

The Metropolitan Water District of Southern California

Agenda

The mission of the Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

FAAME Committee

C. Miller, Chair
D. Alvarez, VC Budget
J. Armstrong
G. Bryant
B. Dennstedt
L. Fong-Sakai
J. McMillan
M. Petersen
B. Pressman
T. Quinn
K. Seckel

Finance, Affordability, Asset Management, and Efficiency Committee - Final - Revised 1

Meeting with Board of Directors *

October 14, 2025

8:30 a.m.

Written public comments received by 3:00 p.m. the business day before the meeting is scheduled will be posted under the Submitted Items and Responses tab available here: <https://mwdh2o.legistar.com/Legislation.aspx>.

The listen-only phone line is available at 1-877-853-5257; enter meeting ID: 862 4397 5848.

Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via teleconference and in-person. To provide public comment by teleconference dial 1-833-548-0276 and enter meeting ID: 815 2066 4276 or to join by computer [click here](#).

Disclaimer: Written and oral public comments are received in compliance with the Ralph M. Brown Act. Please note that Metropolitan does not endorse or ensure the accuracy or reliability of the information provided as public comment or by third parties.

Tuesday, October 14, 2025 Meeting Schedule

08:30 a.m. FAAME
10:30 a.m. LEGAL
12:00 p.m. Break
12:30 p.m. OPE
02:30 p.m. BOD

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

Teleconference Locations:

Conference Room • 1545 Victory Boulevard, 2nd Floor • Glendale, CA 91201

3008 W. 82nd Place • Inglewood, CA 90305

Peters Ridge • 2136 Spyglass Trail West • Oxnard, CA 93036

* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. **Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))**

**** CONSENT CALENDAR ****

2. **COMMITTEE ACTION (ONLY)**

- A. Approval of the Minutes of the Finance, Affordability, Asset Management, and Efficiency Committee Meeting for September 9, 2025 [21-5092](#)

Attachments: [10142025 FAAME 2A \(09092025\) Minutes](#)

3. **COMMITTEE ITEMS (FOR BOARD CONSIDERATION)**

- 7-2 Authorize the General Manager to grant a permanent easement to the City of Rialto for a public road including the construction an maintenance and appurtenant utility purposes, on Metropolitan fee-owned property in the County of San Bernardino and identified as Assessor Parcel Number 0239-301-23; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [21-5069](#)

Attachments: [10142025 FAAME 7-2 B-L](#)
[10142025 FAAME 7-2 Presentation](#)

- 7-3 Authorize the execution of an amendment to an existing lease agreement with New Cingular Wireless PCS, LLC to adjust the rental amount and extend the term for up to 25 additional years, thereby allowing continued operation of a commercial telecommunication site at the Iron Mountain Pumping Plant identified as San Bernardino County Assessor Parcel No. 0643-221-06; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. [REVISED SUBJECT on 10/3/2025] [21-5070](#)

Attachments: [10142025 FAAME 7-3 B-L](#)
[10142025 FAAME 7-3 Presentation](#)

- 7-4** Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [21-5071](#)

Attachments: [10142025 FAAME 7-4 B-L](#)
[10142025 FAAME 7-4 Presentation](#)

**** END OF CONSENT CALENDAR ****

4. COMMITTEE ITEMS (ACTION FOR BOARD CONSIDERATION)

NONE

5. COMMITTEE ITEMS (INFORMATIONAL FOR BOARD CONSIDERATION)

- 9-2** Integrated overview of near-term budget drivers and long-term resource planning [21-5072](#)

Attachments: [10142025 FAAME 9-2 B-L](#)
[10142025 FAAME 9-2 Presentation](#)

6. COMMITTEE ITEMS (INFORMATIONAL)

NONE

7. MANAGEMENT ANNOUNCEMENTS AND HIGHLIGHTS

- a.** Finance, Affordability, Asset Management, and Efficiency activities [21-5093](#)

Attachments: [10142025 FAAME 7a Finance, Affordability, Asset Management, and Efficiency Activities](#)

8. SUBCOMMITTEE REPORTS AND DISCUSSION

- a.** Report from Subcommittee on CAMP4W [21-5094](#)

- b.** Discuss and provide direction to Subcommittee on CAMP4W [21-5095](#)

9. FOLLOW-UP ITEMS

NONE

10. FUTURE AGENDA ITEMS

11. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Committee agendas may be obtained on Metropolitan's Web site <https://mwdh2o.legistar.com/Calendar.aspx>. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

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 <https://mwdh2o.legistar.com/Calendar.aspx>.

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.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

**FINANCE, AFFORDABILITY, ASSET MANAGEMENT, AND EFFICIENCY
COMMITTEE**

September 9, 2025

Chair Miller called the meeting to order at 8:30 a.m.

Members present: Directors Alvarez, Bryant, Dennstedt, Fong-Sakai, McMillan (entered after roll call), Miller, Pressman (teleconference posted location), and Seckel.

Members absent: Directors Armstrong, Petersen, and Quinn.

Other Board Members present: Directors Ackerman, Dick, Erdman, Faessel, Gray, Jay, Katz, Kurtz, Ortega, and Shepherd Romey.

Committee Staff present: Benson, Crosson, Kasaine, Quilizapa, Rubin, Upadhyay, and Williams.

**1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE
COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION**

None

CONSENT CALENDAR ITEMS - ACTION

2. CONSENT CALENDAR OTHER ITEMS-ACTION

- A. Subject: Approval of the Minutes of the Finance, Affordability, Asset Management, and Efficiency Committee Meeting for August 19, 2025

3. CONSENT CALENDAR -ACTION

Director Fong-Sakai announced she will not be voting on Item 7-7 as she receives per diem, reimbursements, and other benefits from San Diego County Water Authority for her service on the Board and would leave the room if discussion takes place.

Director Miller announced he will not be voting on Item 7-7 as he receives per diem, reimbursements, and other benefits from San Diego County Water Authority for his service on the Board and would leave the room if discussion takes place.

Director Katz announced he will not be voting on Item 7-7 as he receives per diem, reimbursements, and other benefits from San Diego County Water Authority for his service on the Board and would leave the room if discussion takes place.

- 7-6 Subject: Review and consider the Mitigated Negative Declaration adopted by the Lead Agency for the project, and authorize the General Manager to execute a new 30-year license agreement with four options to extend the term in five-year increments for a maximum term of 50 years with the City of Fontana for supplemental parking for a Fire Station and Training Facility on Metropolitan fee-owned property in the city of Fontana, identified as San Bernardino County Assessor Parcel No. 0228-021-26
- Motion: Review and consider the Mitigated Negative Declaration adopted by the Lead Agency for the project, and authorize the General Manager to execute a new 30-year license agreement with four options to extend the term in five-year increments for a maximum term of 50 years with the City of Fontana for supplemental parking for a Fire Station and Training Facility on Metropolitan fee-owned property in the City of Fontana, identified as San Bernardino County Assessor Parcel No. 0228-021-26

No presentation requested.

- 7-7 Subject: Review and consider the Mitigated Negative Declaration adopted by the Lead Agency for the project and adopt a resolution approving an Agreement for Water Service with the Barona Band of Mission Indians, San Diego County Water Authority, Ramona Municipal Water District and Metropolitan. [REVISED SUBJECT on 8/28/2025]
- Motion: Review and consider the Mitigated Negative Declaration adopted by the Lead Agency for the project, and adopt a resolution approving an Agreement for Water Service with the Barona Band of Mission Indians, San Diego County Water Authority, Ramona Municipal Water District and Metropolitan

No presentation requested.

Director Seckel made a motion, seconded by Director Dennstedt, to approve the consent calendar consisting of items 2A, 7-6, and 7-7 option 1.

The vote was:

Ayes: Directors Alvarez, Bryant, Dennstedt, Fong-Sakai, Miller, Pressman, and Seckel.

Noes: None

Abstentions: None

Absent: Directors Armstrong, McMillan, Petersen, and Quinn.

Not Voting: Directors Fong-Sakai (item 7-7) and Miller (item 7-7)

The motion for item 2A passed by a vote of 7 ayes, 0 noes, 0 abstain, and 4 absent.

The motion for item 7-6 passed by a vote of 7 ayes, 0 noes, 0 abstain, and 4 absent.

The motion for item 7-7 failed by a vote of 5 ayes, 0 noes, 0 abstain, 4 absent, and 2 not voting.

****END OF CONSENT CALENDAR ITEMS****

4. COMMITTEE ITEMS - (ACTION FOR BOARD CONSIDERATION)

None

5. COMMITTEE ITEMS - (INFORMATIONAL FOR BOARD CONSIDERATION)

9-2 Subject: Review the applicability of the Metropolitan Water District Act 21-4986 Section 124.5 ad valorem property tax limitation for fiscal years 2026/27 through 2035/36, consistent with the Ten-Year Financial Forecast

Presented By: Sam Smalls, Manager of Treasury and Debt Management

Ms. Kasaine introduced the item and Mr. Smalls provided an overview of the applicability of MWD Act section 124.5, its impact on property tax revenues, and next steps.

Director McMillan entered the meeting.

The following Directors provided comments or asked questions:

1. Seckel
2. Miller
3. Alvarez

Staff responded to the Directors' comments and questions.

Chair Ortega announced that he decided to recuse himself on item 9-3 as he was involved with mutual water companies and will leave the room before any discussion takes place out of an abundance of caution.

- 9-3 Subject: Review Proposed Emergency Event Member Agency Payment
 Deferment Program, amendment to the Administrative Code to
 implement the Program, and delegation of authority to the General
 Manager to administer the Program
 Presented By: Mari Karamyan, Unit Manager-Finance Services

Ms. Kasaine introduced the item and Ms. Karamyan provided background of the program, proposed metrics, overview of the proposed new administrative code section 4520, and fiscal impact.

The following Directors provided comments or asked questions:

1. Fong-Sakai
2. Pressman
3. Miller
4. Alvarez
5. Jay
6. Faessel
7. Bryant
8. Seckel

Staff responded to the Directors' comments and questions.

6. COMMITTEE ITEMS

- a. Subject: Encroachment Report

 Presented By: Gina Franco, Sr Real Estate Representative

Ms. Crosson introduced the item and Ms. Franco provided the committee with an overview of encroachments. Her presentations included historical encroachment removal process, historical encroachments by County, high priority historical encroachments, and next steps.

The following Directors provided comments or asked questions:

1. Dick
2. Dennstedt
3. Miller
4. Alvarez
5. Shepherd Romey
6. Bryant

Staff responded to the Directors' comments and questions.

7. MANAGEMENT ANNOUNCEMENTS AND HIGHLIGHTS

- a. Subject: Financial, Affordability, Asset Management, and Efficiency activities

Mr. Benson reminded the committee of the Board workshop scheduled for September 23, 2025, to discuss staffing needs. He also noted that staff will return in the fall to present an update on the long-range financial forecast.

The following Directors provided comments or asked questions:

1. Alvarez
2. Miller

Staff responded to Director's questions and comments.

8. FOLLOW-UP ITEMS

None

9. FUTURE AGENDA ITEMS

None

10. ADJOURNMENT

The next meeting will be held on October 14, 2025

The meeting adjourned at 9:51 a.m.

C. Martin (Marty) Miller
Chair



- **Board of Directors**

Finance, Affordability, Asset Management, and Efficiency

10/14/2025 Board Meeting

7-2

Subject

Authorize the General Manager to grant a permanent easement to the City of Rialto for public road purposes, on Metropolitan fee-owned property in the City of Rialto and identified as County of San Bernardino Assessor Parcel Number 0239-301-23; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This action would authorize the General Manager to grant a permanent easement to the City of Rialto for public road purposes across Metropolitan fee-owned property (**Attachment 1 – Location Map**). This easement is necessary to complete the City of Rialto's Locust Avenue Widening and Reconstruction Project. Board authorization to grant this permanent easement is required as the real property interest to be conveyed exceeds five years.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Authorize the General Manager to grant a permanent easement to the City of Rialto for public road purposes, on Metropolitan fee-owned property in the city of Rialto and identified as County of San Bernardino Assessor Parcel Number 0239-301-23.

Fiscal Impact: Metropolitan will receive a one-time processing fee of \$8,500 and a lump sum payment of \$63,000 for the proposed easement.

Business Analysis: The easement will allow road improvements that should reduce liability exposure. Cooperation with other agencies and public utilities, by granting easements and other rights of entry, furthers the public interest and facilitates Metropolitan obtaining easements and other property rights critical for its own operations. Metropolitan will also receive positive revenue in the form of fees and fair market value for the easement.

Option #2

Do not approve the permanent easement.

Fiscal Impact: Metropolitan will forgo the lump sum payment of \$63,000 for the proposed easement.

Business Analysis: The City may be delayed or prevented from completing the beneficial road improvements and may incur increased costs. The community may not enjoy the benefits of an improved transportation node that also enhances emergency response times.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code Section 8201: Authorization to General Manager

Metropolitan Water District Administrative Code Section 8230: Grants of Real Property Interests

Metropolitan Water District Administrative Code Section 8231: Appraisals of Real Property Interests

Metropolitan Water District Administrative Code Section 8232: Terms and Conditions of Management Documents

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is exempt from CEQA because it involves the permitting, leasing, licensing, operation, maintenance, or minor alteration of existing public structures, facilities, or topographical features involving negligible or no expansion of existing or former use and no possibility of significantly impacting the physical environment. (State CEQA Guidelines Section 15301.)

CEQA determination for Option #2:

None required

Details and Background

Metropolitan acquired the subject property in 1970 for the construction, operation, and maintenance of the Rialto Pipeline in the city of Rialto. The pipeline is a 121 ½-inch inside diameter steel pipe. The subject property is located on the corner of Locust Avenue and Casa Grande Drive. The City of Rialto is requesting a permanent easement across Metropolitan's fee-owned property within its city limits to support the Locust Avenue Widening and Reconstruction Project. This easement will formalize the City's rights to construct and maintain public roadway improvements, including paving, ADA-compliant sidewalks, driveway approaches, and traffic signal infrastructure. The easement will be used in perpetuity for public road purposes.

Staff has determined the proposed easement will not interfere with Metropolitan's operations. The proposed permanent easement for public road purposes will have the following key provisions:

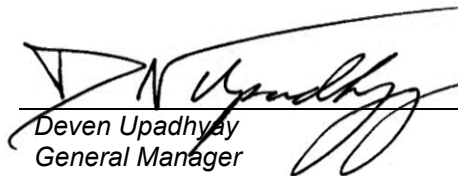
- Subject to Metropolitan's paramount rights reservation
- All construction plans shall be approved by Metropolitan
- The City shall maintain the easement area
- The City shall indemnify Metropolitan
- The easement area will be 0.03 acres

The fair market value for the proposed easement is \$63,000 as determined by a qualified licensed appraiser. There is also a one-time processing fee of \$8,500 for granting the permanent easement.



Elizabeth Crosson
Chief Sustainability, Resilience and
Innovation Officer

10/1/2025

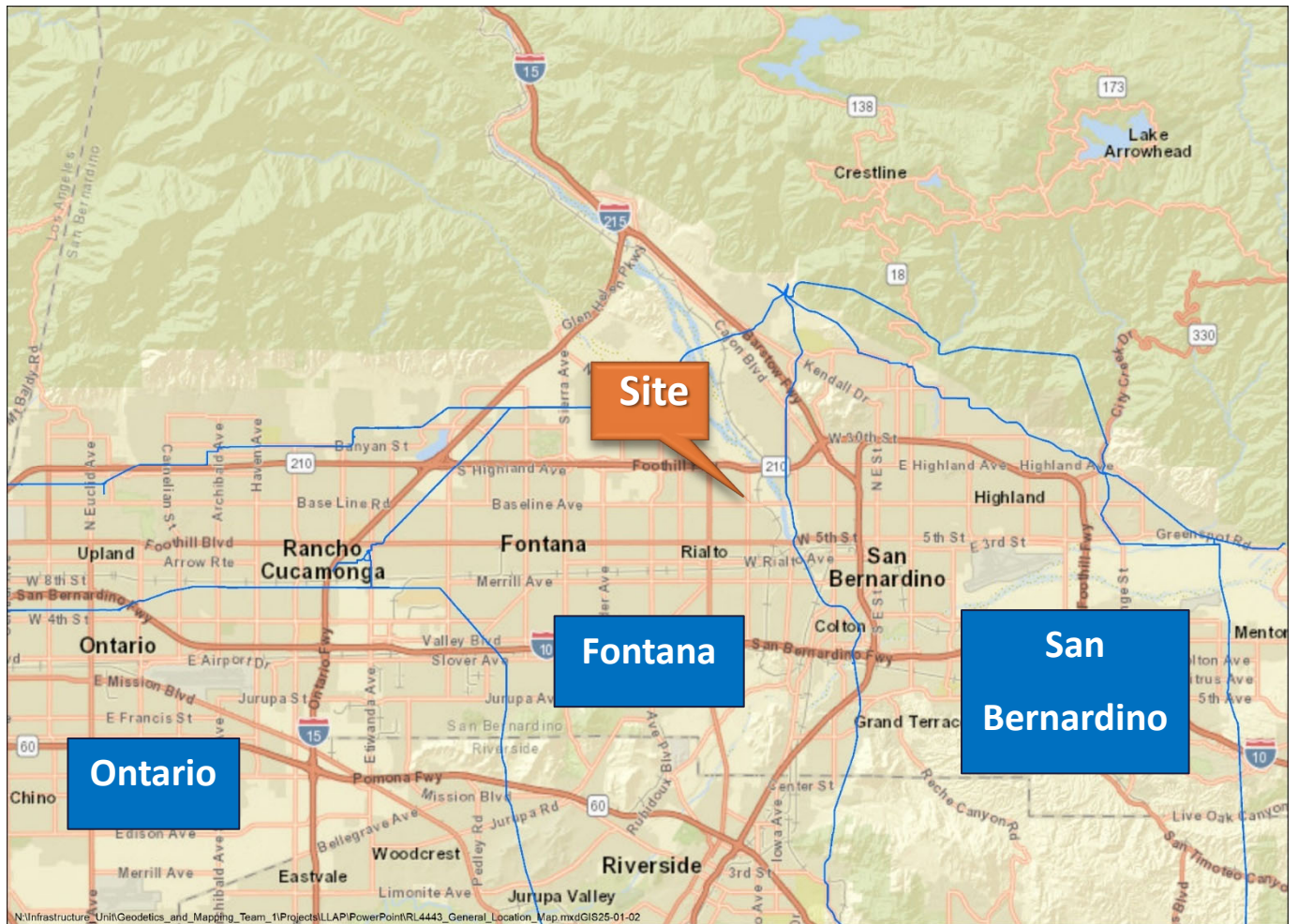
Date

Deven Upadhyay
General Manager

10/1/2025

Date**Attachment 1 – Location Map**

Ref# sri12701600

Attachment 1 – Location Map

Finance, Affordability, Asset Management
and Efficiency Committee



City of Rialto Easement

Item 7-2

October 14, 2025

Item 7-2

Overview of Easement

Subject

Authorize the General Manager to grant a permanent easement to the City of Rialto for public road purposes, on Metropolitan fee-owned property in the City of Rialto and identified as County of San Bernardino Assessor Parcel Number 0239-301-23.

Purpose

Establish rights to construct and maintain a public road.

Distribution System Map



General Location Map



Site Map



Key Provisions

- Subject to Metropolitan's paramount rights reservation
- All construction plans shall be approved by Metropolitan
- The City shall maintain the easement area
- The City shall indemnify Metropolitan
- The easement area will be 0.03 acres
- Metropolitan will receive \$71,500 for easement

Board Options

Option No. 1

Authorize the General Manager to grant a permanent easement to the City of Rialto for public road purposes, on Metropolitan fee-owned property in the city of Rialto and identified as County of San Bernardino Assessor Parcel Number 0239-301-23.

Option No. 2

Do not approve the permanent easement.

Board Options

Staff Recommendation

- Option No. 1





- **Board of Directors**

Finance, Affordability, Asset Management, and Efficiency Committee

10/14/2025 Board Meeting

7-3

Subject

Authorize the execution of an amendment to an existing lease agreement with New Cingular Wireless PCS, LLC to adjust the rental amount and extend the term for up to 25 additional years, thereby allowing continued operation of a commercial telecommunication site at the Iron Mountain Pumping Plant identified as San Bernardino County Assessor Parcel No. 0643-221-06; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This action would authorize the General Manager to execute an amendment to an existing telecommunications lease agreement, which would adjust the rental amount and extend the term for up to 25 additional years. The area is located inside the Iron Mountain Pumping Plant in a telecommunications shelter (**Attachment 1**). Board authorization is required because the term will exceed five years.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Authorize the execution of an amendment to an existing lease agreement with New Cingular Wireless PCS, LLC to adjust the rental amount and extend the term for up to 25 additional years, thereby allowing continued operation of a commercial telecommunication site at the Iron Mountain Pumping Plant identified as San Bernardino County Assessor Parcel No. 0643-221-06.

Fiscal Impact: Metropolitan will receive a one-time processing fee of \$8,500 and annual revenue of \$64,657.

Business Analysis: This option will allow the use of Metropolitan's fee-owned parcel to generate revenue and transfer maintenance, weed abatement, security and trespassing costs to the Licensee.

Option # 2

Do not authorize the amendment to the existing lease agreement.

Fiscal Impact: Forgo the opportunity to generate revenue.

Business Analysis: Metropolitan would forgo annual rent of \$64,657 with four percent annual increases, and become responsible for costs associated with annual maintenance, weed abatement, illegal dumping, and trespassing.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code Section 8201: Authorization to General Manager

Metropolitan Water District Administrative Code Section 8230: Grants Real Property Interests

Metropolitan Water District Administrative Code Section 8231: Appraisal of Real Property Interests

Metropolitan Water District Administrative Code Section 8232: Terms and Conditions of Management

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 48766, dated August 16, 2011, the Board adopted the proposed policy principles for managing Metropolitan's real property assets.

Related Board Action/Future Action

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action to amend an existing lease agreement for an extended term of up to 25 years is categorically exempt from CEQA because it involves the leasing, licensing, operation, maintenance, and minor alteration of existing public structures, facilities, and equipment involving negligible or no expansion of existing or former use and no possibility of significantly impacting the physical environment. (State CEQA Guidelines Section 15301.)

CEQA determination for Option #2:

None required

Details and Background

Metropolitan acquired the subject property in 1933 for the construction, operation, and maintenance of the Colorado River Aqueduct. Iron Mountain Pumping Plant, which is the third pumping plant along the aqueduct, and is 67.57 miles from the inlet at the Intake Pumping Plant along California Highway 62, in Earp, California.

The existing telecommunications site is located in the northwest portion of the Iron Mountain Pumping Plant, and has existed since 2011, with an equipment shelter, 85-foot tower, emergency diesel generator, and underground storage tank. There are no new improvements planned for this site. The proposed amendment to the existing telecommunications lease agreement would allow Metropolitan to adjust the rental amount based on a recent appraisal and extend the term of the agreement for up to 25 years with New Cingular Wireless PCS, LLC. Staff has determined the continued operation of the telecommunication site will not interfere with Metropolitan's operations.

The proposed amendment will have the following key provisions:

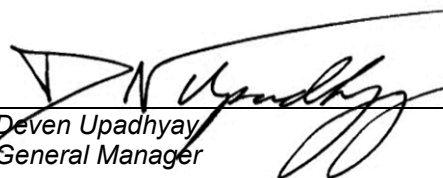
- Term of five years with four options to extend for a five-year period (Maximum term of 25 years)
- Subject to Metropolitan's paramount rights
- Annual rent of \$64,657
- One-time processing fee of \$8,500
- Fixed annual rent increases of four percent
- Reappraisal of rent every five years

All other terms of the lease agreement will remain unchanged.



Elizabeth Crosson
Chief Sustainability, Resilience and
Innovation Officer

10/3/2025

Date

Deven Upadhyay
General Manager

10/3/2025

Date**Attachment 1 – Location Map**

Ref# sri12705578

LOCATION MAP





Finance, Affordability, Asset Management,
and Efficiency Committee

New Cingular Wireless PCS, LLC Lease Amendment

Item 7-3

October 14, 2025

Item 7-3

Overview of Lease Agreement

Subject

Authorize the execution of an amendment to an existing lease agreement with New Cingular Wireless PCS, LLC to adjust the rental amount and extend the term for up to 25 additional years, thereby allowing continued operation of a commercial telecommunication site at the Iron Mountain Pumping Plant identified as San Bernardino County Assessor Parcel No. 0643-221-06.

Purpose

To execute an Amendment to an existing telecommunications lease agreement, which would adjust the rental amount and extend the term for up to 25 additional years.

Service Area & CRA Map



General Location Map



Site Map



Key Provisions

- Term of five years with four, five-year options to extend
- Maximum 25 years
- Subject to Metropolitan's paramount rights provision
- Metropolitan will receive \$9,500 one-time processing fee
- Annual lease rent of \$64,657 with 4% annual increases
- Reappraisal of rent every 5 years

Board Options

Option No. 1

Authorize the execution of an amendment to an existing lease agreement with New Cingular Wireless PCS, LLC to adjust the rental amount and extend the term for up to 25 additional years, thereby allowing continued operation of a commercial telecommunication site at the Iron Mountain Pumping Plant identified as San Bernardino County Assessor Parcel No. 0643-221-06.

Option No. 2

Do not authorize the amendment to the existing lease agreement

Board Options

Staff Recommendation

- Option No. 1





● Board of Directors

Finance, Affordability, Asset Management, and Efficiency Committee

10/14/2025 Board Meeting

7-4

Subject

Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

In September 2025, staff presented an informational report on a proposed Emergency Event Member Agency Payment Deferment Program to the Finance, Affordability, Asset Management, and Efficiency (FAAME) Committee of the Board, which would require amending the Metropolitan Administrative Code to implement the Program. The Program will assist qualifying member agencies while they experience difficult financial times caused by an emergency event, by allowing for payment deferment of up to 12 months, subject to the approval of the General Manager. The Program will be available to all member agencies that receive approval from the General Manager and will apply to invoices for all fixed charges, including Capacity, Readiness-to-Serve (RTS), Treatment Standby, and Treatment Peaking charges. The General Manager will have the authority to defer up to \$250,000 for each affected member agency per event. This letter proposes the Program for adoption by the Board, including the approval of Administrative Code Section 4520, setting forth the guidelines for the Program. The Program would become effective immediately upon approval and would apply to an eligible emergency as of January 1, 2025.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program

Fiscal Impact: Member agency participation in this Program will shift some revenue collection from one period to another, which may cross fiscal years.

The total impact, including any foregone interest income, will vary based on the scope of the emergency event and the level of participation by member agencies.

- The maximum deferral per member agency is \$250,000 per event.
- If all 26 member agencies sought relief for the same event, the total maximum revenue deferred into a future year would be approximately \$6.0 million–\$6.5 million.
- The interest earnings foregone on the maximum deferred revenue would be approximately \$240,000–\$260,000 annually. Otherwise, applicable late fees and penalties would also be foregone.

Business Analysis: The potential cost of the Program is reasonable, given the potential hardship member agencies may face in light of various emergency events. Costs to Metropolitan consist of temporarily deferring the receipt of revenue and the foregoing of interest revenue during the time of deferment. The Program is a more reasonable approach than would be the enforcement of penalties and interest in a time when agencies are experiencing financial difficulties.

Option #2

Do not approve the Emergency Event Member Agency Payment Deferment Program and amendment to the Administrative Code to add Section 4520 to implement the Program

Fiscal Impact: None

Business Analysis: In the event member agencies default on any portion of their obligations, Metropolitan will likely forego receipt of revenue and also expend time to enforce penalties and interest on a case-by-case basis.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code Section 4501: Obligation to Pay for Water Delivered

Metropolitan Water District Administrative Code Section 4507: Billing and Payment for Water Deliveries.

Metropolitan Water District Administrative Code Section 4508: Additional Payment and Reporting in the Event of Delinquency in Payment for Water

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)).

CEQA determination for Option #2:

None required

Details and Background

Background

Metropolitan first established a payment deferment program during the COVID-19 pandemic. In December 2020, the Board adopted the COVID-19 Member Agency Payment Deferment Program and amended the Administrative Code, which was repealed on November 14, 2023. The program allowed payment deferment for member agencies that met the Board-set criteria and were approved by the General Manager of Metropolitan. The COVID-19 pandemic created financial uncertainties that were similar to the financial uncertainties resulting from recent emergency events. As a result of the recent California wildfires, some member agencies and their customers have been experiencing financial difficulties, resulting in potential payment delinquencies to those member agencies. Properties were destroyed during the recent fires, resulting in retail customers not using or paying for water, and therefore, our member agencies also not receiving water payments from their customers in those areas. On September 9, 2025, staff presented the proposal of an Emergency Event Member Agency Payment Deferment

Program to the FAAME Committee, which would provide assistance to our member agencies during difficult financial occurrences caused by emergency events such as the recent wildfires, as defined in this section below.

Emergency Event Member Agency Payment Deferment Program

The Program will provide up to a 12-month deferral of a portion of the member agencies' Metropolitan bills up to the fixed charges, including Capacity, RTS, Treatment Standby, and Treatment Peaking charges, per the approval of the General Manager. Under the Program, late fees, penalties, and interest will be waived on the deferred amount, and member agencies will have an option to establish a payment plan for the total deferred amount for up to 18 months thereafter. Late fees, penalties, and interest will only apply to deferred payment obligations not made. The General Manager will have the authority to defer up to \$250,000 for each affected member agency per event.

Adoption of this Program will require the addition of the following section to the Metropolitan Administrative Code:

§ 4520 Emergency Event Member Agency Payment Deferment Program

- (a) Emergency Event: For the purposes of this section, an “emergency event” shall be defined as a natural or manmade disaster or a catastrophic incident that creates an extreme disruption to the operations of a member agency, causing physical harm and damage to persons or property.
- (b) The Treasurer of the District shall defer payment obligations of any amount due to Metropolitan on invoices for fixed charges, including Capacity, Readiness-to-Serve, Treatment Standby, and Treatment Peaking charges, subject to Section 4501 as approved by the General Manager. Payment obligations and additional charges under Sections 4507 and 4508 shall not apply to any payment obligation deferred pursuant to this Section.
- (c) In determining to grant a deferment under this section, the member agency must submit an official written request and supporting documentation outlining its need to participate in the Program to the General Manager, who may consider the following factors in addition to others not listed below:
 - i. The member agency has experienced an increased rate of delinquency in the payments from its customers to that agency, as a result of an Emergency Event;
 - ii. The member agency has suspended or deferred payment obligations of its customers to that agency, whether the obligations suspended or deferred consist of the total amount due or a partial amount due;
 - iii. The member agency does not have sufficient financial reserves that can be used to buffer the financial impacts of the increased delinquencies, suspensions, or deferments in (i) and (ii); and
 - iv. The member agency has not received federal, state, or other financial assistance to absorb the financial impacts described in (i) and (ii).
- (d) The following terms shall apply to amounts deferred pursuant to the approval of the General Manager under this Section:
 - i. The Treasurer of the District shall defer the payment obligations for the approved charges of a member agency for up to 12 months, but not to exceed **\$250,000** per member agency, per event.
 - ii. The member agency shall begin payment of all deferred amounts under this Section no later than 12 months following the approval of the deferral

application by the General Manager. The General Manager may approve for repayment to be made in one payment or through an established structured payment plan over a period of up to 18 months following the end of the deferment period; and

- iii. Payment obligations approved under (ii) will be subject to additional charges, as set forth in Section 4508, if not paid when due.
- (e) This Section applies to payment obligations for water service governed by Sections 4501, 4507, and 4508 and does not apply to payment obligations arising out of separate contractual arrangements.
- (f) District staff will periodically report to the Board of Directors on the deferments granted under the General Manager's authority pursuant to this Section.

Potential Financial Impacts on Metropolitan

With the adoption of the Program, any member agency participation will shift some revenue collection from one period to another, which may cross fiscal years.

The total impact, including any foregone interest income, will vary based on the scope of the emergency event and the level of participation from member agencies.

- The maximum deferral per member agency is \$250,000 per event.
- If all 26 member agencies sought relief for the same event, the total maximum revenue deferred into a future year would be approximately \$6.0 million–\$6.5 million.
- The interest earnings foregone on the maximum deferred revenue would be approximately \$240,000–\$260,000 annually. Otherwise, applicable late fees and penalties would also be foregone.



 Katano Kasaine
 Assistant General Manager/
 Chief Financial Officer

10/3/2025

Date



 Deven Upadhyay
 General Manager

10/3/2025

Date



Finance, Affordability, Asset Management & Efficiency Committee

Approve Emergency Event Member Agency Payment Deferral Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program

Item 7-4

October 14, 2025

Item 7-4

Approve
Emergency
Event Member
Agency
Payment
Deferment
Program

Subject

Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program

Purpose

To assist qualifying member agencies while they experience financial difficulties due to an emergency event

Recommendation

Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program

Emergency Event Member Agency Payment Deferral Program

- Staff presented the proposal of an Emergency Event Member Agency Payment Deferral Program to the FAAME Committee on September 9, 2025
- The program will be available to all member agencies, subject to the approval of the General Manager of Metropolitan
- The Program would become effective immediately upon approval and would apply to an eligible emergency as of January 1, 2025, including the recent California Wildfires

Emergency Event Member Agency Payment Deferral Program

- The program will provide up to 12-month deferral of a portion of the member agencies' Metropolitan bills up to the fixed charge components, including capacity, readiness-to-serve (RTS), treatment standby, and treatment peaking charges, capped at \$250,000 per agency, per event
- Under the Program, late fees, penalties, and interest will be waived on the deferred amount
- At the end of the 12-month deferral period, member agencies may enter into a payment plan for up to 18 months, with late fees, penalties, and interest continuing to be waived
 - Late fees, penalties, and interest apply to deferred payment obligations not made

Approval of New Administrative Code Section 4520

§ 4520 Emergency Event Member Agency Payment Deferment Program

- (a) Emergency Event: For the purposes of this section, an “emergency event” shall be defined as a natural or manmade disaster or a catastrophic incident that creates an extreme disruption to the operations of a member agency, causing physical harm and damage to persons or property.
- (b) The Treasurer of the District shall defer payment obligations of any amount due to Metropolitan on invoices for fixed charges, including capacity, readiness-to-serve, treatment standby, and treatment peaking charges, subject to Section 4501 as approved by the General Manager. Payment obligations and additional charges under Sections 4507 and 4508 shall not apply to any payment obligation deferred pursuant to this Section.

Approval of New Administrative Code Section 4520 (Factors for Consideration)

- (c) In determining to grant a deferment under this section, the member agency must submit an official written request and supporting documentation outlining its need to participate in the Program to the General Manager, who may consider the following factors in addition to others not listed below:
- i. The member agency has experienced an increased rate of delinquency in the payments from its customers to that agency, as a result of an Emergency Event;
 - ii. The member agency has suspended or deferred payment obligations of its customers to that agency, whether the obligations suspended or deferred consist of the total amount due or a partial amount due;
 - iii. The member agency does not have sufficient financial reserves that can be used to buffer the financial impacts of the increased delinquencies, suspensions, or deferments in (i) and (ii); and
 - iv. The member agency has not received federal, state, or other financial assistance to absorb the financial impacts described in (i) and (ii).

Approval of New Administrative Code Section 4520 (Terms)

- (d) The following terms shall apply to amounts deferred pursuant to the approval of the General Manager under this Section:
 - i. The Treasurer of the District shall defer the payment obligations for the approved charges of a member agency for up to 12 months, but not to exceed \$250,000 per member agency, per event.
 - ii. The member agency shall begin payment of all deferred amounts under this Section no later than 12 months following the approval of the deferral application by the General Manager. The General Manager may approve for repayment to be made in one payment or through an established structured payment plan over a period of up to 18 months following the end of the deferment period; and
 - iii. Payment obligations approved under (ii) will be subject to additional charges, as set forth in Section 4508, if not paid when due.
- (e) This Section applies to payment obligations for water service governed by Sections 4501, 4507, and 4508, and does not apply to payment obligations arising out of separate contractual arrangements.
- (f) District staff will periodically report to the Board of Directors on the deferments granted under the General Manager's authority pursuant to this Section.

Fiscal Impact

- If the Program is approved, any member agency participation will result in the shift of some revenue collection from one period to another, which may cross fiscal years
- The total fiscal impact, including any foregone interest income, will vary based on the scope of each emergency event and the level of participation from member agencies
 - The maximum deferral per member agency is \$250,000 per event
 - If all 26 member agencies sought relief for the same event, the total maximum revenue deferred into a future year would be approximately \$6.0 million - \$6.5 million
 - The interest earnings foregone on the maximum deferred revenue would be approximately \$240,000 - \$260,000 annually

Board Options

- Option #1

Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program

- Option #2

Do not approve the Emergency Event Member Agency Payment Deferment Program and amendment to the Administrative Code to add Section 4520 to implement the Program

Staff Recommendation

- Option #1

Approve Emergency Event Member Agency Payment Deferment Program, Amend the Administrative Code to add Section 4520 to implement the Program, and Delegate Authority to the General Manager to administer the Program





THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Information

- **Board of Directors**

- Finance, Affordability, Asset Management, and Efficiency Committee***

10/14/2025 Board Meeting

9-2

Subject

Integrated overview of near-term budget drivers and long-term resource planning

Executive Summary

Metropolitan faces a pivotal moment in aligning its near-term budget planning with long-term resource development and system reliability goals. This board letter presents the near-term budget drivers and long-term resource plans and uses them to present an integrated financial analysis prepared at the direction of the Board to provide an early assessment of the cost pressures anticipated for the next biennium and projected through 2045. This analysis builds on the Adopted Biennial Budget and Ten-Year Financial Forecast by incorporating known changes to costs and revenues, estimated additional expenditures needed to maintain the integrity of Metropolitan's existing system, and potential costs and rate impacts of large-scale resource planning projects.

It is important to note that this analysis is not intended to select or prioritize specific projects nor propose solutions to the water reliability needs assessment. Instead, it provides a clear understanding of the financial trends and challenges facing Metropolitan, enabling the Board to evaluate the tradeoffs between maintaining current operations and investing in future regional water reliability.

This board letter summarizes the assumptions, data, and methodologies used in the analysis, as well as the resulting findings. It provides the foundational view for upcoming discussions around rate setting, budget challenges, and long-term capital planning.

Context and Key Developments

The Board adopted the fiscal year (FY) 2024/25–2025/26 Biennial Budget and accompanying ten-year financial forecast, establishing a foundation for ongoing fiscal planning, in April 2024. Since the adoption of the rates and charges for calendar years 2025 and 2026, several developments have revised Metropolitan's fiscal outlook.

- Board-Approved Updates:
 - In December 2024, the Board approved Delta Conveyance Project (DCP) funding commitment of \$141.6 million in planning and preconstruction costs;
 - In December 2024, the Board authorized \$35 million in funding for FY 2024/25 and FY 2025/26 to advance the transition to zero-emission vehicles (ZEV). The credit facility will be used to finance the program, with annual debt service of approximately \$5 million commencing in FY 2026/27;
 - In June 2025, the San Diego County Water Authority (SDCWA) and Metropolitan Exchange Agreement was amended, creating a fixed baseline exchange payment and price term decoupled from Metropolitan rates and providing more predictable income; and,

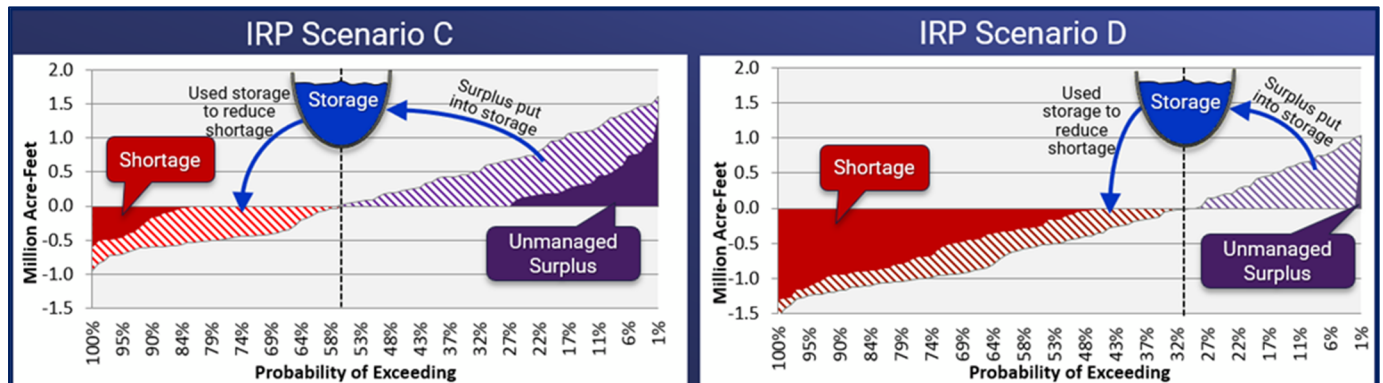
- In July 2025, the Board adopted a policy to use a conservative water sales forecast for budget development and rate settings, using a 70 percent exceedance level for the next biennium and an 80 percent exceedance level thereafter.
- Mid-Biennium Performance: FY 2024/25 closed stronger than expected, driven by higher than projected property tax revenues, lower-than-budgeted expenditures and revenues from 100 thousand acre-feet (TAF) of Reverse Cyclic Program sales.
- Revised water demand projections from the Integrated Resource Planning (IRP) for the next biennium, and extended to 2045, that incorporates up-to-date demographic data, conservation achievements, and local supply developments.

While the Mid-Biennium outcomes provided short-term fiscal relief, they were largely driven by one-time factors and are insufficient to address emerging challenges such as declining projected water sales, rising capital and operating costs, and the need to address deferred capital refurbishment and replacement (R&R) and workforce capacity.

Water Shortage and Reliability Analysis

Metropolitan's future budget outlook and decisions regarding major capital resource planning projects are closely tied to its ability to manage supply variability under demand uncertainty. In September 2025, staff updated the water shortage and reliability analysis as part of the 2025 Updated IRP Needs Assessment. This update revised Scenarios C and D of the 2020 IRP framework using the most recent demographic data, local supply developments, and revised assumptions for Metropolitan's imported water supplies. It also incorporates updated information from the Department of Water Resources' 2023 Delivery Capability Report for State Water Project (SWP) supplies and reflects potential reductions associated with ongoing Colorado River operating guidelines negotiations.

The 2025 Updated IRP Needs Assessment also accounts for the low demands observed in recent years and better captures expected reductions in imported supplies due to climate-driven extreme weather and uncertainties related to regulatory requirements and future operating rules. The analysis modeled Scenario C and Scenario D to assess the probability and magnitude of shortage events through 2045. The charts below illustrate how shortages and surpluses interact with storage under each scenario in 2045. In the graphic, red areas represent shortages, with the hatched red portion showing the volume offset by stored water. Purple areas represent surpluses, with the hatched purple portion indicating surplus water added to storage and solid purple reflecting unmanaged supplies.



Under Scenario C, even with flat water demands, there is an 18 percent probability of shortages due to degraded water supplies. These shortages are relatively limited and can often be partially mitigated through the use of stored water. In contrast, Scenario D, with higher water demand conditions, results in more frequent and severe shortages, with fewer opportunities to build storage. In 2045, potential shortage events (shown by red areas) could reach 580 TAF on average up to 1.3 million acre-feet (MAF) max under Scenario D, compared to 297 TAF on average up to 607 TAF max under Scenario C.

Overall Rate Impact Analyses

The rate impact analyses were done in steps to clearly separate different cost pressures and their effects on future rates. This included establishing a baseline forecast, incorporating recent Board actions and known changes, adding near-term operational and capital needs, evaluating major resource planning projects, and testing rate sensitivity under varying demand scenarios.

A full description of this methodology is provided in the Background section under “Rate Impact Forecast Approach.”

Adding Major Resource Planning Projects

Metropolitan’s long-term water reliability strategy includes several large-scale projects currently under evaluation, shown in the table below. These projects represent significant capital investments aimed at enhancing regional water reliability, operational flexibility, and drought resilience. For clarity, all cost estimates in this section are expressed in 2025 dollars unless otherwise noted. These figures and dates are preliminary and subject to refinement as planning advances and additional information becomes available. Refer to Appendix 1 for more descriptions and assumptions for the projects.

Project Names	MWD Share Capital Costs (in 2025 \$)	Construction Year Start	Production Year
Pure Water Southern California (PWSC) – 45/75 MGD (Staged) *	\$7.2 B (net of grants)	2027	45MGD – 2035 75MGD – 2037
AVEK Expansion (Phase 2)	\$500 M	2030	2035
Sites Reservoir (22% participation)	\$1.7 B	2027	2033
SWP Surface Storage	\$2.6 B	2033	2040
Delta Conveyance Project (47% participation)	\$10.1 B (\$9.5 B in 2023\$)	2029	2045
East-West Conveyance	\$4.6 B	2032	2042

* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board.

The table below summarizes the estimated annual overall increases in unit costs from 2027 through 2045. For this analysis, unit cost is defined as total expenses net of revenue offsets, which includes property tax revenues, investment income, exchange payments under the SDCWA-Metropolitan Exchange Agreement, and other revenues, divided by annual water sales. The first four rows show the estimated annual overall rate or cost increases building up from the Adopted Ten-Year Forecast to Revised Forecast with Known Changes, and then adding expenditures in the Needed to Maintain Current System Integrity scenario. The subsequent rows show the incremental cost impacts of major resource planning projects, with the “All Major Projects” row combining these impacts. The “Grand Total” row represents the overall projected increase, which includes both system maintenance and all proposed projects.

For 2027 and 2028 combined, total costs are projected to increase by approximately 23 percent. Detailed incremental impacts for each individual resource planning project are provided in Table 3 in the Details & Background Section.

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037 – 2045 Avg %/yr
Adopted Ten-Year Forecast w/ PWSC *	23% 11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	13% 7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	15% 10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~4%/yr
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~ 4%/yr
Incremental Additional Impact											
PWSC – 45/75MGD (Staged) **	1.6%	0.7%	2.4%	2.4%	4.8%	4.3%	2.2%	1.5%	8.3%	1.0%	~ 1.9% /yr
Other Major Projects	1.1%	1.1%	2.3%	2.6%	5.7%	12%	10.2%	3.5%	4.7%	4.9%	~1.6% /yr
All Major Projects¹	3%	2%	5%	5%	11%	16%	12%	5%	13%	5%	~ 5% / yr
Grand Total¹	23% 15%	8%	10%	10%	17%	22%	17%	10%	17%	9%	~ 9% / yr

* Referenced to PWSC Phase 1 - 115 MGD using 2023 estimated costs (\$6.4B in 2023\$)

** The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board.

Demand Uncertainty is a Critical Factor in Evaluating Potential Major Resource Planning Projects

The 2025 Updated IRP Needs Assessment incorporates updated demographic data and local supply information. The analysis begins with the Revised Budget Projection (see Background section: Revised Forecast with Known Changes). From this Revised Budget Projection, two bookend water demand scenarios (High and Low demand) were applied to capture uncertainty in climate, growth, conservation, and supply. The analysis shows that demand levels significantly influence average unit costs, with results ranging from modest increases under high-demand conditions to more pronounced increases under low-demand conditions. These findings highlight the importance of both demand assumptions and the potential addition of long-term resource planning projects under Board consideration for future financial outcomes.

Additional details on the assumptions, including the revised budget demand projection and the integration of IRP Scenarios C and D to represent Low- and High-Demand Projections, are provided in the Details and Background Section (Water Sales Sensitivity Analyses). This context explains how variability in climate, conservation, and growth directly translates into the financial outcomes illustrated in the accompanying figures for that section.

Policy Considerations and Hypothetical 10-year Forecast

Two major external factors will significantly influence future financial planning. The first is the adoption of permanent statewide efficiency standards under the *Conservation as a Way of Life* framework. These new requirements are expected to change regional water use patterns and may result in additional program funding needs to meet compliance obligations.

The second factor is the potential loss of Colorado River supplies following the expiration of current operating guidelines. This change could require Metropolitan to use its Intentionally Created Surplus (ICS) resources and

¹ Displayed as simple summed total. Actuals will be slightly lower due to compounding.

pursue alternative water transfer strategies. Over time, these actions could increase the annual supply program costs by \$112 million or more by 2036.

The findings of the analysis in this board letter underscore the critical tradeoffs Metropolitan faces in planning for the future. Even without new supply development, substantial investments are required to maintain the integrity of the current system. Adding all major projects would more than double average rate increases, underscoring the need for careful consideration and scope.

To navigate these challenges, the Climate Adaptation Master Plan for Water (CAMP4W) will provide the framework for evaluating when to initiate projects, how to prioritize investments, and which strategies will deliver the greatest benefits in terms of cost-effectiveness and regional reliability.

Hypothetical 10-year Financial Forecast with PWSC & Supply Program Cost Increases

To provide an early view of the potential fiscal impacts of these emerging challenges, staff prepared a hypothetical ten-year financial forecast that incorporates both the staged development of the PWSC project and anticipated increases in supply program costs associated with reduced Colorado River supplies. This scenario builds on the “Needed to Maintain Current System Integrity” baseline forecast and assumes Board approval and funding of the PWSC 45/75 MGD² (staged) project beginning in 2027. It also assumes the use of ICS in 2027 and 2028 to help offset initial Colorado River reductions. Beginning in 2029, supply program costs are projected to increase by \$45 million, escalating to \$112 million annually by 2036, with continued reliance on ICS to meet demand shortfalls and manage operational flexibility.

Under this scenario, projected overall rate increases are approximately 21 percent for 2027 and 2028 combined. This reflects both the costs of implementing PWSC and the additional burden of managing supply reductions through higher supply program expenditures and transfers, though most of those costs increases begin in 2029. These preliminary results are intended solely to illustrate the potential range of financial outcomes and provide context for future planning. They will be further refined during the upcoming biennial budget development process as updated cost estimates, supply projections, and regulatory guidance become available.

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Needed to Maintain Current System Integrity	12%	6%	5%	5%	6%	6%	5%	5%	4%	4%
With PWSC 45/75 MGD (Staged) *	14%	7%	7%	7%	11%	10%	7%	7%	12%	5%
Hypothetical 10-yr financial forecast with PWSC & estimated Supply Program cost increases*	14%	7%	10%	7%	11%	10%	8%	7%	12%	5%

* The PWSC 45/75 MGD (staged) is one of several potential options to be considered by the Board.

Take-Away Observations and Next Steps

This integrated financial analysis provides the Board with a foundational view of near- and long-term fiscal challenges, underscoring that significant, sustained reinvestment will be needed to maintain Metropolitan’s system and meet the region’s water service needs. Current cost pressures, including essential staffing to support day-to-day operations and expanded capital delivery, modernization of fleet and operating equipment, and increasing capital investments in R&R, will drive upward rate pressures even before new initiatives are added. Looking forward, major capital projects such as PWSC, Sites Reservoir, and DCP are designed to strengthen

² MGD – Million Gallons per Day

drought resilience, diversify supplies, and modernize infrastructure. However, they represent billions of dollars of new commitments.

These dynamics create a clear set of tradeoffs between advancing regional water reliability goals and maintaining financial sustainability. The Board will need to balance three interconnected objectives:

1. Resource Development – Building the supplies and storage with near- and long-term reliability goals;
2. Shortage Management – Ensuring the system can perform under a wide range of hydrologic and operational conditions; and,
3. Financial Sustainability – Managing near- and long-term rate impacts to keep water affordable for member agencies and the communities they serve.

The decisions ahead will shape Metropolitan’s financial trajectory and water service capabilities for decades to come. An integrated approach will help balance the intersecting challenges of affordability, sustainability, and reliability, while ensuring that future investments remain fiscally responsible and consistent with Metropolitan’s mission to provide safe, reliable, and affordable water to Southern California. Through a deliberate, data-driven process such as CAMP4W, the Board can ensure that investments are strategically aligned with both immediate operational needs and long-term regional priorities. The CAMP4W process should provide the framework for determining how much new supply development to pursue, when those investments should occur, and which projects are the most cost-effective in achieving both near- and long-term regional goals.

Fiscal Impact

This informational report does not have a direct financial impact and does not recommend nor authorize specific projects or programs for development. Instead, the purpose of this integrated analysis is to provide the Board with an early, high-level estimate of anticipated cost increases for the upcoming biennial budget cycle and beyond.

Applicable Policy

Metropolitan Water District Act Section 124.5: Ad Valorem Tax Limitation

Metropolitan Water District Act Section 133: Fixing of Water Rates

Metropolitan Water District Act Section 134: Adequacy of Water Rates; Uniformity of Rates

Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates

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

November 18, 2025	Board <u>action</u> regarding applicability of limits in Section 124.5 of the MWD Act
April 14, 2026	Board <u>action</u> regarding biennial budget, rates, and charges

Details and Background

Background

In November 2024, during the FAAME Committee meeting, the Board directed staff to analyze anticipated rate increases for the upcoming biennial budget, considering current financial conditions and expected challenges such as reduced water sales and the fiscal impact of major capital projects.

Building on this direction, in early 2025, the Board expanded the scope of this effort by directing staff to conduct a broader evaluation of key drivers affecting Metropolitan’s financial outlook. This included analyzing near-term budget pressures and long-term resource planning initiatives that could affect future rates and system reliability. In May and June 2025, staff presented to the Board an “Overview of Potential Drivers of the Next Biennium

Budget,” which identified known financial challenges and potential cost drivers over the next biennium and within the ten-year financial forecast.

Following that presentation, the Board directed staff to integrate these financial analyses into a comprehensive financial review that combines near-term budget requirements with long-term resource planning projects. The goal was to develop a comprehensive financial and reliability outlook for Metropolitan through 2045, consistent with the 2020 IRP.

As part of this effort, the IRP framework was updated in 2025 to reflect revised demographic data, updated SWP and Colorado River supply modeling, and changes in regional storage conditions. These updates ensure that the financial analysis is based on the most current understanding of future supply and demand conditions.

The purpose of this integrated analysis is to provide the Board with an early, high-level estimate of anticipated cost increases for the upcoming biennial budget cycle and beyond. This work builds on the Adopted Biennial Budget and Ten-Year Financial Forecast by addressing known changes to costs and revenues, estimating additional expenditures needed to maintain the integrity of Metropolitan’s existing system, and assessing the potential costs and rate impacts of large-scale resource planning projects.

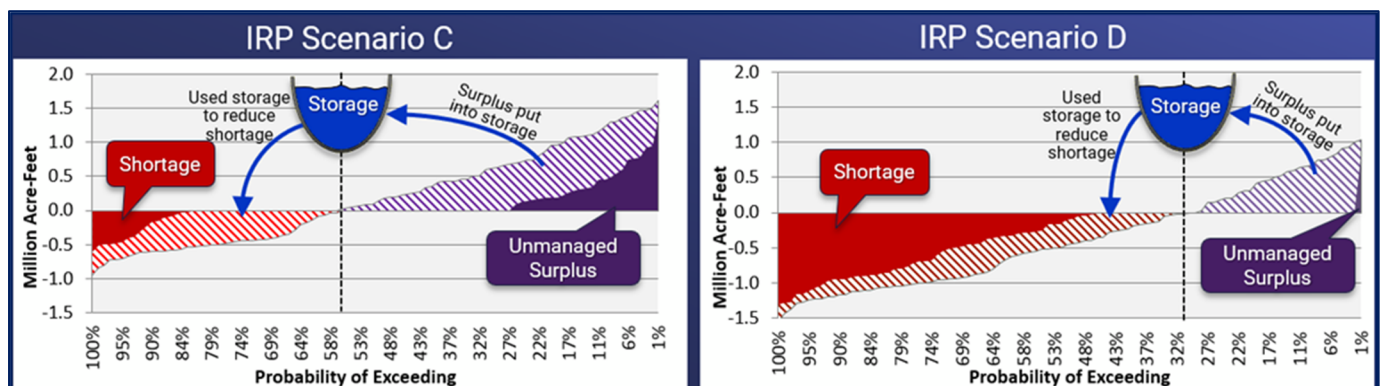
It is important to note that this analysis is **not** intended to select or prioritize specific projects nor propose solutions to the water reliability needs assessment. Instead, it provides a clear understanding of the financial trends and challenges facing Metropolitan, enabling the Board to evaluate the tradeoffs between maintaining current operations and investing in future regional water reliability.

This board letter summarizes the assumptions, data, and methodologies used in the analyses, as well as the resulting findings. It provides the foundational view for upcoming discussions around rate setting, budget challenges, and long-term capital planning.

Water Shortage and Reliability Analysis

Metropolitan’s future budget outlook and decisions regarding major capital resource planning projects are closely tied to its ability to manage supply variability under demand uncertainty. In September 2025, staff updated the water shortage and reliability analysis as part of the 2025 Updated IRP Needs Assessment. This update revised Scenarios C and D of the 2020 IRP framework using the most recent demographic data, local supply developments, and revised assumptions for Metropolitan’s imported water supplies. It also incorporates updated information from the Department of Water Resources’ 2023 Delivery Capability Report for SWP supplies and reflects potential reductions associated with ongoing Colorado River operating guidelines negotiations.

The 2025 Updated IRP Needs Assessment also accounts for the low demands observed in recent years and better captures expected reductions in imported supplies due to climate-driven extreme weather and uncertainties related to regulatory requirements and future operating rules. The analysis modeled Scenario C and Scenario D to assess the probability and magnitude of shortage events through 2045. The charts below illustrate how shortages and surpluses interact with storage under each scenario in 2045. In the graphic, red areas represent shortages, with the hatched red portion showing the volume offset by stored water. Purple areas represent surpluses, with the hatched purple portion indicating surplus water added to storage and solid purple reflecting unmanaged supplies.



Under Scenario C, even with flat water demands, there is an 18 percent probability of shortages due to degraded water supplies. These shortages are relatively limited and can often be partially mitigated through the use of stored water. In contrast, Scenario D, with higher water demand conditions, results in more frequent and severe shortages, with fewer opportunities to build storage. In 2045, potential shortage events (shown in red areas) could reach 580 TAF on average up to 1.3 MAF max under Scenario D, compared to 297 TAF on average up to 607 TAF max under Scenario C.

Adopted Budget and Ten-Year Financial Forecast & Subsequent Updates

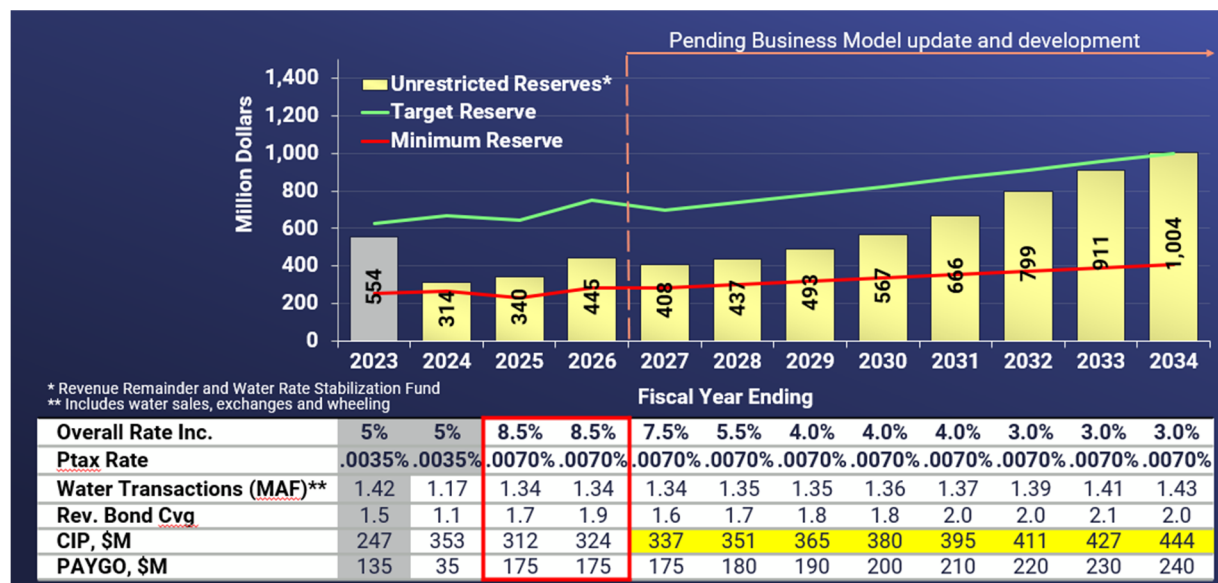
In April 2024, the Board adopted Metropolitan's Biennial Budget for FY 2024/25 and FY 2025/26. This adopted budget sets the financial foundation for the current biennium and was designed to balance revenue stability, expenditure discipline, and rebuilding reserves.

Key assumptions in the adopted budget included an ad valorem property tax rate set at 0.0070 percent, water transactions of 1.34 MAF annually (includes SDCWA exchange deliveries), \$60 million per year in new one-time miscellaneous revenues for the biennium, and \$18 million per year short-term reduction in department operations and maintenance (O&M) expenditures for the biennium. In addition, the budget appropriated \$636.5 million for the Capital Investment Plan (CIP) and increased the PAYGO funding to \$175 million per year, ensuring a stronger balance between cash funding and debt financing. It also continued Metropolitan's ongoing investments in conservation and demand management programs, supporting regional water efficiency goals. To support these assumptions, the adopted budget reflected an overall rate increase of 8.5 percent per year for CY 2025 and CY 2026.

The adopted budget was accompanied by two (2) ten-year financial forecasts, which provide a long-term perspective for planning, one with full implementation of Phase 1 (115 MGD in 2023\$) PWSC and the second without PWSC.

For the purposes of this analysis, the forecast without PWSC is used as the starting baseline. This approach provides a neutral foundation for evaluating rate impacts by keeping PWSC separate from the initial financial assumptions. It ensures that PWSC can be evaluated independently and on equal footing with other potential future resource projects. Further, it provides the Board with clear visibility into the incremental costs of new initiatives relative to the current system.

Figure 1: Adopted Biennial Budget FY 2024/25 and FY 2025/26 with Ten-Year Forecast without PWSC



Board Actions Since Budget Adoptions and Mid-Biennium Updates

Since the adoption of the FY 2024/25 and FY 2025/26 Biennial Budget, several significant actions and developments have occurred that affect Metropolitan's financial outlook. These updates include Board actions, policy refinements, and actual financial performance results, all of which are reflected in the revised projections discussed later in this report.

In December 2024, the Board approved an amendment to the funding agreement with the California Department of Water Resources (DWR), providing up to \$141.6 million for Metropolitan's share of DCP planning and preconstruction costs for 2026 and 2027. The updated financial forecast also assumed \$75 million in credits to be received from the DWR for ongoing SWC costs. Also in December, the Board authorized \$35 million in funding, supported by a \$35 million credit facility, to replace and transition Metropolitan's operating fleet to comply with state zero-emission vehicle requirements, resulting in approximately \$5 million in annual debt service costs beginning in FY 2026/27.

In June 2025, Metropolitan and SDCWA signed a settlement agreement, amending the Exchange Agreement. The amended agreement establishes a fixed baseline exchange payment with agreed "price terms" that are no longer linked to Metropolitan's rates and charges. Revenues from these exchange payments will now be treated as miscellaneous revenue, offsetting Metropolitan's revenue requirements in the same way as property tax revenues and other non-rate income.

The following month, in July 2025, the Board adopted several policy refinements to improve financial planning and stability. These refinements include implementing a more conservative water sales forecast, using a 70 percent exceedance level for the upcoming biennium and an 80 percent exceedance level for subsequent biennia, as well as adjustments to policies related to unrestricted reserves to ensure stronger financial resilience.

At the mid-point of the biennium, staff presented actual FY 2024/25 results to the Board in August 2025. Total water transactions were 1.24 MAF, approximately 100 TAF below budgeted levels. This shortfall was fully offset by 100 TAF of Reverse Cyclic Program sales, which generated \$126 million in revenues. Property tax revenues exceeded budget by \$74 million, providing a strong source of additional funding stability. On the expenditures side, lower-than-budgeted SWP power costs, along with savings in supply program and demand management, reduced overall expenditures by more than \$250 million relative to budget expectations.

While FY 2024/25 performance was stronger than expected due to extraordinary one-time revenues and favorable cost variances, challenges remain for the second year of the biennium. Projected water transactions for FY 2025/26 are now estimated at 1.29 MAF, which is below the budgeted 1.34 MAF and will put downward pressure on water transactions revenues. In addition, costs to maintain and operate Metropolitan's aging infrastructure continue to rise, and staffing needs are increasing to support both day-to-day operations and the expanded capital program.

These trends underscore the importance of conservative planning assumptions adopted by the Board in July 2025 and highlight the ongoing financial pressures associated with sales volatility and long-term capital investment needs.

While the Mid-Biennium outcomes provided short-term fiscal relief, they were largely driven by one-time factors and are insufficient to address emerging challenges such as declining projected water sales, rising capital and operating costs, and the need to address deferred capital R&R and workforce capacity.

Important Note on Preliminary Information

The information provided in this board letter represents preliminary estimates and is intended to provide an early indication of financial trends and potential budget impacts. These figures are not final forecasts and will continue to be refined as part of the upcoming budget process.

At this stage, no costs have been assumed for the potential loss of Colorado River supplies. The analysis does not include updated cost or supply projections from the current budget and ten-year financial forecast; these updates will occur during the biennial budget development process. Similarly, certain cost drivers, such as supply

programs, SWP costs, power costs, or other variable operating costs, are not reflected in this analysis. These items will be evaluated separately and incorporated into the upcoming biennial budget process.

Ongoing annual conservation programs are included based on assumed water savings of approximately 5 TAF per year, totaling about \$31 million annually, as reflected in the Adopted Ten-Year Forecast. Any additional costs needed to implement the “Conservation Way of Life” initiative are assumed to be funded by other regional or local programs.

For modeling purposes, the analysis assumes cost recovery occurs exactly as projected, with no changes to reserve levels. These preliminary results will be refined to include additional considerations, such as reserve policies, debt coverage requirements, and other factors typically incorporated into a full cost-of-service and rate design analysis. Staffing assessments remain under active review and will be refined as workforce analyses are completed. Capital project costs remain subject to adjustments as scopes are defined, designs advance, and market conditions evolve.

Revenue and rate projections presented in this report should be viewed as illustrative scenarios intended to frame the scale of potential fiscal impacts rather than as final forecasts. While the Board adopted a more conservative sales projection methodology that applies a 70 percent exceedance level for the next biennium and an 80 percent exceedance level for subsequent biennia, this analysis uses a consistent 70 percent exceedance level throughout the study period. This approach ensures that the rate impacts presented here focus solely on budget drivers and resource planning options without introducing additional variation from changes in sales forecasting assumptions.

The purpose of this preliminary analysis is to help the Board understand potential financial impacts and provide context for evaluating future investments and strategic priorities.

Rate Impact Forecast Approach

Metropolitan’s rate forecasting methodology links resource development costs with changes in overall rates, expressed on a per AF (acre-foot) basis. As a matter of policy, rates are developed to recover Metropolitan’s total projected budgeted costs, net of offsetting revenues such as property tax revenues (offsetting SWC and General Obligation costs), interest income, and miscellaneous income.

Average unit cost increases will generally reflect the long-term financial needs of the organization, but the rate changes in any single year can vary significantly. These fluctuations are driven by factors such as project funding requirements, cash flow timing, and cost recovery approaches, as well as changes in water sales and operating expenses. To maintain financial stability during these periods, Metropolitan may utilize or replenish unrestricted reserves as needed. For this analysis, staff assumed that costs are recovered exactly as projected, without factoring in reserve adjustments or other short-term balancing measures. This assumption simplifies the modeling process and focuses exclusively on how changes in costs affect long-term rate trajectories.

While this approach is a simplification and does not represent a full cost-of-service or rate design study, it provides valuable insights into how near-term budget drivers and long-term resource planning decisions will impact future rates.

The rate impact analysis was conducted in several steps. It began with establishing a baseline forecast using the adopted FY 2024/25 and 2025/26 budget and **ten-year financial forecast without the PWSC project (Phase 1 – 115 MGD)**. This provided a neutral starting point for evaluating future cost and rate impacts. The forecast was then extended to 2045 by applying assumed inflationary factors to most recurring costs to project long-term trends.

Next, the baseline forecast was adjusted to incorporate recent Board actions. These adjustments included funding for DCP planning preconstruction costs, the transition of Metropolitan’s operating fleet to ZEV and the associated debt service, updates reflecting the amended SDCWA-Metropolitan Exchange Agreement, and revised water sales projections based on the 70 percent exceedance level. Updated water demand projections were also integrated to reflect conservation achievements and the most recent demand forecast from the Water Resource Management Group. Together these updates produce the **Revised Forecast with Known Changes**.

Once the revised forecast was established, additional expenditures needed to maintain current system integrity were added. These near-term budget drivers included a multi-year staffing plan, increased CIP funding for R&R

and near-term drought projects, and funding to replace and transition Metropolitan's operating fleet to meet state ZEV requirements. Incorporating these costs produced the **Needed to Maintain Current System Integrity** forecast.

The next step evaluated the potential long-term resource planning options. This involved adding the incremental cost impacts for major resource planning projects, including the staged PWSC 45/75 MGD project (one of several potential options), the AVEK High Desert Water Bank Expansion (Phase 2), Sites Reservoir, SWP Surface Storage, Delta Conveyance Project, and East-West Conveyance. Each project is evaluated individually and collectively to show its impact on overall costs relative to the baseline scenario.

Finally, average annual cost increases were calculated for the entire study period, from 2026 through 2045. For this analysis, unit cost is defined as total expenses net of revenue offsets, which include property tax revenues, investment income, exchange payments under the SDCWA-Metropolitan Exchange Agreement, and other revenues, divided by annual water sales. These calculations were performed for both the **Revised Forecast with Known Changes** and the **Needed to Maintain Current System Integrity** forecasts, providing a clear comparison of how different cost drivers influence long-term cost trajectories.

Overall Rate Impact Analyses

Revised Forecast and Near-Term Cost Drivers

The Adopted Biennial Budget and Ten-Year Financial Forecast provided a baseline for evaluating future costs and rates. Since adoption, several significant developments, including board actions, revised sales assumptions, and other changes, have altered Metropolitan's financial outlook.

To help the Board understand the impact of these updates, this section presents two scenarios. The first, the **Revised Forecast with Known Changes**, reflects recent board decisions and updated assumptions. The second, **Needed to Maintain Current System Integrity**, incorporates the additional expenditures required to sustain Metropolitan's existing system. Together, these scenarios illustrate how recent decisions and emerging budget pressures affect both near-term rate increases and long-term financial planning.

Revised Forecast with Known Changes

This first scenario adjusts the adopted financial forecast to reflect recent board actions and updated assumptions, while holding all other factors constant. Key changes include lower projected water transactions based on updated demand projections and the 70 percent exceedance level approved by the Board in July. The scenario also incorporates the relevant changes in the amended SDCWA-Metropolitan Exchange Agreement, which decouples exchange price from Metropolitan's rates. In addition, it reflects funding for DCP planning and preconstruction costs for 2026 and 2027, a total of \$75 million in new credits from DWR to offset existing SWC costs, and \$35 million in funding, supported by a \$35 million credit facility, to transition Metropolitan's fleet to ZEV, with related debt service of approximately \$5 million annually beginning in FY 2026/27. Finally, the scenario includes higher property tax revenues reported in the FY 2024/25 4th Quarter Report.

This revised forecast provides a clear picture of how recent Board actions and external factors are influencing revenue requirements and rate trajectories.

To provide context for the evolving financial outlook, the following analysis compares prior projections with updated information. Table 1 illustrates the difference by showing three views: the original Adopted Ten-Year Financial Forecast with PWSC project, the adopted forecast without PWSC, and the Revised Forecast with Known Changes.

For example, combined rate increases for 2027 and 2028 were originally projected at 13 percent under the adopted forecast without PWSC. Under the Revised Forecast with Known Changes, this rises to 15 percent,

reflecting the cumulative fiscal impact of lower water sales, the amended Exchange Agreement, and new funding commitments.

This scenario provides the Board with an updated, transparent baseline before adding other emerging cost drivers such as staffing and CIP growth.

Table 1: Projected Overall Rate /Cost Increases for Revised Forecast with Known Changes

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037 – 2045 Avg %/yr
Adopted Ten-Year Forecast w/ PWSC *	23% 11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	13% 7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	15% 10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~4%/yr

* PWSC Phase 1 - 115 MGD using 2023 estimated costs (\$6.4B in 2023\$)

Needed to Maintain Current System Integrity

The second scenario builds on the Revised Forecast with Known Changes by adding the near-term budget drivers that have emerged through updated operational and capital planning assessments. This represents the additional funding necessary to sustain Metropolitan's existing system while addressing deferred needs and meeting regulatory requirements.

Key additions include:

- Multi-year staffing plan to support operations and expanded capital program delivery,
- Expanded CIP funding, rising from \$688 million to \$950 million for the next biennium, and
- Increased fleet modernization costs to comply with State ZEV regulations, including \$12 million annually (with \$5 million in debt service from the \$35 million credit facility authorization).

Together, these factors represent the core operational requirements needed to ensure system reliability over the next decade.

Staffing Needs Assessment

Metropolitan's ability to reliably operate and maintain its water system depends on a skilled and adequately staffed workforce. As demands on the system evolve and capital investment grows, staff are working collaboratively with operations, engineering, and administrative groups to evaluate workforce capacity and ensure staffing levels are aligned with both near-term and long-term strategic priorities.

The assessment focuses on identifying the most critical positions needed to sustain day-to-day operations, support the delivery of the expanded CIP program, and meet regulatory and safety requirements. The process recognizes the complexity of Metropolitan's infrastructure, which includes large-scale treatment facilities, conveyance systems, and an expanded portfolio of capital projects. At the same time, staffing decisions are being carefully balanced against financial sustainability and affordability for member agencies and the communities they serve. This means prioritizing essential positions while managing overall staffing growth responsibly.

Preliminary estimates indicate that additional staffing needs will require incremental funding over the next several years. The initial implementation has been scaled back to limit impacts on rates, with an average biennium rate increase of approximately one (1) percent. The current plan anticipates adding 287 positions gradually over the next three (3) biennia. As the staffing plan is fully implemented, the cumulative impact is expected to increase over time, as shown below.

Fiscal Year	2027	2028	2029	2030	2031	2032
Additional Staffing Needs	\$10 M	\$21 M	\$29 M	\$38 M	\$46 M	\$54 M

Capital Investment Plan Pressures

In April 2024, the Board appropriated \$636.5 million for the CIP covering FY 2024/25 and FY 2025/26. This appropriation provided the funding necessary to address Metropolitan's immediate capital needs while maintaining system reliability.

At the mid-point of the biennium, staff reported to the Engineering, Operations, and Technology (EOT) Committee that actual expenditures are now projected to range between \$636.5 million and \$666.5 million, exceeding the original appropriation. The projected variance is driven by inflationary pressures, supply chain volatility, higher-than-anticipated contract bids, and the acceleration of previously deferred refurbishment projects. Without additional funding, some critical infrastructure work may need to be delayed, increasing both operational and reliability risks.

To address these challenges, staff recommended a \$30 million increase to the current biennium CIP budget at the EOT Committee's October 13, 2025, meeting. If approved, this adjustment would raise the total to \$666.5 million, establishing a higher effective baseline for future biennia. Many major construction contracts awarded in the second half of this biennium will likely carry over into the next biennium (FY 2026/27 and FY 2027/28), which will increase the starting point for the next biennium's CIP to approximately \$950 million, a 42 percent increase over the current biennium. This higher level of funding reflects a combination of factors, including the carryover of existing contract commitments, funding for drought-resilience projects, and a recalibration of baseline infrastructure needs based on updated system assessments.

To limit the initial rate impacts associated with the expanded CIP program, a greater reliance on long-term debt financing will be needed in the early years of the expanded program. This approach provides time to gradually increase PAYGO funding as revenues grow, ensuring Metropolitan can attain and maintain its revenue bond coverage targets over the long term. Under the current plan, approximately 37 percent, or \$355 million, will be funded through PAYGO, while the remaining 63 percent, or \$595 million, will be supported by long-term debt.

The additional \$265 million needed for the next biennium will primarily be debt-financed, resulting in an estimated \$17 million in annual debt service, equivalent to roughly a 1 percent overall cost increase. This adjustment will not affect calendar year 2026 rates, but it will place upward pressure on rates in subsequent years as debt service begins to ramp up. The funding mix balances near-term affordability with the need for sustained reinvestment in aging infrastructure.

Funding Fleet Modernization

Metropolitan's operating fleet plays a vital role in day-to-day maintenance and emergency response across its extensive water delivery system. State regulations now require that all fleet vehicles transition to ZEV over the coming years.

In December 2024, the Board approved \$35 million in funding, supported by a \$35 million credit facility, to transition the operating fleet to ZEV. This action results in approximately \$5 million in annual debt service beginning in FY 2026/27, plus an additional \$7 million annually for ongoing maintenance and replacement, for a total of \$12 million per year. This investment ensures compliance with state mandates while modernizing the fleet to improve operational reliability and reduce long-term maintenance costs.

Integrated Impact Needed for Maintaining Current System

By combining these three drivers, staffing expansion, higher CIP needs, and fleet modernization, Metropolitan faces a substantial cost increase in required funding just to sustain its current system.

As shown in Table 2, which builds upon the Revised Forecast with Known Changes presented in Table 1 by incorporating additional near-term budget drivers that have emerged through recent operational and capital planning assessments. This adjusted forecast represents the additional investments necessary to maintain and

enhance Metropolitan's existing system while addressing immediate needs that are critical to reliable service delivery and regulatory compliance.

For example, under this scenario, combined overall cost increases for 2027 and 2028 are projected to rise from 15 percent under the Revised Forecast with Known Changes to 18 percent, demonstrating the additional financial burden of these emerging operational and capital needs. Over the long term, it is estimated that they both reflect an average annual cost increase of approximately 4 percent per year between 2037 and 2045.

Table 2: Projected Overall Cost Increases - Needed to Maintain Current System Integrity vs Revised Forecast with Known Changes

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037 – 2045 Avg %/yr
Adopted Ten-year forecast w/ PWSC *	23% 11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	13% 7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	15% 10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~4%/yr
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~4%/yr

* PWSC Phase I - 115 MGD using 2023 estimated costs (\$6.4B in 2023\$)

While the Needed to Maintain Current System Integrity scenario reflects the costs necessary to maintain Metropolitan's current system, including expanded staffing, increased capital investment, and fleet modernization would represent a significant incremental cost. In 2027 and 2028, maintaining system integrity alone is projected to require an approximate 18 percent combined cost increase over the biennium.

Revised Financial Forecast with Long-term Resource Planning Options

The previous sections established the baseline financial projections and the additional near-term costs required to maintain Metropolitan's existing system. This section builds on that foundation by introducing major long-term resource planning projects under consideration by the Board, shown in the table below.

These projects represent significant capital investments aimed at enhancing regional water reliability, operational flexibility, and drought resilience. Each project is evaluated individually and collectively to determine its incremental cost impact above the "Needed to Maintain Current System Integrity" scenario presented in Table 2.

For clarity, all cost estimates in this section are expressed in 2025 dollars unless otherwise noted. These figures and dates are preliminary and subject to refinement as planning advances and additional information becomes available. Detailed descriptions of the major resource planning projects, including scope, estimated costs, and anticipated schedules, are provided in Appendix 1.

Project Names	MWD Share Capital Costs (in 2025 \$)	Construction Year Start	Production Year	Data Status
PWSC – 45/75 MGD (Staged) *	\$7.2 B (net of grants)	2027	45MGD – 2035 75MGD – 2037	Staged to gradually build to 75 MGD, Sept 2025 estimate
AVEK Expansion (Phase 2)	\$500 M	2030	2035	Preliminary estimate
Sites (22% participation)	\$1.7 B	2027	2033	Updated cost projections expected Aug 2025
SWP Surface Storage	\$2.6 B	2033	2040	Preliminary estimate
DCP (47% participation)	\$10.1 B (\$9.5 B in 2023\$)	2029	2045	Updated cost projections expected in 2026-2027
East-West Conveyance	\$4.6 B	2032	2042	Preliminary estimate

* The PWSC 45/75 MGD (staged) is one of several potential options to be considered by the Board

Building on the “Needed to Maintain Current System Integrity” scenario shown in Table 2, Table 3 adds the incremental costs of Metropolitan’s potential major resource planning projects. This stepwise view allows the Board to see the individual cost contributions of each project, understand the cumulative financial impact if all projects were to proceed, and evaluate how these investments affect future rates relative to sustaining the existing system. All figures are expressed in calendar year percentage rate increases for consistency with previous tables.

The first row shows the estimated annual overall cost increases Needed to Maintain Current System Integrity, including staffing, CIP growth, and fleet modernization. The subsequent rows display the incremental annual cost increase each project adds above this baseline. The “All Major Projects” row represents the combined total increase from all projects added together, while the “Grand Total” row reflects the full projected rate impact, combining both the Needed to Maintain Current System Integrity and all major projects. It is important to note that costs compound over time, meaning the actual cumulative percentages will be slightly lower than the simple sum shown in the “All Major Projects” row.

Table 3: Projected Overall Incremental Cost Impact for Major Resource Planning Projects

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037 – 2045 Avg %/yr
Needed to Maintain Current System Integrity	12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~ 4%/yr
Incremental Additional Impact											
PWSC – 45/75MGD (Staged) *	1.6%	0.7%	2.4%	2.4%	4.8%	4.3%	2.2%	1.5%	8.3%	1.0%	~ 1.9% /yr
AVEK Expansion (Phase 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%	~ 1.3% /yr
DCP (47% participation)	0.5%	0.4%	1.0%	0.5%	0.7%	0.6%	0.7%	1.2%	2.8%	2.6%	~ 1.8% /yr
East-West Conveyance				0.3%	2.9%	10.0%	9.0%	1.9%	0.6%		
All Major Projects**	3%	2%	5%	5%	11%	16%	12%	5%	13%	5%	~ 5% / yr
Grand Total**	15%	8%	10%	10%	17%	22%	17%	10%	17%	9%	~ 9% / yr

* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board

** Displayed as a simple summed total. Actuals will be slightly lower due to compounding

Take-Away Observations

For the next biennium, the additional expenditures Needed to Maintain Current System Integrity are projected to increase costs by approximately 18 percent. Adding the staged 45/75 MGD PWSC project (one of several potential options) increases the projected need to roughly 21 percent. If the early phases of the Sites Reservoir and DCP projects are also included, the total combined cost impact is estimated to reach approximately 23 percent.

This view demonstrates both the timing and magnitude of fiscal impacts, providing essential context for decisions about project sequencing and prioritization.

Water Sales Sensitivity Analyses - Integration of IRP Scenario Planning and Conservative Sales Forecast

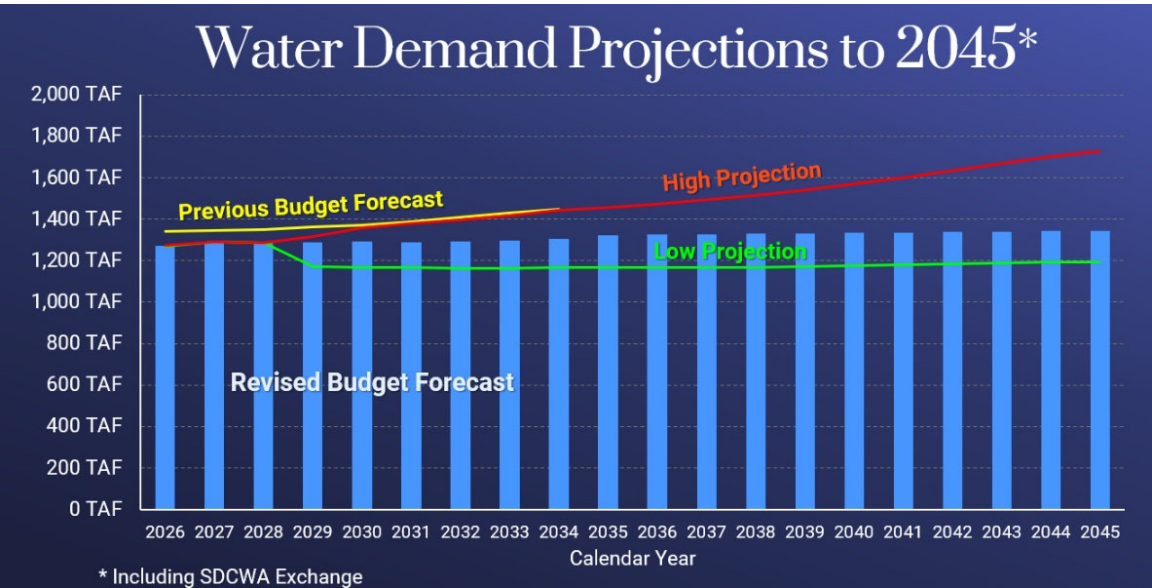
Per the Board's recent adopted policy on conservative water assumptions used for rate settings and consistent with the assumptions used in the current adopted budget, staff applied a 70 percent exceedance level for the water demand forecast as the baseline for this analysis. A 70 percent exceedance forecast means there is a 70 percent probability that actual sales will exceed the forecast, providing a conservative, lower-bound planning assumption for revenue and rate modeling. This approach helps Metropolitan prepare for potential revenue shortfalls by building resilience into budget and rate planning.

Using 2025 updates on demographic data and local supply information, the revised budget demand projection is paired with two bookend projections to reflect uncertainty in climate, growth, conservation, and supply conditions. The Low Projection (IRP Scenario C) assumes modest growth with strong local water use efficiency, limited local supply development, and reductions in imported supply due to climate change and regulatory constraints. The High Projection (IRP Scenario D) reflects strong growth and a rebound in water use, supported by strong local supply development but challenged by the effects of climate change and regulatory impacts on imported supply.

The analysis applied the demand sensitivity in three stages. First, a conservative baseline (Revised Budget Projection) was established using the 70 percent exceedance forecast as the starting point throughout the analysis period. Next, beginning in 2029, demand projections diverge into low and high projections through 2045, consistent with IRP Scenarios C and D. Finally, these demand trajectories were translated into rate impacts by applying the same cost structures used in the rate modeling to isolate how changes in water sales volumes alone affect average unit cost (\$/AF), independent of other cost drivers.

Figure 2 presents the projected Water Transaction Forecasts for Calendar Years 2026 through 2045. Water transactions include total deliveries, including the SDCWA exchange volumes. Water sales are defined as water transactions less the SDCWA exchange. The chart illustrates the revised budget forecast at the 70 percent exceedance level and shows how demand projections diverge after 2028 under the low and high projections. This visual framework provides a shared reference point for interpreting how variability in water transactions and the resulting water sales influences financial outcomes.

Figure 2: Water Demand Projections³for Calendar Year 2026 to 2045



The preceding tables presented numerical projections of average unit costs⁴ and overall cost increases across a range of projections. The following figures provide visual representations of these trends, making it easier to compare scenarios and understand the timing and magnitude of future cost changes. These figures are designed to highlight the difference between sustaining Metropolitan’s current system and funding all major planned projects, show the effect of inflation on cost projections and illustrate how water demand assumptions affect unit costs over time.

Figure 3 illustrates the projected average unit cost under two scenarios, expressed in nominal dollars, which include the effects of inflation. The first scenario, Needed to Maintain Current System Integrity, reflects the costs associated with sustaining Metropolitan’s existing system through ongoing operations, R&R, and other near-term priorities required for reliable service. Under this scenario, the average annual cost increase is approximately 5 percent per year. The second scenario, Funding All Major Projects, builds on the baseline by adding the capital and operating costs of constructing and maintaining major new resource planning projects such as PWSC, Sites Reservoir, and DCP. In this case, the average annual cost increase rises to approximately 8 percent per year. The comparison between these two scenarios clearly demonstrates the difference between simply maintaining the existing system and making large-scale infrastructure investments to meet the region’s future water reliability needs.

³ Including 277,700 AF of SDCWA exchanged water

* Revised water transaction forecast for upcoming biennial budget at 70 percent exceedance

⁴ Average unit cost is defined as total expenses net of revenue offsets, which include property tax revenues, investment income, exchange payments under the SDCWA-Metropolitan Exchange Agreement, and other revenues, divided by annual water sales.

Figure 3: Average Unit Cost in Nominal Dollars for Needed to Maintain Current System Integrity vs Funding All Major Projects for Calendar Year 2026 to 2045

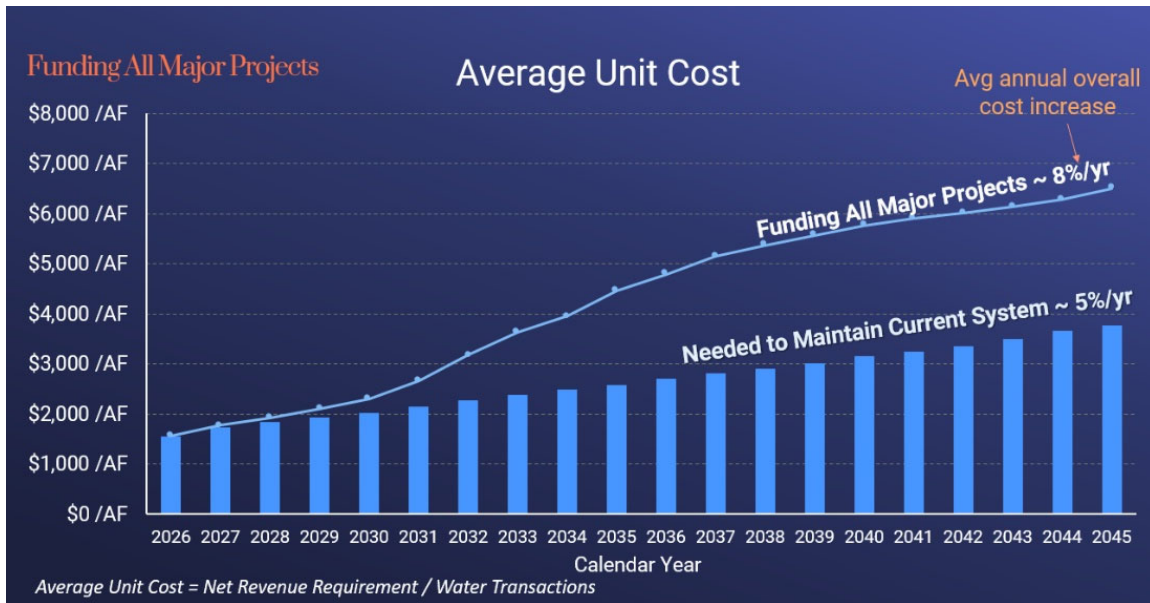
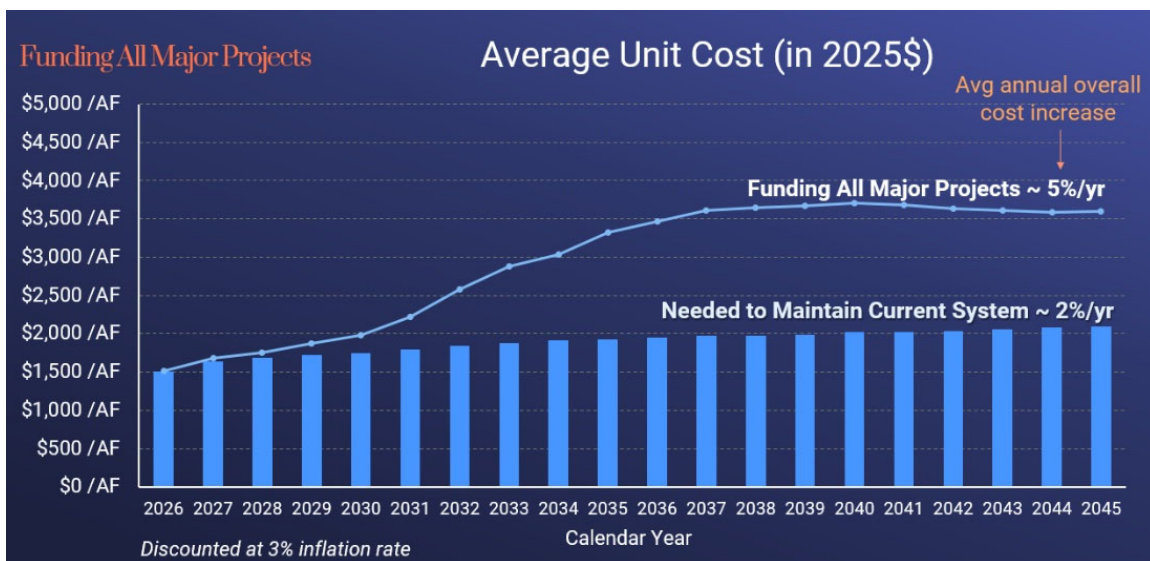


Figure 4 presents the same two scenarios but adjusts all costs to 2025 dollars, removing the effects of inflation. This normalization allows the Board to compare future costs to today's values, providing a clearer, more direct view of real cost growth over time. Under this inflation-adjusted view, the Needed to Maintain Current System Integrity shows an average annual cost increase of approximately 2 percent. In contrast, the Funding All Major Projects scenario reflects a higher average increase of approximately 5 percent, which isolates the true financial impact of new infrastructure investments apart from general inflationary effects. By removing inflation, Figure 4 provides a consistent baseline for evaluating costs and enables the Board to clearly distinguish how much of the projected rate growth is driven by the planned projects versus the effects of overall economic inflation.

Figure 4: Average Unit Cost in 2025 Dollars for Needed to Maintain Current System Integrity vs Funding All Major Projects for Calendar Year 2026 to 2045

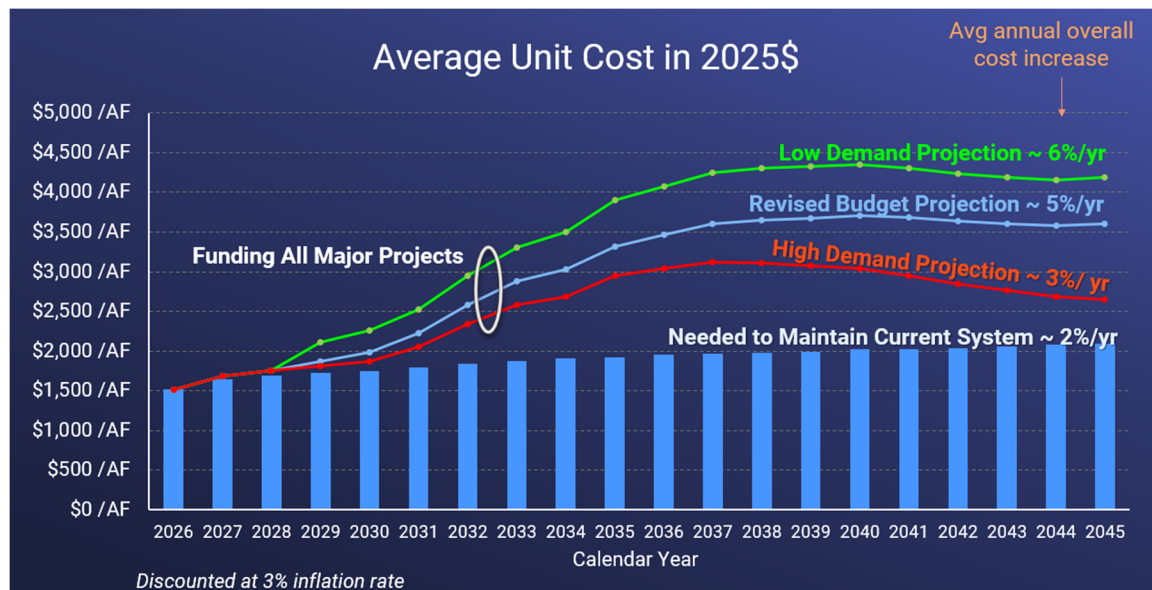


While Figures 3 and 4 compare system-only vs. system-plus-project costs, they assume a single, fixed water demand projection. Figure 5 expands this analysis by incorporating High- and Low-demand forecasts, demonstrating how water sales volume affects unit costs. The Revised Budget Projection represents the central planning case, based on the most recent water demand forecast. The Low Projection (IRP Scenario C) reflects conditions of rapid climate change coupled with lower demand growth. The High Projection (IRP Scenario D) represents a future where rapid climate change occurs alongside higher demand growth. Figure 5 illustrates how average unit costs change under each of these scenarios, expressed in 2025 dollars to remove the effects of inflation. Under higher demand, costs are distributed across a greater volume of water deliveries, resulting in lower per-acre-foot costs. Conversely, under lower demand, fixed costs are spread over fewer units, which causes higher per-unit costs. This demonstrates how demand variability directly influences rate levels, even when total system costs remain constant, and provides a more direct comparison that isolates the real impact of water demand on future unit costs.

The analysis highlights several important insights. Under the “Maintain Current System Integrity” scenario, average unit costs are increased modestly at approximately 2 percent per year. When all major projects are funded under the expected demand scenario, annual increases rise to approximately 5 percent. Under low demand conditions, these annual increases are slightly higher, reflecting the effect of spreading fixed costs across a smaller water volume.

This figure is particularly valuable for strategic planning, illustrating how future factors such as population growth, conservation, and climate impacts could affect Metropolitan’s long-term financial position.

Figure 5: Average Unit Cost in 2025 Dollars for Needed to Maintain Current System Integrity vs Funding All Major Projects with Water Demands at Expected, Low, and High for Calendar Year 2026 to 2045



Policy Consideration and Hypothetical 10-year Forecast

As part of this comprehensive financial review, staff evaluated emerging policy considerations and external factors that could significantly influence Metropolitan’s financial and operational planning. Two areas of focus are “Conservation as a Way of Life” which was adopted in 2024, and the potential loss of Colorado River supplies following the expiration of current operating guidelines. These factors are expected to have both direct and indirect impacts on future demand projections, revenue stability, and capital investment priorities.

Conservation as a Way of Life

In 2024, the adoption of the “Conservation as a Way of Life” framework establishes permanent, long-term water use efficiency standards to help the state adapt to climate change and address ongoing water supply challenges. Under this framework, water suppliers, not individual customers, are required to meet specific “urban water use

objectives” by implementing locally appropriate and flexible solutions. These include measures such as promoting drought-tolerant landscaping, reducing outdoor irrigation, and minimizing water losses within distribution systems.

Metropolitan’s current financial projections assume \$31 million annually in conservation funding to support these efforts. However, as regulatory requirements are further defined, the Board will need to consider Metropolitan’s role in achieving regional compliance. Future decisions may involve determining whether conservation participation should remain voluntary or evolve into a more standardized or mandated approach across the region. These decisions will have a direct effect on water demand management, operational planning, and ultimately, future rate structures.

Potential Loss of Colorado River Supplies

Another critical factor is the potential reduction of Colorado River supplies due to changes in Colorado River operations once current guidelines expire. The 2025 Updated IRP Needs Assessment incorporated multiple potential outcomes from ongoing Colorado River negotiations, reflecting greater variability in future supply reliability. Under certain conditions, wetter periods could help replenish storage levels, but extreme dry-year shortages are projected to become more severe than in previous forecasts. This will require Metropolitan to use ICS resources strategically and pursue additional supply and storage solutions to maintain regional reliability.

In the near term, Metropolitan’s current 1.5 MAF of ICS resources will serve as a bridge to offset initial reductions in Colorado River deliveries while longer-term strategies are implemented. Over time, sustained supply reductions will require additional measures to maintain regional reliability. These strategies may include leveraging the second right of refusal to purchase water made available through the SDCWA-Metropolitan Exchange Agreement, maximizing the Palo Verde Irrigation District fallowing program, expanding conservation initiatives to mitigate supply losses, and pursuing other water transfer purchases for use or storage when feasible.

The timing and effectiveness of these strategies will directly affect both regional supply reliability and Metropolitan’s long-term financial commitments.

Hypothetical 10-Year Forecast

To provide an early view of the potential fiscal impacts of these emerging challenges, staff prepared a hypothetical ten-year financial forecast that incorporates both the staged development of the PWSC project and anticipated increases in supply program costs associated with reduced Colorado River supplies.

This scenario builds on the “Needed to Maintain Current System Integrity” baseline forecast with several key assumptions. It assumes Board approval and funding for the PWSC beginning in 2027 and the use of ICS supplies in 2027 and 2028 to help offset initial Colorado River reductions. Beginning in 2029, the scenario includes an increase supply program cost of \$45 million, which is projected to escalate to \$112 million annually by 2036. It also assumes continued use of ICS to address demand shortfalls and manage operational flexibility, along with a projected cost increase of three (3) percent in 2029 and less than one (1) percent annually thereafter.

Under this scenario, projected overall unit costs increase by approximately 21 percent for 2027 and 2028 combined, as shown in Table 4. This reflects both the costs of implementing PWSC and the additional burden of managing supply reductions through higher supply program expenditures and transfers, though most of those costs increases begin in 2029. Expressed on a per-acre-foot basis, these unit cost projections provide a clearer picture of how total expenditures translate into rate impacts when spread across water sales.

These preliminary results are intended solely to illustrate the potential range of financial outcomes and provide context for future planning. They will be further refined during the upcoming biennial budget development process as updated cost estimates, supply projections, and regulatory guidance become available.

Table 4: Hypothetical 10-year Financial Forecast with PWSC & Supply Program Cost Increases

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%
With PWSC 45/75 MGD (Staged) *	21% 14%	7%	7%	7%	11%	10%	7%	7%	12%	5%
Hypothetical 10-yr financial forecast with PWSC & estimated Supply Program cost increases*	21% 14%	7%	10%	7%	11%	10%	8%	7%	12%	5%

* The PWSC 45/75 MGD (staged) is one of several potential options to be considered by the Board

Take-Away Observations

The financial analysis presented in this report demonstrates that rising costs will translate into significant rate impacts necessary to sustain Metropolitan's current system. These increases are driven by several interconnected factors, including the organizational-wide staffing needed to support day-to-day operations and expanded capital program, the rising costs associated with replacing and modernizing operating fleet and operating equipment, and the growing investment in repairs, replacements, and refurbishment projects within the CIP.

Even before adding new projects, these baseline pressures alone will require substantial long-term reinvestment to maintain system reliability, comply with regulatory requirements, and meet the region's water service needs.

The analysis also shows that pursuing all major planned capital projects, including PWSC, Sites Reservoir, DCP, and others, would further increase costs, placing additional pressure on financial impacts for Metropolitan's member agencies and the communities they serve. These projects are designed to enhance drought resilience, diversify supplies, and modernize infrastructure, but they also represent billions of dollars in new commitments. The timing and sequencing of these projects are key factors in managing cumulative financial impacts. When multiple projects move forward simultaneously, peak rate increases can occur, as reflected in Table 3 and Figures 3 through 5.

This creates a clear tradeoff between advancing regional reliability goals and cost pressures. As Metropolitan looks ahead, decisions will need to strike a balance among three critical objectives: developing supplies and storage to meet both near- and long-term reliability needs, ensuring the system can operate effectively under a wide range of hydrologic and operational conditions, and managing rate impacts to keep water affordable for member agencies and the communities they serve.

This analysis provides the Board with the financial context needed to navigate these tradeoffs and to evaluate the pathways forward in determining how best to meet the region's future water reliability and affordability goals.

Role of the CAMP4W Process

The CAMP4W process will be central to these future decisions, guiding the Board in determining how much new supply development Metropolitan should pursue and when those investments should occur. It will also help identify which projects and strategies are the most cost-effective in achieving both near- and long-term regional goals. By integrating technical, financial, and policy perspectives, CAMP4W will help Metropolitan prioritize investments and sequence project development to ensure the most effective use of limited financial resources.

Next Steps for the Board

As the Board prepares for upcoming budget and rate-setting discussions, this analysis will provide a foundation for the FY 2026/27–2027/28 biennium and establish a framework for evaluating and comparing project proposals as they are refined. These projections will be further refined as new information becomes available, particularly for projects still in early planning stages, such as SWP Surface Storage and AVEK expansion Phase 2.



Katano Kasaine
Assistant General Manager/
Chief Financial Officer
10/6/2025
Date



Deven Upadhyay
General Manager
10/6/2025
Date

Ref# cfo12702420

APPENDIX 1 – PROJECT DESCRIPTIONS & ASSUMPTIONS

Pure Water Southern California (PWSC)

PWSC is one of the most significant regional water supply initiatives under consideration.

- It will create a sustainable new local water source by purifying treated wastewater for potable reuse.
- Depending on the final configuration, PWSC could be developed in multiple sizes, including 45 MGD, 75 MGD, 45/75 MGD staged, 115 MGD, 150 MGD, or 150 MGD staged options.
- Under the currently modeled 45/75 MGD staged plan, PWSC would produce up to 77,300 AF per year, beginning with 45 MGD and expanding to 75 MGD based on regional demand and regulatory considerations.

Staging Strategy for 45/75 MGD:

- The initial 45 MGD phase will establish core treatment and delivery infrastructure.
- A second stage would expand capacity to 75 MGD if justified by regional needs, regulations, and financial conditions.
- Construction is anticipated to begin in 2027, with operations commencing by 2035 for 45 MGD, if approved, by 2037 for 75 MGD
- Staging provides early benefits while reducing near-term fiscal exposure and avoiding overbuilding should future demand not materialize.

Cost Considerations:

- The 45/75 MGD staged option is estimated at \$7.2 billion (net of grants).
- Incremental construction allows for re-evaluation at each stage, balancing near-term investment with long-term flexibility.
- Funding will come from a mix of rates, grants, and debt financing.

At this time, no final decisions have been made on the final size, staging, or cost recovery approach. The PWSC program is not currently included in Metropolitan's CIP as a capital program; however, the Board is expected to consider its inclusion in the CIP as part of the upcoming biennial budget process. For this analysis, the 45/75 MGD staged option is modeled separately to ensure transparency and comparability with other potential projects. It is one of several potential options to be considered by the Board.

AVEK High Desert Water Bank Expansion (Phase 2)

Metropolitan is evaluating participation in a Phase 2 expansion of the High Desert Water Bank Program with the Antelope Valley-East Kern Water Agency (AVEK).

- The existing program, approved in 2019, provides 280 TAF of storage and 70 TAF per year of direct recovery into the East Branch of the California Aqueduct.
- The proposed expansion would add 440 TAF of storage, increasing total program capacity to 720 TAF, and raise annual put-and-take capability to 110 TAF.
- The project would also establish a new connection to the West Branch of the California Aqueduct.

Schedule and Costs:

- Construction is anticipated to begin in 2030, with operations commencing by 2035.
- Metropolitan's preliminary participation costs are estimated at \$500 million, to be refined as planning progresses.

Strategic Benefits:

- Provides additional flexibility to capture supplies in wet years and recover water during droughts or emergencies.
- Supports reliable deliveries when SWP allocations are low or upstream infrastructure is disrupted.

Sites Reservoir Project

The Sites Reservoir Project is a proposed 1.5 MAF off-stream storage facility located west of Maxwell, California.

- Metropolitan holds a 22.1 percent share, equating to 312 TAF of storage and long-term yields of 32 TAF annually on average, with higher deliveries in dry years (56 TAF).
- The project operates under its own independent water right, separate from the SWP.

Schedule and Costs:

- Construction is anticipated to begin in 2027, with operations commencing by 2033
- Metropolitan's share of total capital costs is estimated at \$1.7 billion (2025\$).
 - Assuming full debt financing over 30 years at 4 percent, annual capital obligations are approximately \$101 million.
 - Annual O&M costs are projected at \$11.9 million, plus \$2.9 million in R&R, net of hydropower credits.

Strategic Benefits:

- Adds storage capacity independent of the SWP, improving resilience against variable hydrology and climate-driven supply fluctuations.

State Water Project (SWP) Surface Storage

Staff is evaluating a potential 300 TAF SWP surface storage facility to enhance drought resilience and operational flexibility.

Planning Status:

- Phase 2 of the Surface Water Storage Study narrowed potential sites from over 300 to 10 locations for further evaluation.
- Phase 3, beginning later in 2025, will include technical assessments, environmental review, and modeling in coordination with DWR and other regional partners.

Schedule and Costs:

- Construction is anticipated to begin in 2033, with operations commencing by 2040
- Preliminary construction costs are estimated at \$2.6 billion (2025\$)
 - Current assumptions include a 15/85 split between PAYGO and debt financing.
 - These figures do not yet include O&M or compliance costs and are not part of the current baseline forecast.

Delta Conveyance Project (DCP)

The DCP is a critical investment to modernize the SWP's aging Delta infrastructure and prepare for climate-driven hydrologic changes and sea level rise.

- Adds new intakes in the Sacramento River to capture supplies during high-flow events, increasing reliability and resilience.
- Expected to provide up to 190 TAF annually, supporting regional storage and drought management efforts.

Schedule and Costs:

- Construction is anticipated to begin in 2029, with operations commencing by 2045
- Preliminary Metropolitan's share of construction costs are estimated at \$10.1 billion (2025\$)
 - Metropolitan's capital financing obligation is preliminarily estimated at \$380 million annually, plus \$13 million in O&M and additional R&R costs.

East-West Conveyance

The proposed East-West Conveyance would expand Metropolitan's regional water transfer capacity and improve system reliability.

Schedule and Costs:

- Preliminary planning and design is anticipated to start in 2027, and construction begins in 2032, with operations commencing by 2045
- Preliminary capital cost estimate is \$4.6 billion, funded primarily through long-term debt.



Finance, Affordability, Asset Management, and Efficiency Committee

Integrated Overview of Near-term Budget Drivers and Long-term Resource Planning

Item 9-2

October 14, 2025

Item 9-2

Integrated
Overview of
Near-term
Budget Drivers
and Long-term
Resource
Planning

Subject

Integrated Overview of Near-term Budget Drivers and Long-term Resource Planning

Purpose

Provide the Board with Integrated Financial Overview of Near-term Budget Drivers and Long-term Resource Planning

Background and Context

- At the November 2024 FAAME meeting, the Board directed staff to analyze the anticipated rate increases in the next biennial budget based on current situations and anticipated challenges
- At the June 2025 FAAME meeting, the Board requested an analysis of Metropolitan's future financial capacity to support potential major capital projects

Objective

To provide an early estimate of the approximate rate increases expected for the next budget cycle using the following scenarios:

- Revised Forecast with Known Changes
- Estimated additional expenditures Needed to Maintain Current System Integrity
- Cost and rate impacts of major resource planning projects

This analysis is NOT intended to help select or compare projects

Disclaimers

- No assumption of costs associated with potential loss of Colorado River supplies
- The analysis does not include updated cost and supply projections from our current Budget and Ten-Year Financial Forecast. These items will be evaluated and updated as part of the upcoming biennial budget process
- There are no updates to cost drivers such as supply programs, SWP costs, power costs, or other variable operating costs
- The forecast also assumed \$75M credits to be received from DWR for ongoing SWC costs
- The analysis includes on-going annual conservation programs at an assumed water savings of ~5,000/yr from continued conservation program
 - About \$31M/yr in the adopted 10-yr forecast
 - Any additional costs needed to implement the “Conservation way of life” are assumed to be funded by other regional or local programs
- The analysis assumes that costs are recovered exactly as projected (no reserve changes)
- The analysis 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

Water Shortage and Reliability

2025 Updated IRP Needs Assessment

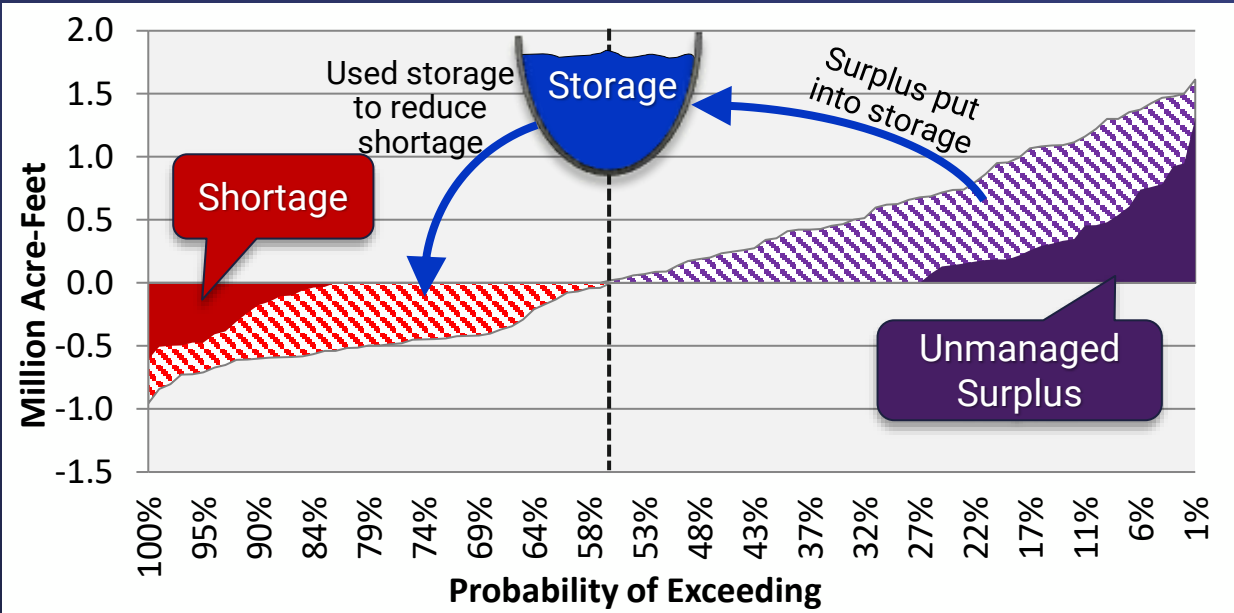
Updated for major changes in demographics, local supplies, SWP and Colorado River supplies, and storage programs

- Reflect potential outcomes of ongoing negotiations Colorado River Supply
- Capture updated 2023 Delivery Capability Report modeling with adjustments

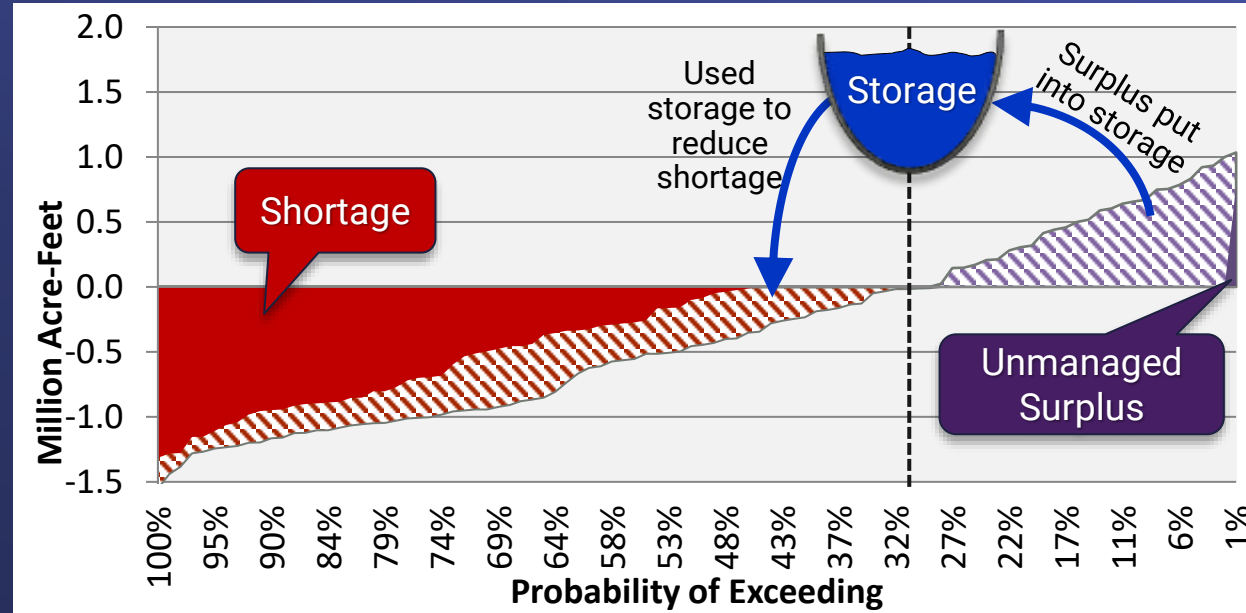
Water Shortage Analyses – 2045 Assessment Baseline

2025 Updated IRP Need Assessment

IRP Scenario C



IRP Scenario D



Scenario C – Even with flat water demands, there is an 18% probability of shortages due to degraded water supplies.

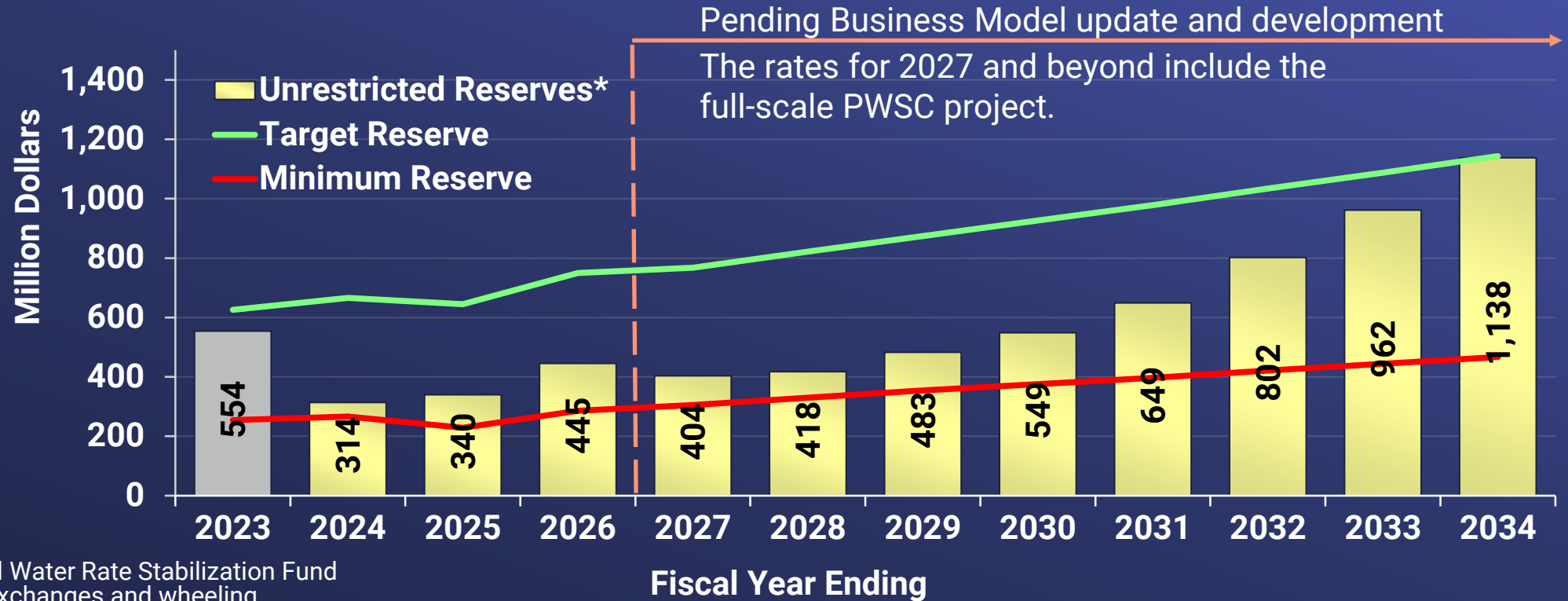
Scenario D – Under higher water demand conditions, significant shortages are projected by 2045.

Adopted Ten-Year Financial Forecast includes PWSC

Ten-year Financial Projection

Adopted FY 2024/25 and FY 2025/26 Budget

The 10-year Financial Forecasts do not include funding of any other large projects that will be considered in the CAMP4W process like Sites Reservoir, East-West Conveyance, or the Delta Conveyance Project.



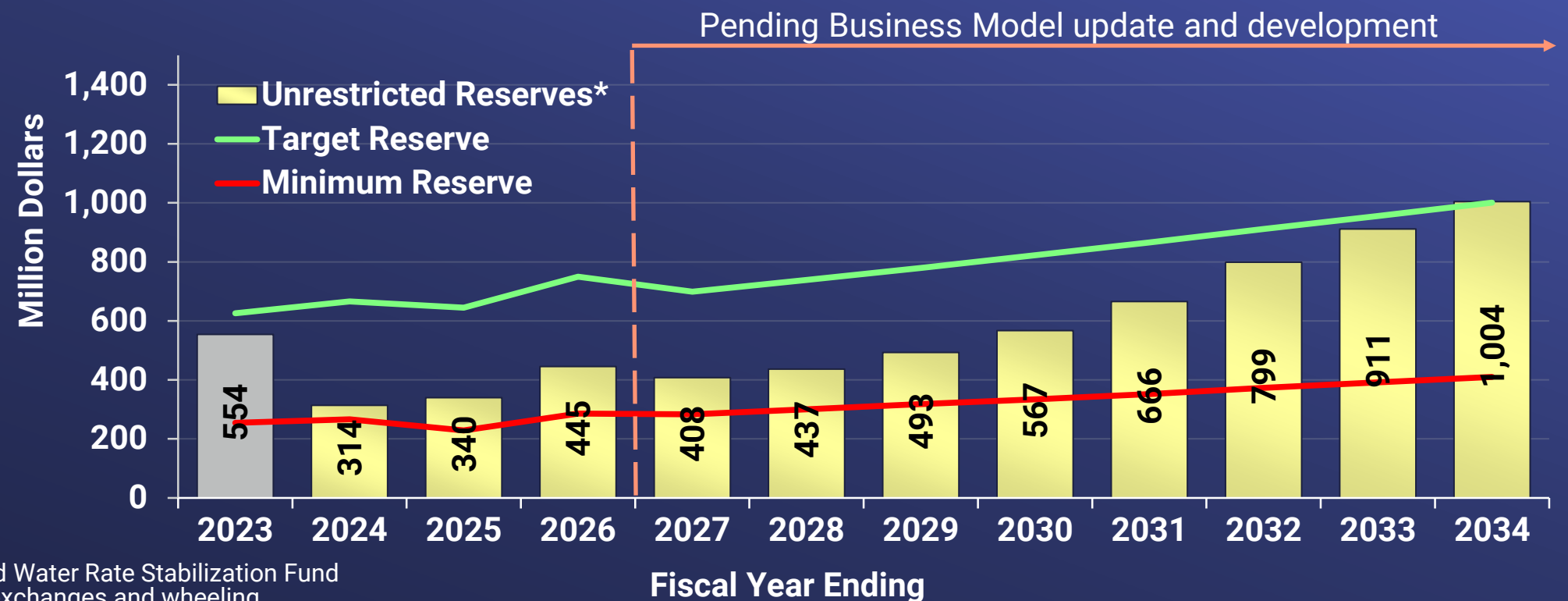
* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Overall Rate Inc.	5%	5%	8.5%	8.5%	11.5%	11.5%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
Ptax Rate	.0035%	.0035%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.7	1.9	1.6	1.8	1.9	1.8	1.8	1.7	1.7	1.7
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	35	175	175	175	250	275	275	250	225	230	240

Ten-Year Forecast Projection w/out PWSC

Ten-year Financial Projection without PWSC Project



* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Overall Rate Inc.	5%	5%	8.5%	8.5%	7.5%	5.5%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
Ptax Rate	.0035%	.0035%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.7	1.9	1.6	1.7	1.8	1.8	2.0	2.0	2.1	2.0
CIP, \$M	247	353	312	324	337	351	365	380	395	411	427	444
PAYGO, \$M	135	35	175	175	175	180	190	200	210	220	230	240

Revised Forecast with Known Changes

Revised Forecast with Known Changes

Approved Board actions

- Delta Conveyance Project (DCP) funding commitment of \$141.6 M
- Fleet transition to Zero-Emission Vehicles
 - \$35 M bond funding - Annual Debt service ~\$5 M starting FY 2027

Revenue assumption revisions from Amended SDCWA-MWD Exchange Agreement

Other Updated items

- Higher property tax revenues reflect in the Q4 Report (~\$74M increase)
- Revised water demand forecast reflecting updated conditions
 - 70% exceedance consistent with Board policy adopted in July 2025

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035 - 2045
Water Sales (TAF)	1,012	1,008	1,009	1,017	1,013	1,013	1,021	1,030	1,046 – 1,067
Water Transactions (TAF)	1,290	1,285	1,287	1,294	1,290	1,291	1,299	1,307	1,324 – 1,344

Estimated Annual Overall Cost Increases

Revised Forecast with known changes

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037– 2045 Avg %/yr
Adopted 10-Year Forecast w/ PWSC *	23% 11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Forecast w/o PWSC *	13% 7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	15% 10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~ 4%/yr

* PWSC Phase 1 - 115 MGD using 2023 estimated costs (\$6.4B in 2023\$)

Additional Expenditures Needed to Maintain Current System Integrity

Needed to Maintain Current System Integrity

Additional Operating Fleet Funding (Operating Equipment)

- Modernize MWD’s operating fleet to meet state regulatory requirements
- \$35 M funding and debt financing
- Additional annual funding of ~\$12M/yr (including \$5M debt service)

Funding Staffing Needs

- Ensure workforce capacity to support operations, maintenance, and CIP
- Collaborative review across departments to identify critical staffing gaps
- Targeted, phased hiring plan aligned with upcoming biennium budget
- Estimated additional costs:

Fiscal Year	2027	2028	2029	2030	2031	2032
Additional Staffing Costs	\$10 M	\$21 M	\$29 M	\$38 M	\$46 M	\$54 M

Needed to Maintain Current System Integrity... continued

Funding Additional Capital Investment Plan Expenditures (CIP)

- Drivers:
 - High cost: Inflationary pressures & supply chain volatility
 - Funding deferred refurbishment projects
 - Funding drought mitigation projects
- Next biennium CIP: projected at \$950 M
 - Current biennium CIP budget = \$636.5 M
 - Increase in CIP to be ~100% debt financed in the next biennium with long-term goal of ~ 50% PAYGO by 2034
 - CIP escalated at 4% per year

Estimated Annual Overall Cost Increases

Needed to Maintain Current System Integrity

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037– 2045 Avg %/yr
Adopted 10-Year Forecast w/ PWSC *	23% 11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Forecast w/o PWSC *	13% 7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	15% 10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~ 4%/yr
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~ 4%/yr

* PWSC Phase 1 - 115 MGD using 2023 estimated costs (\$6.4B in 2023\$)

Impact of Funding Major Projects

1. Addition of 45/75MGD PWSC (Staged)
2. Addition of all major projects

Major Resource Planning Projects

Project	Construction Year Start*	Production Year	MWD Share Capital Costs (in 2025 \$)	Data Status / Notes
PWSC – 45/75 MGD (Staged) **	2027	45MGD – 2035 75MGD – 2037	\$7.2 B (net of grants)	Staged to gradually build to 75 MGD, Sept 2025 estimate
AVEK Expansion (Phase 2)	2030	2035	\$500 M	Preliminary estimate
Sites (22% participation)	2027	2033	\$1.7 B	Updated costs projections expected Aug 2025
SWP Surface Storage	2033	2040	\$2.6 B	Preliminary estimate
Delta Conveyance Project (DCP) (47% participation)	2029	2045	\$10.1B (\$9.5 B in 2023\$)	Updated costs projections expected in 2026-2027
East-West Conveyance	2032	2042	\$4.6 B	Preliminary estimate

* The construction start year is preliminary and subject to change.

** The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board

Funding Major Projects

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037– 2045 Avg %/yr
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~ 4%/yr
Incremental Additional Impact											
PWSC – 45/75 MGD (Staged) *	21% 1.6%	0.7%	2.4%	2.4%	4.8%	4.3%	2.2%	1.5%	8.3%	1.0%	~1.9%/yr
Grand Total**	14%	7%	7%	7%	11%	10%	7%	7%	12%	5%	~ 6% / yr

* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board

** Displayed as simple summed total. Actuals will be slightly lower due to compounding

Funding Major Projects

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037– 2045 Avg %/yr
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~ 4%/yr
Incremental Additional Impact											
PWSC – 45/75 MGD (Staged) *	1.6%	0.7%	2.4%	2.4%	4.8%	4.3%	2.2%	1.5%	8.3%	1.0%	~1.9%/yr
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%	~1.3%/yr
DCP (47% participation)	0.5%	0.4%	1.0%	0.5%	0.7%	0.6%	0.7%	1.2%	2.8%	2.6%	~1.8%/yr
East-West Conveyance				0.3%	2.9%	10.0%	9.0%	1.9%	0.6%		
All Major Projects**	3%	2%	5%	5%	11%	16%	12%	5%	13%	5%	~ 5% / yr
Grand Total**	23% 15%	8%	10%	10%	17%	22%	17%	10%	17%	9%	~ 9% / yr

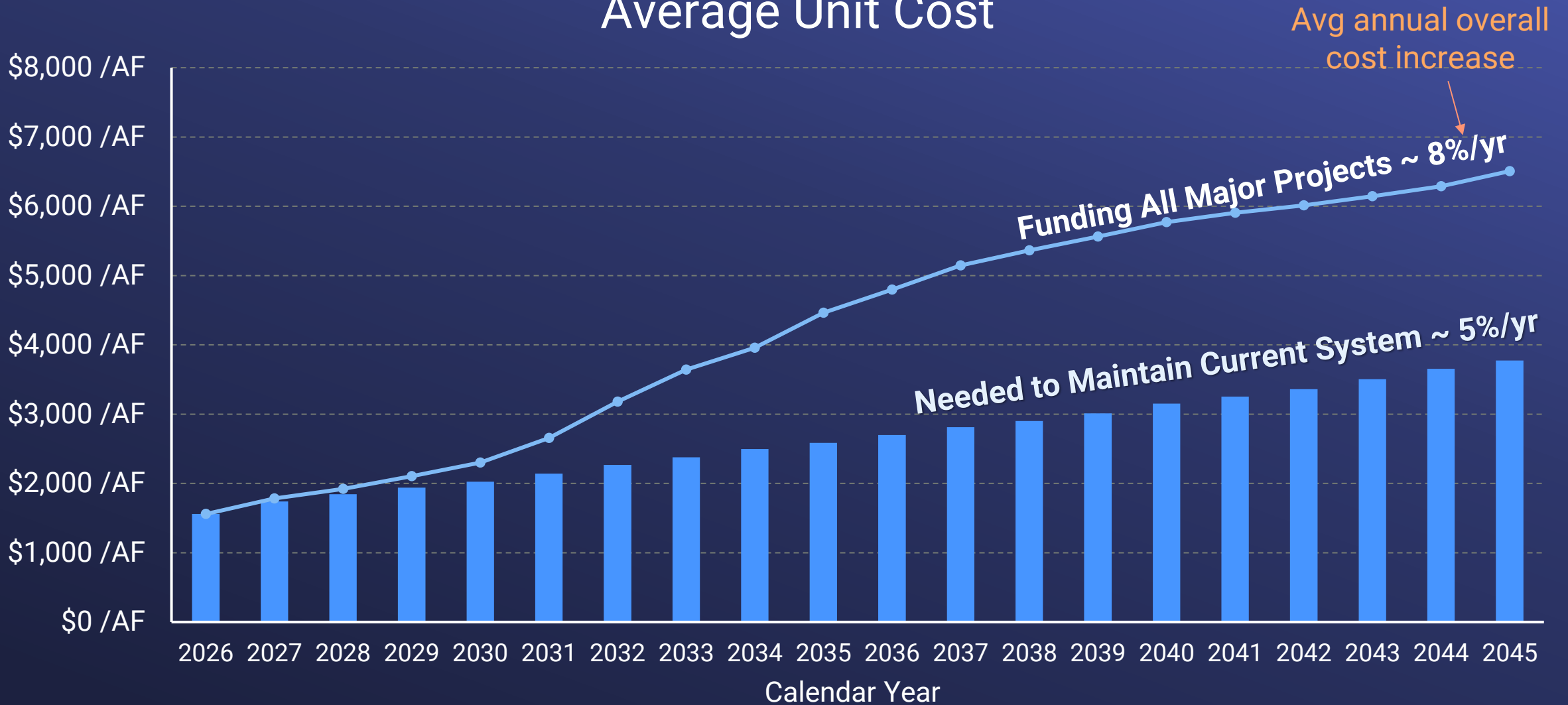
* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board

** Displayed as simple summed total. Actuals will be slightly lower due to compounding

Average Unit Cost Impact

Funding All Major Projects

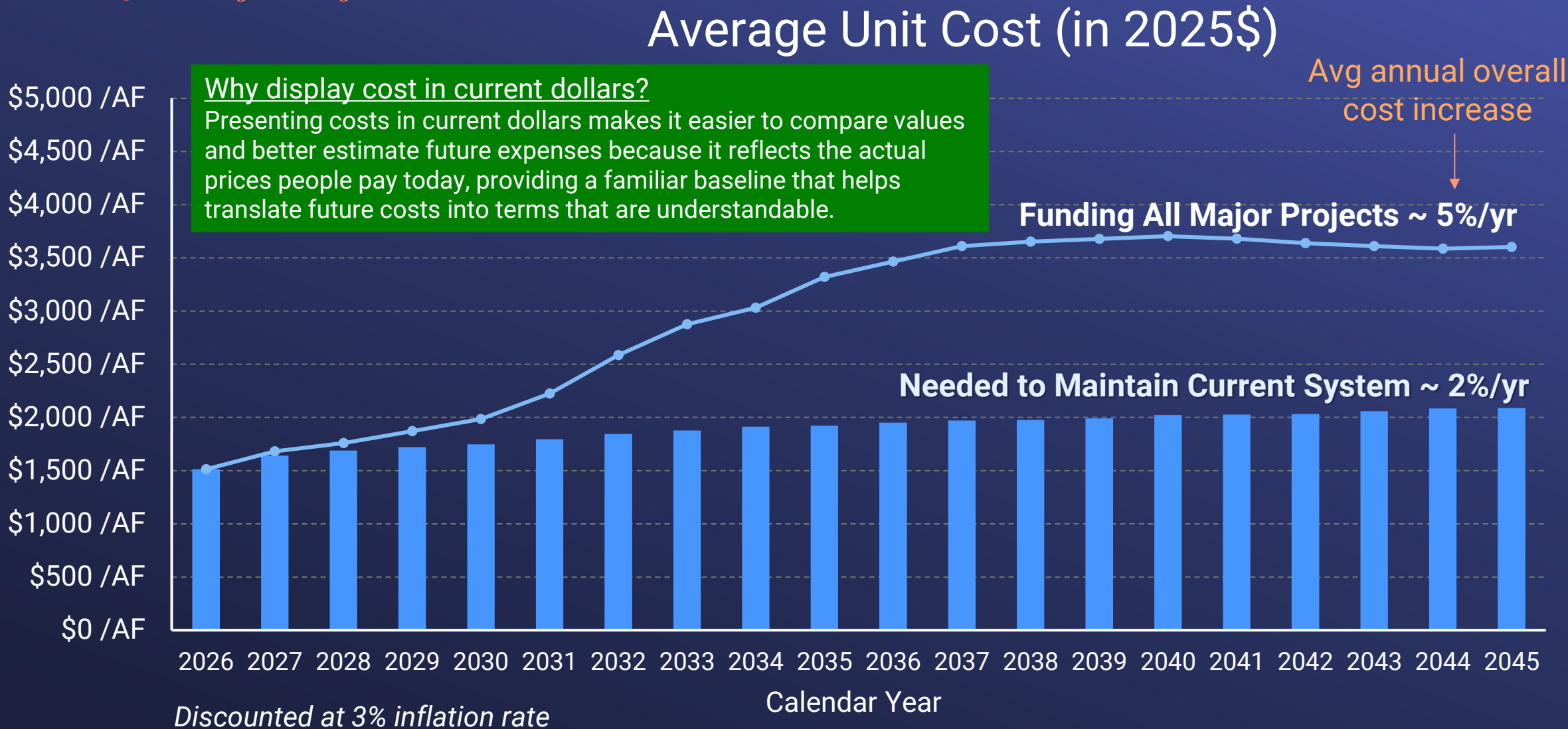
Average Unit Cost



Average Unit Cost = Net Revenue Requirement / Water Transactions

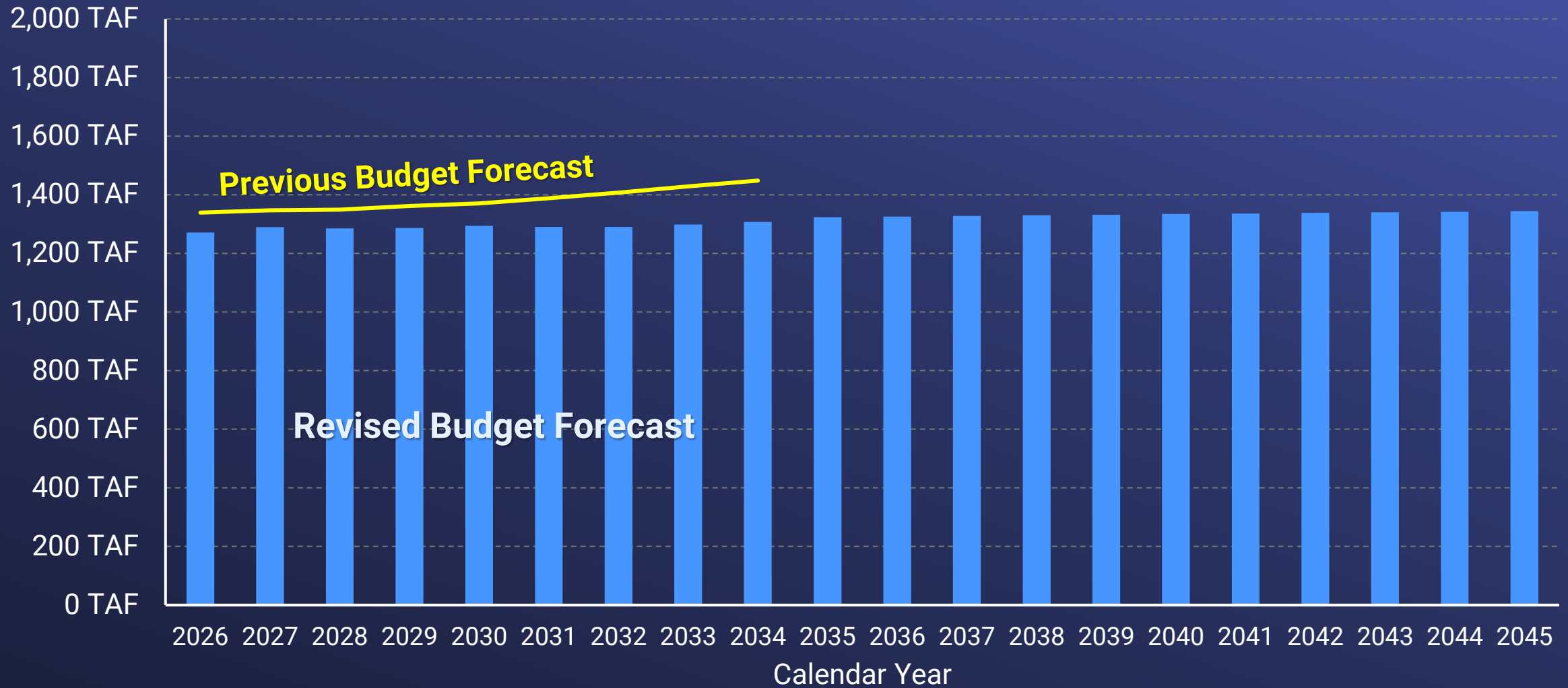
Average Unit Cost Impact in 2025 Dollars

Funding All Major Projects



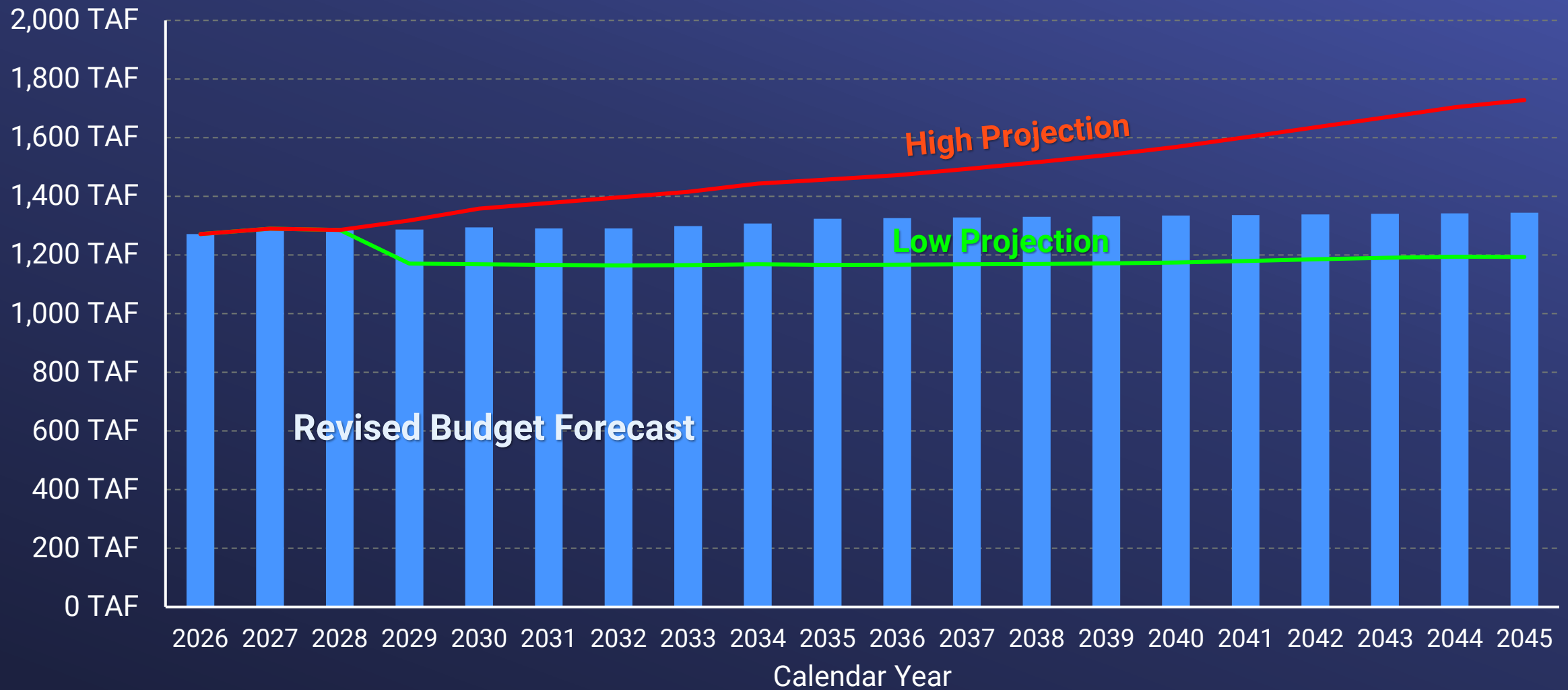
Water Demand Sensitivity Analysis

Water Demand Projections to 2045*



* Including SDCWA Exchange

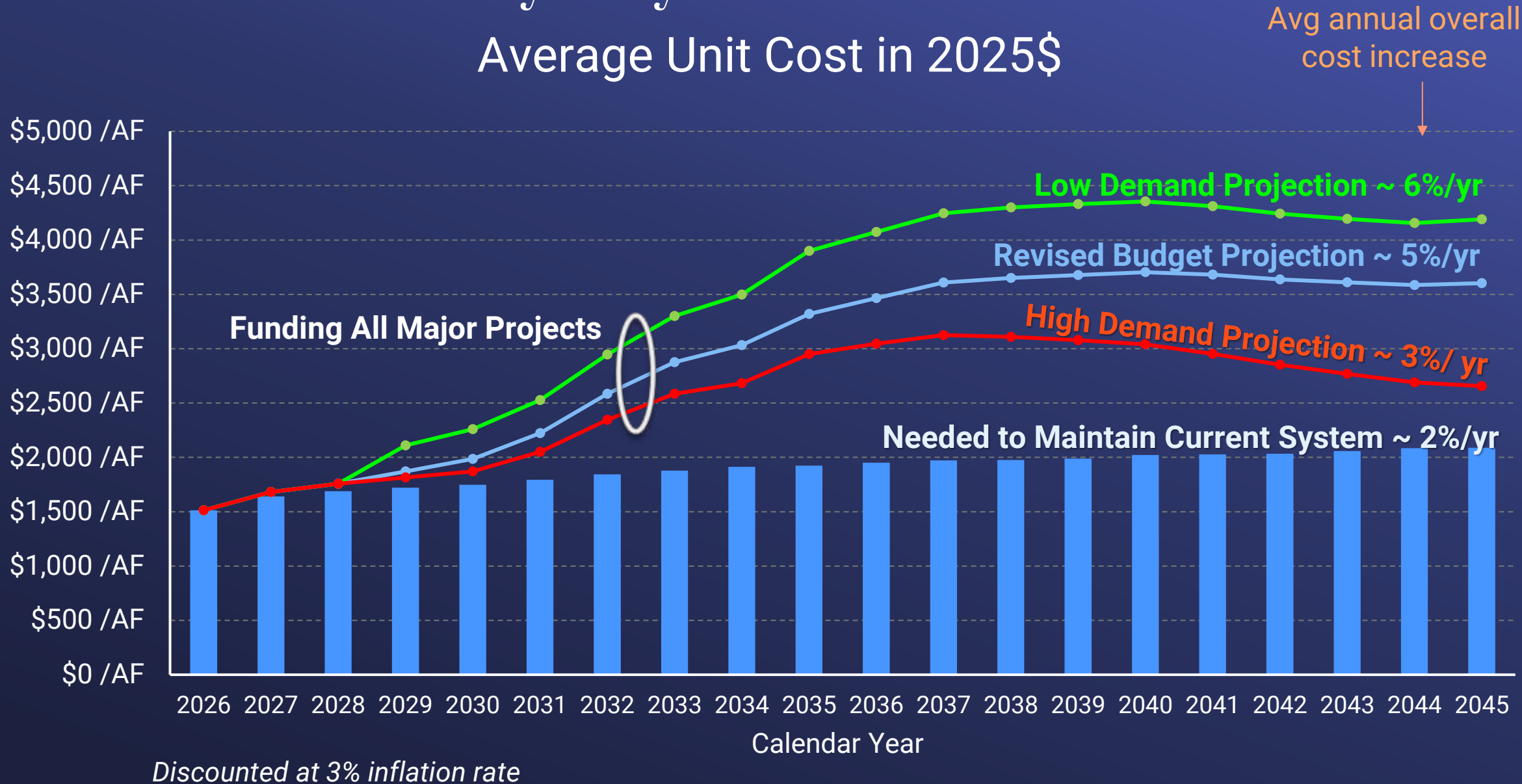
Water Demand Projections to 2045*



* Including SDCWA Exchange

Water Demand Sensitivity Analysis in 2025 Dollars

Average Unit Cost in 2025\$



Policy Discussion & Hypothetical 10-Year Forecast Update

Policy Discussion: Conservation Funding

"Conservation a way of life" adopted in 2024 establishes water use efficiency goals for urban water suppliers to help the state adapt to climate change and chronic water challenges. This regulatory framework requires suppliers, not individual customers, to meet these "urban water use objectives" by implementing flexible, locally appropriate solutions such as promoting native plants and reducing water waste, ultimately aiming to make sustainable water use a permanent practice.

- What roles should Metropolitan play in meeting the region's goal "conservation way of life"?
- Metropolitan's current financial projections includes conservation funding of \$30.5M per year
- What role should Metropolitan play in encouraging and facilitating member agencies' efforts to meet the urban water use objectives?

Policy Discussion: Loss of Colorado Supplies

Potential significant supply loss post-2026 guidelines

- Short-term strategy
 - Given low water demand projection, use ICS to mitigate the initial loss of CRA supply while we develop long-term solutions
 - Current ICS ~ 1.5MAF
- Potential Long-Term Strategies:
 - Maximizing PVID fallowing
 - 2nd right of refusal to purchase of SDCWA Exchange Agreement water
 - Increase conservation
 - Other transfer purchases to be used or stored, when possible

Hypothetical 10-year Financial Forecast with PWSC & Supply Program Cost Increases

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%
With PWSC 45/75MGD (Staged) *	21% 14%	7%	7%	7%	11%	10%	7%	7%	12%	5%
Hypothetical 10-Yr Financial Forecast with PWSC & Estimated Supply Program Cost Increases**	21% 14%	7%	10%	7%	11%	10%	8%	7%	12%	5%

* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board

****Assumptions:**

Board approved PWSC project and funding

2027 and 2028 Colorado River reductions meet with ICS draws

2029 and beyond

- increase supply program costs by \$45M in 2029 increasing to \$112M by 2036

- continue to draw on ICS as needed to meet demands

--> cost increase of 3% in 2029 and <1%/yr beyond

This preliminary estimate is subject to updated cost and supply projections as part of the budget development

Take-Away Observations

- Substantial rate increases are needed to maintain our current system, including addressing organizational-wide staffing needs, operating equipment, and investing in R&R CIP projects
- Pursuing all major capital projects will further challenge affordability
- Balance objectives of supply and storage development, reliable system operation, and managing rate impacts
- CAMP4W process will help determine:
 - What amount of supply development does the Board want to pursue and when?
 - What are the most cost-effective projects and/or strategies to help achieve these goals?

Next Steps

FY 2026/27 and FY 2027/28 Budget Calendar

June to Dec 2025	Develop proposed 2026/27 and 2027/28 Biennial Budget, proposed water rates and charges for calendar years 2027 and 2028; Ten-Year Forecast; and cost of service report
Jan/Feb 2026	Post draft proposed 2026/27 and 2027/28 Biennial Budget document
Feb 9, 2026	FAAME Committee, proposed 2026/27 and 2027/28 Biennial Budget; CIP; proposed water rates and charges for calendar years 2027 and 2028; Ten-Year Forecast; and cost of service report (Workshop #1)
Feb – April 2026	Workshop #2, Workshop #3 and Workshop #4
April 14, 2026	Board <u>action</u> regarding Biennial Budget and calendar year rates and charges





THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Report

Finance and Administration Group

- **Finance and Administration Group Activities Report**

Summary

This report provides a summary of the Finance and Administration group activities for August 2025 and September 2025.

Purpose

Informational

Attachments

Attachment 1–Finance and Administration group activities for August 2025 and September 2025

Finance and Administration Group Activities Report for August 2025 and September 2025

GM Business Plan – Goals, Outcomes, Target Measures

Develop a Biennial Budget that Meets Metropolitan’s Needs	
Provide transparency and broad engagement to support informed policy making; Budget for enhanced mission-critical capabilities	A Board of Directors Workshop on the FAAME Committee was held in September to review and discuss Metropolitan’s staffing needs analysis.

Maintain Strong Financial Position

Provide timely and discerning financial analyses, planning, and management to ensure that forecasted revenues are sufficient to meet planned expenses and provide a prudent level of reserves consistent with board policy.

In September at the Board of Directors Workshop on Finance, Affordability, Asset Management, and Efficiency, an informational report was provided on staffing needs for the next three biennium budgets (Fiscal Year 2026/27 through Fiscal Year 3031/32).

Manage risk to protect Metropolitan’s assets against exposure to loss.

The Risk Management Unit completed 42 incident reports communicating instances of Metropolitan property damage, liability, workplace injuries, regulatory visits, and spills.

Risk Management completed 51 risk assessments on contracts, including professional service agreements, construction contracts, entry permits, special events, and film permits.

Business Continuity

Facilitate district-wide planning and training to prepare employees and managers to effectively carry out critical roles and recover mission essential functions thus ensuring continuity of operations and resiliency in the event of a disaster.

Manage the Business Continuity Management Program in accordance with Operating Policy A-06.

Staff participated in training for Metropolitan’s Emergency Operations Center focused on the Incident Command System and overall emergency coordination.

Kicked off cross-functional planning for the district-wide annual Great ShakeOut earthquake drill and preparedness campaign taking place in October.

Updated the Fusion Risk Management system to enhance business continuity metrics and reporting capabilities. This will allow for improved tracking of Business Continuity Program deliverables and resiliency progress.

Effective 9/1/2025, Metropolitan fully transitioned from the old MetAlert system (MIR3) to the new MetAlert system (Everbridge). The Everbridge platform provides an improved interface for sending important alerts along with many new features and capabilities.

Financial Management

Manage Metropolitan's finances in an ethical and transparent manner and provide consistent, clear, and timely financial reporting. Update Metropolitan's capital financing plans and work with rating agencies and investors to communicate Metropolitan's financial needs, strategies, and capabilities, thus ensuring that Metropolitan has cost-effective access to capital markets and the ability to finance ongoing future needs. In addition, actively manage Metropolitan's short-term investment portfolio to meet ongoing liquidity needs and changing economic environments.

Record and report the financial activities of Metropolitan in a timely, accurate, and transparent manner to the Board, executive management, member agencies, and the financial community.

FY25-26 Cash Water Transactions and Revenues Budget vs Actual (Preliminary, subject to change)

Month		Acre-Feet (AF) ¹		Variance		Revenue (\$) ²		Variance	
Delivered/ Billed In	To be Collected in	Budget	Actual	AF	%	Budget	Actual	\$	%
May	July	110,834	104,802	(6,032)	-5%	122,873,672	134,899,988	12,026,316	10%
June	August	117,893	105,957	(11,936)	-10%	150,194,358	117,905,817	(32,288,541)	-21%
July	September ³	130,799	117,703	(13,096)	-10%	149,512,493	134,460,017	(15,052,476)	-10%
August	October ³	133,060	122,998	(10,062)	-8%	152,486,828	149,830,784	(2,656,044)	-2%
YTD Total		492,586	451,460	(41,126)	-8%	575,067,351	537,096,606	(37,970,745)	-7%
September	November	125,227	-	-	0%	141,365,920	-	-	0%
October	December	126,161	-	-	0%	139,251,900	-	-	0%
November	January	128,056	-	-	0%	136,399,566	-	-	0%
December	February	107,621	-	-	0%	112,940,010	-	-	0%
January	March	90,739	-	-	0%	105,775,733	-	-	0%
February	April	78,856	-	-	0%	91,212,001	-	-	0%
March	May	84,484	-	-	0%	98,206,004	-	-	0%
April	June	110,200	-	-	0%	129,990,583	-	-	0%
FY Total		1,343,930	451,460	N/A	N/A	1,530,209,068	537,096,606	N/A	N/A

¹ AF reflected does not include non-member agency transactions.

² Includes Water Sales, Exchanges, and Wheeling for member agency and non-member agency.

³ Information is presented on an accrual basis; corresponding cash data is not yet available.

In accordance with California Government Code 53065.5, Metropolitan Water District has prepared a report disclosing reimbursements to employees and members of the board equal to or greater than \$100. The report, which supports our commitment to transparency, is available on the MWD website under the Transparency section and on the Intramet under Finance/Accounts Payable.

Public Link: <https://d1q0afiq12ywwq.cloudfront.net/media/32gm3pyu/disclosure-report-over-100-fy2025.pdf>

Intramet Link: [https://intramet.mwd.h2o/Applications/My_HR/Disclosure%20Report%20Over%20\\$100%20FY2025.pdf](https://intramet.mwd.h2o/Applications/My_HR/Disclosure%20Report%20Over%20$100%20FY2025.pdf)

Update capital financing plans and work with rating agencies and investors to communicate financial needs and capabilities, ensure cost-effective access to capital markets, and maintain long-term bond ratings of AA or better.

Metropolitan staff and the financing team began preparing documentation, including an update of Appendix A, for the Special Variable Rate Revenue Refunding Bonds, 2025 Series B, to be sold in mid-December 2025. The 2025 Series B refunding bonds will refund, on a tax-exempt basis, the \$134,625,000, taxable, Special Variable Rate Water Revenue Refunding Bonds, 2022 Series C-2; the tax-exempt, \$25,325,000, Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-2; and the \$24,275,000, Water Revenue Bonds, 2017 Authorization, Series A.

The 2025 Series B refunding bonds will be supported by a Standby Bond Purchase Agreement with PNC Bank, National Association.

Prudently manage the investment of Metropolitan's funds in accordance with policy guidelines and liquidity considerations.

As of August 31, 2025, Metropolitan's investment portfolio balance was \$1.3 billion; in the same month, total earnings were \$4.37 million, and the effective rate of return was 4.21%.

In August 2025, Metropolitan's portfolio manager executed eleven buy and three sell trades.

Treasury staff managed daily cash flow to cover Metropolitan's operational expenditures and invest excess funds.

Treasury staff completed the following transactions:

- 29 Dreyfus Cash Management Fund transactions
- 22 CAMP Investment Pool transactions
- \$1.65 million in Metropolitan's bond payments and Swap payments
- \$0.10 million interest payment of BANA Revolver 2025 Ser A1
- 1,033 disbursements by check, 25 by Automated Clearing House (ACH), and 158 by wire transfer
- 46 receipts by check, 23 by ACH, and 53 by incoming wires and bank transfers
- One exception confirmation and no unauthorized ACH
- Stop payments: 7 for the Demand Account; zero for the Payroll Account
- No GOP Alerts received from Bank of America

The Treasury staff also processed for DCA the following transactions:

- Received and deposited 10 checks totaling \$2.94 million
- Issued ten checks and 15 wires totaling approximately \$2.84 million

In addition, Treasury staff processed ten professional services invoice payment requests totaling approximately \$58 thousand.

Furthermore, 9,951 P-One Card transactions, totaling \$1.47 million, recorded in the August bank statement, were monitored by the P-One Card Administrator.