THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Committee Item
INFORMATION

Finance, Affordability, Asset Management, and Efficiency Committee

7/14/2026 Committee Meeting

6b

Subject

Overview of Metropolitan's Finances

Executive Summary

This item provides an informational overview of Metropolitan's financial framework and the major financial tools used to support reliable water service, rate stability, and long-term financial sustainability. The overview will be provided in the form of a PowerPoint presentation and is generally summarized here. The overview includes a general discussion of Metropolitan's budget (revenues and expenditures), fund structure, reserves, rates and charges, debt portfolio, and investment program.

Metropolitan's financial framework is designed to support the agency's operational needs, capital investment responsibilities, water supply obligations, and regional infrastructure commitments. It also provides tools to manage financial risks, including water sales variability, fixed cost recovery, liquidity needs, reserve adequacy, debt affordability, and investment policy compliance.

Fiscal Impact

There are no fiscal impacts associated with this item.

Applicable Policy

Metropolitan Water District Administrative Code, Division IV, Chapter 1: Water Service Policies, Definitions

Metropolitan Water District Administrative Code, Division IV, Chapter 3: Water Transactions Revenues

Metropolitan Water District Administrative Code, Division IV, Chapter 4: Classification and Rates

Metropolitan Water District Administrative Code, Division V, Chapter 1: Administrative Matters

Metropolitan Water District Administrative Code, Division V, Chapter 2: Financial Policies

Metropolitan Water District Act, Part IV, Chapter 1: Powers and Purposes, Powers generally

Metropolitan Water District Act, Part IV, Chapter 2: Powers and Purposes, Water

Metropolitan Water District Act, Part V: Bonds and Other Evidences of Indebtedness

Metropolitan Water District Act, Part VI: Taxes

Related Board Action(s)/Future Action(s)

This is an information item, and no board action is requested. Staff will continue to provide periodic financial updates and future budget, rates and charges, reserve, debt, and investment items through existing board and committee processes.

Details and Background

Background

This item provides the committee with a general overview of the major components of Metropolitan's financial framework. Metropolitan's financial structure supports the delivery of reliable water service to its 26 member agencies in Southern California while maintaining financial flexibility, rate stability, liquidity, and access to capital financing.

The discussion will focus on how Metropolitan funds its operating and capital obligations, manages funds and reserves, establishes rates and charges, uses debt financing, and invests available cash in accordance with applicable policies. These components work together to support Metropolitan's mission, manage financial risk, and promote long-term financial sustainability.

The following areas will be reviewed:

- **Budget Overview:** The overview will describe Metropolitan's major revenue sources and expenditure obligations. Revenues include payments for water transactions, fixed charges, property taxes, investment earnings, and other sources. These revenues support operations and maintenance, purchased water costs, power costs, capital financing, supply programs, demand management, and other regional water service responsibilities. A key financial consideration is the need to balance stable and variable revenues with a cost structure that includes significant fixed and long-term obligations.
- **Rate Structure and Property Taxes:** The overview will summarize Metropolitan's unbundled rate structure, including the Supply Rate, System Access Rate, System Power Rate, Treatment Surcharge, Readiness-to-Serve Charge, Capacity Charge, and Treatment Capacity Fixed Charges (beginning in 2027). The discussion will include the role of fixed charges in recovering costs associated with system capacity, standby capability, treatment capacity, and other fixed cost obligations. The overview will also summarize the property tax revenues.
- **Funds and Reserves:** The overview will describe Metropolitan's major funds and reserves, including operating funds, debt service and construction funds, reserve funds, trust funds, and other legally or policy-restricted funds. This discussion will include the role of unrestricted reserves, including the Revenue Remainder Fund and Water Rate Stabilization Fund, in supporting operating liquidity, rate stability, financial flexibility, and compliance with Board financial policies.
- **Reserve Policy:** The overview will include Metropolitan's unrestricted reserve policy as a financial stability tool that helps manage cash flow, reduce the likelihood of emergency rate increases, protect service continuity during unexpected revenue declines or unanticipated expenditures, and support Metropolitan's credit profile. The discussion will also address how reserve targets are evaluated in relation to water sales assumptions and financial risk.
- **Debt and Investments:** The overview will provide general information on Metropolitan's debt portfolio and investment program. Metropolitan uses debt to fund a portion of capital infrastructure investments and uses pay-as-you-go funding to manage leverage and support long-term financial sustainability. The discussion will also include how Metropolitan's investment program supports liquidity, policy compliance, and earnings objectives.

This item is informational, and no action is requested at this time.

6/25/2026	
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6/25/2026	
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Ref# cfo12712835