



- **Board of Directors**

- Finance, Affordability, Asset Management, and Efficiency (FAAME)***

7/8/2025 Board Meeting

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7-7

## **Subject**

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Approve Revisions to Metropolitan's Reserves Policy and Direct Staff to Implement Specific Sales Projections for the proposed FY26/27 and 27/28 Biennial Budget; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

## **Executive Summary**

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In response to the Board's April 2024 directive to review the Treatment Surcharge and broader business model issues, Metropolitan established an Ad Hoc Working Group of member agency general managers. This group formed a Financial Policies Business Model Support Sub-Working Group (the "Financial Sub-Working Group") to focus on financial matters, while other sub-working groups were established to address water resources and engineering matters.

The Financial Sub-Working Group discussed potential revisions to Metropolitan's Unrestricted Reserve Policy, originally adopted in 1999, which provides rate protection during revenue shortfalls caused by declines in water transaction revenues. While the policy aims to provide 3.5 years of rate protection at the target level, it lacks a clear policy mechanism to ensure reserves reach and maintain that target level. In addition, climate change, which has exacerbated the volatility of both demand and supply and the associated risks over the years, has highlighted the need for refinements.

Based on the review and recommendations of the Financial Sub-Working Group, staff recommends the following technical refinements to strengthen the reserve policy:

- **Link reserve percentage to water demand exceedance levels:** Adjust reserve percentage based on budgeted exceedance level, with the following assumptions:
  - 80 percent exceedance = 15 percent reserve percentage;
  - 70 percent exceedance = 19 percent reserve percentage;
  - 50 percent exceedance = 25 percent reserve percentage; and
  - Establish a policy to set water demand at 70 percent exceedance for rate setting with a long-term target of 80 percent, without relying on one-time revenues or reserve draws.
- **Recognize the disconnect between supplies and sales and exclude variable costs from reserve calculations.**
- **Incorporate protection for treated water sales volatility:** Treatment revenue requirements will be incorporated into the Unrestricted Reserves Minimum and Target levels to provide enhanced protection against treated sales volatility. The Treatment Surcharge Stabilization Fund will be consolidated into Unrestricted Reserves to streamline fund management and increase flexibility.
- **Exclude uncertain revenues:** Unpredictable revenue sources, such as unawarded grants and one-time revenues, should be excluded from reserve calculations to protect against revenue shortfall risks.

The Financial Sub-Working Group also recommends modifying language in the Metropolitan Administrative Code for the Reserve Policy:

- Reserves, by nature, are one-time funds, fiscal prudence dictates that they should not be used to cover ongoing expenditures.
- Funds in excess of the target level shall be utilized as directed by the Board for:
  - Funding capital expenditures to avoid additional debt issuance;
  - Redemption or defeasance of outstanding bonds or commercial paper;
  - Addressing pension and Other Post-Employment Benefits liabilities, including the potential creation of a pension/retiree healthcare trust fund; and/or
  - Meeting other legal or financial obligations as necessary.

In support of the revised reserve strategy, the Financial Sub-Working Group recommends that Metropolitan establish a policy to set water demands projections at 70 percent exceedance for rate setting, with a long-term target of 80 percent. This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes.

Under the 70 percent exceedance scenario, the calculated minimum reserve would increase from \$229 million to \$415 million, while the calculated target reserve would rise from \$645 million to \$1.065 billion. These figures are based on the application of the revised reserve methodology using Fiscal Year 2025 data. The Board is not being asked to approve these specific figures. Rather, the Board is approving the methodology for setting reserve levels, which will be incorporated into the development of the FY 2026/27 and FY 2027/28 Biennial Budget. Staff will apply these assumptions in preparing the next biennial budget, including rates and charges, and all associated revenues and expenditures that determine Metropolitan's revenue requirement. The revised reserve levels and projections will not take effect until July 1, 2026, with the start of the new fiscal year.

Notably, if additional fixed revenues are approved by the Board (e.g., standby and peaking treatment fixed revenues, property taxes, etc.), the methodology will adjust the minimum and target reserve levels accordingly. Additionally, the reserve methodology incorporates all exchange deliveries outlined in the SDCWA/MWD settlement agreement. To reflect these changes formally, updates to the Metropolitan Administrative Code will be required. A redline version of the proposed code amendments is included as **Attachment 2** to this report for reference and future Board consideration.

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

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### **Staff Recommendation: Option #1**

#### **Option #1**

Approve revisions to Metropolitan's Reserves Policy and direct staff to implement specific sales projections for the proposed FY 26/27 and 27/28 Biennial Budget.

**Fiscal Impact:** The Board is approving the methodology for setting reserve levels, which will serve as a foundation for developing the FY 2026/27 and FY 2027/28 Biennial Budget. Staff will apply these assumptions in preparing the next biennial budget, including rates and charges, and all associated revenues and expenditures that determine Metropolitan's revenue requirement. The revised reserve levels and projections will take effect on July 1, 2026, aligned with the start of the new fiscal year. Furthermore, the recommended refinements to Metropolitan's Reserves Policy will not have an immediate impact; however, they are designed to improve Metropolitan's long-term financial stability. The proposed changes focus on refining reserve targets, improving alignment with demand forecasting practices, and establishing clearer guidelines for reserve use, without requiring new funding or immediate reserve contributions. By linking reserve targets to conservative water demand projections and excluding variable costs and uncertain revenues from reserve calculations, the policy enhances Metropolitan's ability to manage financial risk.

**Business Analysis:** The action will adopt the proposed resolution approving revisions that refine Metropolitan's Reserves Policy (**Attachment 1**) and approve the redline amendments to the Administrative Code (**Attachment 2**), along with providing the sales projections direction to staff. Over time, the revised policy framework will serve as a guide for future budget planning and rate-setting decisions, providing a more disciplined and transparent approach to reserve management without affecting current operating budgets or planned expenditures.

### Option #2

Do not approve revisions to Metropolitan's Reserves Policy, nor direct staff to implement specific sales projections for the proposed FY 26/27 and 27/28 Biennial Budget.

**Fiscal Impact:** This would not result in any fiscal changes.

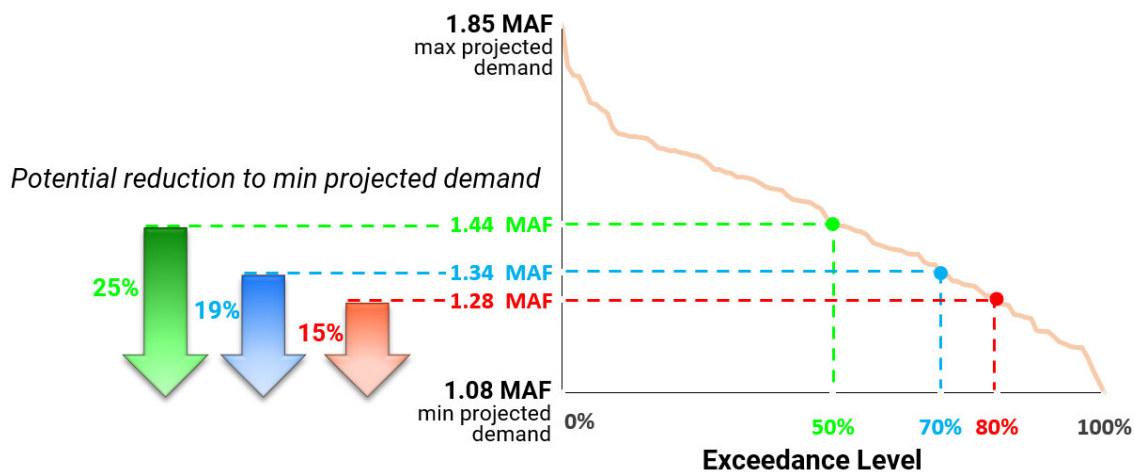
**Business Analysis:** This would continue the status quo: Metropolitan's Reserves Policy would not change, and staff would continue utilizing the existing sales projections.

## Alternatives Considered

Metropolitan reviewed the calculations for determining the portion of the net revenue requirement that is collected by volumetric water rates. Certain line items that were deducted from the net revenue requirement were no longer appropriate due to climate-related volatility, the uncertain nature of the assumed revenues, and the disconnect between supplies and sales. The reserve percentage was also analyzed in light of recent water transactions and potential demand variability.

Historical data indicated that actual water transactions were consistently lower than budgeted projections for eight of the past nine years. By correlating this trend with a revised reserve percentage, the Financial Sub-Working group recommended aligning the reserve percentage with the budgeted exceedance level – the higher the exceedance level, the lower the volatility, allowing for a lower reserve percentage in the calculation, as shown in Figure 1 below.

**Figure 1: Projected Demand Variability for Calendar Year 2025**



Gradually implementing a higher exceedance level (i.e., 80 percent) in rate-setting would help reduce risk associated with sales variability, increasing the likelihood that Metropolitan meets its budgeted water transaction projections. This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes and emergency rate adjustments.

## Applicable Policy

Metropolitan Water District Act Section 124.5: Ad Valorem Tax Limitation

Metropolitan Water District Act Section 130: General Powers to Provide Water Services

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 Act Section 134.5: Water Standby or Availability of Service Charge

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

Metropolitan Water District Administrative Code Section 5202: Fund Parameters

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

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April 9, 2024	Board approved the Biennial Budget for FY 2024/25 and FY 2025/26, Rates and Charges, and Ten-Year Financial Forecast
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### **Summary of Outreach Completed**

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The following list outlines the steps taken in regard to Metropolitan's Reserve Policy. In addition to the formal Board process, staff also provided updates to Metropolitan's member agencies during the monthly Financial Sub-Working Group meetings.

July 24, 2024	Subcommittee on LTRPPBM
February 11, 2025	FAM Committee
April 22, 2025	Subcommittee on LTRPPBM
June 23, 2025	Special FAAME Committee

### **California Environmental Quality Act (CEQA)**

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#### **CEQA determination for Option #1:**

The proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment. (State CEQA Guidelines Section 15378(b)(4).)

#### **CEQA determination(s) for Option #2:**

None required

## Details and Background

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### Background

On July 22, 2024, Metropolitan's Chair of the Board of Directors, Vice Chair of the Board of Directors for Finance and Planning, and Chair of the CAMP4Water Task Force (Board Leadership) commissioned an Ad Hoc Working Group comprised of the general managers of Metropolitan's 26 member agencies (Ad Hoc Working Group) to analyze Metropolitan's business model and propose business model refinement options, where appropriate. In its July 22nd letter, Board leadership directed the Ad Hoc Working Group to ensure that it considers five factors and opportunities: (1) treated water cost recovery; (2) Metropolitan's role in member agency local supply development; (3) potential member agency supply exchange program; (4) proportion and components of fixed and volumetric charges; and (5) conservation program and funding source(s). The Ad Hoc Working Group formed three sub-working groups to focus on specific factors. The Financial Sub-Working Group took on the financial factors directed for review.

In accordance with Board leadership direction and following a series of Ad Hoc Working Group workshops, the Financial Sub-Working Group has developed and reviewed four key proposals aimed at promoting financial stability, ensuring equitable cost recovery, and aligning with previously adopted Policy Principles. These proposals—centered on Treated Water Cost Recovery, Unrestricted Reserve Policy, Conservative Water Demand Projections, and Other Fixed Revenues—reflect an ongoing collaborative effort with member agencies to refine and modernize Metropolitan's financial framework.

### Current Unrestricted Reserve Policy

The current unrestricted reserve policy, originally adopted with the 1999 Long Range Finance Plan, is governed by Metropolitan Administrative Code § 5202. It is designed to cover revenue shortfall resulting from declines in water transactions, ensuring a minimum of 18 months and up to 42 months of rate protection at the target level. The policy has been generally effective, as Metropolitan has not required emergency rate increases outside of its regular rate-setting process. Unrestricted reserves exceeding the target level may be used for any lawful purpose as determined by the Board. Although the policy aims to provide 3.5 years of rate protection at the target level, it currently lacks a clear policy mechanism to ensure reserves reach and maintain that target level.

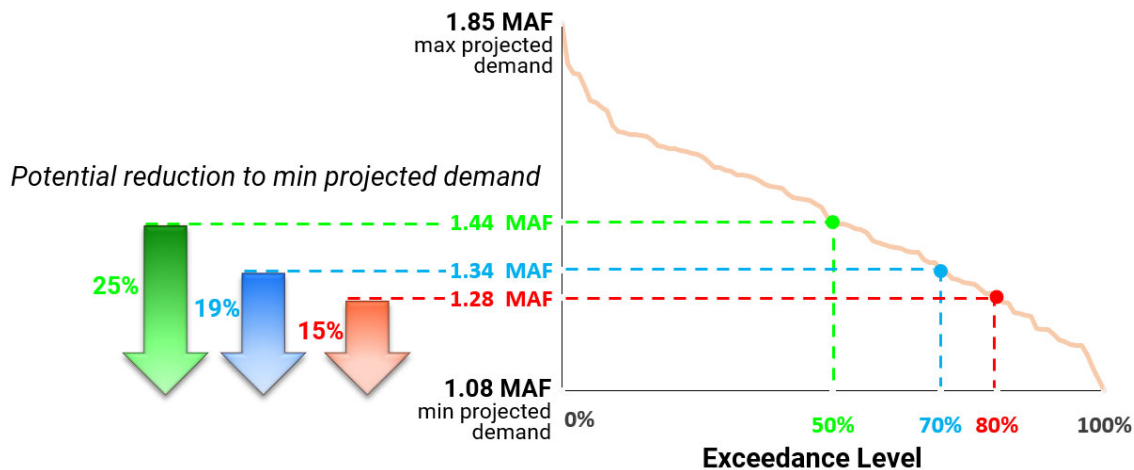
The existing reserve calculation is based on hydrologic risk estimates from the 1999 Long Range Finance Plan. However, climate change, which has exacerbated the volatility of both demand and supply, and the associated risks over the years, has highlighted the need for refinements. The minimum reserve level is set to cover 18 months of reserves, comprising the next fiscal year's reserve amount plus half of the subsequent fiscal year's reserve. The target reserve level extends this calculation by an additional two years, totaling 42 months (3.5 years) of reserve coverage.

The current policy assumes that variable supply and power costs decrease when water demand is low, but this is not always the case. During wet years with low demand, power costs may actually increase due to the need to move and store excess water. Additionally, the policy does not account for revenue shortfalls from the Treatment Surcharge during periods of low treated water sales. The Treatment Surcharge Stabilization Fund, which currently has no fund balance, lacks defined minimum and target levels, limiting its effectiveness in providing rate protection.

The reserve policy's minimum and target levels are based on the revenue risk associated with lower water sales. Reserves, however, have been used to address all unforeseen cash shortages, including shortfalls in treated system revenues and to add water to storage during years of surplus. In addition, the policy will lose its effectiveness if rates are not adopted to fully cover costs, such as setting rates based on planned draws from reserves or setting rates based on one-time revenues.

Metropolitan reviewed the calculations for determining the portion of the net revenue requirement that is collected by volumetric water rates. Certain line items that were deducted from the net revenue requirement were no longer appropriate due to climate-related volatility, the uncertain nature of the assumed revenues, and the disconnect between supplies and sales. The reserve percentage was also analyzed in light of recent water transactions and potential demand variability. Historical data indicated that actual water transactions were consistently lower than budgeted projections for eight of the past nine years. By correlating this trend with a revised reserve percentage, the sub-working group recommended aligning the reserve percentage with the budgeted exceedance level—the higher the exceedance level, the lower the volatility, allowing for a lower reserve percentage in the calculation, as shown in Figure 1 below.

**Figure 1: Projected Demand Variability for Calendar Year 2025**



To enhance financial stability and better address evolving risks, the Financial Sub-Working group recommends the following technical refinements to the reserve policy:

- **Link reserve percentage to water demand exceedance level:** Adjust reserve percentage based on budgeted exceedance level, with the following assumptions:
  - 80 percent exceedance = 15 percent reserve percentage;
  - 70 percent exceedance = 19 percent reserve percentage;
  - 50 percent exceedance = 25 percent reserve percentage; and
  - Establish a policy to set water demand at 70 percent exceedance for rate setting with a long-term target of 80 percent, without relying on one-time revenues or reserve draws.
- **Recognize the disconnect between supplies and sales and exclude variable costs from reserve calculations.**
- **Incorporate protection for treated water sales volatility:** Treatment revenue requirements will be incorporated into the Unrestricted Reserves Minimum and Target levels to provide enhanced protection against treated water sales volatility. The Treatment Surcharge Stabilization Fund will be consolidated into Unrestricted Reserves to streamline fund management and increase flexibility.
- **Exclude uncertain revenues:** Revenue sources that are unpredictable, such as unawarded grants and one-time revenues, should be excluded from reserve calculations to protect against revenue shortfall risks.

Gradually implementing a higher exceedance level (i.e., 80 percent) in rate setting would help reduce the risk associated with sales variability, increasing the likelihood that Metropolitan meets its budgeted water transaction projections. This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes and emergency rate adjustments.

Under the 70 percent exceedance scenario, the calculated minimum reserve would increase from \$229 million to \$415 million, while the calculated target reserve would rise from \$645 million to \$1.065 billion. These figures are based on the application of the revised reserve methodology using Fiscal Year 2025 data. The Board is not being asked to approve these specific figures. Rather, the Board is approving the methodology for setting reserve levels, which will be incorporated into the development of the FY 2026/27 and FY 2027/28 Biennial Budget. Staff will apply these assumptions in preparing the next biennial budget, including rates and charges, and all associated revenues and expenditures that determine Metropolitan's revenue requirement. The revised reserve levels and projections will not take effect until July 1, 2026, with the start of the new fiscal year.

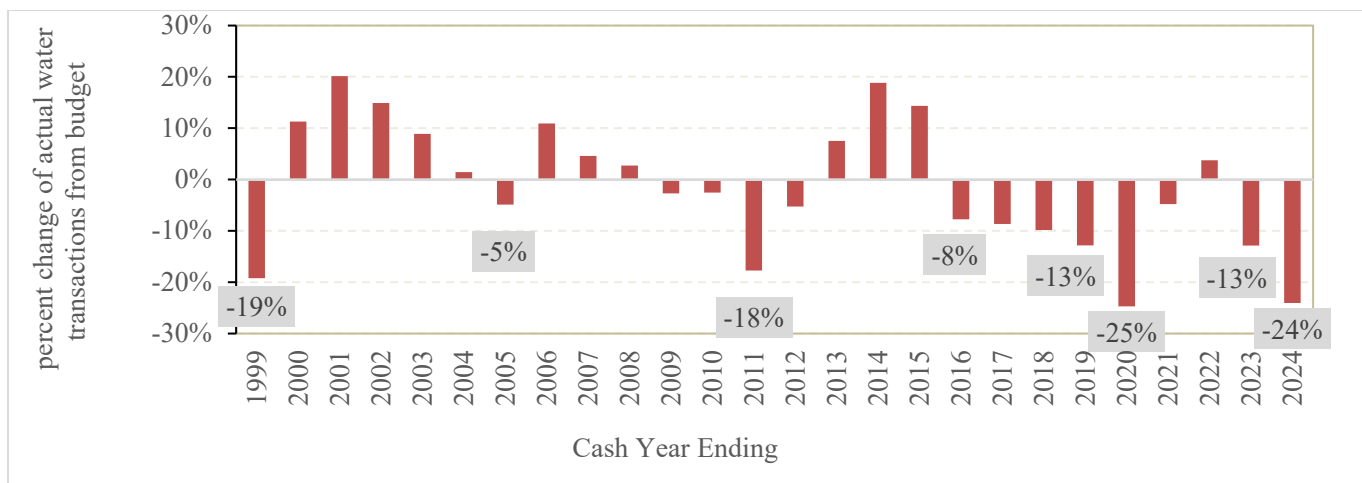
Notably, as additional fixed revenues are approved by the Board (e.g., standby and peaking treatment fixed revenues, property taxes, etc.), the methodology will adjust the minimum and target reserve levels accordingly. Additionally, the reserve methodology incorporates full exchange deliveries outlined in the SDCWA/MWD settlement agreement. To reflect these changes formally, updates to the Metropolitan Administrative Code will be required. A redline version of the proposed code amendments is included as **Attachment 2** to this report for reference and future Board consideration.

### Conservative Water Transactions in Rate Setting

The Financial Sub-Working group developed a recommendation for adopting a more conservative approach to forecasting water transactions for rate-setting purposes. This proposal is in response to significant and persistent variability in Metropolitan's actual water sales, which have often fallen short of budgeted expectations.

Over the last 25 years, Metropolitan has experienced notable volatility in water transactions. This trend has become more pronounced in recent years, with actual sales in 2019, 2020, 2023, and 2024 falling short of projections by 13 percent to 25 percent. These recurring shortfalls have increased the strain on unrestricted reserves and raised the risk of unplanned revenue deficits, undermining the reliability of rate recovery and financial planning.

**Figure 2: Variability of Metropolitan's Historic Water Transactions from Budget**



Historically, Metropolitan's biennial budget, along with its rates and charges, has been based on average demand (aligned with a 50 percent exceedance level), meaning there is a 50 percent likelihood that actual demand will meet or exceed the forecast. While this approach was effective during periods of more stable demand, over the past decade, climate change and other factors have increased uncertainty in sales projections, resulting in revenue shortfalls when actual water transactions fall below budgeted levels. Since the exceedance level relies on historical hydrology, adopting a more conservative demand projection would help mitigate financial risk by reducing the likelihood of overestimating sales, thereby safeguarding revenue and reserves.

Together, these proposals represent a coordinated strategy to reduce Metropolitan's exposure to sales variability and better safeguard financial stability. Rather than standalone alternatives, they form a mutually reinforcing framework that integrates demand forecasting and reserve management to provide a more resilient foundation for rate-setting and long-term fiscal planning.

The Financial Sub-Working group recommends that Metropolitan establish a policy to use a minimum of 70 percent exceedance level for rate setting during biennial budget development, with a long-term target of 80 percent exceedance level, ensuring financial stability without relying on one-time revenues or reserve draws. Gradually reaching the target of 80 percent exceedance will mitigate sales volatility and create a mechanism for building and maintaining reserves at the target levels, providing additional protection against rate spikes while minimizing the potential initial impacts. This proposal aligns with recommendations on the unrestricted reserve policy and other fixed revenue strategies.

By incorporating exceedance-based demand forecasting and aligning reserve targets with evolving supply and revenue risks, these recommendations represent a forward-looking, data-informed approach to financial planning. They also support Metropolitan's Policy Principles while reinforcing the Metropolitan's ability to respond flexibly and sustainably to the demands of an increasingly unpredictable climate.

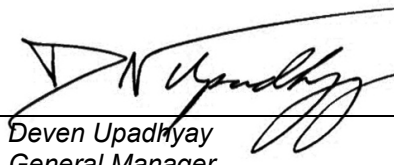
This coordinated set of reforms marks an important step in refining Metropolitan's business model to ensure operational and financial stability, safeguard water ratepayers, and enhance long-term resource planning throughout Southern California.



7/8/2025

Katano Kasaine  
Assistant General Manager/  
Chief Financial Officer

Date



7/8/2025

Deven Upadhyay  
General Manager

Date

**Attachment 1 – Resolution of the Board of Directors of the Metropolitan Water District of Southern California Approving the Recommendations for Reserve Policy Revisions and Implementation of Specific Sales Projections**

**Attachment 2 – Redline Administrative Code**



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

RESOLUTION \_\_\_\_

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**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA  
APPROVING  
THE RECOMMENDATIONS FOR RESERVE POLICY REVISIONS AND  
IMPLEMENTATION OF SPECIFIC SALES PROJECTIONS**

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WHEREAS, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”), pursuant to Sections 133, 134 and 134.5 of the Metropolitan Water District Act (the “Act”), is authorized to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability of service charge or assessment, will pay the operating expenses of Metropolitan, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by Metropolitan, and provide for the payment of the interest and principal of its bonded debt, including payment of the interest and principal of Metropolitan’s non-tax funded debt; and

WHEREAS, on April 9, 2024, the Board voted to direct Metropolitan to collaborate with member agency staff and the Climate Adaptation Master Plan for Water (CAMP4W) Task Force to review and analyze the treatment surcharge, including addressing any issues identified through that analysis, which may include, but are not limited to, revising the methodology used to calculate the charge; and

WHEREAS, on July 22, 2024, the Chair of the Board of Directors, Vice Chair for Finance and Planning, and Chair of the CAMP4Water Task Force (Board Leadership) commissioned an ad hoc working group comprised of the general managers of Metropolitan’s 26 Member Agencies (Financial Sub-Working Group) to evaluate Metropolitan’s business model and propose refinement, with direction to consider key factors:

1. Treated water cost recovery;
2. Metropolitan’s role in Member Agency local supply development;
3. Potential Member Agency supply exchange program;
4. Proportion and components of fixed and volumetric charges; and
5. Conservation program and funding source(s).

WHEREAS, the current Unrestricted Reserves Policy, originally adopted in 1999, targets 3.5 years (42 months) of rate protection but lacks a clear mechanism to ensure reserves are built to and maintained at that level; and

WHEREAS, climate change has increased volatility in both water demand and supply, exposing gaps in the current reserves framework and increasing financial risk from revenue shortfalls; and

WHEREAS, analysis of historical data showed that actual water sales were lower than budgeted in eight of the past nine years, reinforcing the need for more conservative forecasting and that high variability in sales has led to repeated draws on reserves, undermining long-term rate stability; and

WHEREAS, the Financial Sub-Working Group recommended revising the reserve calculation to link reserve percentage targets to demand exceedance levels, thereby better aligning reserve levels with sales volatility; and

WHEREAS, the proposed linkage assigns a 15% reserve target at 80% exceedance, 19% at 70% exceedance, and 25% at 50% exceedance, creating a dynamic structure that responds to forecast risk and hydrologic variability; and

WHEREAS, the updated reserve methodology would exclude variable supply and power costs, which do not scale directly with water sales, and would also exclude one-time or uncertain revenues such as unawarded grants; and

WHEREAS, to improve treatment-related revenue stability, the Treatment Surcharge Stabilization Fund will be consolidated into the Unrestricted Reserves and the associated treatment revenue requirement incorporated into the reserve targets; and

WHEREAS, the Financial Sub-Working Group also recommended language clarifying that reserves are one-time funds and should not be used to support ongoing operational expenditures, and that any funds exceeding the reserve target be allocated to capital, debt reduction, or long-term liabilities at the Board's discretion; and

WHEREAS, the proposed policy includes a transition to using a 70% exceedance level for rate-setting demand forecasts, with a long-term goal of adopting an 80% exceedance level to reduce reliance on reserve draws and promote stable revenues; and

WHEREAS, this integrated reform approach aligns with Metropolitan's Policy Principles and supports long-term fiscal resilience and ratepayer protection across the service area; and

WHEREAS, the FAAME Committee considered the proposed policy refinements at its regular June 2025 meeting, pursuant to informational presentations, review, and deliberation; and

WHEREAS, each of said meetings of the Board were conducted in accordance with the Brown Act (commencing at 54950 of the Government Code), at which due notice was provided and quorums were present and acting throughout; and

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

**Section 1.** That the Board of Directors of Metropolitan hereby approves the technical refinements to Metropolitan's Unrestricted Reserves Policy as recommended by the Financial Sub-Working Group and summarized in the July 8, 2025 Board Letter. These refinements are designed to improve alignment between reserve targets and projected water sales volatility, address risks associated with uncertain revenues and costs, and enhance Metropolitan's long-term financial stability.

**Section 2.** That the revised Reserves Policy shall include the following key provisions:

1. Reserve percentages shall be tied to the level of exceedance used in demand forecasting, with the following targets:
  - 80% exceedance = 15% reserve
  - 70% exceedance = 19% reserve
  - 50% exceedance = 25% reserve
2. Metropolitan shall use a minimum of a 70% exceedance level for water demand projections when setting rates and preparing biennial budgets, with a long-term policy target of 80%.
3. Treatment-related revenue requirements shall be incorporated into the minimum and target levels of Unrestricted Reserves. The Treatment Surcharge Stabilization Fund shall be consolidated into the Unrestricted Reserves to streamline fund management and provide greater flexibility.
4. Reserve calculations shall exclude variable costs (e.g., power and supply costs not directly tied to demand) and uncertain revenues such as unawarded grants or other non-recurring sources.
5. Funds in excess of the target level may only be used, subject to Board direction, for:
  - Capital expenditure to avoid debt issuance
  - Redemption or defeasance of bonds or commercial paper
  - Funding pension or Other Post-Employment Benefits (OPEB) liabilities
  - Meeting legal or financial obligations deemed necessary by the Board
6. Reserve funds shall be treated as one-time resources and shall not be used to support ongoing operational expenditures, and that funds in excess of the target reserve level shall be allocated only by Board direction for specified long-term obligations or investments.

**Section 3.** That the Board hereby directs the General Manager to incorporate these policy refinements and sales projections beginning with the FY 2026/27 and FY 2027/28 Biennial Budget process, and ensure all financial planning, rate-setting, and reserve reports reflect these policy changes.

**Section 4.** That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

**Section 5.** That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by publication.

**Section 6.** That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on July 8, 2025.

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Board Executive Secretary  
The Metropolitan Water District  
of Southern California

## Redline Administrative Code

**§ 5107. Biennial Budget Process.**

(a) There shall be prepared each even-numbered year, under the direction of the General Manager, a proposed biennial budget covering District operations for the following two fiscal years. The proposed biennial budget shall be submitted to the Board no later than the date of the regular Board meeting in June immediately preceding the first fiscal year of the biennium to which the budget applies. The proposed biennial budget shall indicate by fund all anticipated expenses and required reserves and the source of revenues to be used to meet such expenses and provide such reserves. The proposed biennial budget will at a minimum include a five-year financial forecast. At least one Board Workshop on the proposed biennial budget will be conducted prior to submission of the proposed biennial budget for Board approval. The FAAME Committee shall review the proposed biennial budget in its entirety, together with the recommendations from the Board workshop, and report its recommendations to the Board.

(b) After considering the proposed biennial budget and making any revisions thereto that it may deem advisable, the Board shall adopt the biennial budget before the beginning of the biennial period to which the budget applies. The amounts provided in the adopted budget for the biennial period for total expenses for operations and maintenance, including minimum and variable operations and maintenance charges under water or power contracts with the State, for capital charges under such contracts, and for debt service shall be deemed to be appropriated from the funds indicated in the budget.

(c) The adoption of the budget shall have no effect upon appropriations for capital projects and continuing expenditures not susceptible to immediate direct allocation, as described in Section 5108 hereof, and shall not establish any limitations on expenditures for such purposes.

(d) The total operations and maintenance budget shall be measured against the regional rate of inflation as measured by the five-year rolling average change in the Consumer Price Index (CPI) for the Los Angeles-Riverside-range County area, not seasonally adjusted, for all items as reported by the U. S. Bureau of Labor Statistics. The budget will include explanations of increases greater than the CPI due to unique conditions, growth or expansion of services.

(e) Water demand forecasts used in the development of the biennial budget and the water rate setting process shall be based on a minimum exceedance level of seventy percent. The long-term planning objective shall be to transition toward an eighty percent exceedance level for water demand forecasting.

Ords. 127 and 129; repealed by Ord. 146; Section 471.8 added, as amended, by M.I. 32690 - April 10, 1979; amended by M.I. 36110 - June 10, 1986. Section 471.8 repealed and Section 5107 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; paragraph (a) amended by M.I. 36535 - March 10, 1987;

Provisions updated to reflect the actions of the Board of Directors through its 4/8/2025 meeting.

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paragraph (a) amended by M.I. 40231 - May 11, 1993; paragraph (a) amended by M.I. 41755 - February 13, 1996; paragraphs (a) and (b) amended by M.I. 42060 - September 10, 1996; paragraph (a) amended by M.I. 42193 - December 10, 1996; paragraph (a) amended by M. I. 44095 – July 11, 2000; paragraph (a) amended by M. I. 44582 – August 20, 2001; paragraph (a) amended and paragraph (d) added by M. I. 45904 – September 14, 2004; paragraph (a) amended by M. I. 46064 – January 11, 2005; paragraph (a) amended by M.I. 46148 - March 8, 2005; paragraph (a) amended by M.I. 46983 - February 13, 2007; paragraph (a) amended by M.I. 48534- January 11, 2011; section title and paragraphs (a)-(b) amended by M.I. 48800 – September 13, 2011; paragraphs (a), (b), and (d) amended by M.I. 49187 - September 11, 2012; paragraph (a) amended by M.I. 53064 – December 13, 2022; paragraph (a) amended by M.I. 53528 – February 13, 2024; paragraph (a) amended by M.I. 53408 - March 11, 2025.

## Redline Administrative Code

**§ 5200. Funds Established.**

To provide for accountability of public moneys in accordance with applicable federal and state law and regulations and Board policies, the following funds active or prospectively active have been established in the Treasury of the District:

(a) General Fund (Fund No. 1001, established 1929). Moneys not specifically allocated or appropriated may be placed in this fund and used for general purposes of the District. Expenditures for reimbursable work and water conservation capital and indirect costs under the contract with Imperial Irrigation District are paid from this fund.

(b) Replacement and Refurbishment Fund (Fund No. 5001, established 1988). Used to finance certain capital program expenditures from current revenues in accordance with Section 5109, subject to the conditions contained in Section 5202(b).

(c) State Contract Fund (Fund No. 5701, established 1960). Used for the payment of capital charges under the State Water Contract, including the capital charges for off-aqueduct power facilities, subject to the conditions contained in Section 5201(d).

(d) Special Tax Fund (Fund No. 5702, established 1951). Annexation fees (cash payments and special tax collections) are deposited in this fund and transferred to the State Contract Fund to pay a portion of State Water Contract capital charges.

(e) Water Revenue Fund (Fund No. 1002, established 1975). Receipts from water transactions, including, but not limited to, sales, exchanges, and wheeling are deposited in this fund and are transferred to various other funds in accordance with revenue bond covenants and Board resolutions to pay in order of priority:

(1) Operation and maintenance expenditures;

(2) The interest on and bond obligation of Water Revenue Bonds and Parity Obligations issued pursuant to Master Resolution 8329 (the Master Resolution or Senior Debt Resolution) adopted by the Board on July 9, 1991 and any Supplemental Resolutions thereto, and any other obligations on a parity with the Water Revenue Bonds;

(3) All other payments required for compliance with the Master Resolution, and any Supplemental Resolutions;

(4) The interest on and bond obligation of Subordinate Water Revenue Bonds and Parity Obligations issued pursuant to Master Subordinate Resolution 9199 (the Master Subordinate Resolution) adopted by the Board on March 8, 2016 and any Supplemental

## Redline Administrative Code

Resolutions thereto, and any other obligations on a parity with the Subordinate Water Revenue Bonds;

(5) All other payments required for compliance with the Master Subordinate Resolution, and any Supplemental Resolutions;

(6) Principal of and interest on Commercial Paper Notes and other amounts due a provider of a liquidity facility;

(7) Deposits into the Water Standby Charge Fund in accordance with resolutions imposing such charges; and

(8) Any other obligations which are charges, liens, or encumbrances upon or payable from net operating revenues.

Moneys remaining at the end of each month, after the foregoing transfers, are transferred to the Revenue Remainder Fund.

(f) Operation and Maintenance Fund (Fund No. 1003, established 1975). Used to pay all operation and maintenance expenditures, including State Water Contract operation, maintenance, power and replacement charges, subject to the conditions contained in Section 5201(f).

(g) Revenue Remainder Fund (Fund No. 1004, established 1975). Used to maintain working capital and may be used for any lawful purpose by the District, subject to the conditions contained in Section 5202.

(h) Water Rate Stabilization Fund (Fund No. 5501, established 1987). Used to reduce future water revenue requirements or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(i) Revolving Construction Fund (Fund No. 5003, established 1988). Capital expenditures made from this fund are to be reimbursed from proceeds of security sales to the extent such expenditures are authorized uses of debt proceeds under the Act, subject to the conditions and restrictions contained in Section 5201(g).

(j) Iron Mountain Landfill Postclosure Maintenance and Corrective Action Trust Fund (Fund No. 6005, established 1990). Used as a trust fund to maintain moneys sufficient to cover the costs of postclosure maintenance and/or corrective action of the District's solid waste landfill facility at Iron Mountain, in accordance with regulations of the California Department of Resources Recycling and Recovery, and subject to the conditions contained in Section 5201(m).

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(k) Water Standby Charge Fund (Fund No. 1005, established 1992). Used to separately hold revenues attributable to water standby charges; amounts deposited in this fund are used exclusively for the purpose for which the water standby charge was authorized.

(l) Water Transfer Fund (Fund No. 1007, established 1995). Used for moneys set aside for the purchase of water through transfers or similar arrangements, and for the costs of filling the Eastside Reservoir Project.

(m) Self-Insured Retention fund (Fund No. 1008, established 1999). Used to separately hold amounts set aside for emergency repairs and claims against the District as provided in Section 5201(o).

(n) Lake Mathews Multi Species Reserve Trust fund (Fund 6101, established 1997.) Used as set forth in agreement between Metropolitan and the Riverside County Habitat Conservation Agency for the Multi Species Reserve.

(o) There shall be established in the Treasury of the District such funds and accounts as are required pursuant to bond covenants, tax and non-arbitrage certificates, bond counsel letters of instruction and related documents, to provide for accountability of District funds and compliance with applicable federal and state law and regulations. Such funds and accounts shall be established for each issue of bonds, notes or other obligations of the district as required in the respective bond or note resolution and closing documents.

(p) Water Stewardship Fund (Fund No. 1009 established 2005). Used to collect revenue from the Water Stewardship Rate and to pay costs associated with water recycling, seawater desalination, conservation, brackish water desalination, or other demand management programs. These funds can also be used to fund administrative costs associated with these programs. Funds may be used as directed by the Board, for other lawful purposes, in accordance with Section 5201(p) and Section 5202(d).

(q) Reclamation Fund Trust Fund (Fund No.\_\_\_\_, established 2023). Used as a trust fund to maintain moneys sufficient to cover the costs of reclamation activities related to the Metropolitan Reclamation Plan, in accordance with the Surface Mining and Reclamation Act of 1975, Public Resources Code section 2770 et al. and California Code of Regulations, Title 14, Division 2, Chapter 8, §3808.3.

(r) Reserve calculations shall exclude variable costs, such as power and supply costs that are not directly tied to water demand, and shall exclude uncertain or non-recurring revenue sources, such as unawarded grants or one-time revenues.



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38241 - May 8, 1990; amended and paragraph (bb) added by M.I. 38305 - June 12, 1990; paragraphs (cc), (dd) and (ee) added by M.I. 38999 - June 11, 1991; amended and paragraphs (ff), (gg), (hh) and (ii) added by M.I. 39171 - August 20, 1991; paragraphs (jj), (kk), and (ll) added by M.I. 39785 - August 20, 1992; paragraph (k)(6) added, paragraph (jj) added, paragraphs (kk) - (mm) renumbered by M.I. 39925 - November 10, 1992; new paragraphs (nn) through (uu) added by M.I. 40272 - June 15, 1993; paragraph (bb) amended by M.I. 40273 - June 15, 1993; paragraphs (vv) through (bbb) added by M.I. 40388 - August 24, 1993; paragraphs (i) and (q) amended, paragraph (r) deleted and remainder of section renumbered by M.I. 40443 - September 21, 1993; paragraph (q) amended by M.I. 40976 - August 19, 1994; paragraph (bbb) added by M.I. 41581 - September 12, 1995; paragraphs (a) through (bbb) amended and new paragraphs (bbb) through (sss) added by M.I. 42817 - February 10, 1998; paragraphs (ttt) through (aaaa) added April 1998, by authority granted to the General Counsel by M.I. 42817 - February 10, 1998; paragraphs (bbbb) through (jjjj) added September 1998, by authority granted to the General Counsel by M.I. 42817 - February 10, 1998; paragraph (kkkk) added by M.I. 43434 - March 9, 1999; paragraph (a) amended, old paragraphs (c), (g)-(J), (m), (n), (p), (q), (u)-(x), (z), (bb)-(hh), (jj)-(aaa), and (ccc)-(jjjj) deleted, remaining paragraphs renumbered, and new paragraphs (q) and (r) added by M. I. 45249 - March 11, 2003; paragraph (b) amended, paragraph (e) repealed and paragraphs (f) - (r) renumbered by M. I. 45904 - September 14, 2004; new paragraph (r) added by M. I. 46266 - June 14, 2005; paragraph (g) amended by M. I. 46838 - October 10 2006; deleted previous paragraph (e)(2), added paragraphs (e)(4) and (e)(5), and renumbered paragraphs (e)(2) through (e)(8) by M.I. 50498 - June 14, 2016; paragraph (e) amended by M.I. 51417 - December 11, 2018; paragraph (l) amended by M.I. 52328 - April 13, 2021; deleted paragraph (k) and renumbered letter paragraphs (k) - (q) by M.I. 53058 - December 13, 2022; new paragraph (r) added by M.I. 53441 - November 11, 2023.

## § 5202. Fund Parameters.

The minimum cash and securities to be held in the various ledger funds as of June 30 of each year shall be as follows:

(a) For the Revenue Remainder Fund cash and securities on hand of June 30 of each year shall be equal to the portion of fixed costs of the District estimated to be recovered by revenues from water transactions, including, but not limited to, sales, exchanges, and wheeling, for the eighteen months beginning with the immediately succeeding July, based on the level of demand exceedance used in the water rate process. Such funds are to be used in the event that revenues are insufficient to pay the costs of the District.

- (1) At an eighty percent exceedance level, the reserve target shall be fifteen percent of the District's net revenue requirement;
- (2) At a seventy percent exceedance level, the reserve target shall be nineteen percent;
- (3) At a fifty percent exceedance level, the reserve target shall be twenty-five percent.
- (4) The reserve target calculation shall incorporate treatment-related revenue requirements into the minimum and target levels of the Revenue Remainder Fund. This integration is intended to replace the previously separate Treatment Surcharge Stabilization Fund and streamline financial planning.

(b) For the Replacement and Refurbishment Fund, any unexpended monies shall remain in the Fund for purposes defined in Section 5109, or as otherwise determined by the Board. The end-of-year fund balance may not exceed \$160 million. Available monies in excess of \$160 million at June 30 shall be transferred to the Water Rate Stabilization Fund, unless otherwise determined by the Board.

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(c) Amounts remaining in the Revenue Remainder on June 30 of each year after meeting the requirements set forth in Section 5202(a) shall be transferred to the Water Rate Stabilization Fund.

(d) After making the transfer of funds as set forth in Section 5202(c), a determination shall be made to substantially identify the portion, if any, of such transferred funds attributable to collections of treatment surcharge revenue in excess of water treatment cost and to collections of water stewardship rate revenue in excess of costs of the Conservation Credits Program, Local Resources Program seawater desalination and similar demand management programs, including the departmental operations and maintenance costs of administering these programs. Such funds shall be transferred to the Water Stewardship Fund to be available for the principal purpose of mitigating required increases in the water stewardship rates. If such determination indicates a deficiency in water stewardship rate revenue occurred during the fiscal year, a transfer of funds shall be made from the Water Stewardship Fund, as needed and appropriate, to reimburse funds used for the deficiency. Notwithstanding the principal purpose of the Water Stewardship Fund, amounts assigned to this fund shall be available for any other lawful purpose of the District.

(e) Amounts in the Water Rate Stabilization Fund shall be held for the principal purpose of maintaining stable and predictable water rates and charges. The amount to be held in the Water Rate Stabilization fund shall be targeted to be equal to the portion of the fixed costs of the District estimated to be recovered by revenues from water transactions, including, but not limited to, sales, exchanges, and wheeling, during the two years immediately following the eighteen-month period referenced in Section 5202(a).

Funds in excess of such targeted amount shall only be used at the direction of the Board and for the following purposes:

- Funding capital expenditures of the District in lieu of the issuance of additional debt;
- Redemption, defeasance, or purchase of outstanding bonds or commercial paper of the District;
- Funding of pension or Other Post-Employment Benefit (OPEB) liabilities, including contributions to a trust fund;
- Legal or financial obligations as determined by the Board.

Provided that the District's fixed charge coverage ratio is at or above 1.2 amounts in the Water Rate Stabilization Fund may be expended for any lawful purpose of the District, as determined by the Board of Directors, provided that any funds distributed to member agencies shall be allocated on the basis of water revenues during the previous fiscal year, such sales to include sales under the Interim Agricultural Water Program, Replenishment Service Program and all Full Service water sales.

(f) Variable costs not directly tied to water sales, including supply and power, and uncertain revenues such as unawarded grants or other non-recurring funding sources shall be excluded from Revenue Remainder Fund requirement calculation.

Provisions updated to reflect the actions of the Board of Directors through its 4/8/2025 meeting.

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(g) Reserves shall be treated as one-time resources and shall not be used to support ongoing operational expenditures.

Notwithstanding the fund parameters set forth in this Section 5202, including, but not limited to, any minimum fund balances or specified uses and purposes, all amounts held in the foregoing funds shall be available to pay interest on and Bond Obligation (including Mandatory Sinking Account Payments) of Water Revenue Bonds issued pursuant to Resolution 8329 adopted by the Board on July 9, 1991, as amended and supplemented (the Master Resolution), and Parity Obligations, and Subordinate Water Revenue Bonds, issued pursuant to Resolution 9199 adopted by the Board on March 8, 2016, as amended and supplemented (the Master Subordinate Resolution). Capitalized terms not defined in this paragraph shall have the meanings assigned to such terms in the Master Resolution and the Master Subordinate Resolution.

Section 331.2 - M.I. 32735 - May 8, 1979, effective July 1, 1979 [Supersedes M.I. 30984 - August 19, 1975; M.I. 31826 - June 14, 1977 and M.I. 32292 - June 13, 1978]; amended by M.I. 35309 - September 11, 1984; amended by M.I. 35730 - July 9, 1985. Section 331.2 repealed and Section 5201 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; paragraph (a) amended and paragraph (b) added by M.I. 36676 - June 9, 1987; paragraph (a) amended by M.I. 36731 - July 14, 1987; paragraph (b) amended and paragraph (c) added by M.I. 37007 - February 9, 1988; amended by M.I. 37449 - December 13, 1988; paragraph (a) amended by M.I. 37679 - May 9, 1989; renumbered to Section 5202 by M.I. 38241 - May 8, 1990; paragraphs (c) and (d) amended by M. I. 38304 - June 12, 1990; paragraph (a) amended by M.I. 39794 - August 20, 1992; paragraph (e) added by M.I. 41581 - September 12, 1995; Section renamed and paragraphs (a)-(c) and (e) amended by M.I.43434 - March 9, 1999; paragraph (e) amended by M.I. 43587 - June 8, 1999; paragraph (b), (c) and (e) amended by M. I. 44907 - June 11, 2002; paragraph (b) amended by M. I. 45904 - September 14, 2004; paragraph (d) amended by M. I. 46266 - June 14, 2005; Paragraph (e) amended by M. I. 46838 - October 10, 2006; final paragraph added by M.I. 47286 - November 20, 2007; amended paragraph (b) by M.I.49734 - April 8, 2014; amended paragraph (e) by M.I. 50498 - June 14, 2016 paragraphs (a) and (e) amended by M.I. 51417 - December 11, 2018.