



## Board of Directors Workshop on Finance, Affordability, Asset Management and Efficiency

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 (Workshop 2)

Item 5a

February 24, 2026

Presented by: Adam Benson

Item 5a  
Budget  
Workshop #2

## Subject

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 (Workshop 2)

## Purpose

Provide information to enable April Board action on Proposed Biennial Budget for Fiscal Years 2026/27 and 2027/28, Proposed Water Rates and Charges for Calendar Years 2027 and 2028, and Ten-Year Financial Forecast

## Next Steps

FAAME Committee Workshop #3 March 10, 2026

# Agenda

## Follow-up from Workshop #1

- Baseline Budget Rate Increase
- Reserve Policy Review
- Revenue & Expenditure Profile
- Property Tax Options
- Major Capital Projects & Scenario Analysis
- PWSC Questions
- SWP Costs & Subsidence Costs
- Capital Investment Plan
- Other Questions
- Follow Up Item for Workshop 3
- Next Steps

# Baseline Budget Rate Increase

# Question: What is driving the 7.5%/7.5% (15%) baseline rate increase?

## Answer:

General Drivers of the Baseline Rate Increase	~Biennium Rate Impact
SWP Costs ( <i>Fixed costs up, partially offset by lower power costs</i> )	5%
DCP Planning Costs ( <i>Board approved Dec 2024</i> )	3%
Departmental O&M ( <i>see next slide</i> )	7%
Reduced Other Revenues ( <i>e.g. Stored Water Sales and sunset of IRA Bucket 1</i> )	7%
Other Changes in Net Revenue Requirements ( <i>e.g., increased AV, lower CRA Power Costs, etc.</i> )	- 7%
<b>Total Biennium Rate Increase</b>	<b>15%</b>

# Baseline Departmental O&M Increase

~7% Biennium Rate Impact Excludes new staffing requests

- **Salaries & Benefits: 3.6%**
  - Negotiated labor increases and merit increases per MOUs
  - Increased benefit costs for pension, active medical and retiree medical expenses
  - Anticipated overtime and increase in subsidies and incentives by negotiated MOU provisions expanding premium pays
- **Professional and Non-Professional Services: 1.1%**
  - Increased security service agreement and higher emergency management service agreement
  - Increased legal costs for water quality litigation, labor and employment claims
- **Materials & Supplies and Utilities: 0.7%**
  - Higher due to inflationary pressures on water treatment chemicals and higher electrical rates associated with changing energy markets and climatic conditions
- **Software and Licensing: 0.2%**
  - Increases due to inflationary increases for industry-wide software licensing/support agreements
  - Driven by equipment inflation and the replacement of critical, end-of-life machinery
- **Other Miscellaneous: 1.4%**

# Baseline Salaries & Benefit Cost Pressures

## Salaries & Benefit Cost Pressures Contributing to Higher Baseline Rate Increases

### Wages

- The biennial budget reflects 2-year compound wage increase of **~8.2%**
  - Negotiated **4% general wage increase** effective July 1, 2026
  - Assumed additional **4% general wage increase** effective July 1, 2027

### Pension

- Unfunded Accrued Actuarial Liability (UAL) pension payments are projected to increase by **19%** cumulatively over the two-year biennium

	FY 25/26	FY 26/27	FY 27/28
UAL Payment	72,329,773	82,958,358	86,081,000
Cumulative Increase		14.7%	19.0%

### Medical

- Active employee healthcare cost pressures remain significant. CY 2026 premiums increased **~5.9%** (highest cost HMO plan; Region 3). Two-year cumulative increases are projected to be **~12.2%**

**Question:** Water sales assuming \$25M vs current budget \$60M, where are we at in the current stored water sales?

**Answer:**

Type	Item Descriptions	Actual FY 2024/25	Est. for FY 2025/26	Status / Details
New Revenue	Agreement with IID, SDCWA, and MWD for SDCWA to purchase Full-Service water from MWD, rather than exchange IID conserved water with MWD	\$17M		Board Approved in Aug 2024 50TAF included in Q2 FY 2025 Actual
New Revenue	SWP water sales outside of the service area		\$47.5M	Approved in May 2025 Payments are received in Oct 2025 and Mar 2026
<b>Total</b>		<b>\$17M</b>	<b>\$47.5M</b>	

# Reserve Policy Review

# Unrestricted Reserves

## General Overview

- The Government Finance Officers Association (GFOA) recommends that governments adopt a formal policy that defines how much unrestricted reserves should be maintained based on each public agency's **risk profile, revenue stability, and expenditure volatility**
- There is no “one size fits all” approach to reserve levels. Rather, agencies should consider:
  - Revenue predictability
  - Exposure to disaster/economic downturn
  - Structural financial risks  
(e.g., large fixed costs, deferred maintenance)
  - Availability of other financial resources
  - Credit rating risk and borrowing costs

In July 2024, Metropolitan leadership formed an Ad Hoc Working Group to review and refine the agency's business model. In 2025, the Financial Sub-Working Group evaluated updates to the Unrestricted Reserve Policy through a series of workshops, with recommended refinements presented to the Board and approved in July 2025.

# Unrestricted Reserves

## General Benefits of Unrestricted Reserves

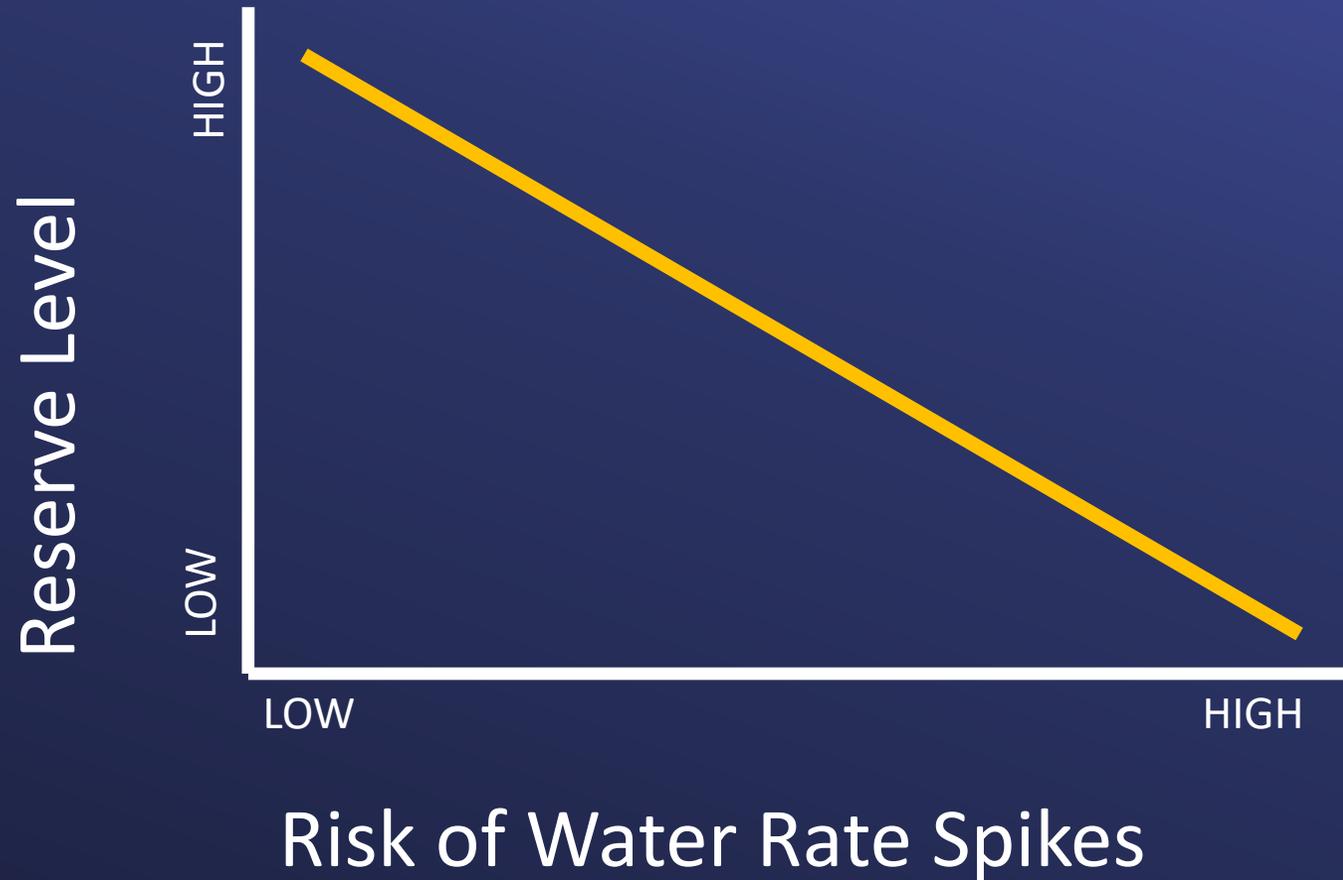
- Reserves are a tool to maintain financial stability
  - Avoid large unexpected rate increases
  - Protect service continuity – especially during emergencies – and ensure financial sustainability during periods of unexpected revenue declines or to cover unanticipated expenditures
- Healthy reserves save ratepayers money over time
  - Credit rating agencies like Moody's, S&P, and Fitch look at reserve levels (i.e., days cash on hand) when setting bond ratings
    - Stronger reserves =>
      - Higher credit rating
      - Lower borrowing costs
      - Lower interest paid on infrastructure investments
      - Lower lifetime cost to ratepayers
- Reserves are a risk management tool that protects service continuity, stabilizes financial performance, and safeguards ratepayer resources

# Unrestricted Reserve Policy

In place since 1999 - updated in 2025

- The Unrestricted Reserves policy helps ensure stable and predictable water rates by providing a financial buffer to cover operating expenses during periods of lower-than-expected water demand. Without this reserve, these costs would need to be recovered through emergency rate increases to maintain operations.
- On July 8, 2025, the Board approved revisions to the Unrestricted Reserves policy and incorporated a mechanism that decreased the required reserves when the Board adopted a more conservative water sales projection
- The more conservative (lower) the water demand projection  
=> the more likely MWD will have sufficient revenues to cover its expenditures  
=> the lower the reserve target
  - Water demand: 80% exceedance → reserve 15% of Net Water Rate Revenue Requirements
  - Water demand: 70% exceedance → reserve 19% of Net Water Rate Revenue Requirements
  - Water demand: 50% exceedance → reserve 25% of Net Water Rate Revenue Requirements
- Minimum fund level provides 18 months of rate protection
- Target fund level provides additional 2 years of rate protection for a total of 3.5 years

# Unrestricted Reserve Level vs. Rate Spikes



# Unrestricted Reserve Policy Calculation for FY 2026/27

## Proposed Biennial Budget

	2026/27 Proposed	2027/28 Proposed	2028/29 Forecast	2029/30 Forecast	2030/31 Forecast
1 <b>Gross Revenue Requirement</b>	<b>\$2,455</b>	<b>\$2,545</b>	<b>\$2,668</b>	<b>\$2,834</b>	<b>\$3,089</b>
2 Less Property Tax	\$408	\$425	\$438	\$451	\$460
3 Less Interest Income, Power Sales & Misc. Rev*	\$103	\$83	\$60	\$62	\$66
4 Less SDCWA Exchange (Baseline Exchange)	\$152	\$155	\$162	\$170	\$178
5 Less Fixed Charges					
6     RTS Charge	\$204	\$243	\$254	\$261	\$285
7     Capacity Charge	\$49	\$54	\$65	\$78	\$94
8     Treatment Capacity Charges	\$32	\$98	\$101	\$107	\$112
9 <b>Net Water Rate Revenue Requirements</b> <small>[(1)-sum([2]:[8])]</small>	<b>\$1,506</b>	<b>\$1,488</b>	<b>\$1,587</b>	<b>\$1,705</b>	<b>\$1,894</b>
10 Percent Reserved	19%	19%	19%	19%	19%
11 <b>Annual Amount Reserved</b> <small>([9] x [10])</small>	<b>\$286</b>	<b>\$283</b>	<b>\$302</b>	<b>\$324</b>	<b>\$360</b>

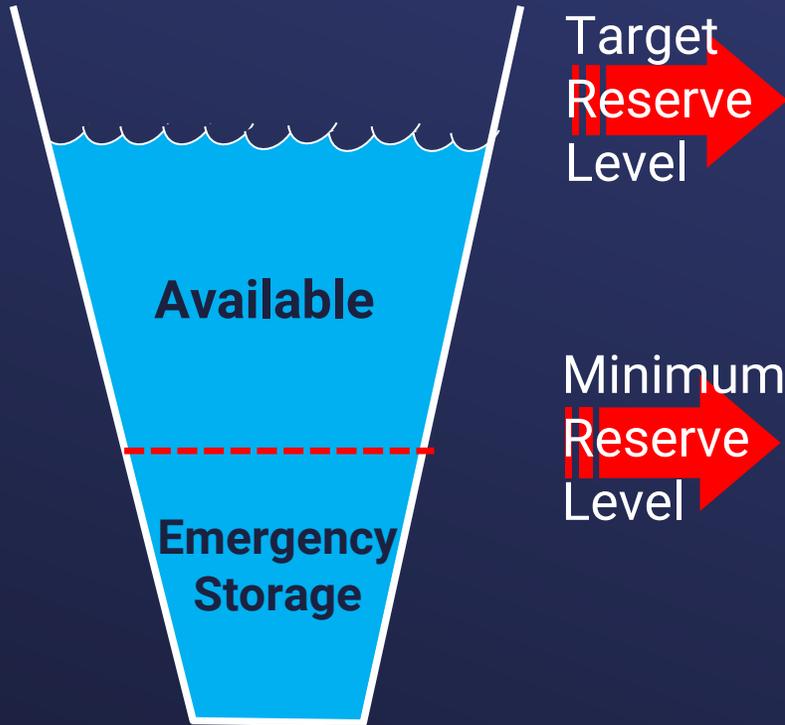
**Minimum Reserve Level = \$283 + \$302 / 2 = \$434 million** ← 18 months

**Target Reserve Level = \$283 + \$302 + \$324 + \$360/2 = \$1,088 million** ← 42 months

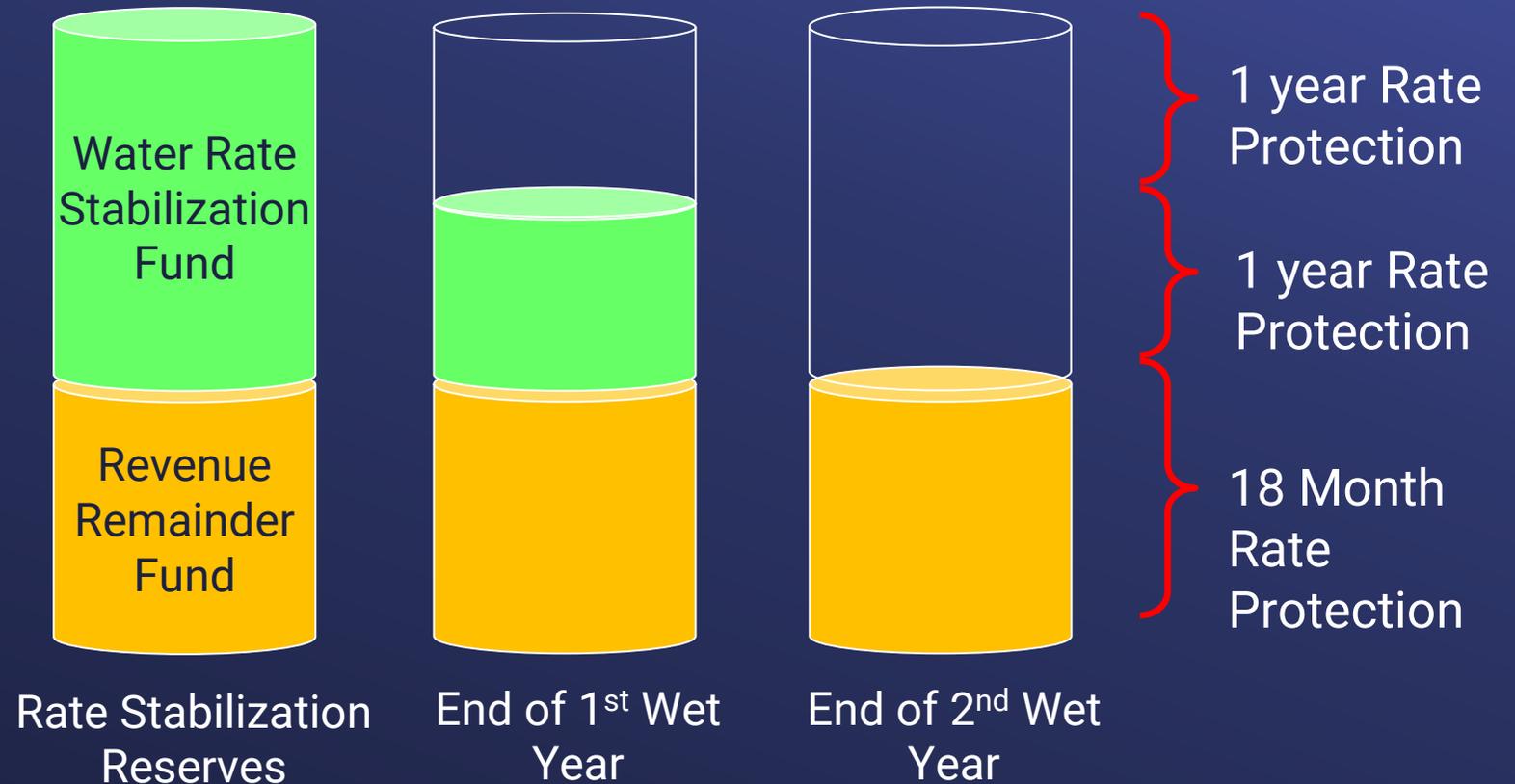
\* Misc. Revenues – Lease, Non-MA Sales, \$80M State Fund Use and Awarded Grants, excluding one-time revenues

# Use of Unrestricted Reserve

## Water Reserves



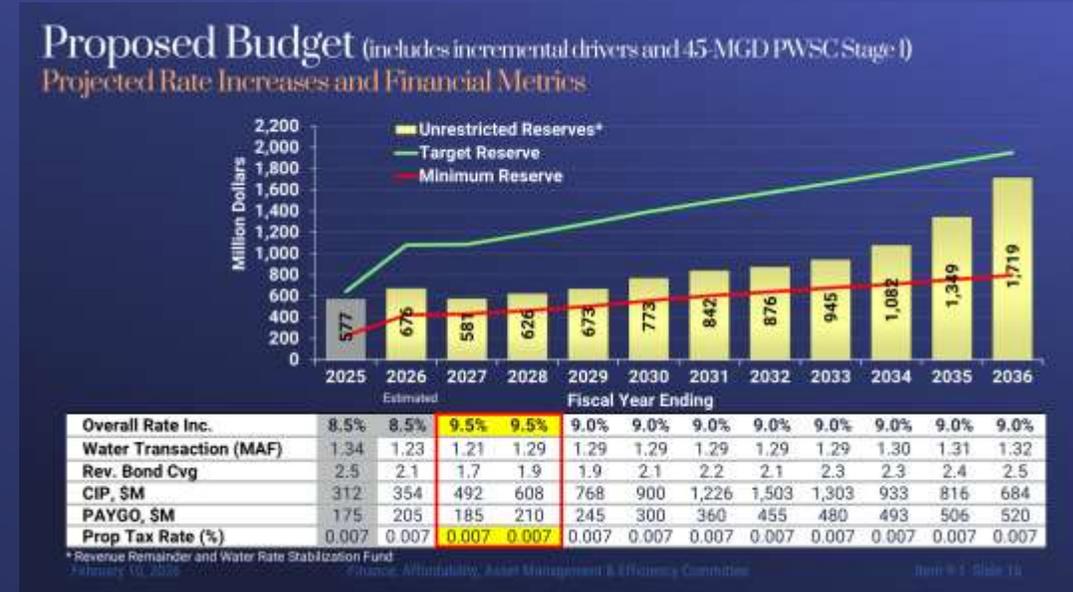
## Financial Reserves



# Question: How much of the rate increase is associated with funding the unrestricted reserves?

## Answer:

- None of the proposed biennium rate increases are being used to fund reserves.
  - The proposed biennial rate increases are moderated through the use of reserves to smooth rate impacts. The financial plan reflects a \$95 million drawdown in the first year, with full replenishment not occurring until FY 2029/30.
- Our Unrestricted Reserves Policy not only moderates year-to-year rate impacts but also helps keep overall rates lower by supporting strong financial practices that reduce costs and keep water rates more affordable.
  - AWWA M1 (7th ed.): reserve adequacy tied to cash-flow coverage and rate-revenue volatility (p. 90)



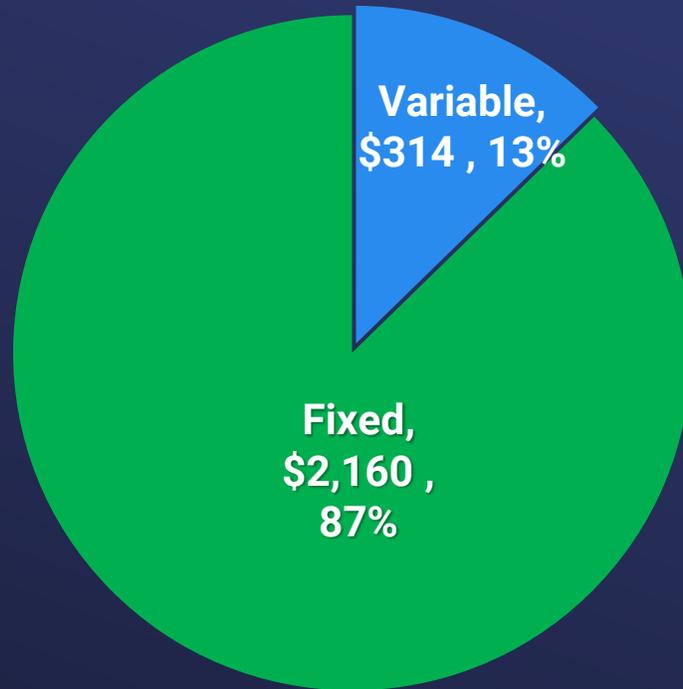
**Note:** Rates are adopted only for the two-year biennium budget. The remaining eight years are updated with each successive budget cycle and are provided solely to illustrate potential long-term rate impacts based on underlying assumptions. While the out-year rates are consistent with the Board's established policy targets and projected costs and revenues, the rate increases shown in the final years may be lower.

# Revenue & Expenditure Profile

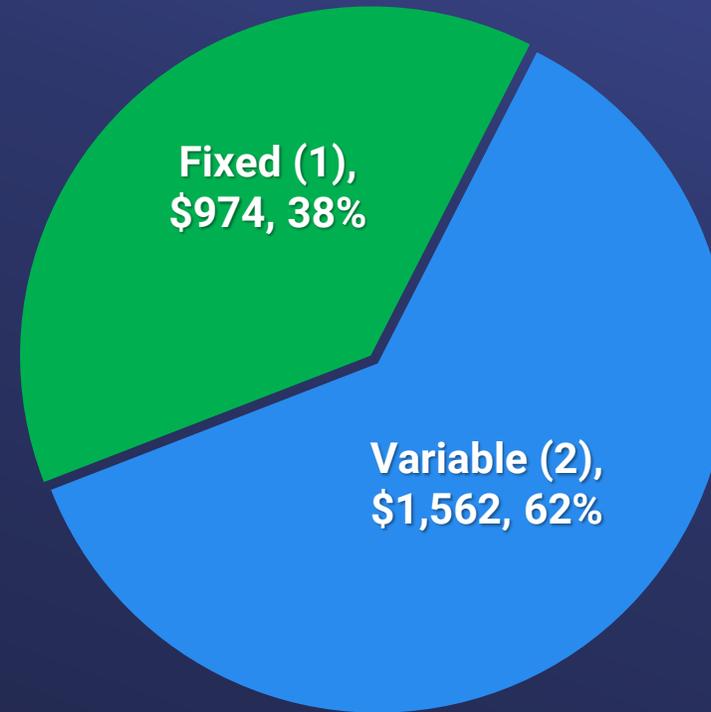
# Fixed Costs vs. Variable Revenues

2027/28 Budget (\$ in Millions)

## Expenditures



## Revenues \*



### Semi-Fixed Variable Revenues Concept

- MWD lowest water sales forecast\* is approximately 829 TAF → with volumetric sales revenue of ~ \$1.2B or 49% of revenues, which could be considered semi-fixed
- 38% fixed + 49% semi-fixed = **87% of MWD Revenues are fixed + semi-fixed** → which better alignment with the 87% fixed expenditures

\* The lowest water transactions forecast is estimated by evaluating various hydrological conditions

- (1) For purposes of this presentation, fixed revenues represent the revenues that do not fluctuate with the volumes of goods sold, including Readiness-to-Serve Charge, Capacity Charge, Treatment Capacity Charges, SDCWA Exchange baseline payments and property taxes
- (2) For purposes of this presentation, Variable Revenues includes volumetric water sales, contracted transactions like wheeling and Exchanges with Coachella, USBR etc. and other income including one-time revenues, grants, interest income, power sales and miscellaneous

# Recent Progress to Increase Fixed Revenues

Resulting from Board Directives on Increasing Fixed Revenues as part of Business Model Review

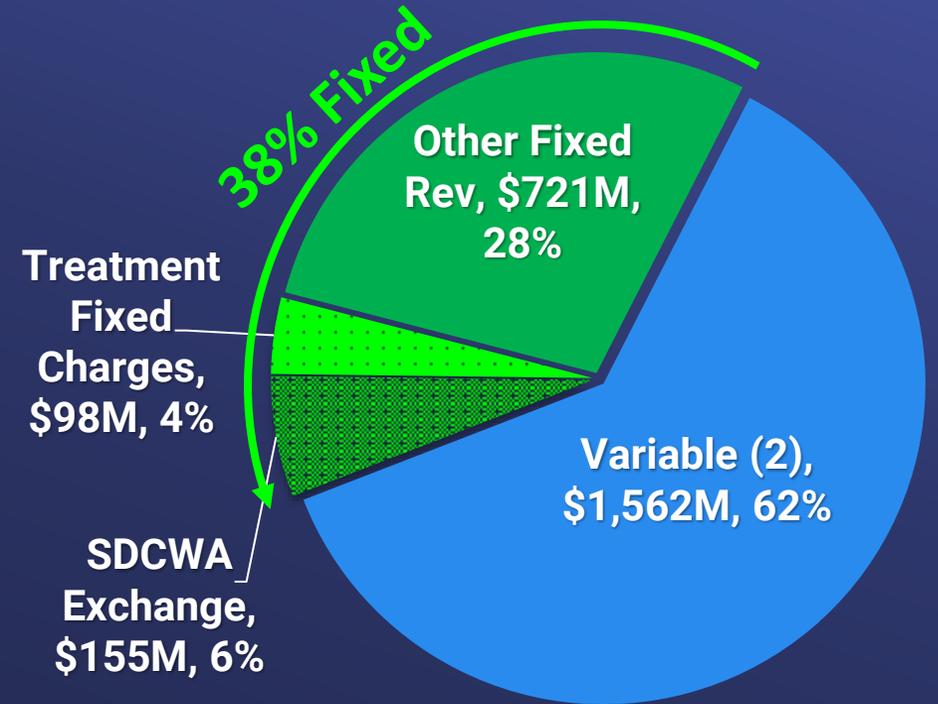
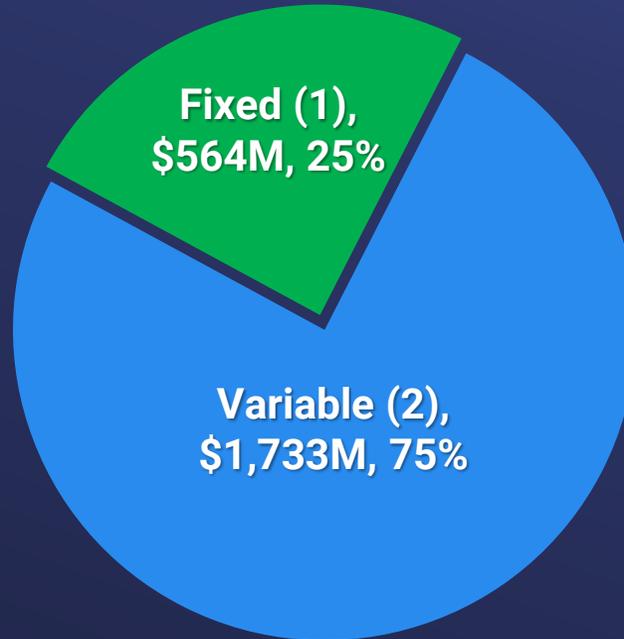
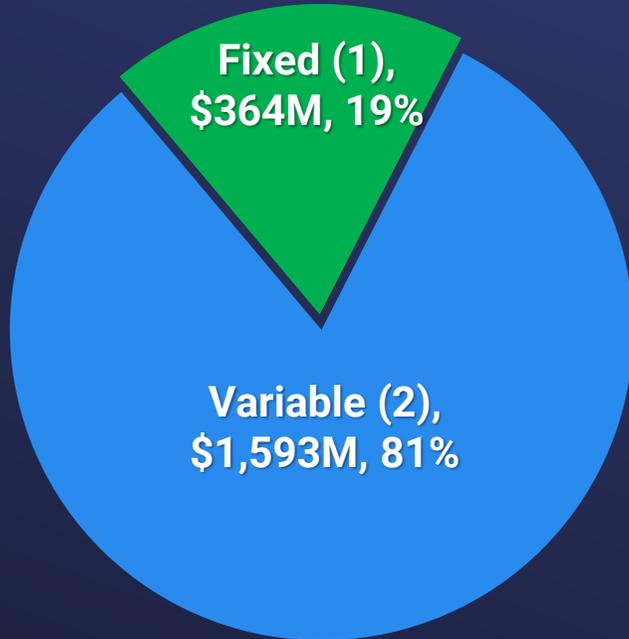
**Proposed**

## 2023/24 Budget

## 2025/26 Budget

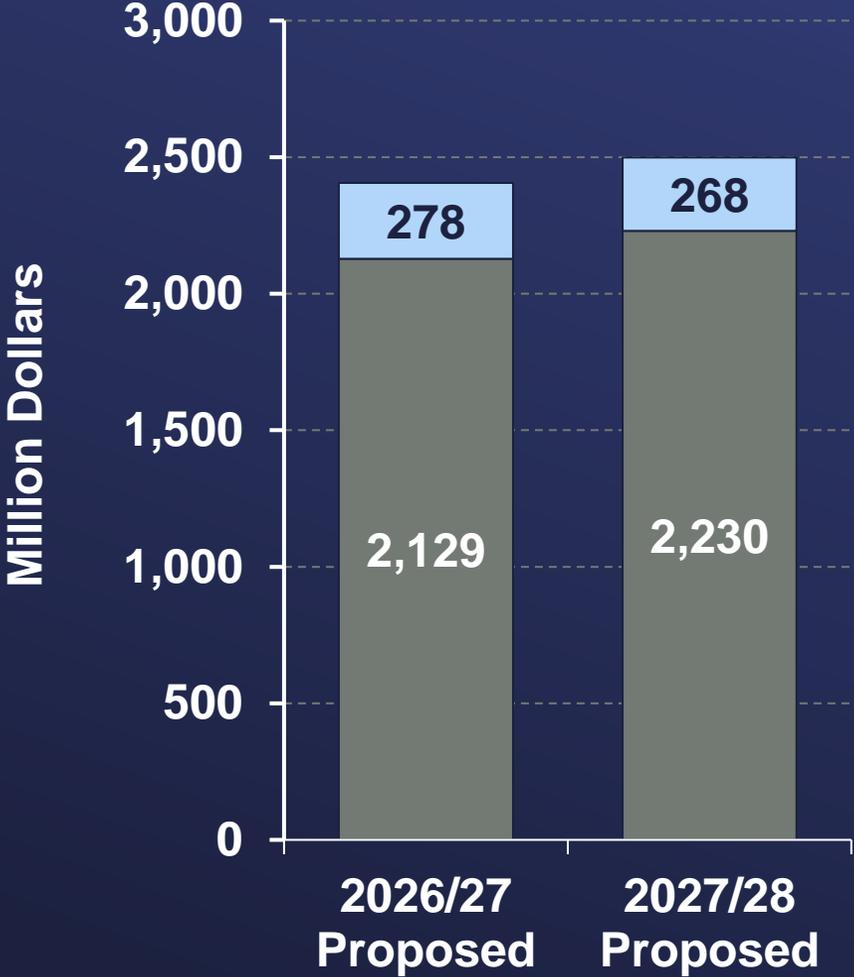
Increase Property Taxes to 0.007% starting FY 2024/25

## 2027/28 Budget



- (1) For purposes of this presentation, fixed revenues represent the revenues that do not fluctuate with the volumes of goods sold, including Readiness-to-Serve Charge, Capacity Charge, and property taxes
- (2) For purposes of this presentation, Variable Revenues includes volumetric water sales, contracted transactions like wheeling and Exchanges with Coachella, USBR etc. and other income including one-time revenues, grants, interest income, power sales and miscellaneous

# Discretionary Expenditures



## Discretionary

- PAYGO Funding (\$185M, \$200M)
- Delta Conveyance Project planning costs (\$75M, \$41M)
- Future Supply Actions & Stormwater Pilot (\$3M, \$4M)
- Uncommitted conservation (\$7M, \$15M)
- New LRP (\$7M, \$8M)

## Non-discretionary

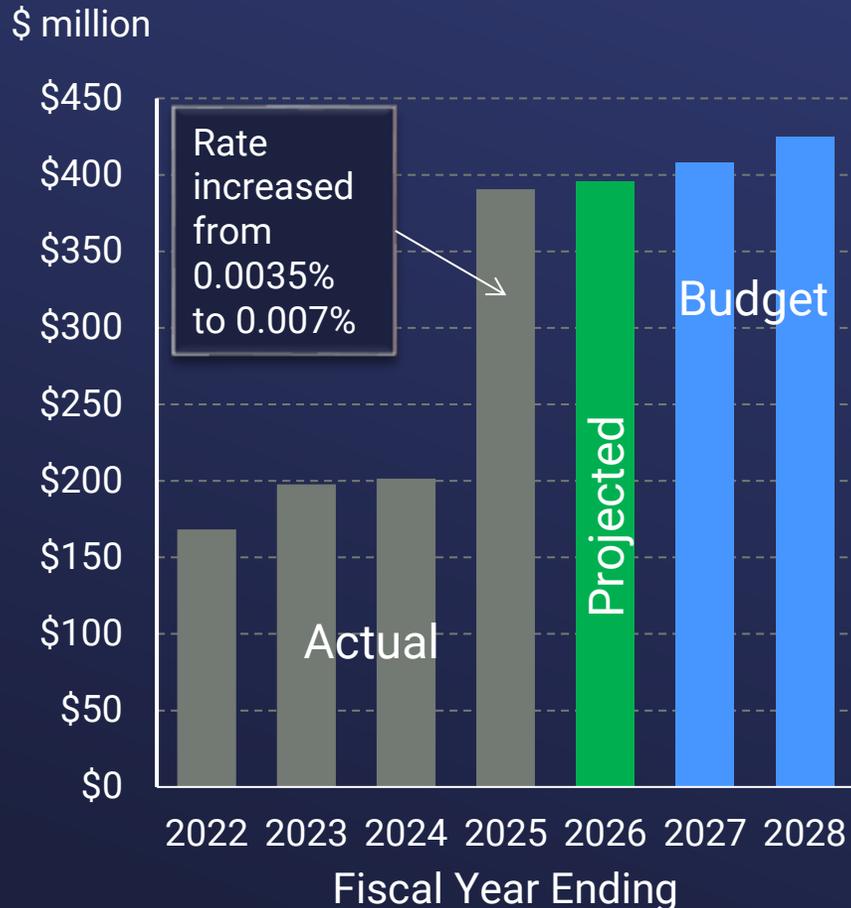
- O&M
- Committed Conservation
- State Water Contract
- CRA Power
- Debt Service & Debt Reserve
- Supply Programs
- LRP Incentive Contracts
- Required Reserve Increase

# Property Tax Options

# 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 Scenarios

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**

# Major Capital Projects & Scenario Analysis

# Est. Overall Rate Increases for Major Capital Projects

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
<b>Baseline + Incremental Drivers</b> <sup>18%</sup>	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%
<b>Proposed Budget</b> <sup>19%</sup> (Baseline + Incremental Drivers + PWSC)	9.5%	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
<b>Incremental Impacts for Major Capital Projects</b>										
AVEK Expansion (Stage 2)				0.3%	1.1%	1.1%				
Sites (22% participation)			0.6%	0.8%	1.3%	1.5%	1.0%	0.3%	0.3%	
SWP Surface Storage							0.2%	0.4%	1.3%	2.3%
DCP (47% participation)			0.5%	0.4%	1.0%	0.5%	0.7%	0.6%	0.7%	1.2%
East-West Conveyance				0.3%	2.9%	10.0%	9.0%	1.9%	0.6%	
<b>Incremental for Major Projects*</b>			<b>1%</b>	<b>2%</b>	<b>6%</b>	<b>13%</b>	<b>11%</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>

\*Displayed as simple summed total. Actual impacts will be slightly lower due to compounding

**Disclaimer: The analysis assumes that costs are recovered exactly as projected (no reserve changes). It is intended to provide an early indication of the trend and will be refined as part of the budget process for additional considerations including - reserves, debt coverage considerations, and other factors that would typically be incorporated into a full cost-of-service and rate design analysis**

**Question:** When will the Board be asked to make a decision on whether to financially support the Sites Reservoir Project? What would be the cost at the current 22 % participation and at an 11% participation? Will the Project Authority be selling bonds for the project so Met's costs can be spread over time?

**Answer:**

- Staff is tentatively planning for a Board action item in Q4 of 2026, contingent on the Sites Project acquiring a water right from the State Water Board.
- Based on the most recent 2025 cost estimates, Metropolitan's costs would total \$1.7B at the current 22% participation share and \$850M at an 11% participation share.
- Financing options are still being considered, and Metropolitan could participate in group financing (which includes revenue bonds) or fund Project costs independently.

# Alternative Requested by Member Agency

1. Remove PWSC funding
2. Remove LRP funding for new agreements not previously approved by the Board
3. Reduce Conservation to the minimum needed for grant matching
4. Deferral of all new positions other than IOPSS, C&D, Treatment & Engineering
5. Assume 0.009% Property Tax Rate

Calendar Year	2027	2028
<b>Baseline + Incremental Drivers (without PWSC (1))</b>	<b>9.0%</b>	<b>9.0%</b>
Reduced LRP funding (2)	-0.25%	-0.25%
Reduced Conservation (3)	-0.5%	-0.5%
Deferral of new positions (4)	-0.15%	-0.15%
<b>Alternative with 0.007% PTax*</b> (Baseline + Incremental Drivers + Requested Adjustments)	<b>8.1%</b>	<b>8.1%</b>
Adjusted for 0.009% Ptax (5)	-2%	-2%
<b>Alternative 0.009% PTax*</b> (Baseline + Incremental Drivers + Requested Adjustments + Ptax)	<b>6.1%</b>	<b>6.1%</b>

\* Displayed as a simple summed total. Rate impacts are estimated to help smooth rate changes across the biennium.

**Question:** What is the non-grant funded conservation minimum to meet existing grant local match requirements?

**Answer:**

MWD Anticipated Expenses for Conservation	FY 2026/27	FY 2027/28
<b>Committed Turf Replacement for Grant Matching</b>	<b>\$23.1</b>	<b>\$15.5</b>
Other Conservation Requested Budget		
Devices (Incentives/Admin)	\$3.0	\$3.0
Member Agency Administered Program	\$5.5	\$5.5
Advertising	\$1.0	\$1.0
Other Programs and Support Services (e.g. Inspection, Classes, Certifications, etc)	\$4.5	5.2
<b>Total Anticipated Expenses</b>	<b>\$37.1</b>	<b>\$30.2</b>
<b>Proposed Budget for Conservation</b>	<b>\$30.5</b>	<b>\$30.5</b>

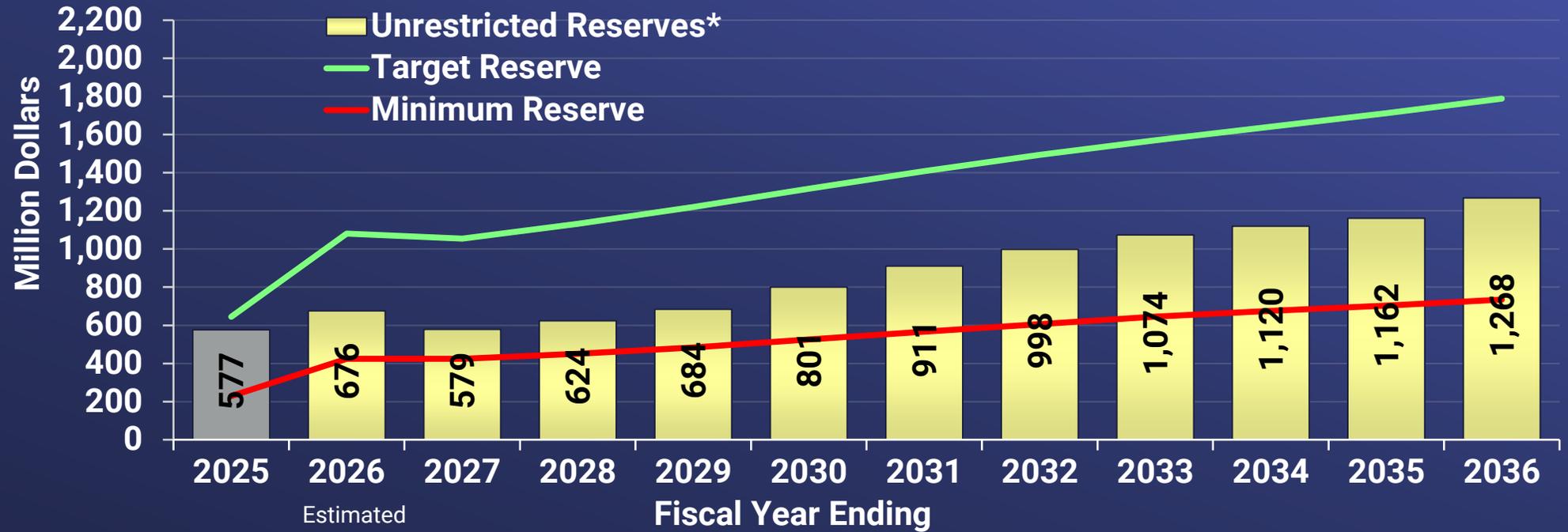


Minimum to meet grant matching requirements

# PWSC Questions

# Proposed Budget without PWSC

## Projected Rate Increases and Financial Metrics



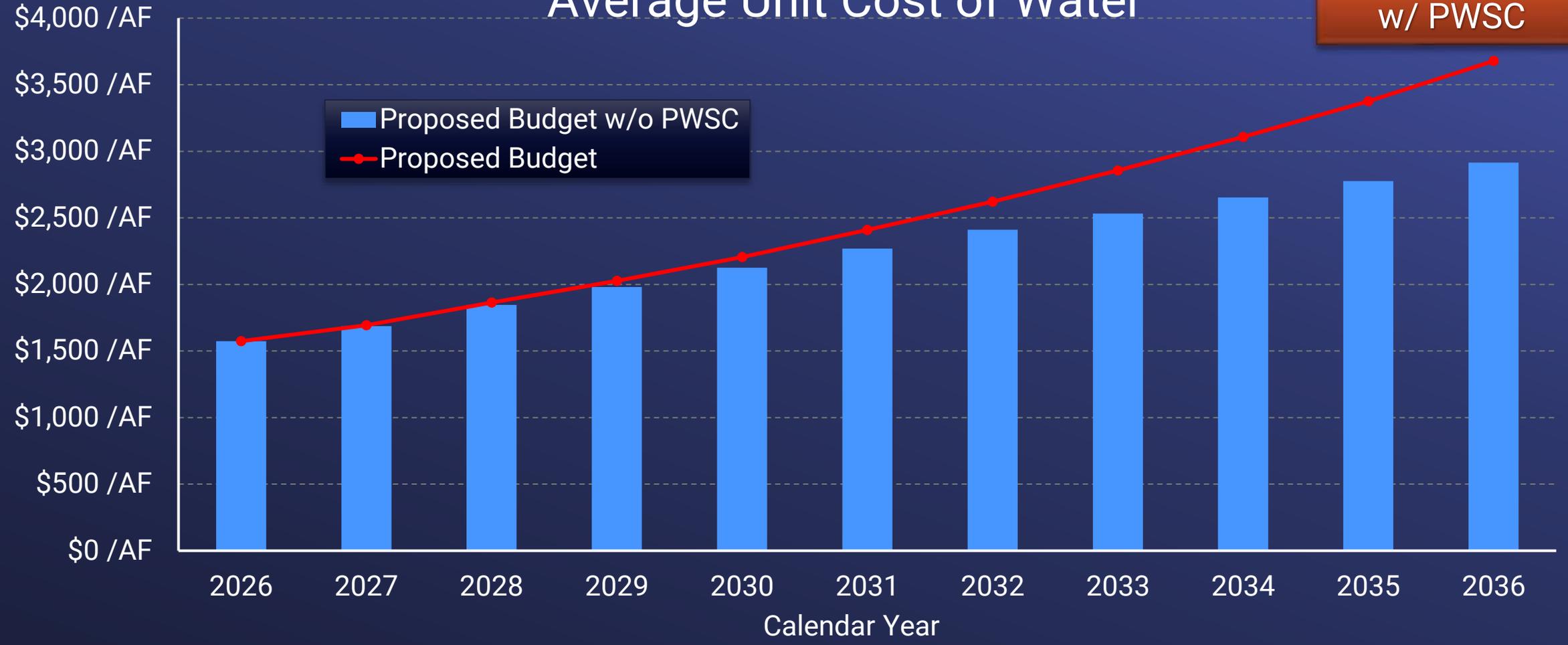
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
<b>Overall Rate Inc.</b>	8.5%	8.5%	9.0%	9.0%	7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	5.0%	5.0%
<b>Water Transaction (MAF)</b>	1.34	1.23	1.21	1.29	1.29	1.29	1.29	1.29	1.29	1.30	1.31	1.32
<b>Rev. Bond Cvg</b>	2.5	2.1	1.6	1.8	1.8	2.0	2.1	2.1	2.2	2.1	2.0	2.2
<b>CIP, \$M</b>	300	307	450	500	520	541	562	585	608	633	658	684
<b>PAYGO, \$M</b>	175	205	185	200	210	240	250	300	325	338	351	365
<b>Prop Tax Rev, \$M (0.007%)</b>	391	396	408	425	438	451	460	479	499	520	542	564
<b>SWP Fixed Cost, \$M</b>	460	481	505	568	602	623	680	743	813	890	985	1,008

# Question: What is the Cost of Water without PWSC?

## Answer:

### Average Unit Cost of Water

2036 unit cost  
~26% higher  
w/ PWSC



Average Unit Cost of Water = Total Revenues to be Collected from Rates & Charges / Total Water Sales

## Question: Would it be possible to see the following scenarios:

1. Pure Water moved forward for planning and permitting only without design or construction?
2. Pure Water at 45 MGD in Year 2 not Year 1?

## Answer:

1. The initial PWSC stage cost of \$150M for the Proposed Budget in the Biennium does not include construction costs. The majority of the biennium costs is associated with the development of final design. See table on the next slide.
  - Final designs of treatment and conveyance systems would be performed to the levels for the development of a guaranteed maximum price (GMP) of construction which provides offramps for Metropolitan to discontinue the projects and spending.
  - The budget would be approximately \$22M if no design or construction work is included. However, permitting would be incomplete without actual design information (e.g. design criteria, system controls, redundancy, etc.) and the installed facilities to validate water quality performance and system operations.

# PWSC Initial Stage Activities – FY 2026/27-2027/28

Milestone Tasks	Estimated Costs
<b>Procurement/Award of Design Contracts</b> <ul style="list-style-type: none"><li>Advanced Water Treatment Facilities (Progressive Design Build)</li><li>Conveyance Reaches 1 &amp; 2 (Construction Manager/General Contractor)</li><li>Conveyance Reach 4 (Progressive Design Build)</li></ul>	\$10 million
<b>Development of Final Design</b> <ul style="list-style-type: none"><li>Advanced Water Treatment Facilities - Basis of Design Report (150 mgd); Final Design with Guaranteed Maximum Price (Initial Program Stage)</li><li>Reaches 1 &amp; 2 - Final Design</li><li>Reaches 3 &amp; 4 - Preliminary Design</li><li>Recharge Facilities &amp; Laterals Improvements – Preliminary Design</li></ul>	\$103 million
<b>Property Acquisition</b> <ul style="list-style-type: none"><li>Whittier Narrows Pump Station – Site Acquisition</li></ul>	\$15 million
<b>Other Planning, Engineering and Program Costs</b>	\$22 million
<b>Total:</b>	<b>\$150 million</b>

**Question:** Would it be possible to see the following scenarios:

2. Pure Water at 45 MGD in Year 2 not Year 1?

**Answer:**

## PWSC Initial Stage Funding

The current plan for source of PWSC funding is shown in the table. Moving funding to Year 2 would have the following fiscal impacts:

- Reduced program cost of \$32M (\$43M design development less \$11M ongoing program support)
- Potential \$51M reduction/loss in grant funding since no design or other billable progress would be made over that period
- Overall higher program cost with the delays

Funding Sources	FY 2026/27	FY 2027/28	Biennium
SWCRB State Fund	\$34.1M		\$34.1M
LSWRP Grants (Current)	\$8.3M	\$19.4M	\$27.7M
Future LSWRP Reimbursement		\$30.0M	\$30.0M
PAYGO and Debt Financed		\$58.2M	\$58.2M
<b>Total</b>	<b>\$42.4M</b>	<b>\$107.6M</b>	<b>\$150M</b>

**Question:** Is there a consideration of a smaller Phase 1 (e.g., 35 MGD)? If so, how would this affect the budget?

**Answer:**

- Currently, 45 MGD is the smallest stage for Phase 1.
- Metropolitan is working with the Member Agencies to understand their demands.
- Program costs have not been developed for a 35 MGD phase.
- Smaller systems tend to be less economical because:
  - The backbone pipeline can only be built once and needs to be sized to convey the full program flow.
  - Building smaller treatment and conveyance facilities to serve smaller demand adds complexity to the program's long-term planning and
  - Size of some support facilities will be largely independent of plant capacity
- It should be noted that program costs do not necessarily have perfect correlation with the capacity of the system.

**Question:** *Are there any revenues for Pure Water from Arizona or Nevada included in the budget? These are important pieces of information before moving forward. If not, could we use their funding now rather than adding to our budget?*

**Answer:**

- The contributions from Arizona and Nevada for environmental planning have been used to offset PWSC planning costs in the current biennium (FY 2024/25 & 2025/26). No additional revenues from outside partners are assumed in the budget.

**Question:** *Why are we adding 8 positions for Pure Water now?*

**Answer:**

These 8 positions would only be pursued if/when the board formally approves to start the initial stage of the program.

The eight PWSC positions are planned for:

- Treatment/conveyance project management and design oversight
- Dedicated design reviews
- Operations integration
- DPR development
- Power planning
- Program permitting

**Question:** How long does the MWD Board have to decide on PWSC before currently awarded grant funding is no longer available, including consideration of likely deadline extensions that could be approved by grantor agencies?

**Answer:**

- The Bureau of Reclamation awarded Metropolitan a Large-Scale Water Recycling Program grant award of \$125,472,759. At the time we were unable to come up with the matching funds needed to secure the entire grant. Metropolitan was able to successfully negotiate the release of funds in two tranches (based on the anticipated biennium budget planning that would occur post CEQA Adoption and Project approval). Tranche 1 (~\$55M) was initially released in the 2024 Agreement and Tranche 2 (~\$70M) was anticipated to be requested in early-mid 2026.
- For the \$55M grant award, Tranche 1, Metropolitan has received approximately \$21.3M, and with remaining funds available to spend (primarily funds from the \$80M state grant and partner contributions), Metropolitan expects to be able to receive entire Tranche 1 grant of \$55M. The Tranche 1 funds remain available only as long as the project continues to meet Reclamation's progress in the form of expenditures, reporting, and obligation requirements. Reclamation can grant deadline extensions to executed agreements, but they are not guaranteed and depend on demonstrated project progress, justification of delay, and federal budget cycles.

**Question:** How long does the MWD Board have to decide on PWSC before currently awarded grant funding is no longer available, including consideration of likely deadline extensions that could be approved by grantor agencies? (cont.)

**Answer (cont.):**

- The pending award of ~\$70M, Tranche 2, will only be obligated to Metropolitan if we can demonstrate we have available additional matching funds of approximately \$100M. We committed to Reclamation that Metropolitan would request the second tranche after CEQA adoption and project approval (early 2026). We informed Reclamation that funding required for the Tranche 2 match, would be included in the next biennium budget. Hence the new funds identified in the proposed budget for Pure Water (approximately \$58M) will be used to progress work on the program such that funds from Tranche 2 can be accessed. While there is no fixed universal deadline, there was an understanding and delays in major governing-body approvals (such as MWD Board action) risk the award being de-obligated.
- Compounding this is the fact that overall program Authorization (Section 40905 of IIJA) expires in November 2026, at which point Reclamation is unclear on what, if any, implementation activities including amending existing Agreement may be conducted. Should Metropolitan not secure the second Tranche and Reclamation not have the ability to release these funds to other eligible projects in a timely manner, it would likely result in the return of IIJA funds to the US Treasury.

# SWP Cost & Subsidence Costs

## Question: Deeper dive on projected Subsidence Cost in Budget

### Answer:

- DWR issued a preliminary assessment of the impacts of subsidence on the reliability of the SWP
- The SWP budget for the biennium and 10-year forecast include estimates of capital charges for fix-in-place capital costs of \$2.5B, amortized over 30 years with 25% bond cover
- Metropolitan and the State Water Contractors are actively advocating for:
  - State and Federal legislation and funding to offset financial impacts
  - Contributions and reimbursement of costs from responsible parties whose actions caused the subsidence

**Question:** Discuss SWP fixed charges and MWD obligation to pay as contractors

**Answer:**

- SWP fixed charges include capital and O&M charges for Transportation Facilities and Conservation Facilities
- Conservation Facilities capture and store water supply for the entire SWP; charges are allocated to each Contractor based on their proportionate Table A amounts
- Transportation Facilities are used to move water to Contractor points-of-delivery; charges are allocated among the contractors based on the need for specific facilities by each Contractor
- All contractors are obligated to pay for their allocated charges as part of the SWP contracts

# Capital Investment Plan

# Capital Investment Plan Presentation Overview

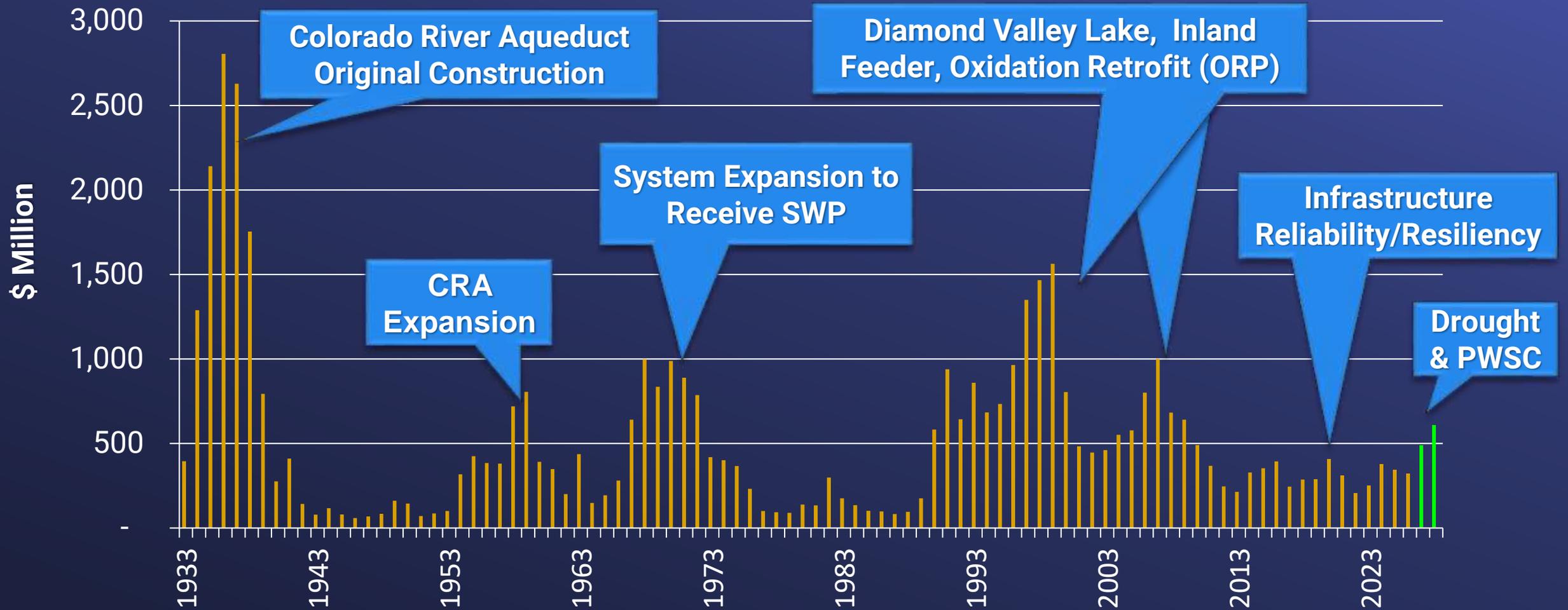
- CIP budget development process
- Overview of proposed CIP
- CIP highlights for next biennium
- Proposed CIP budget and planned board actions

# Project Evaluation & Scoring

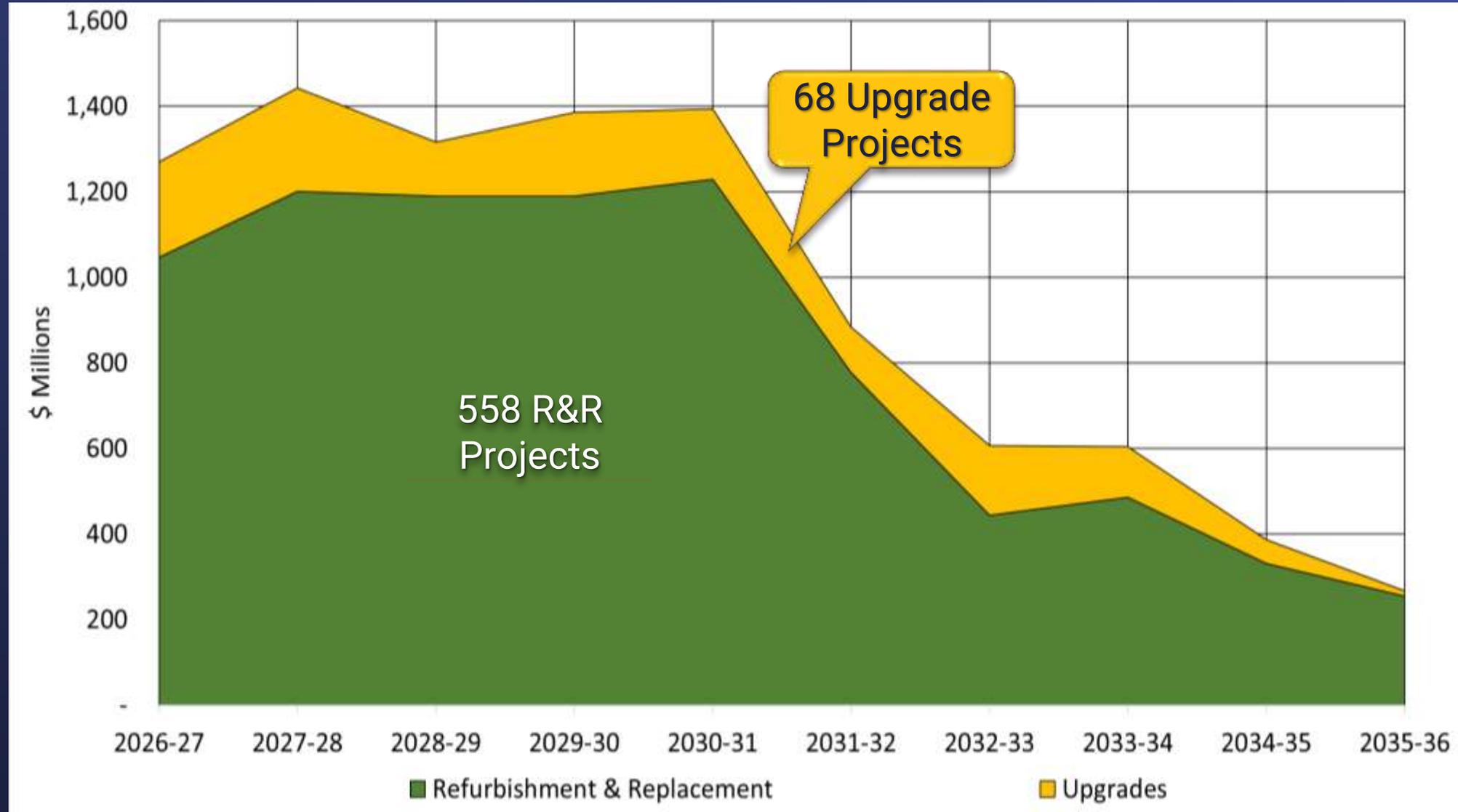
- Prioritizing projects to enhance infrastructure reliability (R&R)
  - Infrastructure/process reliability, resiliency, and flexibility
  - Regulatory compliance
  - Safety/security
  - Equipment/software replacements
- Other projects (Upgrades)
  - Drought
  - Sustainability (e.g., zero emissions fleet infrastructure)
  - Cost efficiency & productivity (e.g., supplier portal implementation)
  - Stewardship (e.g., DVL recreation)

# Historical Capital Expenditures

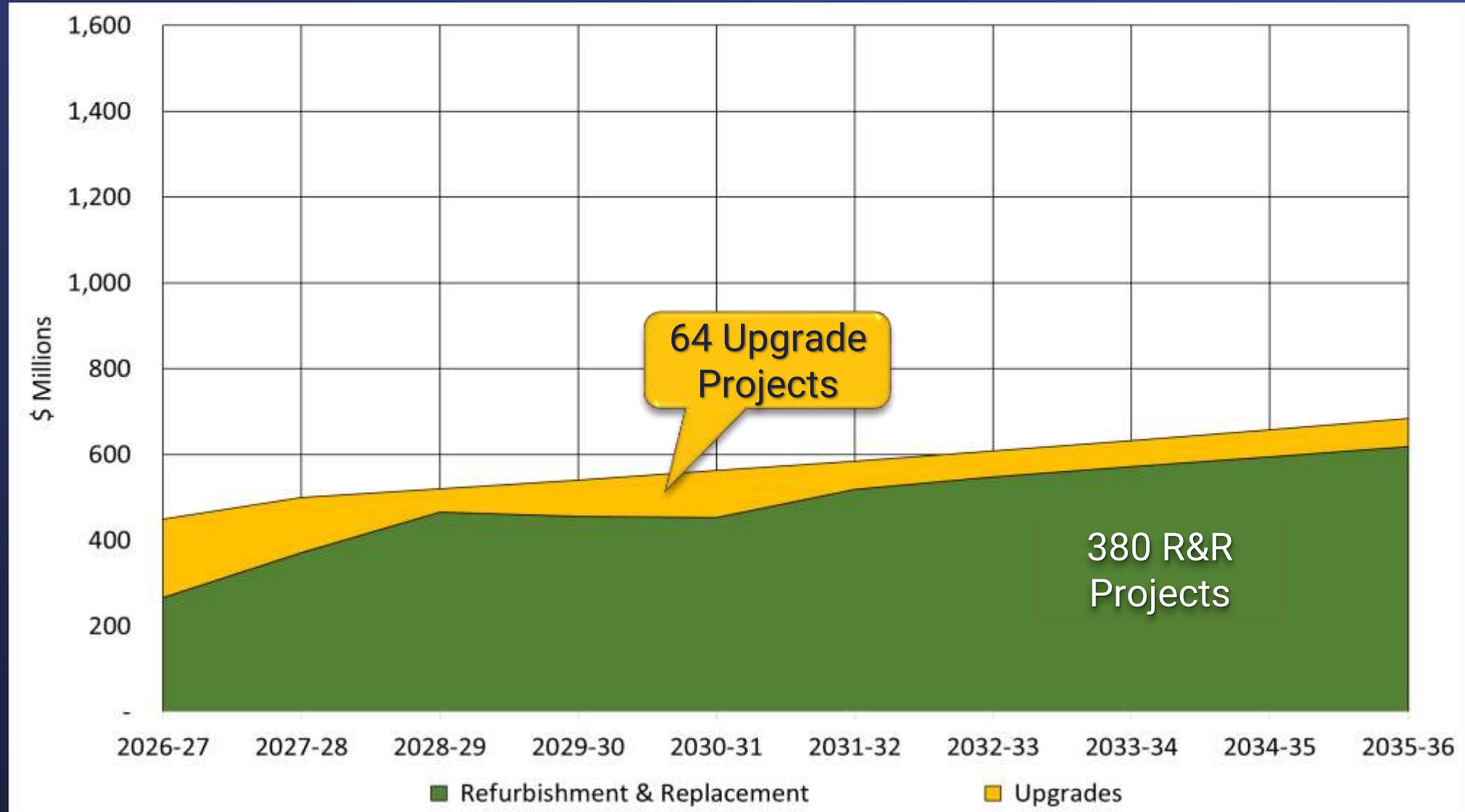
(Adjusted to Current \$)



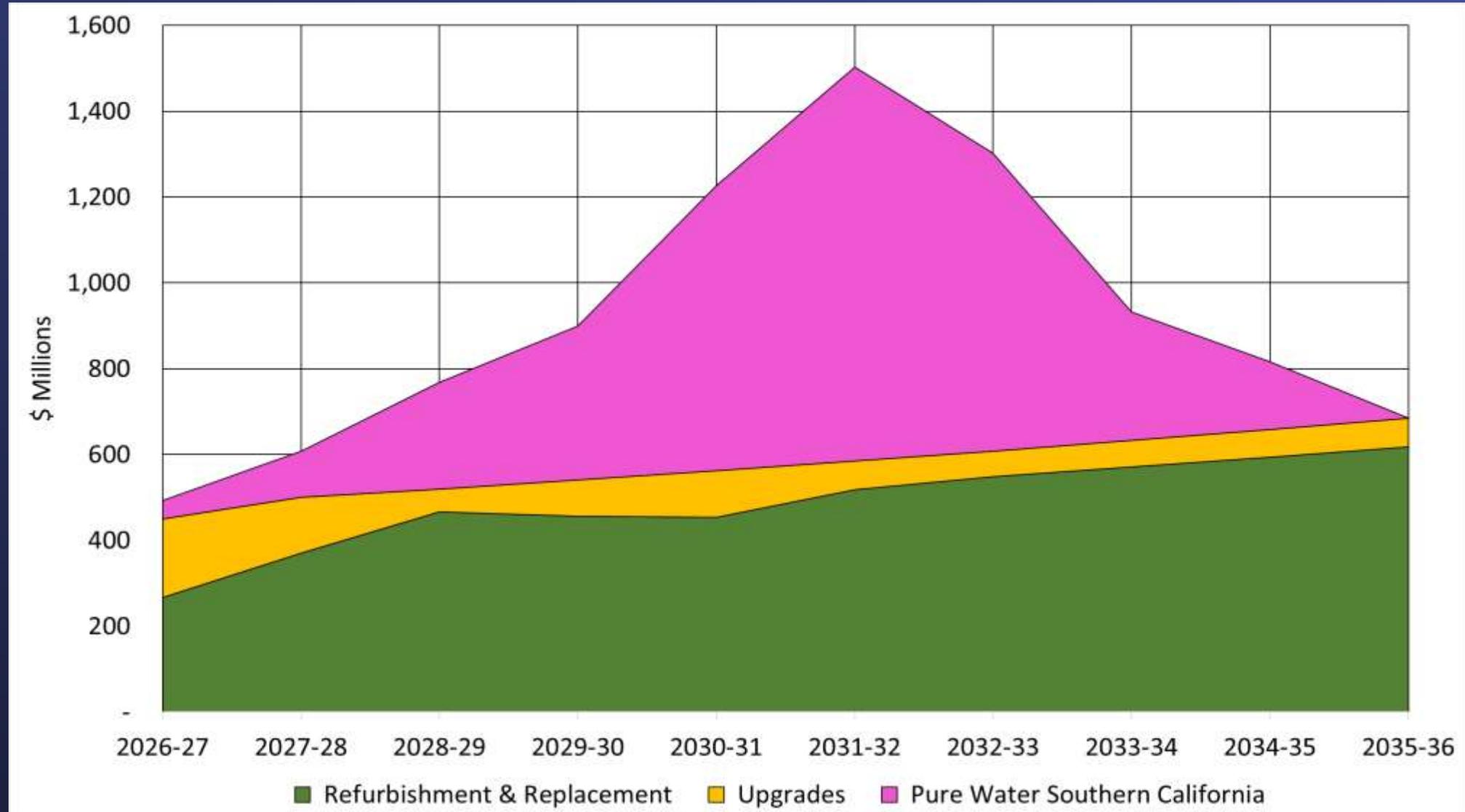
# Base-CIP Expenditures by Project Type as Submitted



# Proposed Base-CIP Expenditures by Project Type

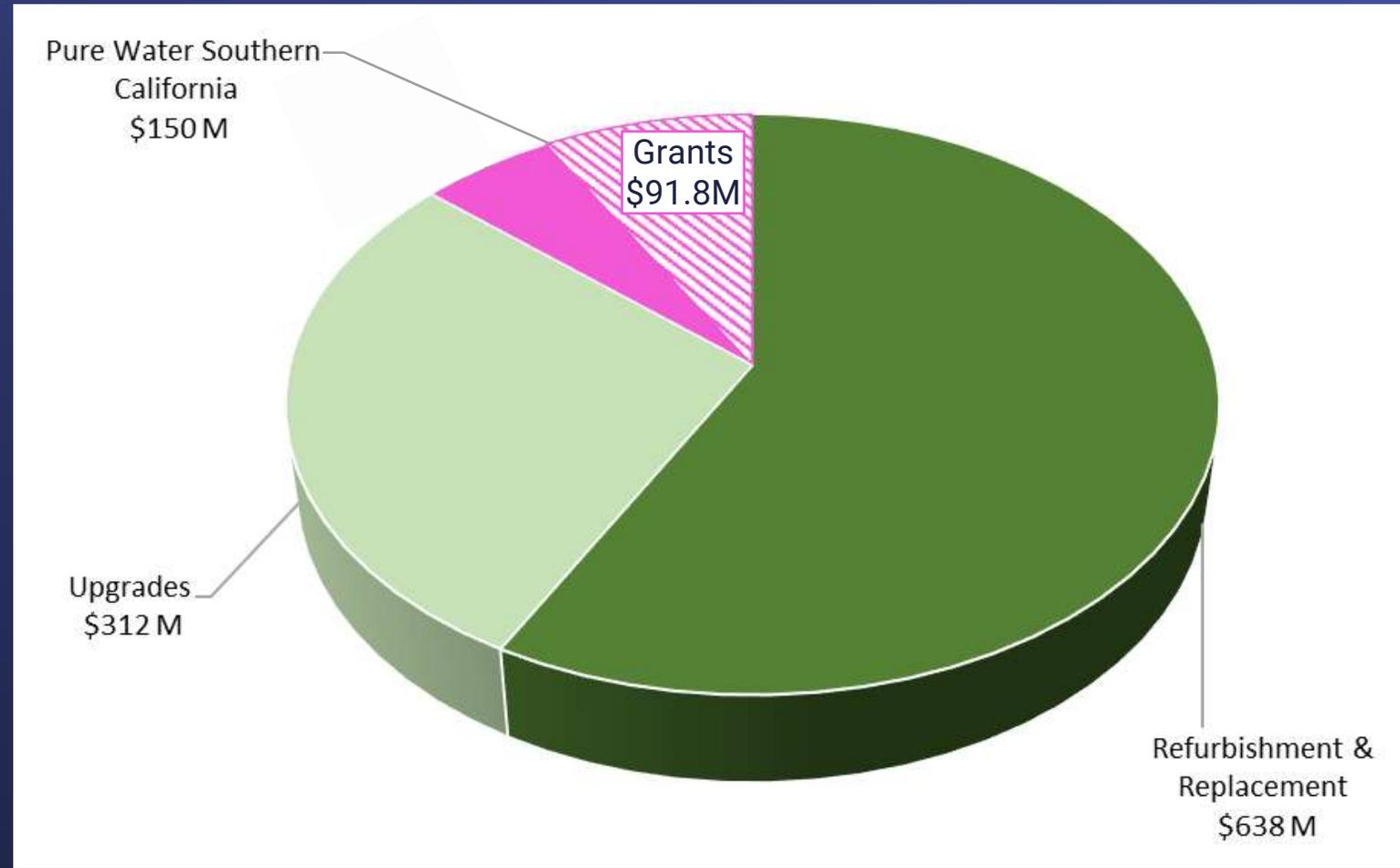


# Proposed Base-CIP Expenditures by Project Type



# Proposed CIP for FY 2026/27 - 2027/28 by Project Type

R&R	\$638 M
Upgrades	\$312 M
PWSC	\$150 M
<b>Total</b>	<b>\$1.1 B</b>



# Proposed CIP for FY 2026/27 - 2027/28 by Program

\$1.1 Billion

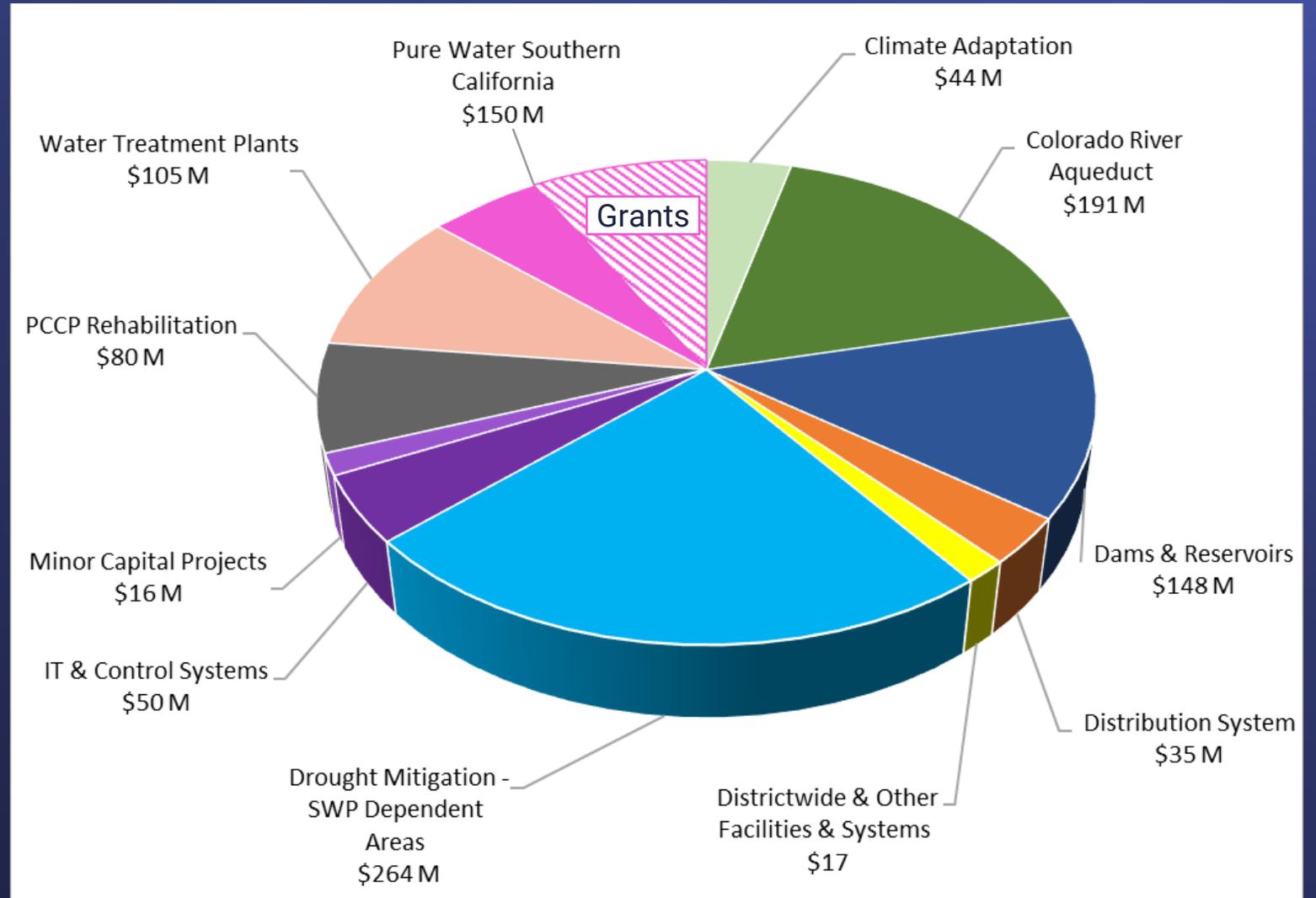
Programs

11

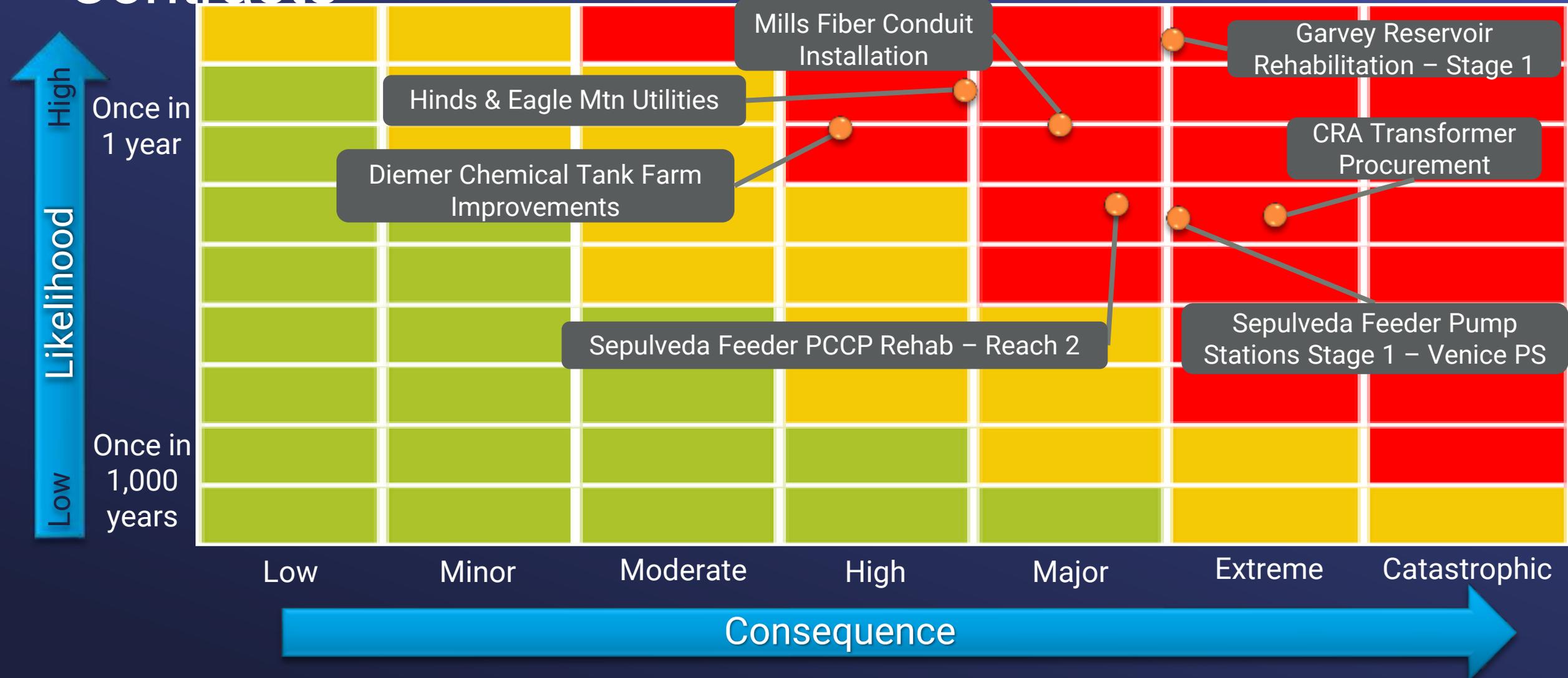
Projects

652\*

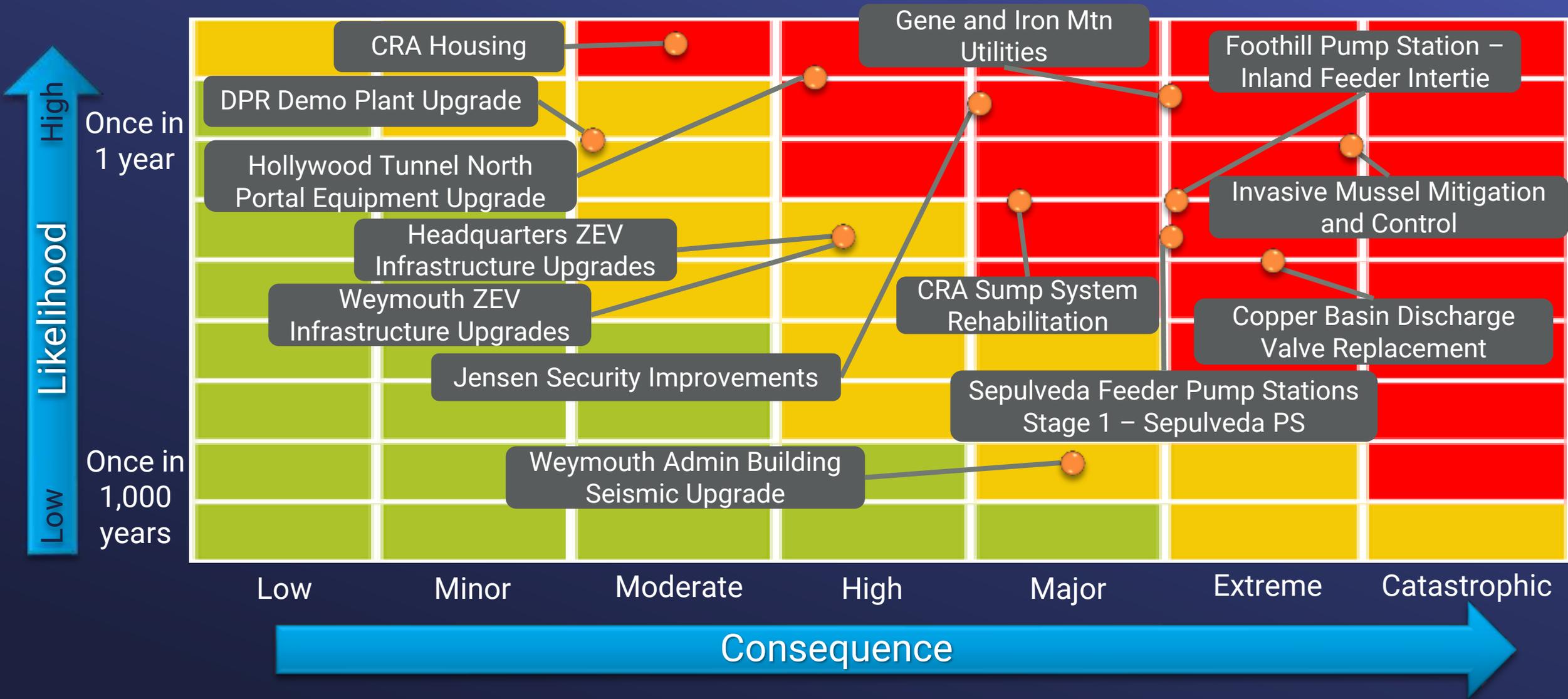
\* Excluding Minor Capital Projects



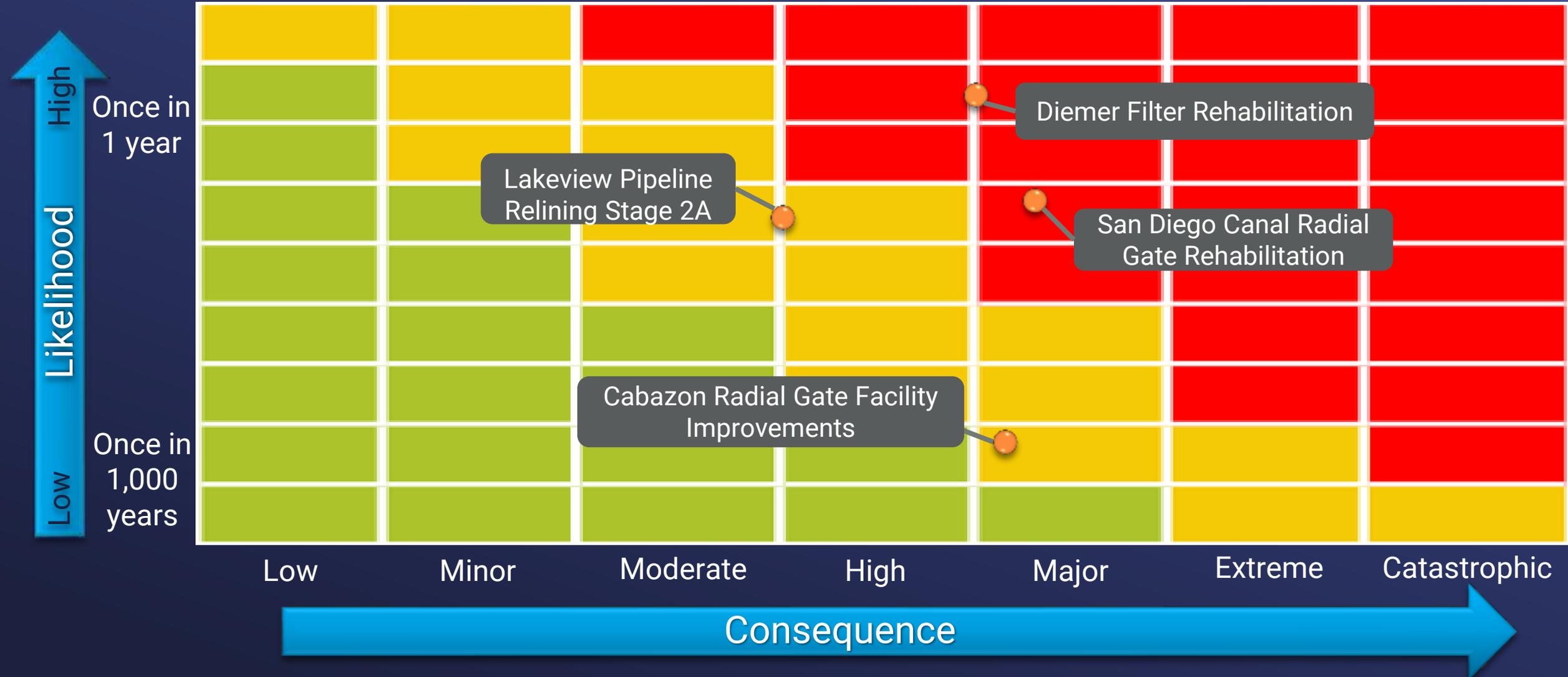
# Projects with On-going Board-Awarded Major Contracts



# Near-Ready Projects for Construction



# Shovel-Ready Projects



# CIP Highlights for Next Biennium

CRA Transformer Procurement



Foothill P.S. \Inland Feeder Connection



Garvey Reservoir



Sepulveda Feeder Pump Stations Venice (Rendering)



CRA Sumps Rehab. (Rendering)

# Drought Mitigation – SWP Dependent Areas

- 16 Projects
  - Sepulveda Feeder Pump Stations
  - Inland Feeder-SBVMWD Foothill PS Intertie
- Planned Expenditures:
  - \$264 M

Sepulveda Pumps Stations – Rendering Venice PS  
(Construction)



Sepulveda Pumps Stations – Venice PS  
(Construction)

# Colorado River Aqueduct

- 95 Projects
  - CRA High-Voltage Transformers Replacement
  - CRA Main Pump Motor Rehabilitation
  - CRA Sump System Rehabilitation
  - Eagle Mountain & Hinds Utility Replacement
- Planned Expenditures:
  - \$191 M

CRA Main Transformers  
(Procurement)

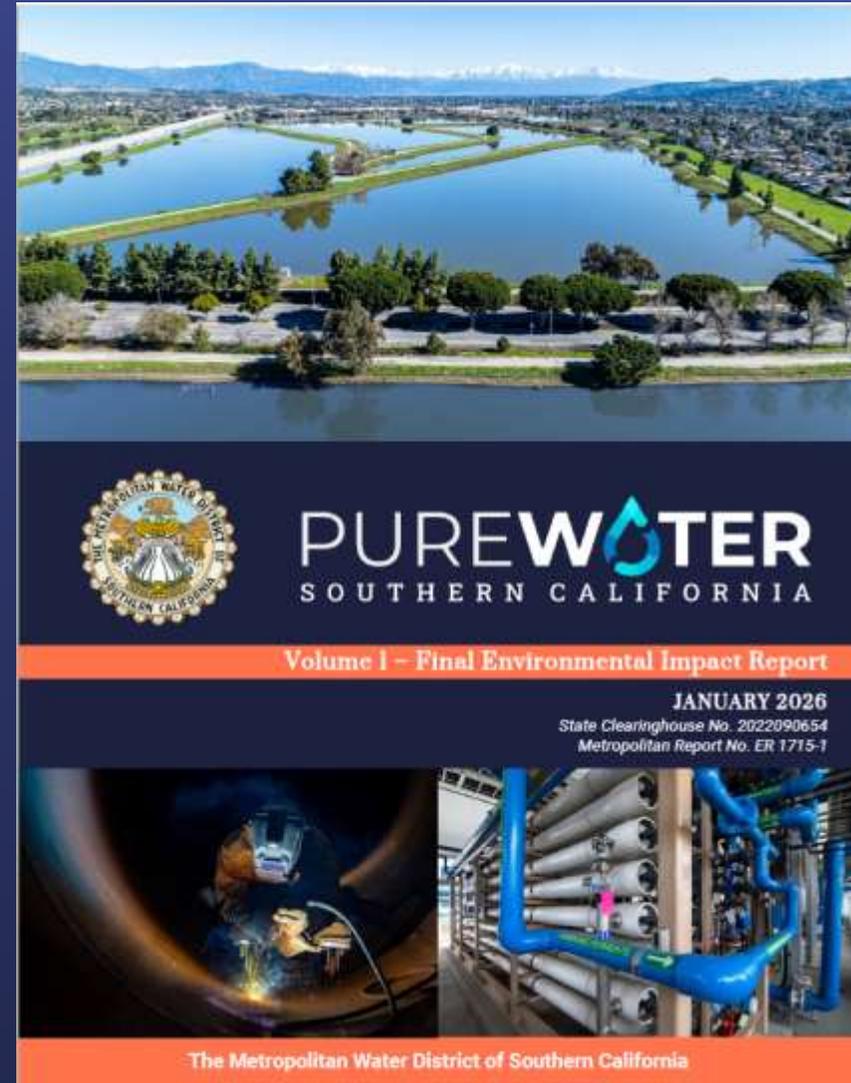


CRA Sump System  
(Final Design)



# Pure Water Southern California (45-mgd stage)

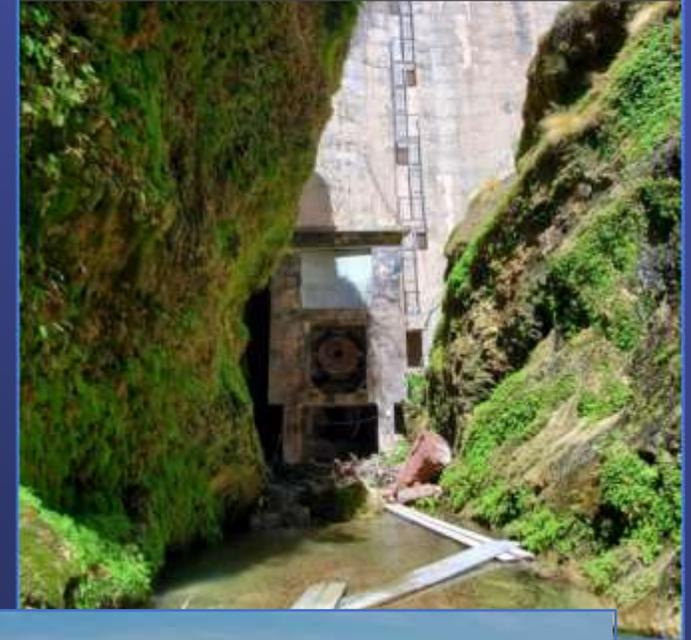
- 18 Projects Total (7 projects for 45-mgd stage)
  - PWSC Advanced Water Purification
  - PWSC Initial Reaches
- Planned Expenditures:
  - \$150 M
    - \$91.8 M in grants
    - \$58.2 M in PAYGO & Debt



# Dams & Reservoirs

- 53 Projects
  - Copper Basin Reservoir Discharge Valve Structure Rehabilitation
  - Garvey Reservoir Rehabilitation, Stage 1
  - Lake Mathews Pressure Control Structure & Electrical System Upgrades
- Planned Expenditures:
  - \$148 M

Copper Basin Discharge Structure (Final Design)



Garvey Reservoir (Construction)

# Water Treatment Plants

- 123 Projects
  - Weymouth Admin. & Control Building Upgrades
  - Diemer Chemical Feed System Improvements
  - Jensen Site Security Upgrade
  - Mills Perimeter Security & Erosion Control Improvements
- Planned Expenditures:
  - \$105 M



# Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation

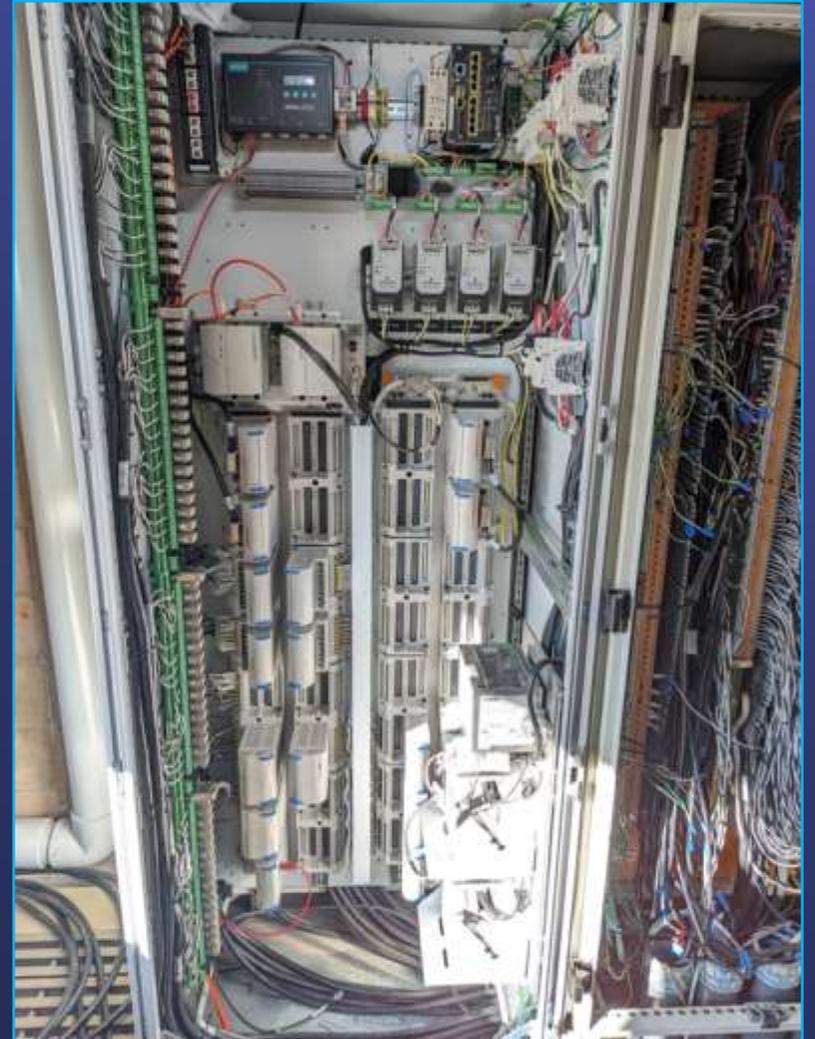
- 28 Projects
  - Sepulveda Feeder PCCP Rehabilitation
  - Electromagnetic PCCP Inspections
  - High Risk PCCP
- Planned Expenditures:
  - \$80 M



Sepulveda Feeder Rehab. – Reach 2  
Typical PCCP Rehab. Excavation  
(Construction)

# IT & Control Systems

- 68 Projects
  - Emergency Radio Communication System Upgrade
  - Enterprise Data Analytics
  - METCON (Control Systems Upgrade) – Mills plant
  - Wifi Upgrade
- Planned Expenditures:
  - \$50 M



Mills Control System (Design)

# Climate Adaptation

- 16 Projects
  - Direct Potable Reuse Demonstration Facility
  - Webb Tract Wetland Restoration
  - Zero Emission Vehicle Infrastructure Upgrade
- Planned Expenditures:
  - \$44 M



# Distribution System

- 180 Projects
  - Hollywood Tunnel North Portal PCS Upgrades
  - Lakeview Pipeline Relining
  - LA-17A and LA-17C Flowmeter Replacement
- Planned Expenditures:
  - \$35 M



# Districtwide and Other Facilities & Systems

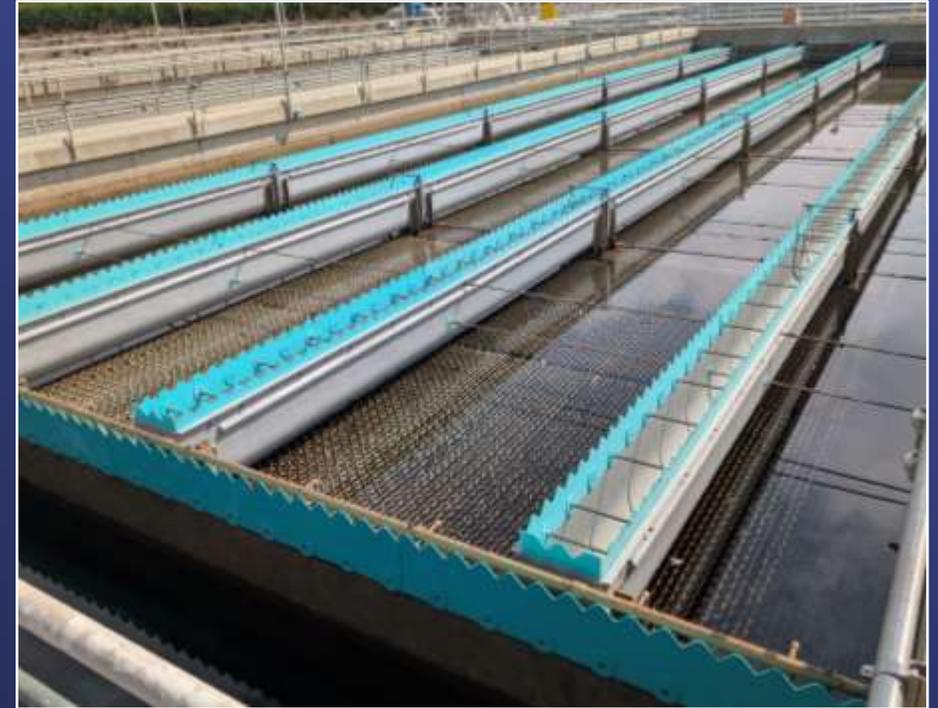
- 55 Projects
  - Invasive Mussel Mitigation & Control
  - Desert Housing & Property Improvements
  - Michael J. McGuire Water Quality Lab Upgrades
  - DVL Floating Restroom & Boat Dock Replacement
- Planned Expenditures:
  - \$17 M



Invasive Mussel Control – Foothill Feeder PCS  
(Study)

# Minor Capital Projects

- Minor Capital Projects
  - Cost less than \$400,000
  - Identified after adoption of budget
  - Often urgent in nature
  - General Manager authorized to execute subject to Administrative Code limits
- Planned Expenditures:
  - \$16 M



Skinner Washwater Reclamation Plant 2  
Laundry Replacement  
(Completed Construction)

# Proposed CIP for FYs 2026/27 - 2027/28

- 2-Year planned spending of \$1.1 billion
  - \$492 M for FY 2026/27
  - \$608 M for FY 2027/28
  - Projects identified in the CIP Appendix
- April board actions
  - Approve Metropolitan's biennial budget (FAAME)
  - Appropriate \$1.1 billion for CIP, Authorize GM authority - initiate or proceed with work on planned capital projects (EOT)
- Potential future board action
  - Authorize implementation of initial PWSC stage

# Future Capital Investment Plan Board Actions

- Contract awards greater than \$250K & property acquisitions
- Professional services agreements greater than \$250K
- Certification of CEQA documents
- Change orders greater than 5% of contract or \$250K, whichever is greater
- Unplanned project authorization

# Other Questions

**Question:** We are moving to the Board Policy of a 2.0 bond coverage ratio. Currently we are at 1.7 coverage ratio with very good bond rates. What does moving to the higher ratio add to the budget?

**Answer:**

- Bond coverage target = 2.0x
  - FY 2024 bond coverage = 1.1 due to lower water sales than budget
  - FY 2025 bond coverage >2.0 mainly due to one-time RCP revenues
  - FY 2026 projected bond coverage >2.0 mainly due to one-time \$75M SWP credit
  - In FY 25 & 26, SWP Power costs are lower than budget as MWD stored more water in carryover
- In practical terms, stronger coverage is achieved by funding a higher percentage of capital projects with PAYGO (pay-as-you-go) funds. Using PAYGO—the lowest-cost method for funding capital projects—minimizes borrowing and supports strong bond ratings, providing greater financial flexibility, lower financing costs, and helping keep water rates affordable in the long-run.

**Future Liability Against these Revenues**



Revenue bond coverage in the proposed biennial budget falls below the 2.0x target, representing a decline from the projected coverage levels in the current fiscal year. As a result, projected revenue bond coverage does not contribute to the biennium budget.

**Question:** What does the budget assume regarding the bond sale – are they 30-year bonds? How would rates be if major capital was projected at 30 years but bonding for new projects was for 50-year bonds? This more closely matches the duration of most new projects before major maintenance is required and therefore is a more equitable distribution of costs and benefits.

**Answer:**

- The proposed budget and financial plan assume the use of long-term revenue bonds with maturities generally aligned with industry standards—typically 30 years—and the expected useful life of major capital assets. This approach balances affordability, intergenerational equity, and debt management risk.
- Issuing 50-year bonds could reduce near-term debt service and result in lower short-term rate impacts. However, longer maturities generally carry higher interest costs and increased long-term financial risk, which can raise total borrowing costs and lead to higher rates over time.
- In addition, market demand for very long-term debt, investor appetite, and the need to match bond maturities to asset lives must also be considered. Accordingly, while 50-year bonds may improve near-term rate stability, the current strategy prioritizes minimizing total financing costs, maintaining strong credit metrics, and preserving long-term ratepayer affordability.

**Question:** How many positions are currently vacant (FTE and vacancy rate) and how does that compare to the assumed vacancy rate in the budget and in the assumption for the cost-of-service study?

**Answer:**

- As of February 17, 2026, we have 169 vacant positions, representing an 8.6% vacancy rate. This is a point-in-time snapshot and naturally fluctuates throughout the year as positions are filled and new vacancies occur.
- Importantly, vacancy savings are not excess funds. In most cases, those savings are used to cover overtime or temporary labor to ensure the work associated with those positions continues uninterrupted.
- FY 2026/27 and FY 2027/28 Proposed Budget assumes a ~6.0% overall vacancy factor, which is the same rate as the previous biennium budget.

**Question:** Can you explain the difference in water sales numbers for FY26 projections between what is included in a budget presentation context (1.23 MAF) and in other water supply (WSDM) presentations quoting approximately 1.5 MAF in demands when looking at how much is available to put into storage or required from storage?

**Answer:**

- FY 2026 Projection in Budget water transactions of 1.23MAF reflects the revenue generating water transactions with member agencies, i.e. RCP delivery is not included.
- CY 2026 WSDM Current Trend of 1.5MAF reflects all actions that require water deliveries, consistent with its use in balancing total supplies with total demands.
  - The WSDM Current Trend demand includes consumptive and replenishment deliveries to member agencies, RCP deliveries, obligations with non-member agencies (e.g. agreements with Coachella Valley Water District), outside sales and system losses.

**Question:** With the persistent decrease in water sales is there an opportunity to shutter a water treatment plant or to significantly cut back costs at one or more plants?

**Answer:**

- Treatment plant utilization and capacity analysis was presented during the 2024 Treated Water Cost Recovery workshops and the October 2025 EOT Committee meeting
- Additional downsizing opportunities may be considered in the future

**Water Treatment Plant Capacity Analysis**

Plant	Area Served	Source Water	Current Capacity	Actions Taken
Mills	Local Mills Area	SWP	220 MGD	Reduced from 326 MGD in 1997
Skinner	Local Skinner Area	SWP/CRW	350 MGD	Reduced from 630 MGD in 2017
Diemer	Common Pool & Local Diemer Area	SWP/CRW	520 MGD	Maintain current capacity
Weymouth	Common Pool & Local Weymouth Area	SWP/CRW	520 MGD	Maintain current capacity
Jensen	Common Pool & Local Jensen Area	SWP	750 MGD	CIP projects to maintain 500 MGD capacity*

\*Jensen capacity analysis study complete & presented to Board in April 2023. Prioritize capital projects for plant capacity of 500 MGD (short-term max up to 667 MGD).

**Takeaways from Treatment Plant Operations**

- Four of five plants are already right-sized
  - Official downsizing of Jensen is under consideration – already implemented “soft” capacity reduction
- Current standby capacity provides member agency emergency/back-up benefit
- Current standby capacity allows flexible plant operations

# Follow Up Item for Workshop 3

- Detailed information regarding staffing

# 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

# Questions?

Questions and comments on the FY 2026/27 & FY 2027/28 Proposed Biennial Budget can be e-mailed to the Finance & Administration Group at:

[MWDBudget@mwdh2o.com](mailto:MWDBudget@mwdh2o.com)

