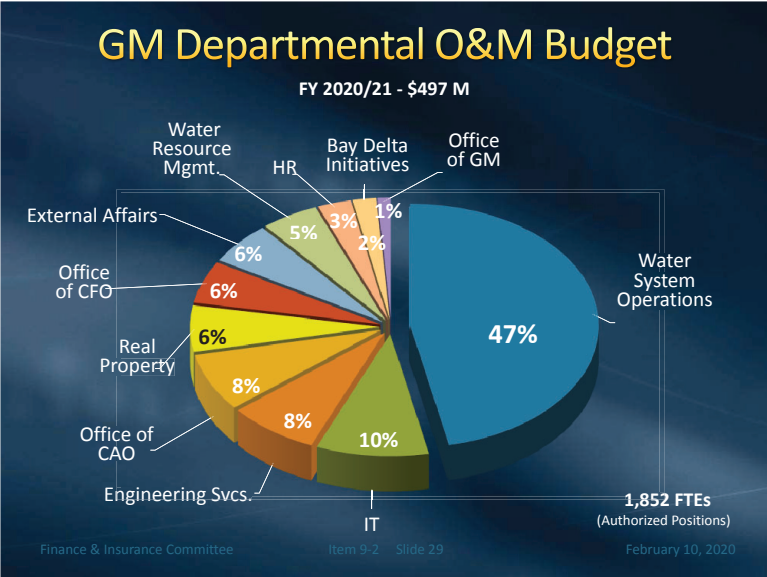
Departmental Budgets

- GM Department
- Legal
- Audit
- Ethics

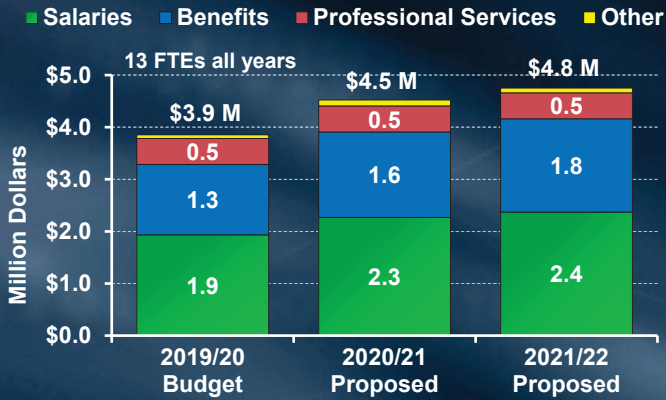
Finance & Insurance Committee

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Audit Department O&M Budget

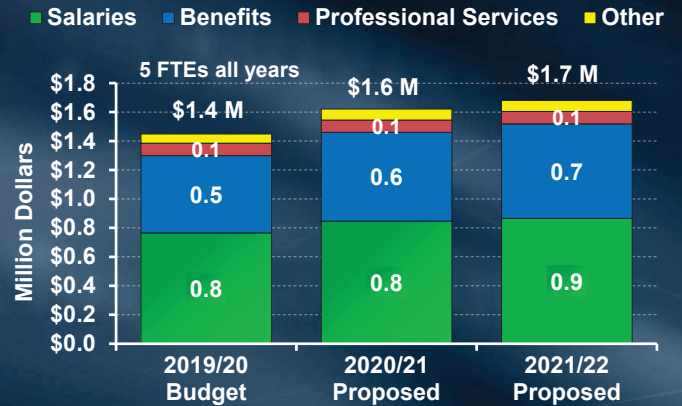


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Ethics Department O&M Budget



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February 10, 2020

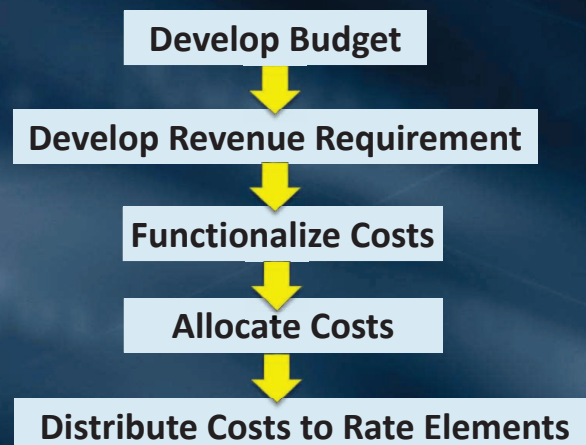
Overview of Rates and Charges

Finance & Insurance Committee

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The Cost of Service Process



Finance & Insurance Committee

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February 10, 2020

2020/21 Estimated Revenue Requirements (\$M)

	2019/20 Adopted	2020/21 Proposed Budget	Change
Total O&M	\$ 496	\$ 542	\$ 46
State Water Contract	603	641	38
Colorado River Power	53	52	(1)
Supply Programs	54	69	14
Regional Recycled Water Pgm.	-	15	15
Demand Management	86	49	(37)
Debt Service	331	299	(32)
PAYGO	120	135	15
Incr. in Required Reserves	41	41	-
Sub-total expenditures	\$1,784	\$1,842	\$ 58
Revenue Offsets	166	198	32
Total Revenue Requirement	\$1,618	\$1,644	\$ 26

Totals may not foot due to rounding.

Finance & Insurance Committee

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2021/22 Estimated Revenue Requirements (\$M)

	2020/21 Proposed Budget	2021/22 Proposed Budget	Change
Total O&M	\$ 542	\$ 563	\$ 21
State Water Contract	641	654	14
Colorado River Power	52	58	5
Supply Programs	69	61	(7)
Regional Recycled Water Pgm.	15	15	-
Demand Management	49	52	4
Debt Service	299	307	8
PAYGO	135	135	-
Incr. in Required Reserves	41	63	21
Sub-total expenditures	\$1,842	\$1,908	\$ 66
Revenue Offsets	198	200	2
Total Revenue Requirement	\$1,644	\$1,708	\$ 64

Totals may not foot due to rounding.

Finance & Insurance Committee

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Proposed Rate Elements & Charges

Rates and Charges Effective January 1			
	2020 Approved	2021 Proposed	2022 Proposed
Tier 1 Supply Rate (\$/AF)	\$208	\$246	\$247
Tier 2 Supply Rate (\$/AF)	\$295	\$285	\$285
System Access Rate (\$/AF)	\$346	\$374	\$397
Water Stewardship Rate (\$/AF)	\$65	-	-
System Power Rate (\$/AF)	\$136	\$160	\$170
Treatment Surcharge (\$/AF)	\$323	\$351	\$369
Readiness-to-Serve Charge (\$M)	\$136	\$136	\$144
Capacity Charge (\$M revenues)	\$32	\$40	\$44

Finance & Insurance Committee

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Tier 1 Supply Rate

- Recovers the costs of maintaining and developing supplies to meet member agency demands
 - Includes the costs of water facilities and programs on the SWP, the CRA, in-basin programs, and drought storage
- Increasing by \$38/AF in 2021 due to lower projected sales, higher supply programs costs, and higher SWC Delta capital charges; increase slight in 2022 by \$1/AF

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Tier 2 Supply Rate

- Reflects the cost of purchasing water transfers north of the Delta
- Decreasing by \$10/AF in calendar years 2021 and 2022 reflecting the costs of the Yuba Accord agreement
- There are no Tier 2 sales or revenues in the budget

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System Access Rate

- Recovers the costs of conveyance, distribution, and portions of regulatory & emergency storage, including capital costs associated with average demands and O&M
 - Includes costs of the applicable facilities on the CRA and SWP, distribution, and portions of storage
- Increasing by \$28/AF in 2021 because of lower projected water transactions and higher departmental O&M
- Increasing by \$23/AF in 2022 due to increasing departmental O&M

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Water Stewardship Rate

- Per the Board's December 2019 direction
 - There is no Water Stewardship Rate for 2021 and 2022
 - The Water Stewardship Fund balance will fund all demand management costs in the biennium

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System Power Rate

- Recovers the costs of power to pump water on the CRA and the SWP
 - Includes CRA Power and Dept. O&M, SWC Variable Power and Off-Aqueduct Power Facilities
- Increasing by \$24/AF in 2021 due to increasing SWC variable power costs reflecting higher diversions and higher power rates
- Increasing by \$10/AF in 2022 due to increasing SWC variable power costs, and increasing CRA supplemental power for new greenhouse gas charge

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Treatment Surcharge

- Recovers capital and O&M costs of the five water treatment plants
 - Purchasers of treated water pay the TS
- Increasing by \$28/AF in 2021 due to:
 - Lower projected treated sales
 - Higher departmental O&M and higher chemicals prices, which outweigh decreasing capital financing costs assigned to treatment
- Increasing by \$18/AF in 2022 due to higher O&M costs

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Readiness-to-Serve Charge

- Recovers the capital costs of providing emergency storage and available capacity on the conveyance and distribution systems
- Remains unchanged in 2021
- The total RTS Charge increased by \$8M in 2022 due to increasing capital financing costs and increasing SWC Transportation capital costs
- Each Member Agency pays a share of the total RTS Charge based on a ten-year rolling average of firm sales

Finance & Insurance Committee

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Capacity Charge

- Recovers the capital costs of the system necessary to meet peak demands on Metropolitan's distribution system
- The total charge increasing by \$8M in 2021 due to higher capital costs allocated to maximum day system use, reflecting recent member agency peak demands
- The total charge increasing by \$4M in 2022 due to increasing capital financing costs associated with distribution
- The capacity charge per CFS is \$11,200 for 2021 and \$12,500 in 2022

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Proposed Full Service Rates and Charges

Rate Type	2020 Approved	2021 Proposed	% Increase (Decrease)	2022 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$755	\$780	3%	\$814	4%
Tier 2	\$842	\$819	(3%)	\$852	4%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,078	\$1,131	5%	\$1,183	5%
Tier 2	\$1,165	\$1,170	0%	\$1,221	4%
RTS Charge (\$M)	\$136	\$136	0%	\$144	6%
Capacity Charge (\$/cfs)	\$8,800	\$11,200	27%	\$12,500	12%

Rates and Charges Effective January 1st

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the Water Stewardship Rate (not applicable for 2021 and 2022), the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

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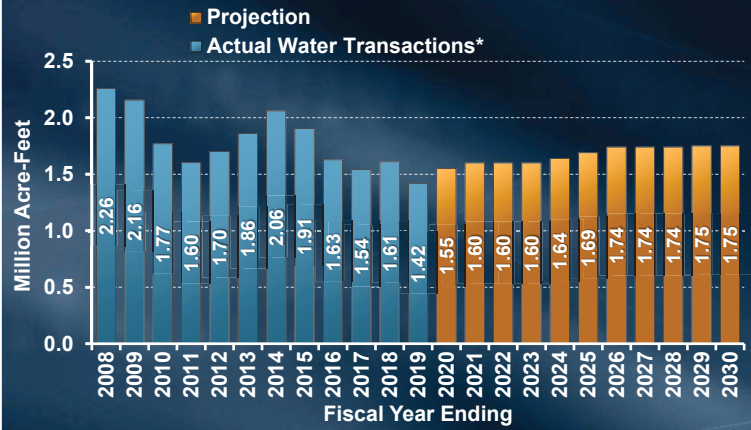
Ten-Year Financial Forecast

Finance & Insurance Committee

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Water Transactions



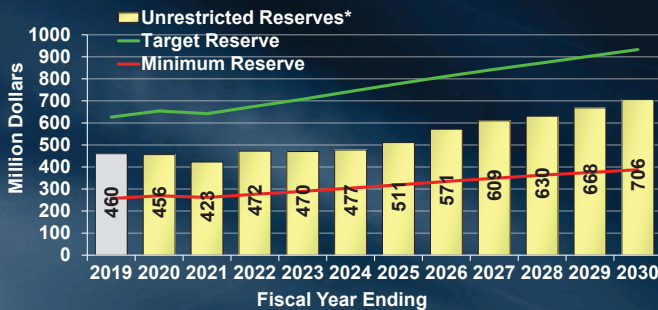
* Includes water sales, exchanges and wheeling

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Projected Rate Increases & Financial Metrics



Overall Rate Inc.	3.0%	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Transactions (MAF)**	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
Rev. Bond Cvg	1.4	1.5	1.5	1.6	1.6	1.8	2.0	2.2	2.1	2.1	2.2	2.3
Fixed Chg Cvg	1.4	1.4	1.5	1.6	1.7	1.8	1.9	1.9	1.8	1.6	1.7	1.7
PAYGO, \$M	126	30	135	135	180	210	210	210	210	210	210	210

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

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Projected Water Rates and Charges

Rates & Charges	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Effective January 1st											
Tier 1 Supply Rate (\$/AF)	\$208	\$246	\$247	\$247	\$247	\$247	\$247	\$250	\$260	\$269	\$278
Tier 2 Supply Rate (\$/AF)	\$295	\$285	\$285	\$285	\$285	\$285	\$285	\$285	\$285	\$285	\$285
System Access Rate (\$/AF)	\$346	\$374	\$397	\$397	\$403	\$421	\$441	\$459	\$478	\$499	\$518
Water Stewardship Rate (\$/AF)*	\$65	\$ -	\$ -	\$54	\$63	\$69	\$73	\$79	\$82	\$84	\$89
System Power Rate (\$/AF)	\$136	\$160	\$170	\$170	\$175	\$179	\$185	\$192	\$193	\$200	\$211
Full Service Untreated Volumetric Cost (\$/AF)											
Tier 1	\$755	\$780	\$814	\$868	\$888	\$916	\$946	\$980	\$1,013	\$1,052	\$1,096
Tier 2	\$842	\$819	\$852	\$906	\$926	\$954	\$984	\$1,015	\$1,038	\$1,068	\$1,103
Treatment Surcharge (\$/AF)	\$323	\$351	\$369	\$369	\$382	\$390	\$390	\$390	\$390	\$390	\$390
Full Service Treated Volumetric Cost (\$/AF)											
Tier 1	\$1,078	\$1,131	\$1,183	\$1,237	\$1,270	\$1,306	\$1,336	\$1,370	\$1,403	\$1,442	\$1,486
Tier 2	\$1,165	\$1,170	\$1,221	\$1,275	\$1,308	\$1,344	\$1,374	\$1,405	\$1,428	\$1,458	\$1,493
RTS Charge (\$M)	\$136	\$136	\$144	\$144	\$148	\$153	\$163	\$166	\$177	\$179	\$179
Capacity Charge (\$/cfs)	\$8,800	\$11,200	\$12,500	\$12,500	\$15,000	\$15,100	\$15,300	\$16,000	\$16,000	\$16,000	\$16,000
Overall Rate Increase	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, the Water Stewardship Rate, and if applicable the Treatment Surcharge for treated water service.

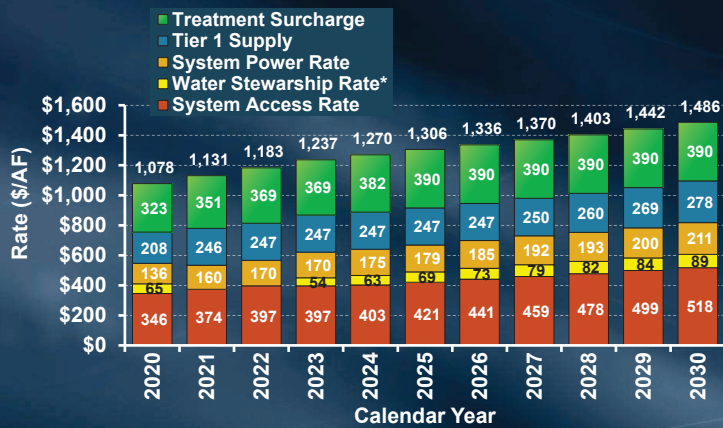
* The volumetric rates shown for CYs 2023-2030 represent only a placeholder until the Board approves a method to recover demand management costs.

Finance & Insurance Committee

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February 10, 2020

Projected Volumetric Rates



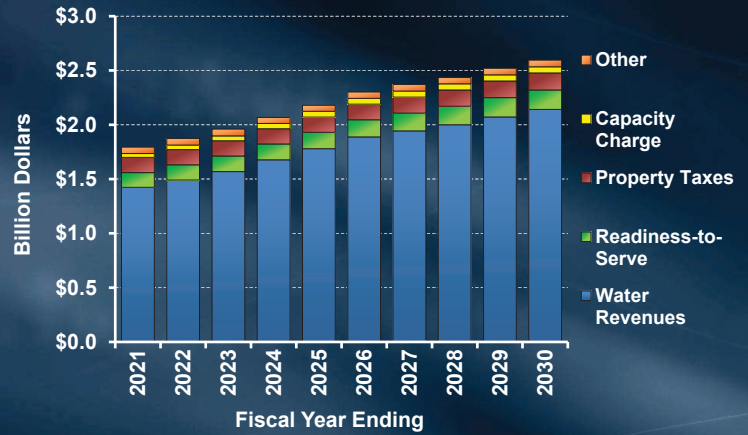
* The volumetric rates shown for CY's 2023-2030 represent only a placeholder until the Board approves a method to recover demand management costs.

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February 10, 2020

Revenue Forecast

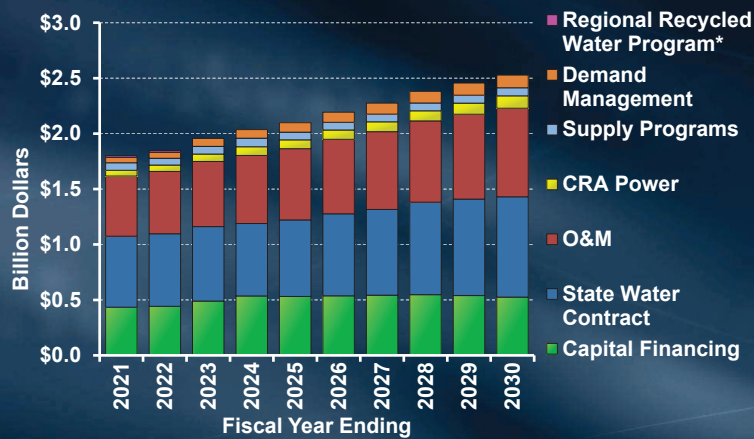


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February 10, 2020

Expenditure Trend



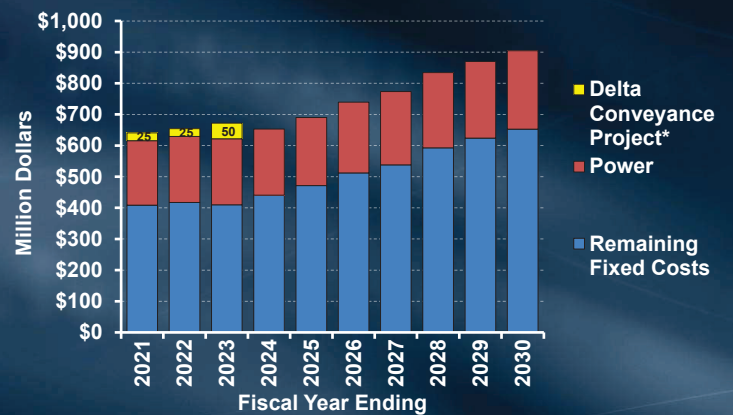
*Includes only planning costs

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State Water Contract Forecast



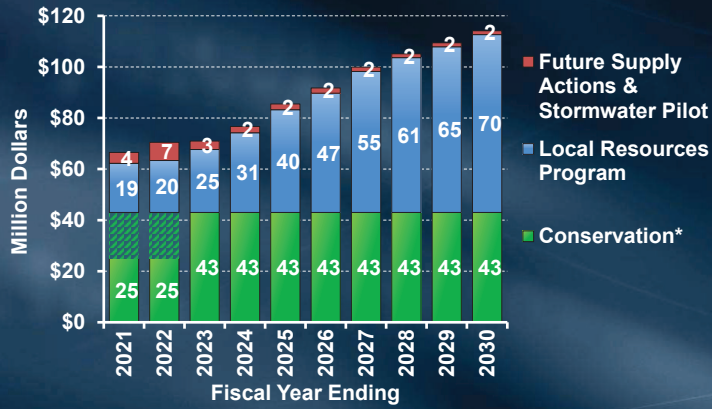
* Includes only planning costs

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Demand Management



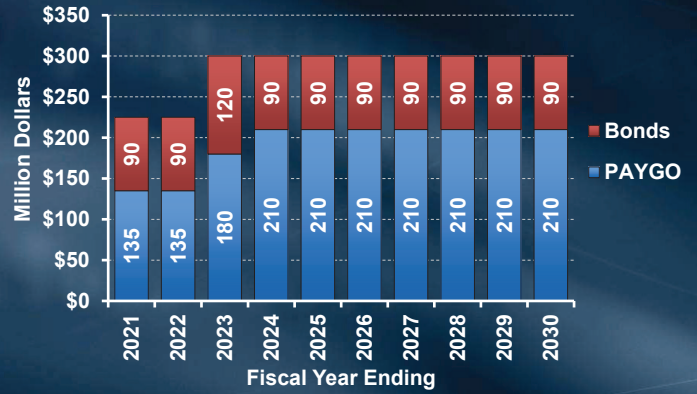
*For FY2021 and FY2022 conservation expenditures are estimated to be \$25M per year and are appropriated at \$43M per year.

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February 10, 2020

Capital Investment Plan Expenditures



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Outstanding Debt

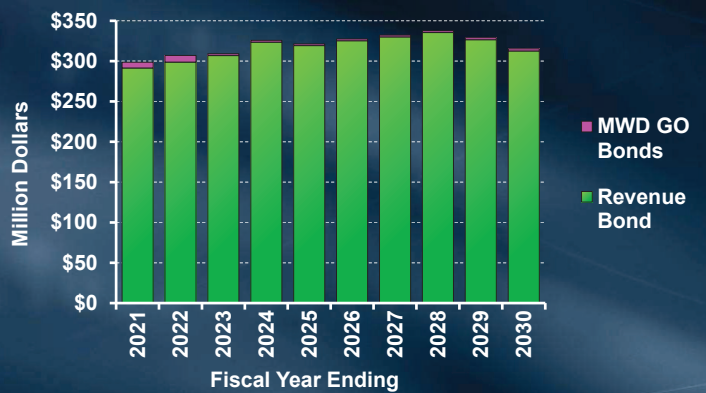


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Debt Service



Finance & Insurance Committee

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Q&A

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Next Steps

- | | |
|-------------------|--|
| February 25, 2020 | F&I Committee, Workshop #2: CIP, follow up |
| March 9, 2020 | F&I Committee, Workshop #3: follow up |
| March 10, 2020 | Public Hearings on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act |
| March 24, 2020 | F&I Committee, Workshop #4: if needed |
| April 13, 2020 | F&I Committee: Recommend Biennial Budget and Calendar Year rates and charges; Workshop #5, if needed |
| April 14, 2020 | Board Actions regarding Biennial Budget, Calendar Year rates and charges |

Finance & Insurance Committee

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February 10, 2020





INFORMATION ITEM

March 4, 2020

TO: Board of Directors
FROM: Robert Hunter, General Manager

Staff Contact: Harvey De La Torre
Melissa Baum-Haley

**SUBJECT: METROPOLITAN'S 2020 INTEGRATED RESOURCES PLAN (IRP)
UPDATE SCHEDULE**

STAFF RECOMMENDATION

Staff recommends the Board of Directors receive and file the information.

COMMITTEE RECOMMENDATION

Committee recommends (To be determined at Committee Meeting)

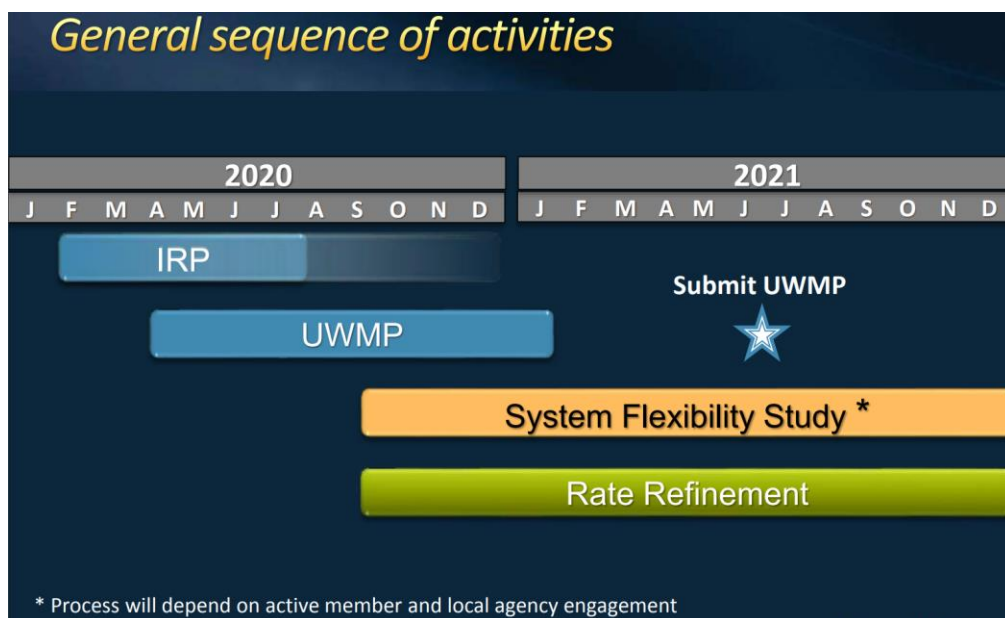
REPORT

Metropolitan's Integrated Water Resources Plan (IRP) establishes a long-term, comprehensive water resources strategy to provide the region with a reliable and affordable water supply. As a living document, the IRP is updated every five years and will be revisited in 2020. On February 25, Metropolitan commenced the 2020 IRP update process with an Integrated Resources Plan Special Committee, chaired by Director Pressman of the City of Beverly Hills.

The 2020 IRP update will embed policy development within the process by utilizing simple broad assumptions to initiate the policy discussions upfront, while technical analysis is updated in the background. The main objectives of the 2020 IRP update will include: an assessment of uncertainties; accessible and explicit technical analysis of demands and climate change; the expansion of the adaptive planning approach; and a public outreach component.

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):			

The 2020 IRP update is an interrelated planning effort that will occur in sequence with the Urban Water Management Plan (UWMP) process, Metropolitan's System Flexibility Study and Rate Refinement discussions. The proposed schedule for the 2020 IRP update has been set to be complete timely for the development and submission of UWMPs, with a goal of considering adoption by January 2021.



Next Steps

In the coming presentations, MWD OC staff will layout the scenario building process and identification of major policy areas associated with updating the 2020 IRP update. As stated above, The 2020 IRP update is anticipated to have an increased policy-focus compared to previous IRP updates.



INFORMATION ITEM

March 4, 2020

TO: Board of Directors

FROM: Robert Hunter, General Manager

Staff Contact: Kevin Hostert

SUBJECT: WATER SUPPLY CONDITION UPDATE

STAFF RECOMMENDATION

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

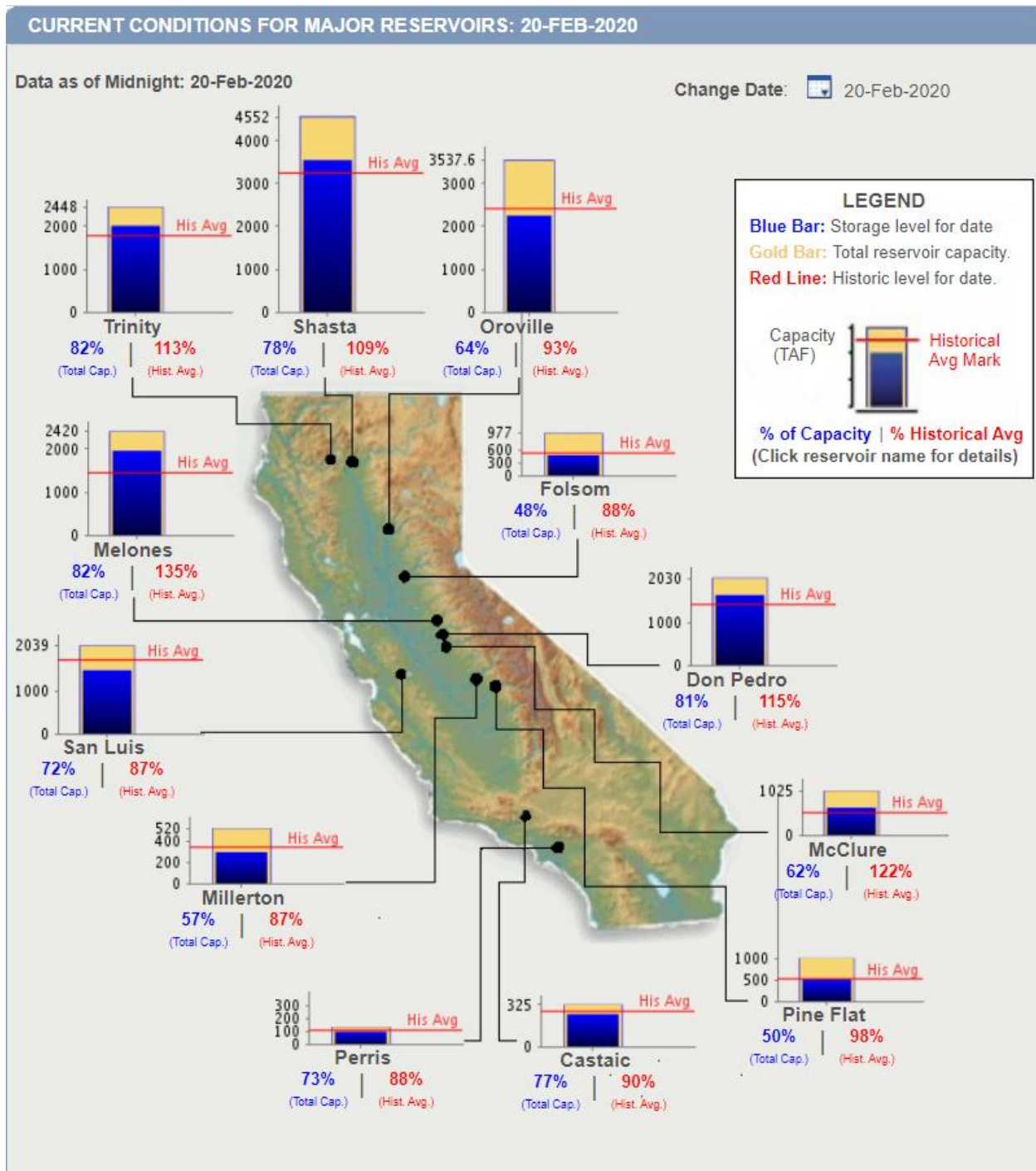
SUMMARY REPORT

The 2019-20 Water Year (2019-20 WY) officially started on October 1, 2019. Thus far, the Northern California accumulated precipitation (8-Station Index) is reporting **17.75 inches or 55% of normal** as of February 19th. For 2019-20 WY, the Northern Sierra Snow Water Equivalent is reporting **13.8 inches on February 18th**, which is **61% of normal** for that day. Due to the below average precipitation/snowfall, the Department of Water Resources (DWR) has increased the State Water Project (SWP) **“Table A” allocation at 15%**. This allocation provides Metropolitan with approximately **286,725 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 2020 contractor demands.

The Upper Colorado River Basin accumulated precipitation is reporting **12.7 inches or 94% of normal** as of February 18th. On the Colorado River system, snowpack is measured across four states in the Upper Colorado River Basin. The Upper Colorado River Basin Snow Water Equivalent was reporting **14.9 inches as of February 18th**, which is **108% 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.

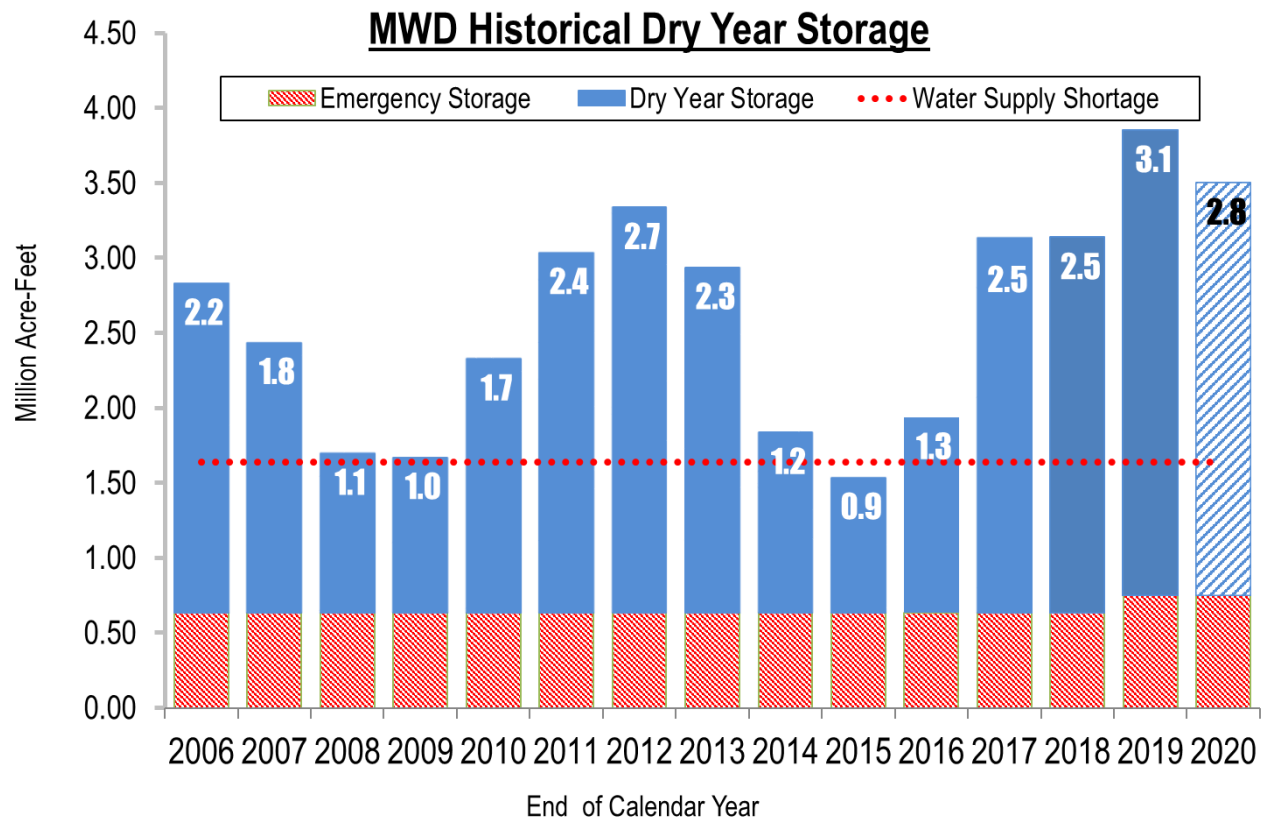
Budgeted (Y/N): N/A	Budgeted amount: N/A	Core <input checked="" type="checkbox"/> X <input type="checkbox"/>	Choice <input type="checkbox"/>
Action item amount: N/A	Line item:		
Fiscal Impact (explain if unbudgeted):			

As of February 20th Lake Oroville storage is at **64% of total capacity and 93% of normal**.
 As of February 20th San Luis Reservoir has a current volume of **72% of the reservoir's total capacity and is 87% of normal**.



With estimated total demands and losses of 1.626 million acre-feet (MAF) and with a 15% SWP Table A Allocation, Metropolitan is projecting that demands will exceed supply levels in Calendar Year (CY) 2020. Based on this, estimated total dry-year storage for Metropolitan at the end of **CY 2020 will go down to approximately 2.8 MAF**.

A projected dry-year storage supply of **2.8 MAF will be the second highest amount for Metropolitan**. A large factor in the increase in water storage is because **water demands regionally have been at approximately 36-year lows**.



2019-20 CYCLIC IN-LIEU OPERATIONS

In regards to the 2019-20 Cyclic In-Lieu operations (a.k.a. MET Cyclic Cost Offset Program), as of December 2019 approximately **9,354.7 AF of imported water has been delivered into the OC Basin Cyclic Account via In-Lieu**.

Unfortunately, due to dry hydrology and a State Water Project allocation of 15 percent, Metropolitan has suspended all cyclic deliveries as of December 31, 2019, including Cyclic In-Lieu deliveries. Metropolitan will also begin reducing State Water Project deliveries to preserve flexibility in case the allocation remains low. Metropolitan will regularly revisit operational plans throughout early 2020, as the final SWP allocation for the calendar year will be unknown until the May/June timeframe.

Attachment: Water Supply Conditions Presentation



Water Supply Conditions

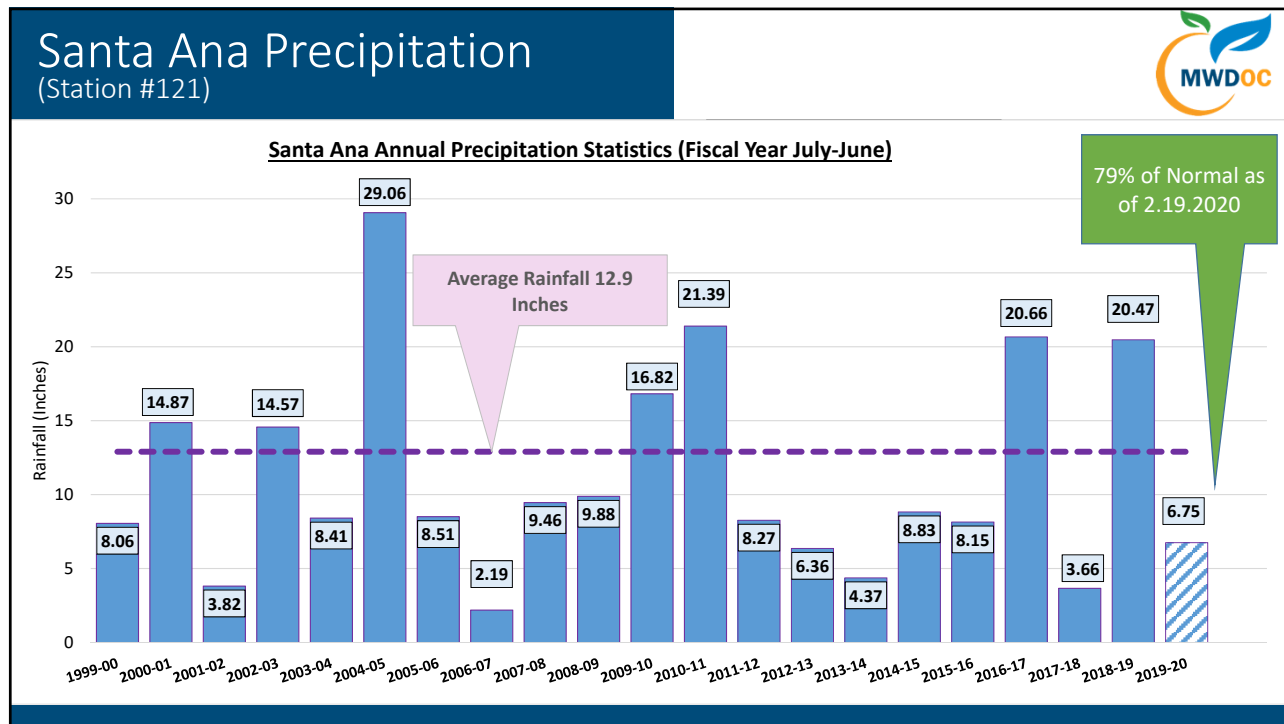
Kevin Hostert, Water Resources Analyst
Municipal Water District of Orange County

March 5th 2020



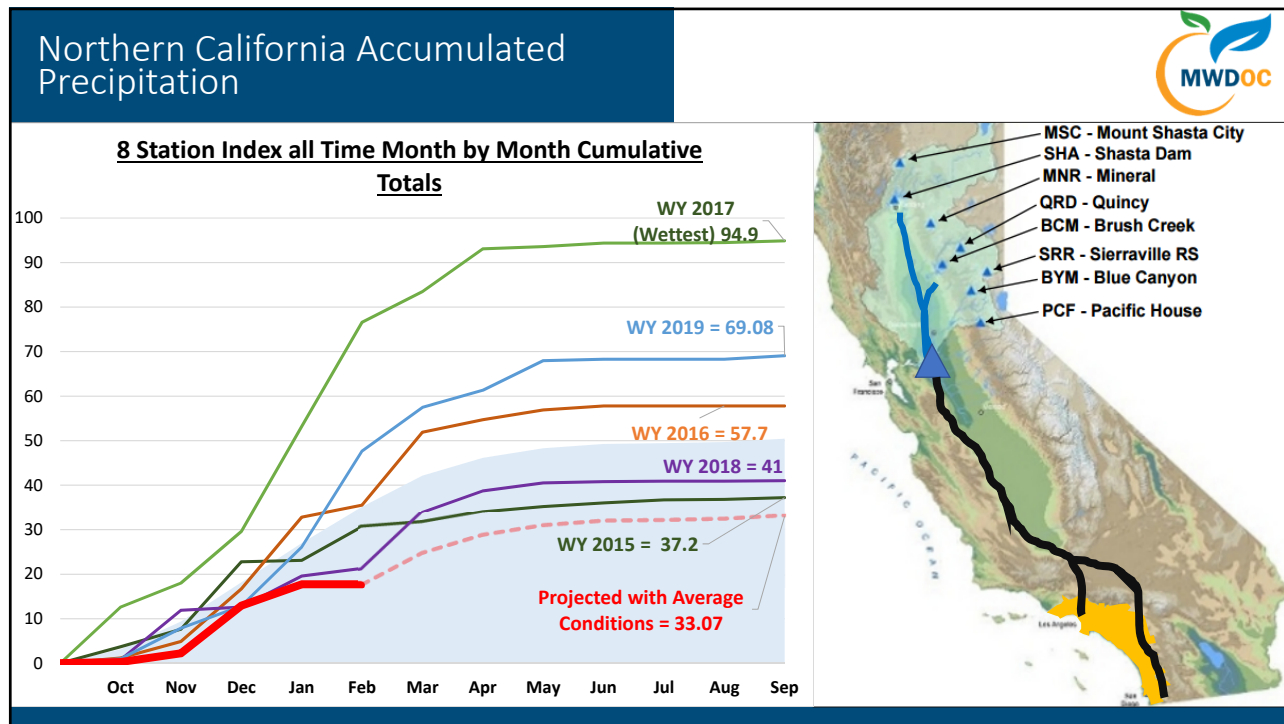
Orange County Weather and Water Supply Conditions

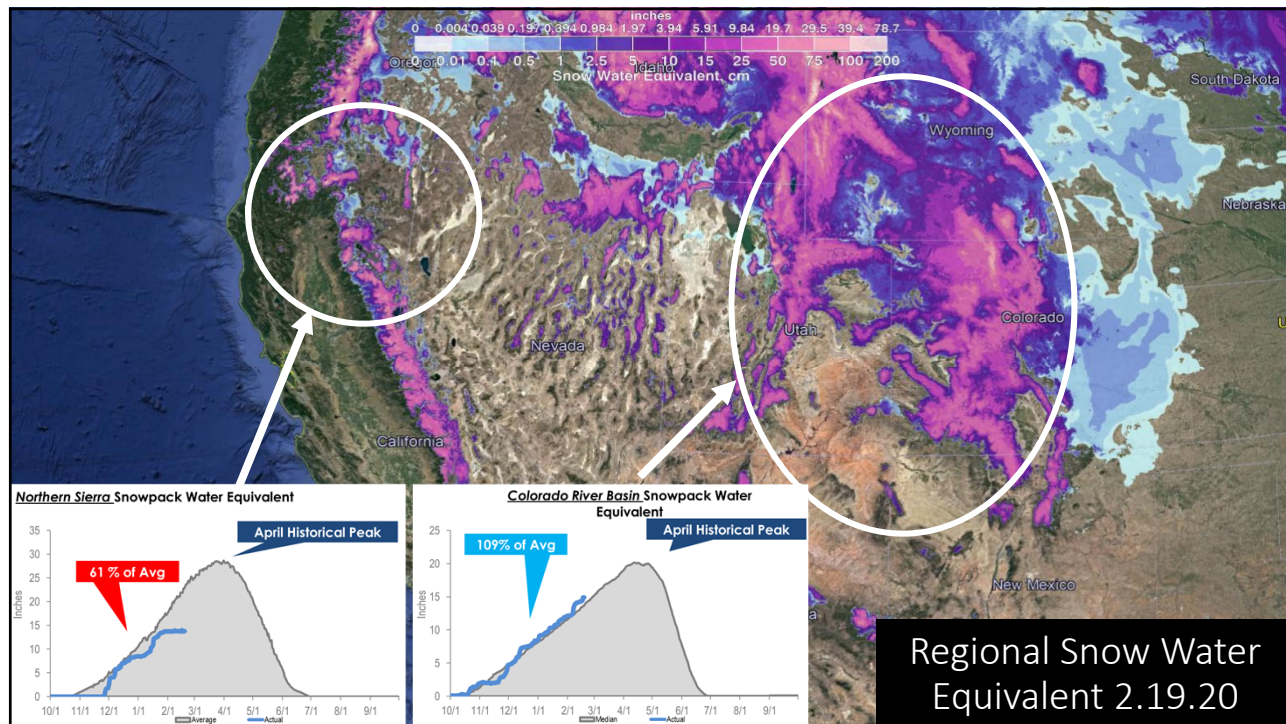
Insight to local weather conditions that affect Orange County's water supply and water demand



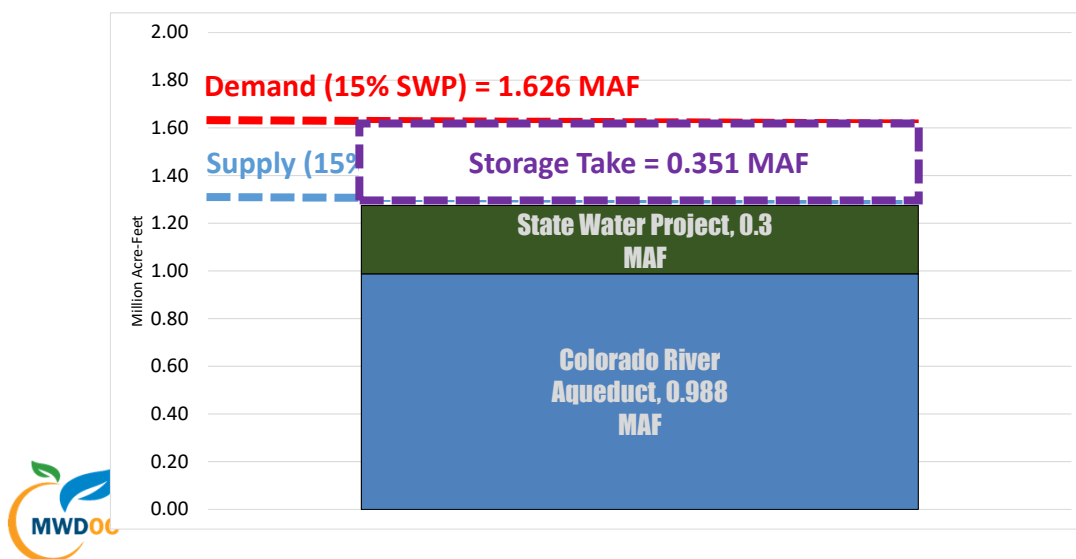
Regional Weather and Water Supply Conditions

Insight to regional weather conditions that affect California's water supply

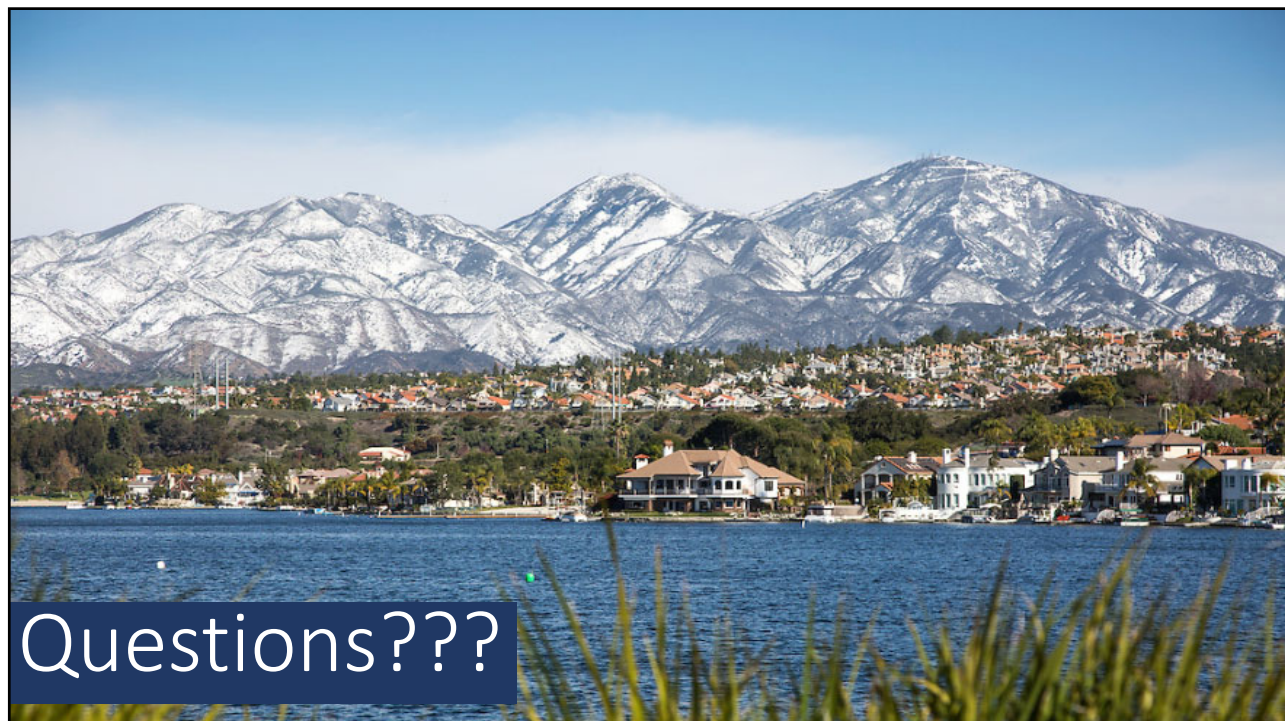
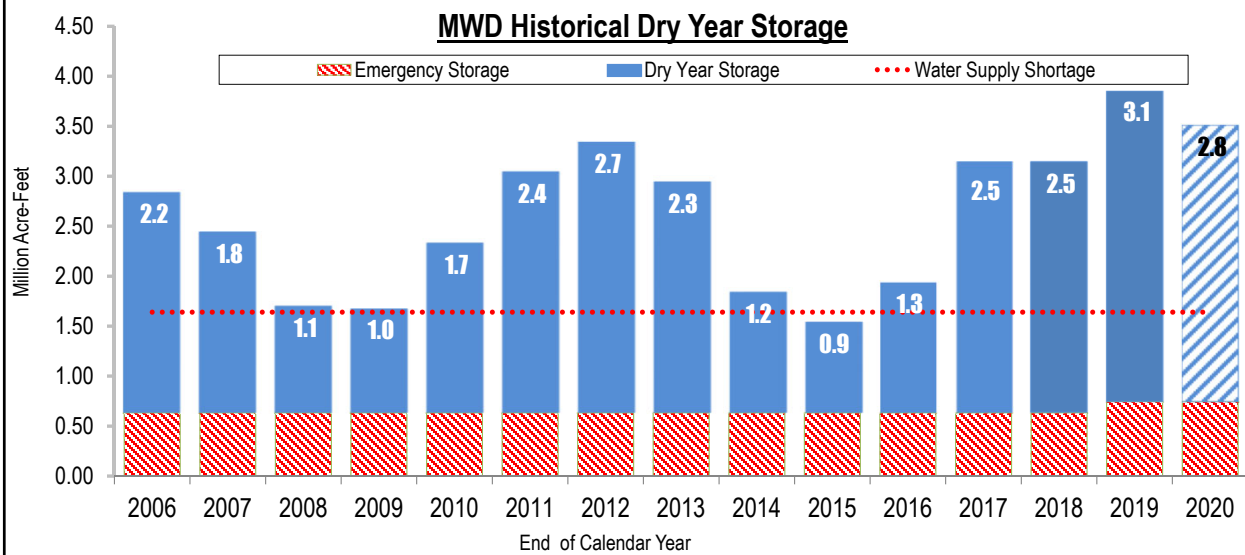




MWD 2020 Estimated Water Storage



MWD 2020 Estimated Water Storage





DISCUSSION ITEM

March 4, 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

Delta Conveyance Notice of Preparation

On January 15, California Department of Water Resources posted a Notice of Preparation that will initiate the Environmental Impact Report for the Delta Conveyance Project. Pursuant to the California Environmental Quality Act (CEQA), the California Department of Water Resources (DWR) will initiate the preparation of an Environmental Impact Report (EIR) for the Delta Conveyance Project in the Sacramento-San Joaquin Delta, California. The NOP signals the start of the scoping period and provides an opportunity for public comment on the scope and content of the CEQA review. Written comments on the NOP are due March 20, 2020, and staff is coordinating with the member agencies. Modernizing Delta conveyance is part of the state's Water Resilience Portfolio.

Joint Powers Authorities

The Delta Conveyance Design and Construction Authority (DCA) held its regularly scheduled monthly meeting on January 16, at which the board approved a resolution

Budgeted (Y/N): N/A	Budgeted amount: None	Core _X_	Choice __
Action item amount: N/A	Line item:		
Fiscal Impact (explain if unbudgeted):			

amending the Bylaws which explicitly authorizes the Executive Director to delegate authority. The Delta Conveyance Finance Authority Board of Directors also met on January 16 where the board selected its officers. They elected Randy Record as president, Gary Kremen as vice-president, Jeff Davis as secretary. They appointed Metropolitan's Chief Financial Officer Katano Kasaine as Treasurer. The executive committee members appointed include Randy Record, Gary Kremen, Jeff Davis, Paul Sethy, and Valerie Pryor.

Newsom Administration Files Lawsuit Over Biological Opinions

California Attorney General Xavier Becerra, the California Natural Resources Agency, and the California Environmental Protection Agency today filed a lawsuit against the Trump Administration for failing to protect endangered fish species from federal water export operations.

The lawsuit asserts that biological opinions prepared by federal agencies under the Endangered Species Act to direct water project operations lack safeguards for protected species and their habitat in the Sacramento and San Joaquin River watersheds, including the Bay-Delta.

Filed in the U.S. District Court for the Northern District of California, the lawsuit requests that the court declare the Trump Administration's adoption of the biological opinions unlawful.

The lawsuit challenges the actions of the Bureau of Reclamation, the federal agency which adopted the biological opinions. The lawsuit also challenges the biological decisions issued in October 2019 by the National Marine Fisheries Services (NMFS) and the U.S. Fish and Wildlife Service (USFWS), which lack sufficient protections for endangered and threatened fish.

The lawsuit argues the agencies' biological opinions and the Bureau's decision violate the law because the Trump Administration:

- Fails to provide actual analysis of whether the effects of its action applied to current conditions would tip a species toward extinction;
- Improperly relies on uncertain plans to mitigate the harms of project operations;
- Ignores the requirement that a biological opinion must consider not only the continued survival of listed species, but also their recovery;
- Neglects to consider the material decline of the smelt (fish), and provides a limited analysis of climate change impacts;
- Disregards the National Environmental Policy Act by failing to provide the public with a meaningful opportunity to comment on relevant information about the proposed action and potential impacts and failing to adequately respond to public input; and
- Puts at risk Delta smelt, Chinook salmon, Central Valley steelhead, and other fish species. Previous biological opinions by the agencies addressed the risk posed to the listed species' continued existence by Central Valley Project operations and required measures to limit impacts.

The lawsuit also asserts the Trump Administration's actions violate the Administrative Procedure Act and the National Environmental Policy Act. Therefore, in addition to the lawsuit, Attorney General Becerra, the California Environmental Protection Agency and the California Natural Resources Agency sent a 60-day Notice Letter to the Bureau that puts the Trump Administration on notice of California's intent to file additional claims alleging that the Bureau's decision to approve the biological opinions violates the federal Endangered Species Act.

Agreement in Principle

The negotiations for the Agreement in Principle will be incorporated into a Notice of Preparation (NOP) of an Environmental Impact Report examining Delta conveyance alternatives and the proposed contract amendment in accordance with the requirements of the California Environmental Quality Act (CEQA) following issuance of the NOP. Actual water supply contract amendment language would also be developed following approval of the AIP. The next negotiation meeting is scheduled for March 4, 2020.

Approval of the AIP is not the same as approval of a Delta conveyance related water supply contract amendment or of a Delta conveyance facility itself. Neither of those approvals can occur until after CEQA review is completed.

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

March 4, 2020

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

Information can be found in Item 4 – Water Supply Update and Storage Levels.

ISSUE BRIEF # B**SUBJECT: MET's Finance and Rate Issues****RECENT ACTIVITY**

On February 10, the MET Board set combined public hearing regarding: (1) the proposed water rates and charges for calendar years 2021 and 2022 necessary to meet the revenue requirements for fiscal years 2020/21 and 2021/22, and (2) applicability of the MET Act Section 124.5 ad valorem property tax limitation for fiscal years 2020/21 and 2021/22.

The following schedule will be adhered to:

- Feb 28, 2020 Notice to the Legislature of public hearing
- March 10, 2020 Public Hearing
- April 14, 2020 Board action to resolution for applicability of the tax rate limit
- August 2020 Board action to adopt tax rate resolution for FY 2020/21
- August 2021 Board action to adopt tax rate resolution for FY 2021/22

More information can be found in Item 2 regarding MET's proposed Bienial Budget and rates for fiscal years 2020/21 and 2021/22

ISSUE BRIEF # C

SUBJECT: Colorado River Issues

RECENT ACTIVITY

Colorado River Basin Salinity Control Program

On December 6, 2019, the U.S. Bureau of Reclamation (Reclamation) released a draft environmental impact statement (DEIS) for public comment. This DEIS describes the alternatives to replace the Paradox Valley Unit (Unit), a deep aquifer brine injection well that has been used to remove approximately 100,000 tons of salt each year from the Colorado River in the Upper Basin. Ongoing seismic activity in the vicinity of the Unit led Reclamation to temporarily discontinue use of the Unit because the brine injection from the well is believed to be the cause of the seismic activity. Since the DEIS was released, Metropolitan participated in the Salinity Control Forum's (Forum) work to select a preferred alternative to recommend to Reclamation.

One potential impediment in reaching a consensus-based preferred alternative for the draft EIS is a concern expressed by the seven Basin States regarding long-term funding for the Salinity Control Program, and if the Program can afford additional salinity control projects. The Basin States have developed a draft letter to Reclamation highlighting the funding issue and expressing an interest to identify and implement a long-term funding solution. Some solutions may require federal legislation and others may require making administrative changes to the operations of the program. The Final EIS is scheduled for release in July 2020, with a Record of Decision in August 2020.

Bard Water District Seasonal Fallowing Program – 2020 Fallowing Call

In December 2019, Metropolitan and Bard Water District (Bard) agreed to a seasonal fallowing program (Program). This Program incentivizes farmers within Bard to fallow up to 3,000 irrigable acres for a four month period at \$452 per acre, escalated annually. Metropolitan estimates a water savings of 1.5 to 2.0 acre-feet per irrigable acre. After the agreement was executed in December, Metropolitan sent a letter to Bard seeking participation of 3,000 irrigable acres within Bard Water District during 2020. In order to participate in the fallowing program, participants must notify Metropolitan of the land offered for fallowing by February 1, 2020 for summer 2020 (April 1–July 31) fallowing.

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.

Habitat Restoration

Metropolitan and the State Water Contractors (SWC) are funding an update to the 2014 Yolo Bypass Infrastructure and Drainage Study. The Study focuses on the Tule Canal, which is the primary drainage conduit on the Yolo Bypass. It is also an important corridor for out-migrating juvenile salmon and adult salmon returning to spawn. The goal of the Study Update is to identify opportunities for habitat restoration in synergy with projects that address drainage issues on the Bypass. A Record of Decision was signed by the U.S. Bureau of Reclamation for the Yolo Bypass Salmonid Habitat Restoration and Fish Passage Project in September 2019. The project, comprising a 100 foot wide set of operable gates in the Fremont Weir, will provide access to floodplain rearing habitat for juvenile salmonids and passage for adults returning to the Sacramento River to spawn.

Science Activities

Metropolitan staff continued to collaborate with the SWC to identify and fund science projects addressing science priorities for Metropolitan and the SWC. Metropolitan staff also participated in several collaborative science meetings, including the Interagency Ecological Program Estuarine Ecology, Contaminant and Predation project work teams, Delta Science Program Primary Productivity workshop, and Delta Independent Science Board meetings.

Metropolitan staff continued participating in the Collaborative Science and Adaptive Management Program, including participation on the Collaborative Adaptive Management Team (CAMT). At the January 21 CAMT meeting, Metropolitan staff provided input to the proposed 2020 workplan and received updates on salmon and steelhead science activities. Staff continued participation on the Delta smelt Structured Decision Making Technical Work Group and the Salmon Subcommittee to provide technical input to ongoing projects.

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 National Pollutant Discharge Elimination System (NPDES) Permit for the proposed HB Desalination Project.

The renewal of the NPDES permit for the proposed desalination facility requires a California Water Code section 13142.5(b) determination in accordance with the State's Ocean Plan (a.k.a. the Desalination Amendment). To make a consistency determination with the Desalination Amendment, the Regional Board is required to analyze the project using a two-step process:

1. Analyze separately as independent considerations, a range of feasible alternatives for the best available alternative to minimize intake and mortality of all forms of marine life:
 - a. Site
 - b. Design
 - c. Technology
 - d. Mitigation Measures
2. Then consider all four factors collectively and determine the best combination of feasible alternatives.

Regional Board staff reviewed hundreds of documents and input from both an independent reviewer and a neutral 3rd party reviewer to develop Tentative Order R8-2020-0005 which is anticipated to be issued at the April 2020 Board meeting.

The key areas required by the Ocean Plan on which the Santa Ana Water Board is required to make a determination, includes:

- Facility onshore location;
- Intake considerations including subsurface and surface intake systems;
- **Identified need for the desalinated water;**
- Concentrated brine discharge considerations;
- Calculation of the marine life impacts; and

- Determination of the best feasible mitigation project available.

In evaluating the proposed project, Santa Ana Regional Board staff interpreted “the identified need for the desalinated water” as whether or not the project is included in local area water planning documents, rather than a reliability need as analyzed in the OC Water Reliability Study. The Regional Board staff referenced several water planning documents; 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 in their evaluation of Identified Need.

On December 6, 2019, SARWQCB, Regional Board staff conducted a workshop in Huntington Beach that was heavily attended with a considerable range of views expressed at the meeting. Several of the SARWQCB members were somewhat confused about the evaluation of Identified Need for the project (inclusion in local water planning documents vs. an identified reliability need for the project) and requested staff to help them understand the issue better.

The latest information is the SARWQCB has scheduled a workshop on March 13, 2020 regarding the “need” for the Poseidon Project, and has asked MWDOC, OCWD, and MET to attend.

The Regional Board Final Permit issuance is anticipated at the April 3, 2020 meeting

Assuming success, Poseidon would then seek its final permits from the California Coastal Commission (CCC). The CCC has committed to reviewing the permit within 90 days of the SARWQCB NPDES permit issuance.

ISSUE BRIEF # F

SUBJECT: South Orange County Projects

RECENT ACTIVITY

Doheny Desal Project

On October 30, 2019, South Coast held a Peer Review Cost Estimate workshop for the Doheny Desal Project. Rich Svindland, of California American Water (CalAm), who helped develop the 6.4 MGD Monterey Ocean Desal Project using slant well technology, completed a peer review cost estimate for the Doheny Ocean Desal Project. The CalAm Peer Review was based on their experience in developing and bidding a project in Monterey, (that plant has not been constructed due to permitting and legal issues). The CalAm review of the previous Doheny Desal cost estimate by GHD indicated some differences in capital and operating costs including a higher level of staffing for the plant as suggested by CalAm. Overall, the cost differences resulted in estimated increased costs:

- Capital costs were estimated at 5.4% higher
- O&M costs were estimated at 15.8% higher
- Overall, the unit cost of water increased from \$1,556 per AF to \$1,805 per AF, an increase of \$249 per AF, an overall increase of about 16.0%

South Coast WD's Board has voiced their opinion that a 5 MGD project provides too much water and is beyond the ability of South Coast WD to shoulder by themselves. Without other partners, they may consider a plant size as small as 2.0 mgd without any oversizing to protect the potential for an ultimate 15 mgd project. The potential use of excess recycled supplies to be blended with ocean supplies was also discussed with the Latham wastewater plant in near proximity to the Doheny Desal Project. An unknown consideration is the concentrated iron and manganese laden sub-surface seawater found during the MWDOC pilot slantwell testing.

On January 23, 2020, the South Coast WD Board approved a conceptual study of ocean water augmentation using Direct Potable Reuse (DPR). This concept is based on the proposition that the challenges of Ocean Desalination and DPR could beneficially offset each other. South Coast WD has contracted with Dudek to prepare a white paper to evaluate this concept specifically to the Doheny Ocean Desalination Project on a feasibility and cost comparison basis. It is anticipated the study will take four months to complete.

Next Steps by South Coast WD:

1. Look for partners
2. High Level Schedule (has slipped a bit due to the Regional Board schedule)

- | | |
|-----------------------------|------------------|
| a. Environmental permitting | Late Summer 2020 |
| b. DBOM Contract Develop | Early 2020 |
| c. DBOM Contract Award | Early 2021 |
| d. Construction | Early 2023 |

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 78% complete.
3. Pump Station
 - a. Project Status - The pump station construction contract was award to Kingmen Construction on November 22, 2019 for \$3.356 million. Substantial completion of the pump station is anticipated August 31, 2020.

San Juan Watershed Project

Santa Margarita WD continues to focus on diversifying its water supply portfolio for south Orange County residents, businesses, schools, and visitors. On June 21, 2019, the San Juan Watershed Environmental Impact Report (EIR) was approved.

The original project had three Phases; Phase 1 was three rubber dams recovering about 700 AFY; Phase 2 added up to 8 more rubber dams with the introduction of recycled water into the creek to improve replenishment of the basin for up to 6,120 AFY, and Phase 3 added more recycled water topping out at approximately 9,480 AFY. Under this

arrangement, most or all of the production and treatment involved the existing San Juan Groundwater Desalter with expansions scheduled along the way to increase production over 5 mgd. Fish passage and regulatory hurdles to satisfy subsurface travel time requirements are presenting some difficulties.

SMWD is working with the Ranch on the next phase of development within SMWD and have access to riparian groundwater from the Ranch. Furthermore, they have discovered that the local geology has high vertical percolation rates and sufficient groundwater basin travel time to potentially allow percolation of treated recycled water. SMWD is of the opinion that groundwater production and treatment of the groundwater can be initiated in a relatively short time-frame while permitting for percolation augmentation using recycled water from the nearby Trampas reservoir can be added as permitting allows. They believe the new project area may be able to ultimately produce 4,000 to 5,000 AF per year; they believe the original project will continue to be developed for production out of the wells and treatment provided by San Juan Capistrano as the two agencies merge. Ultimate production out of the basin could exceed 10,000 AF per year if all goes well.

South Orange County Emergency Service Program

MWDOC, IRWD, and Dudek have completed the 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.

Dudek participated in the November 6, 2019 workshop to re-engage with the SOC agencies on this project. Support from the agencies was expressed to take a small next step to install Variable Frequency Drives at a pump station within IRWD which would be paid for by SOC to help move water from the IRWD system to SOC in an emergency. The Variable Frequency Drives will provide more flexibility to the IRWD operations staff to allow additional water to be sent to SOC while meeting all of the IRWD needs.

Strand Ranch Project

A meeting was held on February 14, 2020 between MWDOC, MET, and IRWD to further exchange ideas on how to implement the program to capture the benefits that can be provided by the development of “extraordinary supplies” from the Strand Ranch Project. Based on the meeting, staff from MWDOC and IRWD will need to continue to discuss methods of quantifying the benefits of the program.

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
February 11, 2020**

COMMITTEE ASSIGNMENTS

Director Ackerman was appointed to the IRP Committee as a member.
(Agenda Item 5C)

FINANCE AND INSURANCE COMMITTEE

Set a combined public hearing on March 10, 2020, regarding: (1) the proposed water rates and charges for calendar years 2021 and 2022 necessary to meet the revenue requirements for fiscal years 2020/21 and 2021/22, and (2) applicability of the MWD Act Section 124.5 ad valorem property tax limitation for fiscal years 2020/21 and 2021/22. (Agenda Item 8-1)

ENGINEERING AND OPERATIONS COMMITTEE

Awarded a contract to Suez Treatment Solutions Inc., in an amount not-to-exceed \$4,100,000 to procure PSUs and dielectrics for Jensen's ozone generation system. (Agenda Item 8-2)

Authorized on-call agreements with Arcadis U.S., Inc., HDR, Inc., and Tetra Tech, Inc., in an amount not to-exceed \$1 million per year each, for a maximum period of five years.
(Agenda Item 8-3)

COMMUNICATIONS AND LEGISLATION COMMITTEE

Adopted the State Legislative Priorities and Principles for 2020 with revisions to bullet 9 of the Regional Water Resource Management Section as follows:

- Ensure statutory or regulatory mandates for improving water use efficiency are based on sound science; recognize regional distinctions relative to climate, land use, population, hydrology, and similar factors and consider potential positive and negative impacts to wastewater operations and recycled water development. (Agenda Item 8-4)

Adopted the updated Federal Legislative Priorities and Principles for 2020 as recommended by staff. (Agenda Item 8-5)

LEGAL AND CLAIMS COMMITTEE

Authorized the General Counsel to increase the maximum amount payable under contract with Seyfarth Shaw LLP for legal services by \$150,000, to an amount not to exceed \$250,000.
(Agenda Item 8-6)

REAL PROPERTY AND ASSET MANAGEMENT COMMITTEE

Authorized agricultural leases to D&L Farms, Sierra Cattle Company, and Steve Dinelli Farms according to the committee recommended price and terms. **(Agenda Item 8-7)**

CONSENT CALENDAR

In other actions, the Board:

Authorized the granting of a permanent easement to San Diego Gas and Electric Company for electrical distribution purposes. **(Agenda Item 7-1)**

OTHER MATTERS

Presentation of Commendatory Resolution for Director Jasmin Hall representing Inland Empire Utilities Agency. Delivery of Resolution was arranged prior to the meeting. **(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://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

March 10, 2020

12:00 p.m. – Boardroom

Tuesday, March 10, 2020		
Meeting Schedule		
9:00 AM	L&C	Rm. 2-145
10:30 AM	C&LR	Rm. 2-456
11:00 AM	RPAM	Rm. 2-145
12:00 PM	Board Mtg	Boardroom

MWD Headquarters Building

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700 N. Alameda Street

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Los Angeles, CA 90012

1. Call to Order

- (a) Invocation: Kevin McLaughlin, Principal Public Affairs Representative, External Affairs
- (b) Pledge of Allegiance: Annette Eckhardt, Vice President of Women at Metropolitan

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))

PUBLIC HEARINGS

- a. Public hearing regarding: (1) the proposed water rates and charges for calendar years 2021 and 2022 necessary to meet the revenue requirements for fiscal years 2020/21 and 2021/22; and (2) the applicability of the Metropolitan Water District Act Section 124.5 ad valorem property tax limitation for fiscal years 2020/21 and 2021/22.

For more information related to the public hearing items,
see Information Item 9-3 below and visit:

<http://www.mwdh2o.com/WhoWeAre/Management/Financial-Information>

5. OTHER MATTERS

- A. Approval of the Minutes of the Meeting for February 11, 2020
(A copy has been mailed to each Director)
Any additions, corrections, or omissions
- B. Report on Directors' events attended at Metropolitan expense for month of February 2020
- C. Presentation of 30-year Service Pin to Director John T. Morris, representing the city of San Marino
- D. Approve committee assignments
- E. Chairwoman's Monthly Activity Report

6. DEPARTMENT HEADS' REPORTS

- A. General Manager's summary of activities for the month of February 2020
- B. General Counsel's summary of activities for the month of February 2020
- C. General Auditor's summary of activities for the month of February 2020
- D. Ethics Officer's summary of activities for the month of February 2020

7. CONSENT CALENDAR ITEMS — ACTION

- 7-1** Authorize an agreement with Questica Ltd. not-to-exceed \$700,000 for the design, development, and deployment of a new cloud-based Budget Planning and Analysis Application; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (OP&T)

- 7-2** Adopt CEQA determination that the proposed project was previously addressed in the approved 2014 Mitigated Negative Declaration and related CEQA actions, and authorize the General Manager to execute an 18-month extension to Metropolitan's existing lease at 2750 Bristol Street in Costa Mesa, CA (Assessor's Parcel No. 418-182-05) in an amount not-to-exceed \$160,000, for use as a construction staging and storage site. (E&O)
- 7-3** Review and consider the Coachella Valley Mountains Conservancy's adopted Mitigated Negative Declaration and take related CEQA actions, and authorize the General Manager to grant a year-to-year license agreement for access purposes to the Coachella Valley Mountains Conservancy on Metropolitan-owned property located northeast of Desert Hot Springs, in an unincorporated portion of Riverside County. (RP&AM)

END OF CONSENT CALENDAR

8. OTHER BOARD ITEMS — ACTION

- 8-1** Support and seek amendments to the Governor's Proposed Safe Drinking Water, Wildfire Prevention, and Natural Resources Protection Bond Act of 2020; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (C&L) **[POSTING SEPARATELY]**
- 8-2** Affirm the General Manager's determination that 12 Parcels, totaling 223 acres, just north of Diamond Valley Lake, in the County of Riverside, California (APNs 465-200-020; 465-180-037; 454-030-056; 454-030-070, -071, -072; 454-020-045, -047, -019; 465-140-042, -043; 465-130-018) are surplus to Metropolitan's needs and authorize staff to dispose of the properties; the General Manager has determined this action is exempt or otherwise not subject to CEQA. (RP&AM) **[POSTING SEPARATELY]**

- 8-3** Award five-year contract to Richardson & Company, LLP in an amount not-to-exceed \$5.125 million for annual audit of State Water Project charges; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (WP&S)
- 8-4** Authorize an increase of \$100,000, to an amount not to exceed \$300,000, for a contract for legal services with Hanson Bridgett LLP to provide legal advice on deferred compensation plans, other employee benefits, taxes, and CalPERS matters; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (L&C)
- 8-5** Authorize increase of \$50,000, to an amount not-to-exceed \$350,000, for existing General Counsel contract with Olson Remcho LLP to review and make recommendations to modify the Ethics Office policies, procedures, guidelines and applicable provisions of Metropolitan's Administrative Code; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (L&C)
- 8-6** Approve amendments to the Metropolitan Water District Administrative Code to conform its public contracting provisions to current law and practices; the General Manager has determined that this action is exempt from or otherwise not subject to CEQA. (L&C) **[POSTING SEPARATELY]**
- 8-7** Report on existing litigation OHL USA, Inc. v. The Metropolitan Water District of Southern California, Los Angeles Superior Court Case No. 19STCV27689; and authorize increase in the maximum amount payable under contract with (1) Theodora Oringer PC for legal services by \$TBD to an amount not to exceed \$TBD; and (2) Pacific Consultants Construction, Inc. for consulting services by \$TBD to an amount not to exceed \$TBD (Approp. 154170); the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. (L&C) **[POSTING SEPARATELY]**
[Conference with legal counsel-existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(d)(1)]

9. BOARD INFORMATION ITEMS

- 9-1** Update on Conservation Program
- 9-2** Review of the Metropolitan Water District Act Section 124.5 ad valorem property tax limitation for fiscal years 2020/21 and 2021/22. (F&I) **[POSTING SEPARATELY]**

10. FOLLOW-UP ITEMS

11. FUTURE AGENDA ITEMS

12. BOARD TRAINING

- 12-1** Brown Act Training

13. 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.