



MWDOC Workshop Board Meeting

Proposed Biennial Budget for Fiscal Years 2026/27 and 2027/28; Proposed Water Rates and Charges for Calendar Years 2027 and 2028; Overview of Rates and Charges; Ten-Year Financial Forecast

March 4, 2026

Budget Highlights and Key Budget Drivers

FY 26/27 & FY 27/28 Baseline Budget

Rate Impacts without New Requests (excludes increases in Staffing, CIP & OE, and PWSC)

- Updated Baseline budget is 7.5% / 7.5% (consistent with Oct 2025 Forecast)
 - Key Drivers:
 - End of federal funding under IRA Bucket 1 supply program (~\$47 M)
 - Lower budgeted assumption of stored water sales to non-member agencies from \$60 M to \$25 M
 - Increased departmental O&M (personnel costs, materials, utilities, security contracts, etc.)
 - Other expenditures: DCP planning costs, debt service (CIP, supply, conservation, OE), offset by lower power costs and higher property tax revenues

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Baseline Budget	7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	4.5%	4.5%	4.0%	4.0%

Incremental Drivers

1. Increased Base CIP

- Address backlog of R&R projects:

Prior Budget CIP Budget:	\$666 M
Proposed 2-Year CIP:	\$950 M
Increase =>	\$284 M
- Proposed CIP budget funds approved contracts in the next 2 years and starts to align with industry benchmarks → **reducing the likelihood of costly failures while avoiding sharp near-term rate impacts**

CIP for R&R
Special Joint Board
Workshop in June 2025

Summary of Various Perspectives

- All signs point to an increase in capital investments to mitigate risk

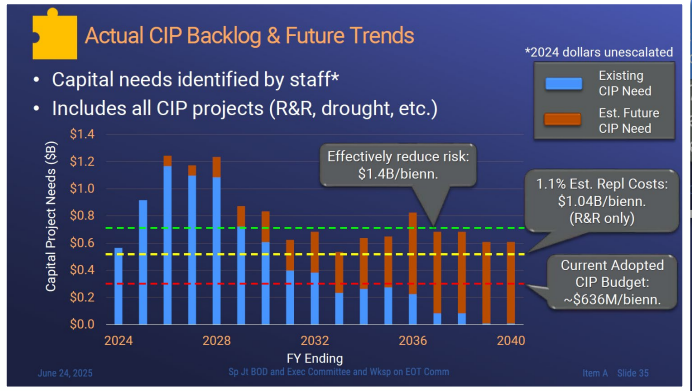
Proactive Risk Mitigation

Align with Metropolitan's 1.1% R&R ratio

Effectively manage CIP backlog & trends

\$1.04B per bienn.

> \$1.4B per bienn.



2. Replace critical Operating Equipment

- To partially mitigate high operational risks for aged and high criticality operating fleet, the Proposed Budget includes funding of \$17 M for FY 2026/27 & \$18 M for FY 2027/28 for Operating Equipment

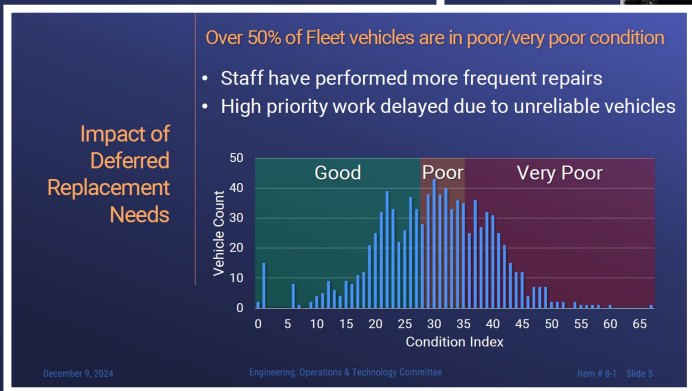
Operating Equip
EOT in December 2024

Fleet Risk Mitigation Costs

- Costs to mitigate high risk is approx. \$85 million (red zone)

Criticality	Moderate Criticality	High Criticality
\$3M	\$11M	\$44M
\$1M	\$9M	\$30M
\$3M	\$18M	\$32M

shown are in 2024 dollars



Incremental Drivers (Cont.)

3. Additional staffing needed to support operations, maintenance and CIP

- Balance the need for staffing positions while limiting the rate impacts to ~1% per biennium for the next 3 budgets
 - FY 2026/27: \$10 M and FY 2027/28: \$21 M
- **Focus on adding positions in operations** including C&D, Water Treatment, IOPSS, and Engineering
- Even with these reduced requests, risks and trade-offs remain

4. Fund 45-MGD PWSC (Stage 1) Project

- Full 45-MGD Stage 1 is included in the Forecast
 - \$2.9 B in 2025\$, \$3.6 B in nominal dollars
- \$150 M over the biennium primarily related to final design, permitting, and pre-construction services for the 45-MGD Stage 1
 - Capital costs funded by \$91.8 M from SWRCB State Fund and LSWRP grant for the biennium and remaining financed with PAYGO and fixed rate debt (4.75% 30-yrs).

Excerpt from Staffing Needs Analysis Special Board Workshop in September 2025

Staffing Needs Analysis Background

- Over the last three budget cycles, **a majority of new position requests were not funded** due to Metropolitan's financial conditions. Importantly, a significant portion of the unfunded positions were requested to keep pace with existing service level demands and to meet emerging challenges due to climate change and other factors

Position Build	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget	FY24 Budget	FY25 Budget	FY26 Budget
Beginning Positions (FY20 Budget)	1907						
New Positions Added		0	0	22	22	19	19
Pure Water Positions Added		0	0	0	17	0	0
Total Positions	1,907	1,907	1,907	1,929	1,946	1,965	1,965
Unfunded Position Requests		35	35	81	81	104	104

- The **2024 Workplace Assessment** further underscored these challenges. The survey results highlight the impact that staffing shortages are having on Metropolitan's employees – including morale problems, safety concerns, and other employee relations challenges – in part due to Metropolitan's growing response to climate change, addressing aging infrastructure, and regulatory changes
 - When asked to evaluate their current workload, **54% of respondents** reported feeling **steady (but just barely)** (28%), **struggling** (16%), or **completely overwhelmed** (10%)

September 23, 2025

Board of Directors Workshop on FAAME

Item 5a Slide 7

Summary

- Acute workforce pressures exist in the water industry overall. These impacts are not unique to Metropolitan
- Pent-up demand for additional position requests are driven by several factors, including: 1) historical unfunded position requests; 2) relatively flat overall FTE counts over the last several decades; and, 3) growing responsibilities in response to climate change, legal and regulatory changes, and aging infrastructure
- To meet Metropolitan's mission, Staff initially identified a need to add 391 positions (~21%) over the next three budget cycles to address critical areas in the organization
- Recognition that Metropolitan must balance the need to add positions with our fiscal realities. To address this, Staff presented a revised (lower) position request reflecting an approximate 1% rate increase per cycle with a focus on adding positions in critical operational areas of the organization, including C&D, Water Treatment, IOPSS, and Engineering
- Even with these reduced requests, risks and trade-offs remain

September 23, 2025

Board of Directors Workshop on FAAME

Item 5a Slide 59

Estimated Overall Rate Increase

FY 2026/27 & FY 2027/28 Proposed Budget

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Baseline Budget	15% 7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	4.5%	4.5%	4.0%	4.0%
Incremental Drivers										
Proposed Increase Base CIP	0.5%	1.0%	0.5%	0.5%	1.0%	1.0%	0.5%	0.5%	1.0%	1.0%
Proposed Operating Equipment	0.4%									
Proposed Staffing	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%				
Baseline + Incremental Drivers	9.0%	9.0%	7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	5.0%	5.0%
Proposed 45-MGD PWSC (Stage 1)	0.5%	0.5%	1.5%	1.5%	2.5%	2.5%	4.0%	4.0%	4.0%	4.0%
Proposed Budget (Baseline + Incremental Drivers + PWSC)	19% 9.5%	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%

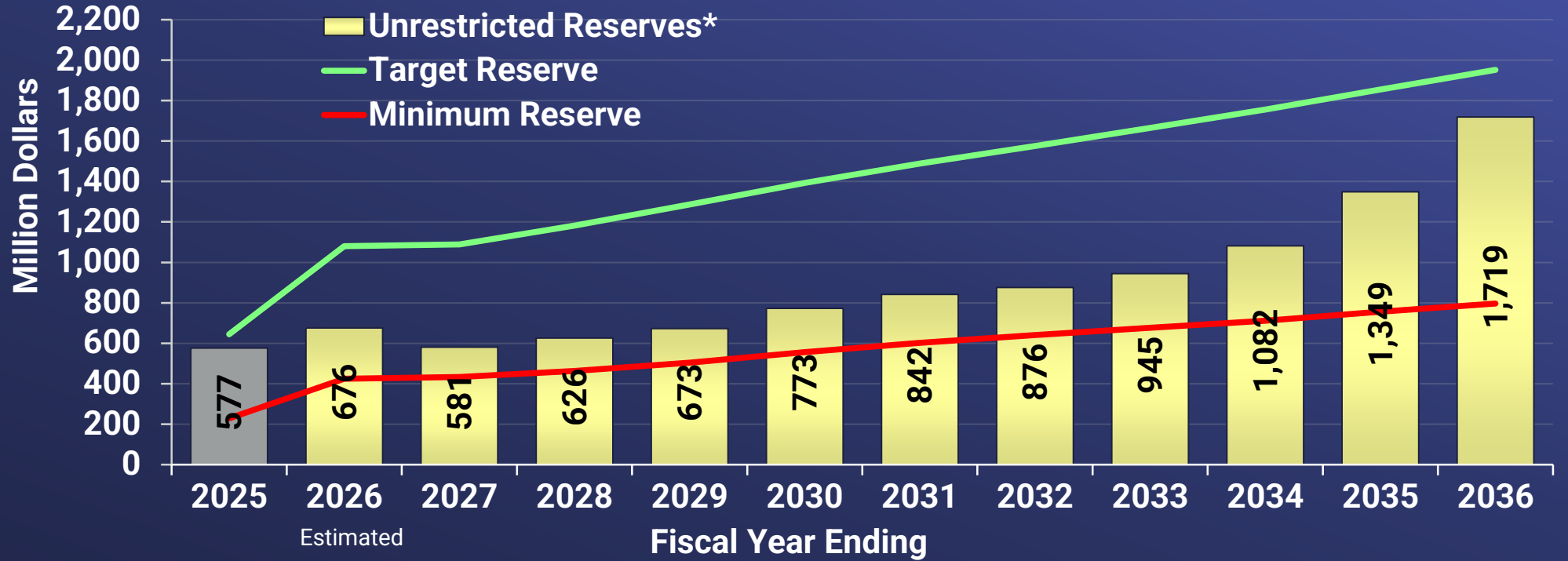
45-MGD PWSC (Stage 1) Assumptions:

- \$2.9 B in 2025\$, \$3.6 B in nominal dollars for the full Stage 1 in the ten-year forecast
- Capital costs funded by \$91.8 M from SWRCB State Fund and LSWRP grant for the biennium, up to \$155 M/yr PAYGO and remaining by debt 4.75% 30-yrs in the ten-year forecast
- Operations start in FY 2036 with \$136.7 M (nominal \$)

Proposed Biennial Budget

Proposed Budget (includes incremental drivers and 45-MGD PWSC Stage 1)

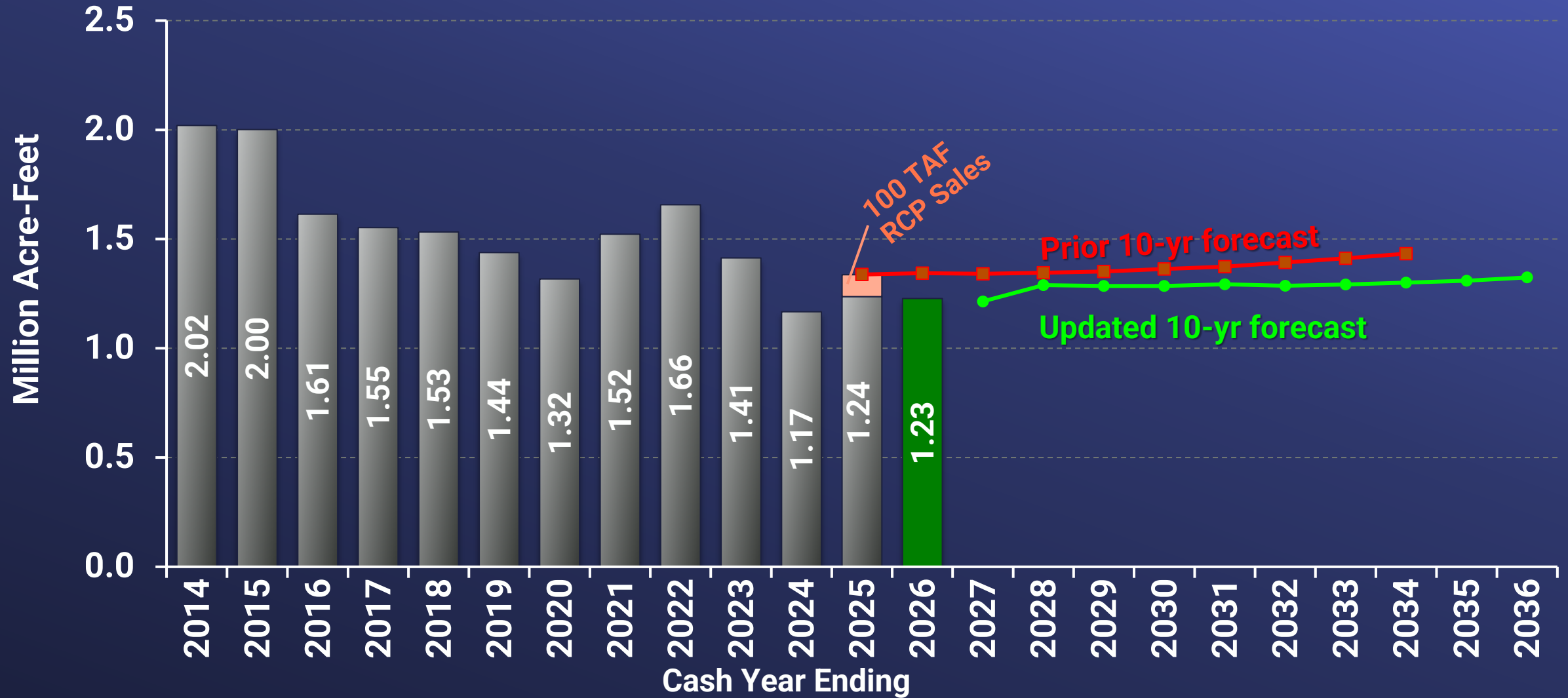
Projected Rate Increases and Financial Metrics



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Overall Rate Inc.	8.5%	8.5%	9.5%	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Water Transaction (MAF)	1.34	1.23	1.21	1.29	1.29	1.29	1.29	1.29	1.29	1.30	1.31	1.32
Rev. Bond Cvg	2.5	2.1	1.7	1.9	1.9	2.1	2.2	2.1	2.3	2.3	2.4	2.5
CIP, \$M	312	354	492	608	768	900	1,226	1,503	1,303	933	816	684
PAYGO, \$M	175	205	185	210	245	300	360	455	480	493	506	520
Prop Tax Rate (%)	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.007

* Revenue Remainder and Water Rate Stabilization Fund
March 4, 2026

Historical Water Transactions & Forecast⁽¹⁾



(1) Includes non-member agency transactions and SDCWA Exchanges and Wheeling from member agencies
 For FY 2026 & FY 2027, water transactions are adjusted for RCP treated water deliveries, which were prepaid in Dec 2024

Proposed Biennial Budget Expenditures

Fiscal Year Ending	Revised Budget	Proposed Biennial Budget		
	2026	2027	2028	
SWP Fixed Costs	\$ 465.5	\$ 506.1	\$ 569.0	SWP: Higher capital charges for Delta capital and subsidence
SWP Variable Power Costs	238.4	212.3	211.8	SWP & CRA: Lower power cost due to updated energy price forecast & reduced CRA diversions
CRA Net Power Costs	83.5	62.7	51.2	
Departmental O&M & Operating Equipment (OE)*	682.8	771.0	816.8	Approved MOUs + additional staffing + higher OE (ZEV transition)+ approved security contract
Supply Programs (cash funded portion)	90.9	125.6	127.8	Assumed purchase of 50.7 TAF of SD Exchange
DCP Planning Costs	25.7	74.7	41.3	Board approved DCP planning costs
Conservation Program (cash funded portion)	25.0	30.5	30.5	
Local Resources Program (w/ Future Supply Action)	36.1	27.7	35.1	
PAYGO	205.0	185.0	210.0	PAYGO & Debt Service increases are due to higher CIP
Debt Service	353.5	363.2	380.7	
Sub-total Expenditures (\$ M)	\$ 2,206.4	\$ 2,358.9	\$ 2,474.1	

* Net of portion funded from \$80 M SWRCB Fund for PWSC

* Revised Budget for FY 2026 reflects \$18 M expense reduction, cash funded OE for ZEV plus approved \$500 K Quagga Mussel Program and 1 FTE for Office of General Counsel in Oct 2025

New Requested Positions for FY 2026/27 and FY 2027/28 Proposed Budget

Group/Department	O&M	CIP	PWSC	Total
Integrated Operations Planning and Support Services	25	3	2	30
Conveyance and Distribution	25			25
Treatment and Water Quality	15		2	17
Engineering Services	4	7	4	15
Office of Safety Security and Protection	5			5
Human Resources	4			4
Finance and Administration	3			3
Information Technology	3			3
Board of Directors	2			2
Water Resource Management	1			1
Total	87	10	8	105

Multi-Budget Cycle Staffing Plan

Group/Department	FYE 27 & 28	FYE 29 & 30	FYE 31 & 32	Total	% of Total
Integrated Operations Planning and Support Services	30	25	24	79	27.4%
Conveyance and Distribution	25	25	25	75	26.0%
Treatment and Water Quality	17	25	19	61	21.2%
Engineering Services	15	21	17	53	18.4%
Office of Safety Security and Protection	5	0	0	5	1.7%
Human Resources	4	1	0	5	1.7%
Finance and Administration	3	0	0	3	1.0%
Information Technology	3	0	0	3	1.0%
Board of Directors	2	0	0	2	0.7%
Water Resource Management	1	0	0	1	0.3%
Sustainability, Resilience, Innovation	0	1	0	1	0.3%
Total	105	98	85	288	100.0%

Position Type	FYE 27 & 28	FYE 29 & 30	FYE 31 & 32	Total	% of Total
O&M Positions	87	68	61	216	75.0%
CIP R&R Positions	10	9	7	26	9.0%
Pure Water Southern California Positions	8	21	17	46	16.0%
Total	105	98	85	288	100.0%

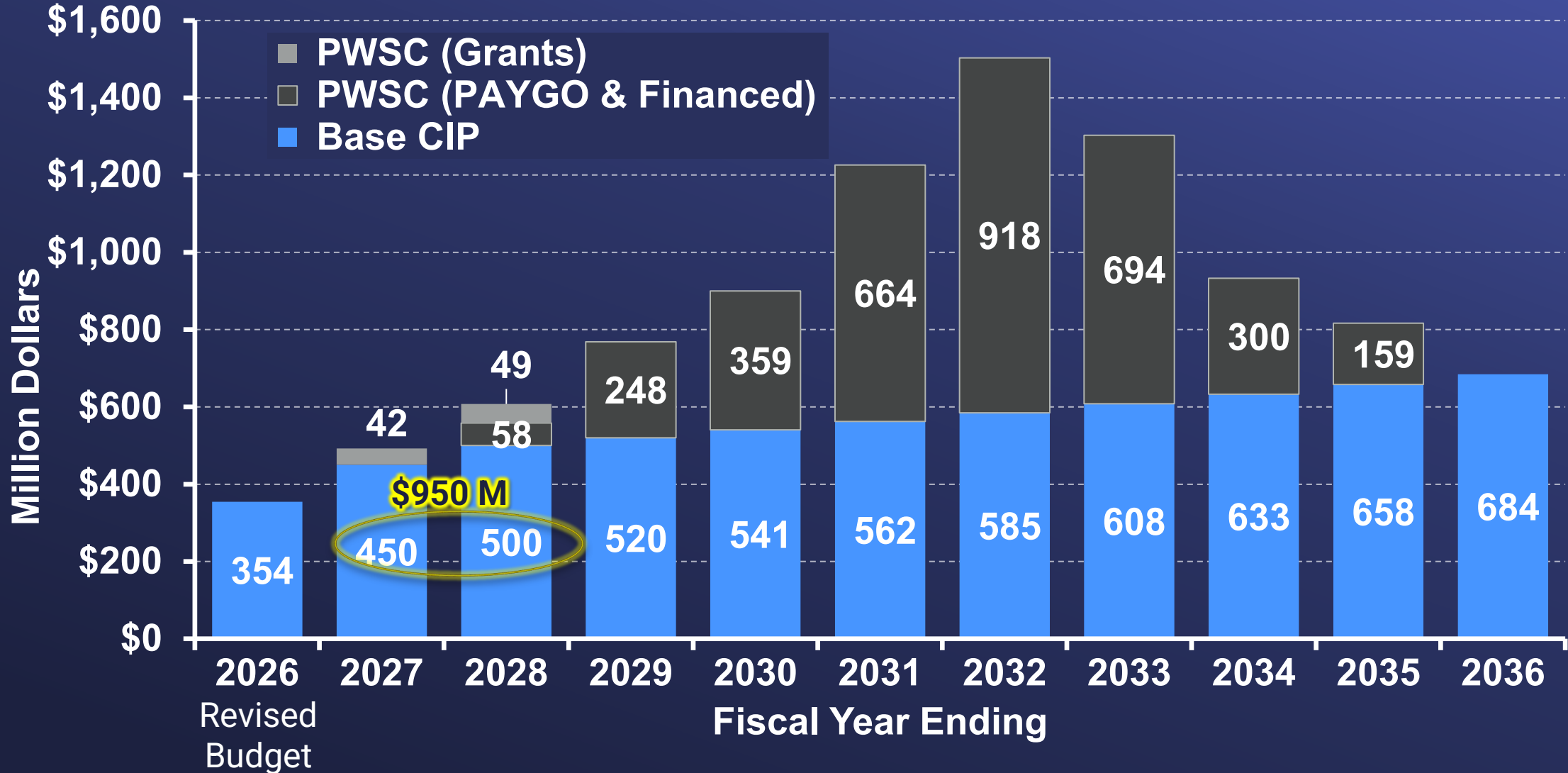
- New Positions Requested total 288 over the next 3 budgets
- Rate impact targeted to be ~1% per biennium budget
- 93.1% of 288 new positions are in Operations and Engineering
- CIP R&R and Pure Water Southern California new position requests pending Board Approval
- Anticipated union allocation of new positions for AFSCME is ~85%

Pure Water Southern California Project

- Proposed Biennial Budget includes funding for 45-MGD Stage 1 PWSC Project
 - Biennium spending limited to design, permitting and other preconstruction activities
- PWSC expenditures over Biennium total \$150 M
 - FY 2026/27: Grant Funded (\$42.4 M from SWRCB State Fund and LSWRP received grants)
 - FY 2027/28: Grant Funded (\$19.4 M from current received LSWRP, \$30M future LSWRP reimbursement), PAYGO & Debt (\$58.2 M)
 - Total spending of \$3.5 B from FY2026/27 to FY2035/36
- PWSC program is anticipated to return to the Board to consider start of implementation
- If PWSC is approved, it would initiate a multi-year capital and operating cost profile and is expected to materially increase longer-term revenue requirements

10-Year Forecast Capital Expenditure

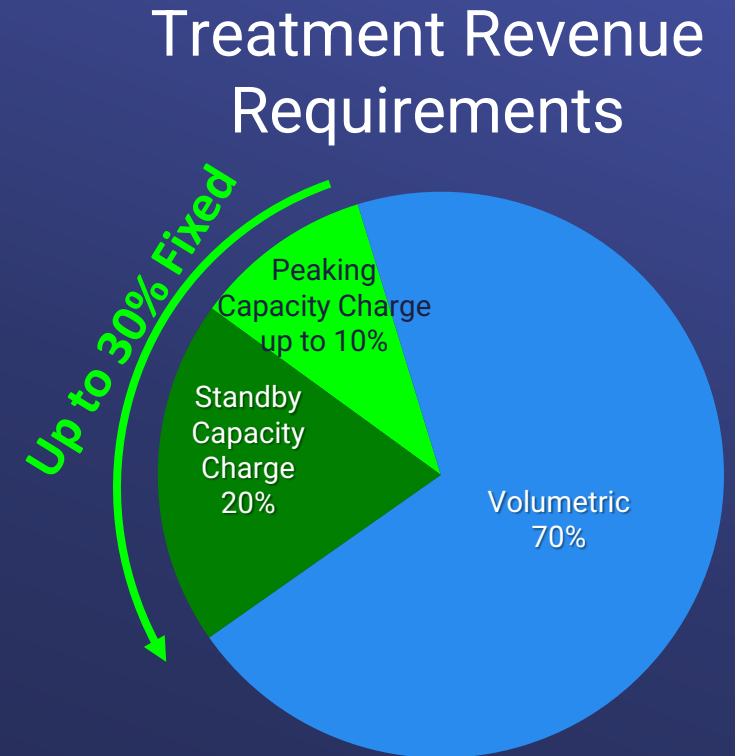
With 45-MGD PWSC (Stage 1)



Treatment Fixed Capacity Charge & Surcharge (Eff. 1/1/2027)

Shifts ~30% of treatment cost recovery to fixed charges; ~70% remains volumetric

Peaking Capacity Charge	A fixed charge would be collected based on a 3-year trailing maximum annual peak day demand in CFS
	Treatment peaking capacity costs <u>~10%</u> of total treatment costs based on allocated revenue requirements
Standby Capacity Charge	<p>Used Standby Capacity Charge: A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in AF</p> <p>Remaining Standby Capacity Charge: A fixed charge for remaining standby capacity would be collected based on 5-yr trailing maximum annual use in AF</p> <p>This charge inclusive of the Peaking and Used Standby Charge would add up to 30% of the Treatment Revenue Requirements, unless the allocated combined costs are less than 30%.</p>
Volumetric	Remaining (~70%) of treatment costs



Transitional determinants

- CY 2027: Peaking Capacity Charge allocated using FY 2025 avg daily treated demand (cfs); Standby Capacity Charge allocated using FY 2025 treated firm demands (AF)
- CY 2028: transitions to rolling determinants (first year)

Proposed Rates and Charges

Rates & Charges Effective January 1st	Current 2026	Proposed 2027	% Increase (Decrease)	Proposed 2028	% Increase (Decrease)
Supply Rate (\$/AF)	\$313	\$440	40.6%	\$488	10.9%
System Access Rate (\$/AF)	\$492	\$493	0.2%	\$560	13.6%
System Power Rate (\$/AF)	\$179	\$155	(13.4%)	\$154	(0.6%)
Treatment Surcharge (\$/AF)	\$544	\$382	(29.8%)	\$411	7.6%
Full Service Untreated Volumetric Cost (\$/AF)	\$984	\$1,088	10.6%	\$1,202	10.5%
Full Service Treated Volumetric Cost (\$/AF)	\$1,528	\$1,470	(3.8%)	\$1,613	9.7%
Treatment Peaking Capacity Charge (TPCC) (\$/CFS)		\$33,100	-	\$21,800	(34.1%)
Total TPCC for CY (\$M)		\$33	-	\$38	14.8%
Treatment Used Standby Capacity Charge (TUSCC) (\$/AF)		\$16	-	\$148	825.0%*
Total TUSCC for CY (\$M)		\$11.1	-	\$10.6	(4.8%)
Treatment Remaining Capacity Charge (TRCC) (\$/AF)		\$75	-	\$68	(9.3%)
Total TRCC for CY (\$M)		\$52	-	\$51	(1.7%)
RTS Charge (\$M)	\$188	\$237	26.1%	\$254	7.2%
Capacity Charge (\$/CFS)	\$14,500	\$17,900	23.4%	\$21,400	19.6%
Total Capacity Charge for CY (\$M)	\$48	\$51	4.9%	\$61	19.6%
Overall Rate Increase			9.5%		9.5%

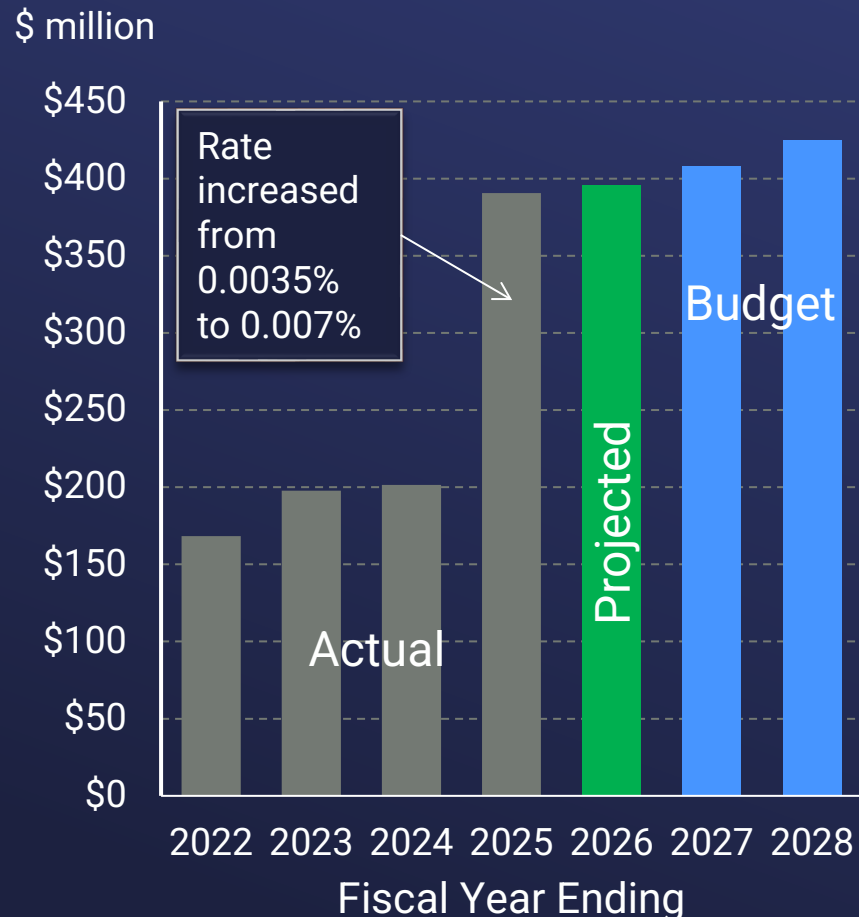
Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

*The percentage increase reflects changes in billing determinants associated with the phased implementation of new fixed charges, with the first year based on average demand and the second year transitioning to estimated standby usage.

Property Tax

Currently @ 0.007%

Property Tax Revenues



Property Tax Background

Special Property Tax

Voters approved the SWP indebtedness before Proposition 13
Not part of 1% shared AV property tax limited by Prop 13

Scope of Voter-Approved Indebtedness

Original bonds and ongoing costs of maintaining, operating, and replacing the system

Limit of MWD's SWP AV Property Tax Rate

Limited by Metropolitan's SWP costs that go to "maintaining, operating, and replacing" the SWP

Assumption in Proposed Budget

Property Tax Rate = 0.007% → ~\$424 M in FY 2027/28

- Assessed Values are assumed to escalate @4% per year

Property Tax Rate and Rate Impact

- Every 0.0005% increase (\$5 per year per \$1 M assessed value) generates approximately \$20 M additional revenues for the biennium → ~1% rate reduction over the biennium

Property Tax and Biennial Rate Increases

Property Tax Rate	Levy \$ per \$1M AV	Est. FY 2028 Property Tax Revenues	Rate Increases FY 2027 & FY 2028	Rate Increases FY 2029 & FY 2030
0.0070% (Current)	\$70 / yr	\$425 M	9.5% / 9.5%	9.0% / 9.0%
0.0090%	\$90 / yr	\$508 M	7.5% / 7.5%	9.0% / 9.0%
0.0095%	\$95 / yr	\$526 M	6.5% / 6.5%	9.0% / 9.0%
0.0105%	\$105 / yr	\$570 M	5.5% / 5.5%	9.0% / 9.0%

**Approximately equal to
SWP fixed costs**

Next Steps

- Feb 20, 2026 Notice to member agencies regarding public hearing and proposed adoption of fixed charges
- Feb 24, 2026 FAAME Committee, Workshop #2
- Mar 10, 2026 FAAME Committee, Workshop #3
- Mar 10, 2026 Public hearing on proposed rates and charges
- Mar 24, 2026 FAAME Committee, Workshop #4
- Apr 14, 2026 Board **action** regarding Biennial Budget for FYs 2026/27 and 2027/28, rates and charges for CYs 2027 and 2028, and Ten-Year Financial Forecast
- May 12, 2026 Board **action** regarding continuation of Standby Charge for FY 2026/27
- Aug 18, 2026 Board **action** regarding fixing ad valorem property taxes for FY 2026/27

