



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

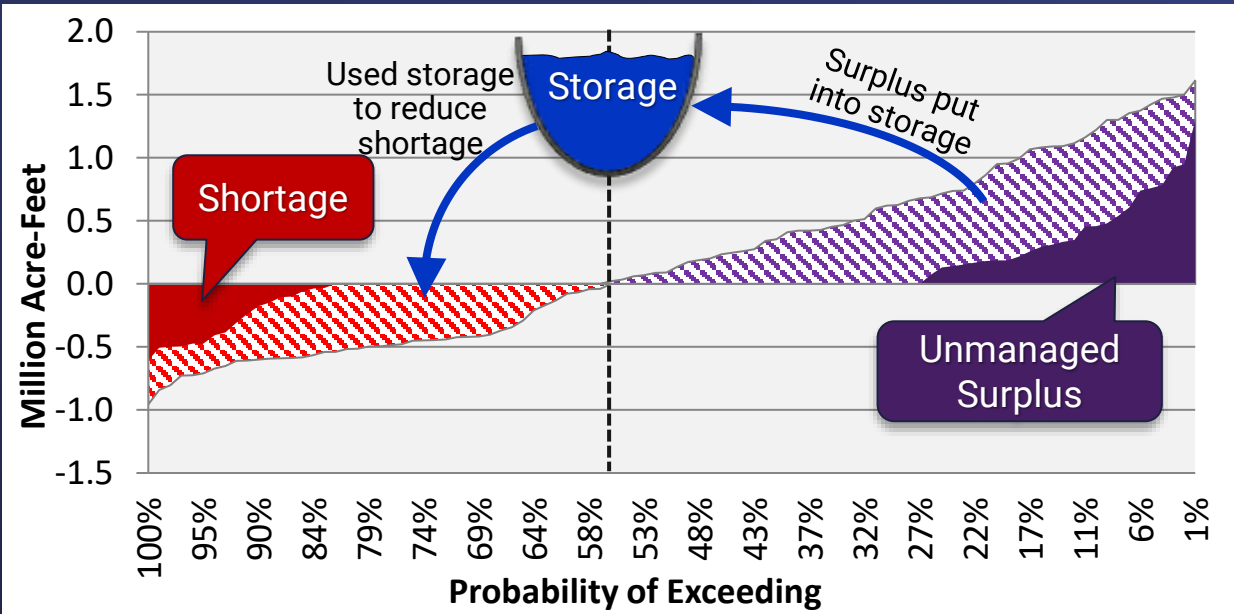
Updated for major changes in demographics, local supplies, SWP and Colorado River supplies, and storage programs

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

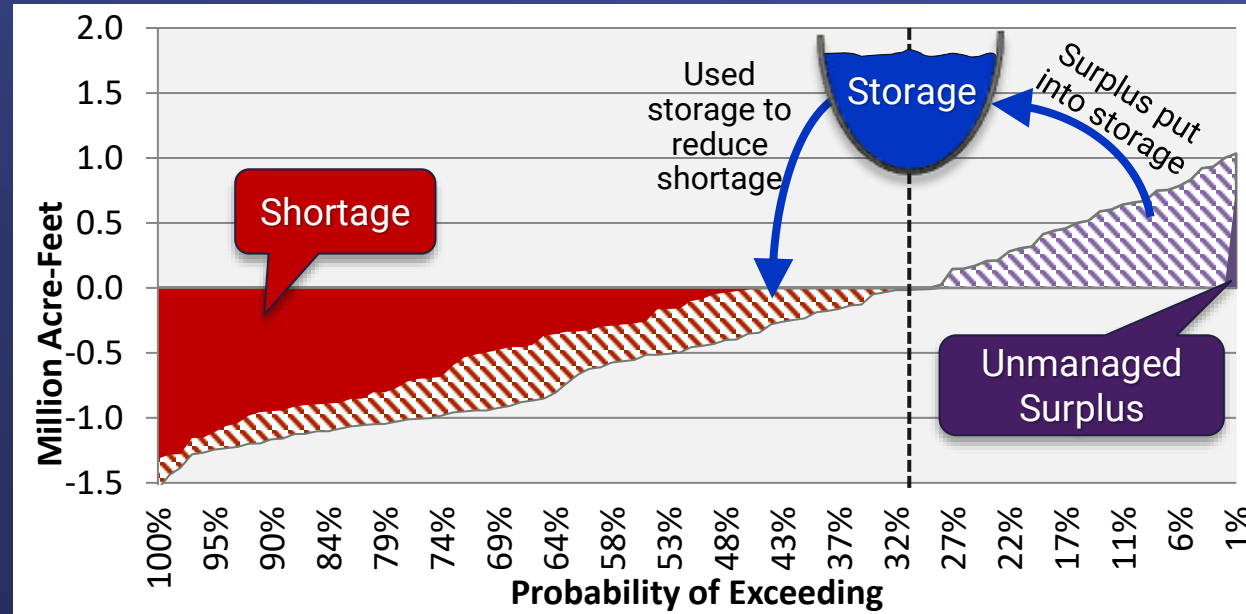
Water Shortage Analyses – 2045 Assessment Baseline

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.

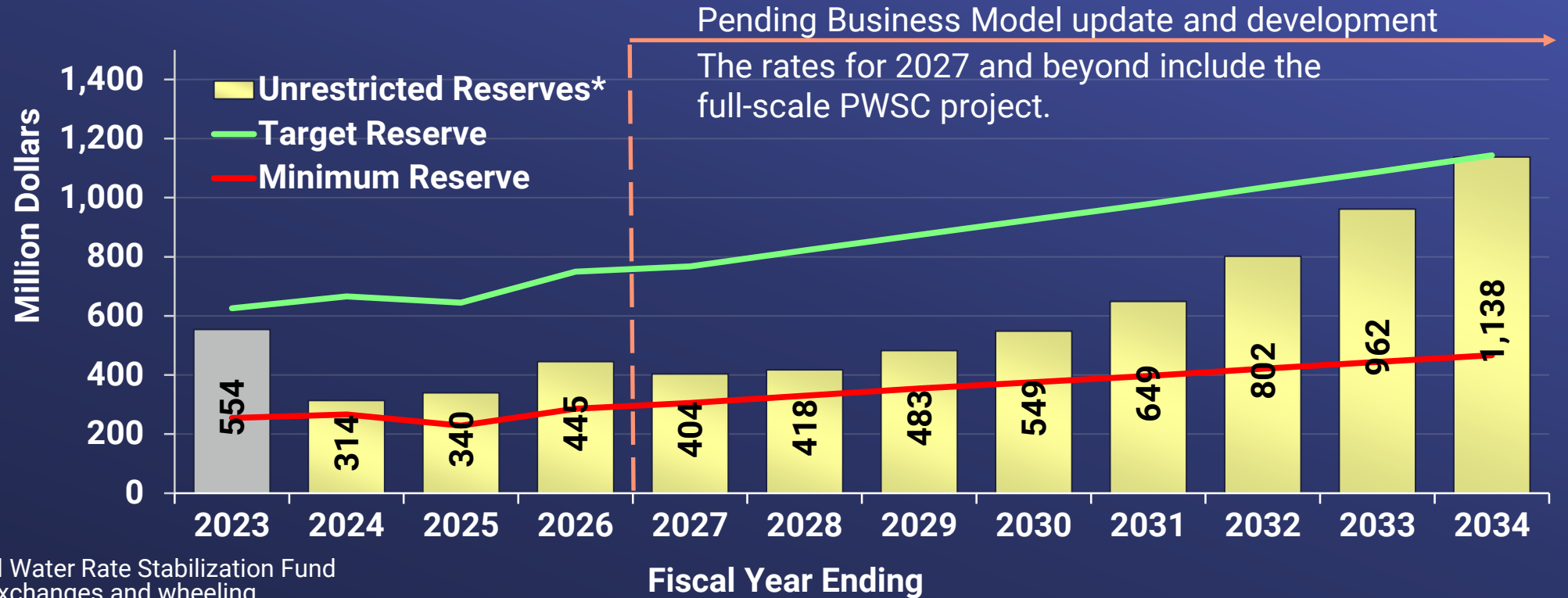
Scenario D – Under higher water demand conditions, significant shortages are projected by 2045.

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.



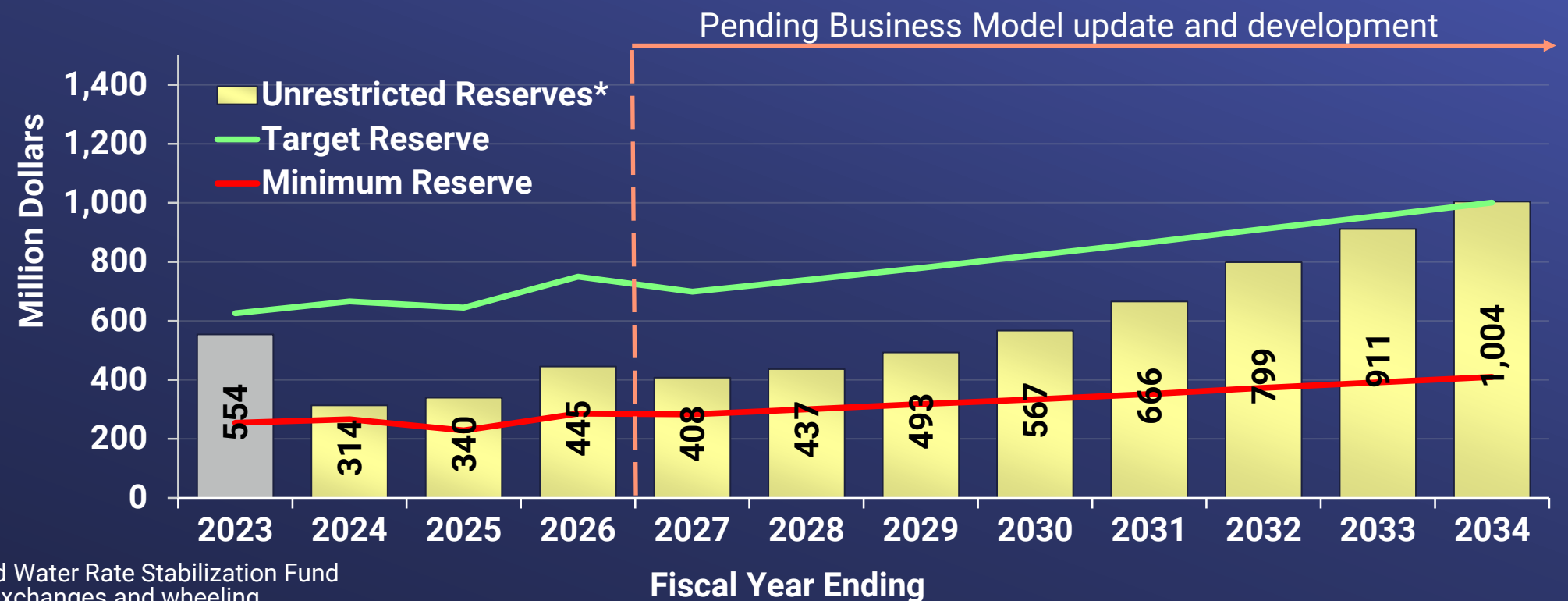
* Revenue Remainder and Water Rate Stabilization Fund

** 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

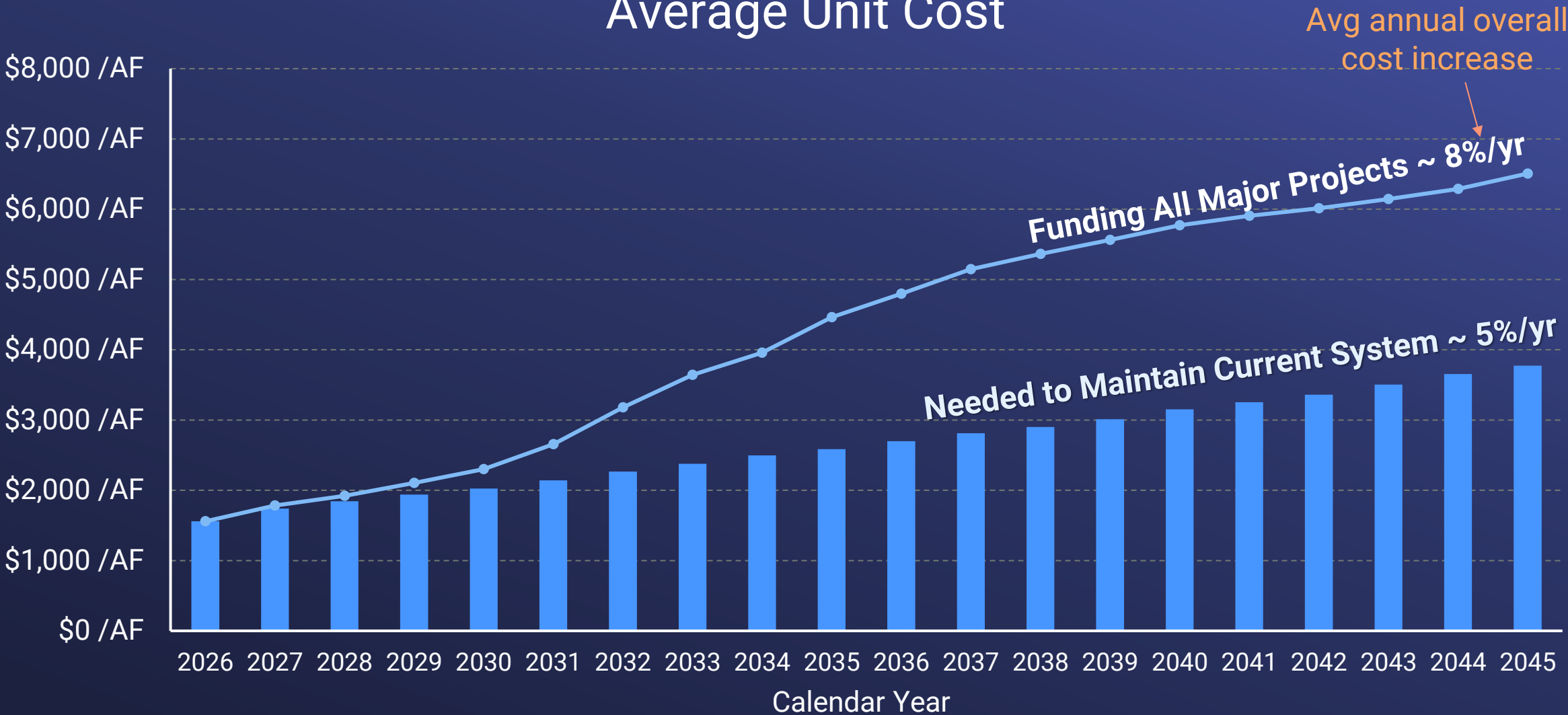
* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board

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

Average Unit Cost Impact

Funding All Major Projects

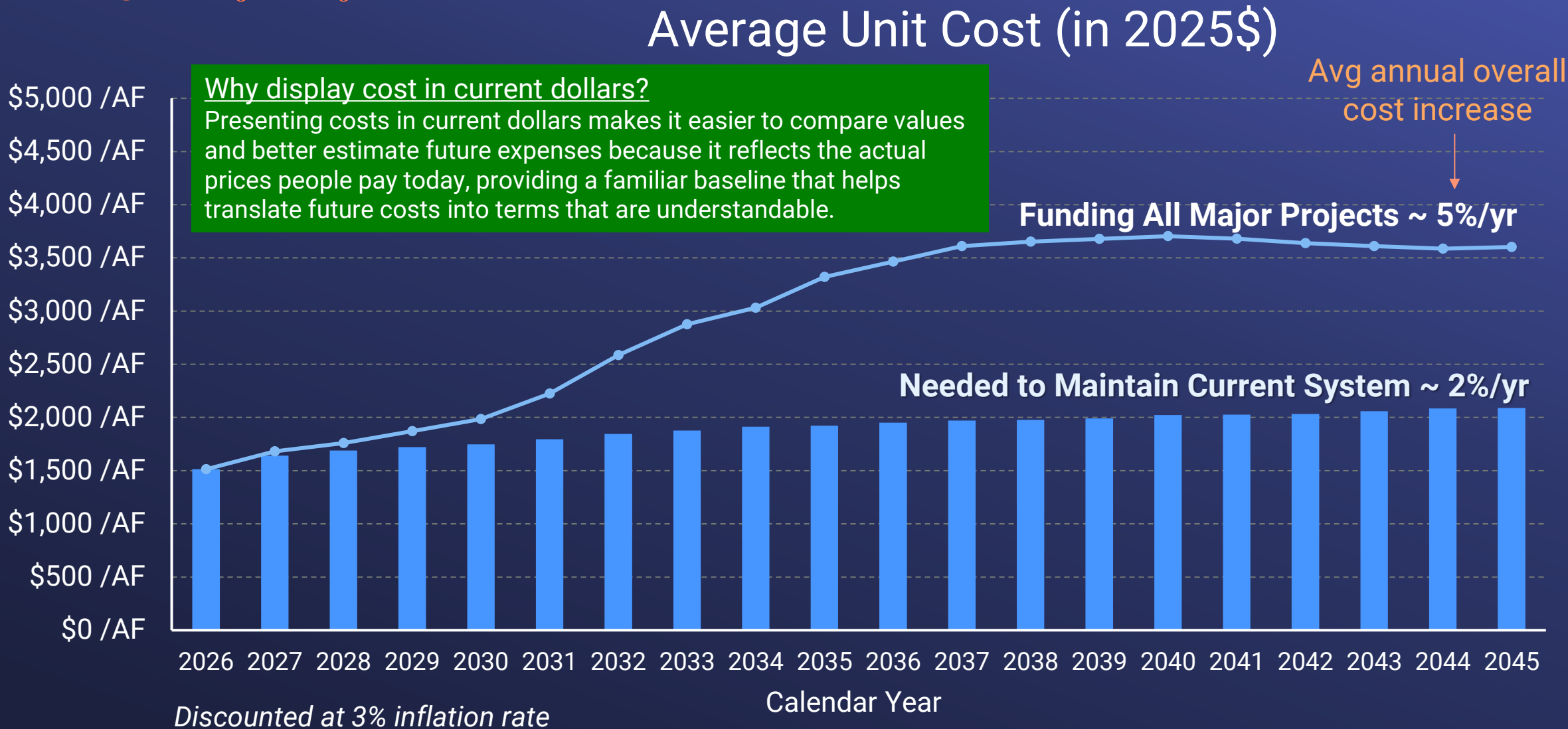
Average Unit Cost



Average Unit Cost = Net Revenue Requirement / Water Transactions

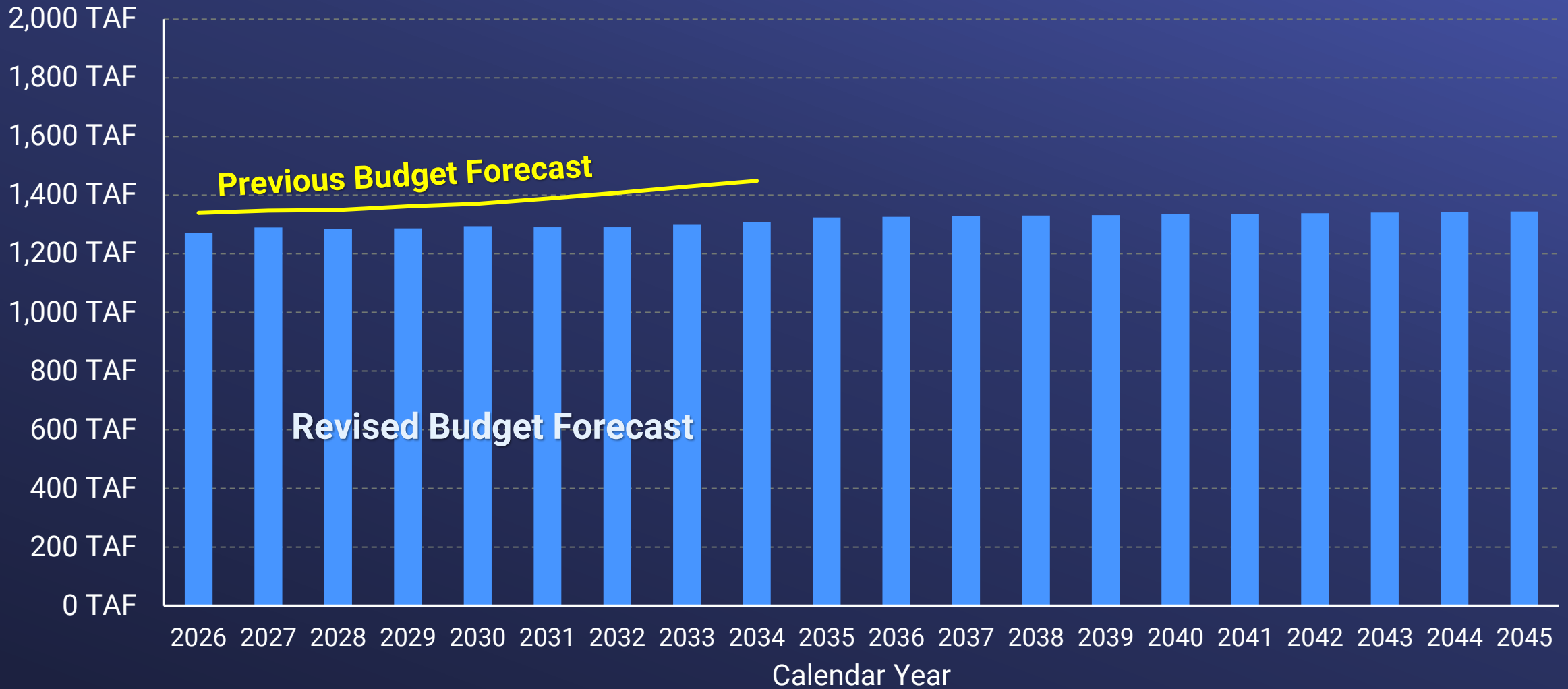
Average Unit Cost Impact in 2025 Dollars

Funding All Major Projects



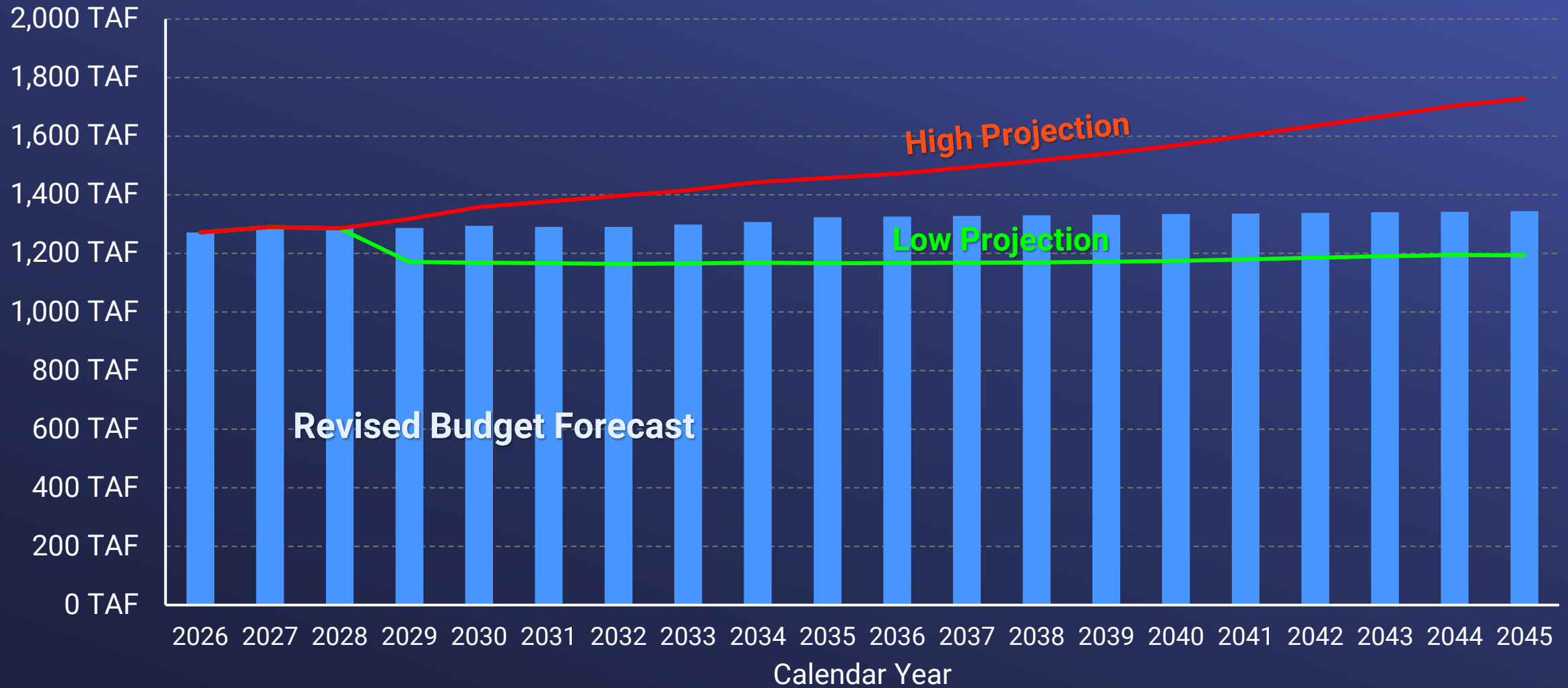
Water Demand Sensitivity Analysis

Water Demand Projections to 2045*



* Including SDCWA Exchange

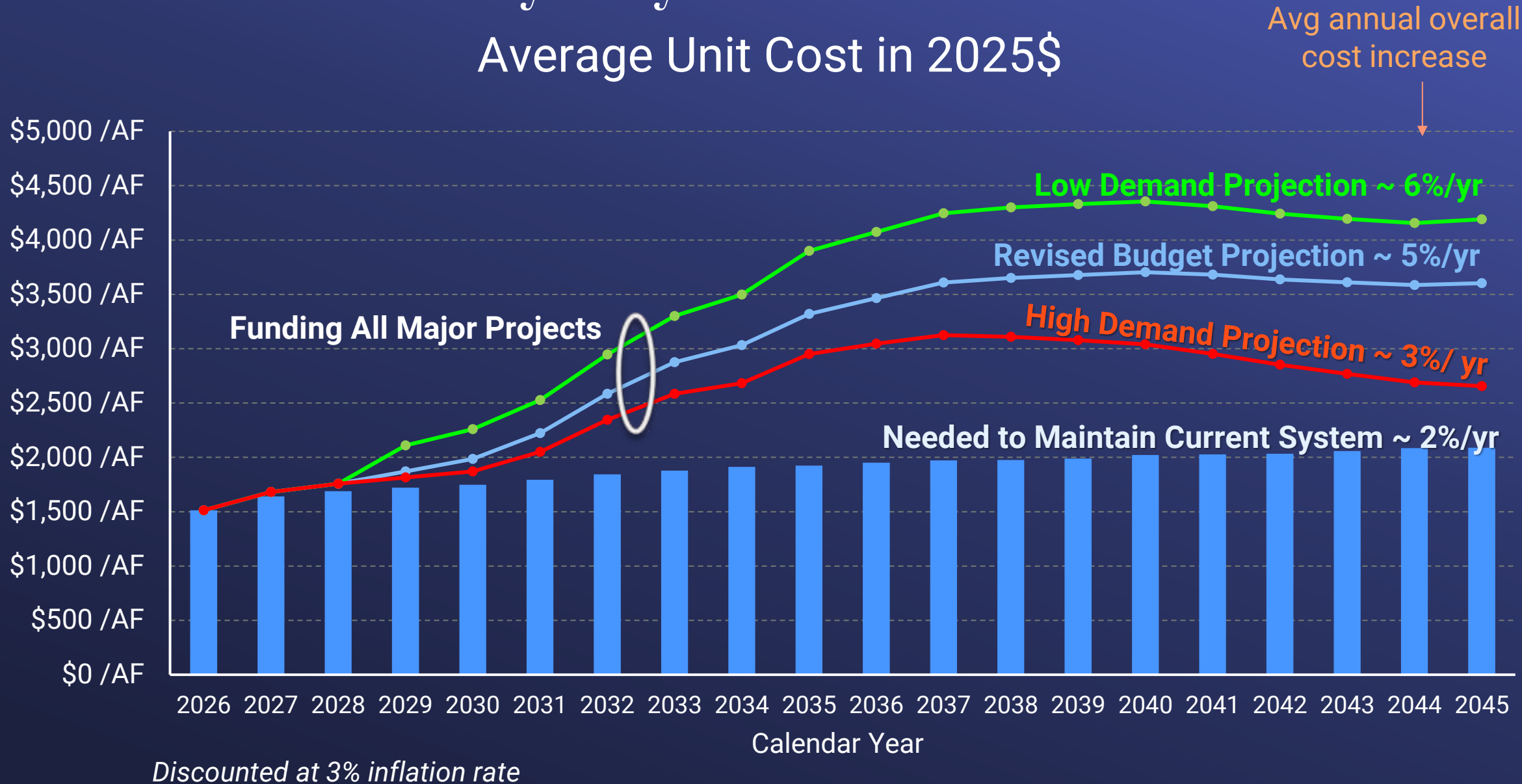
Water Demand Projections to 2045*



* 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

