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.

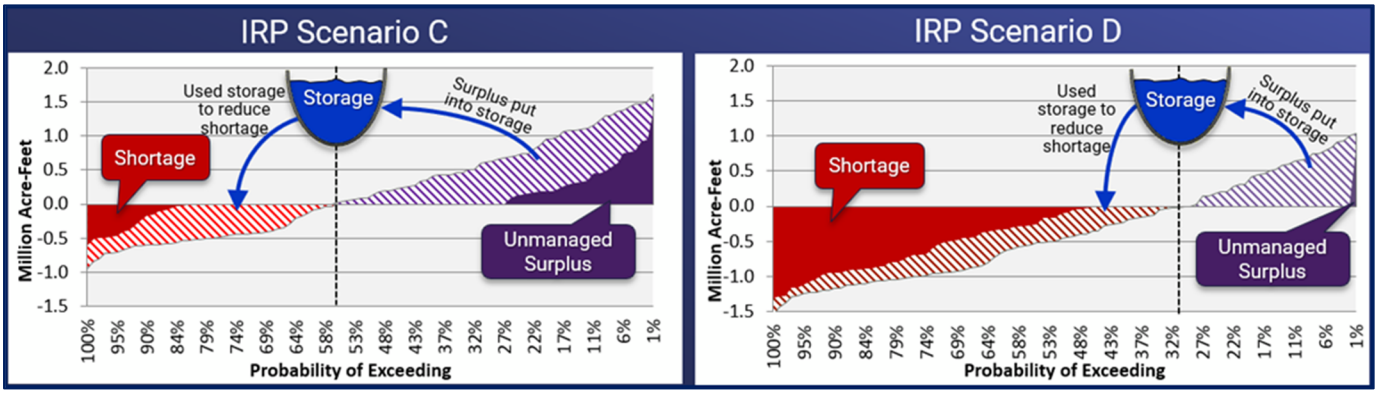
- Mid-Biennium Performance: FY 2024/25 closed stronger than expected, driven by higher than projected property tax revenues, lower-than-budgeted expenditures and revenues from 100 thousand acre-feet (TAF) of Reverse Cyclic Program sales.
- Revised water demand projections from the Integrated Resource 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 *	11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	**10%**	**5%**	**3%**	**3%**	**4%**	**4%**	**5%**	**5%**	**4%**	**4%**	~4%/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
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 Projects[1]	**3%**	**2%**	**5%**	**5%**	**11%**	**16%**	**12%**	**5%**	**13%**	**5%**	**~ 5% / yr**
Grand Total[1]	**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 MGD[2] (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%**

18%
21%
21%

** 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 **action** regarding applicability of limits in Section 124.5 of the MWD Act
April 14, 2026	Board **action** 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.

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Water Shortage and Reliability Analysis

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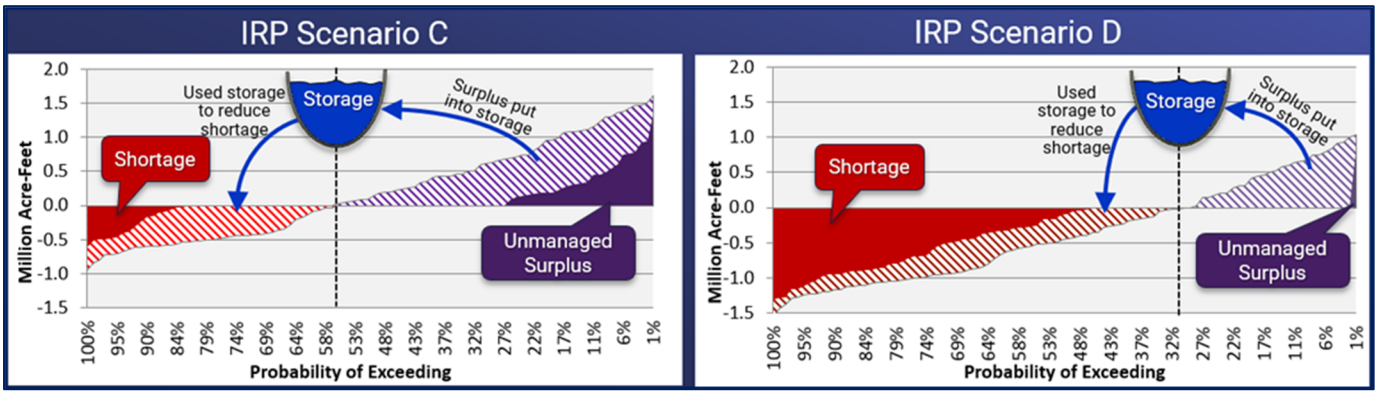
The 2025 Updated IRP Needs Assessment also accounts for the low demands observed in recent years and better captures expected reductions in imported supplies due to climate-driven extreme weather and uncertainties related to regulatory requirements and future operating rules. The analysis modeled Scenario 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.



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Adopted Budget and Ten-Year Financial Forecast & Subsequent Updates

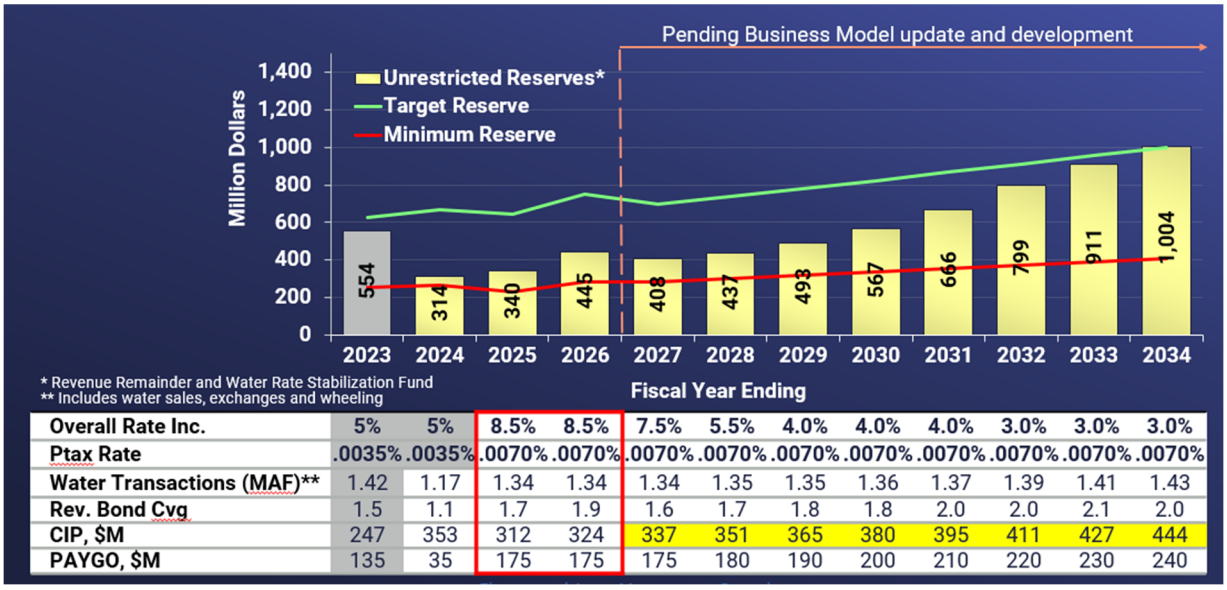
In April 2024, the Board adopted Metropolitan's Biennial Budget for FY 2024/25 and FY 2025/26. This adopted budget sets the financial foundation for the current biennium and was designed to balance revenue stability, expenditure discipline, and rebuilding reserves.

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



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

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 *	11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	**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 *	11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~4%/yr
Needed to Maintain Current System Integrity	**12%**	**6%**	**5%**	**5%**	**6%**	**6%**	**5%**	**5%**	**4%**	**4%**	**~4%/yr**

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

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

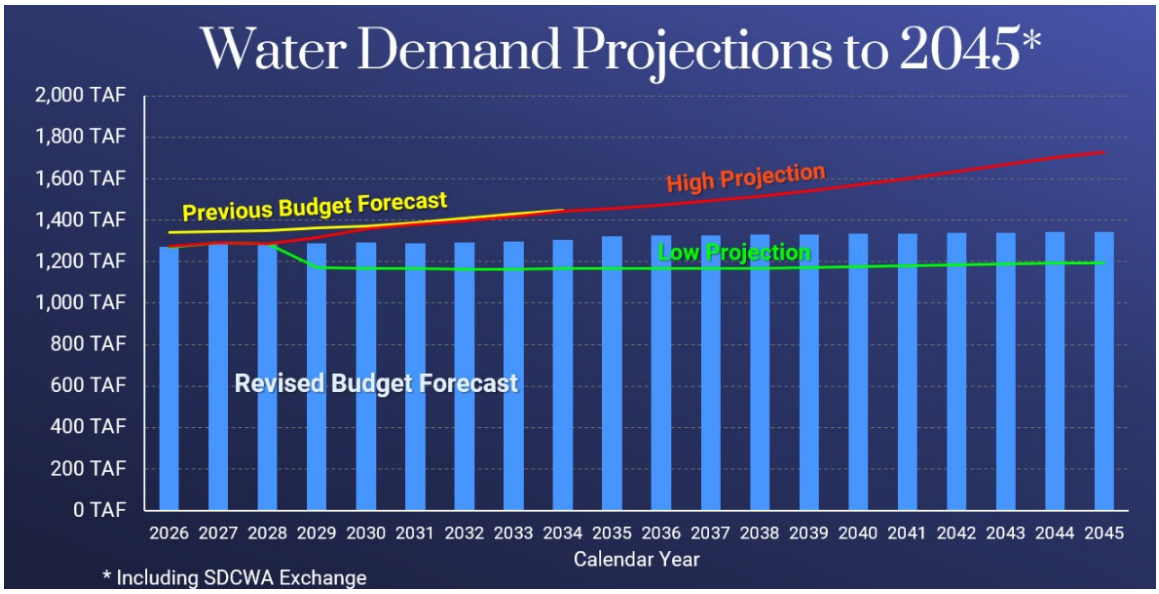
Per the Board's recent adopted policy on conservative water assumptions used for rate settings and consistent with the assumptions used in the current adopted budget, staff applied a 70 percent exceedance level for the water demand forecast as the baseline for this analysis. A 70 percent exceedance forecast 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 Projections[3] for Calendar Year 2026 to 2045



The preceding tables presented numerical projections of average unit costs[4] 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

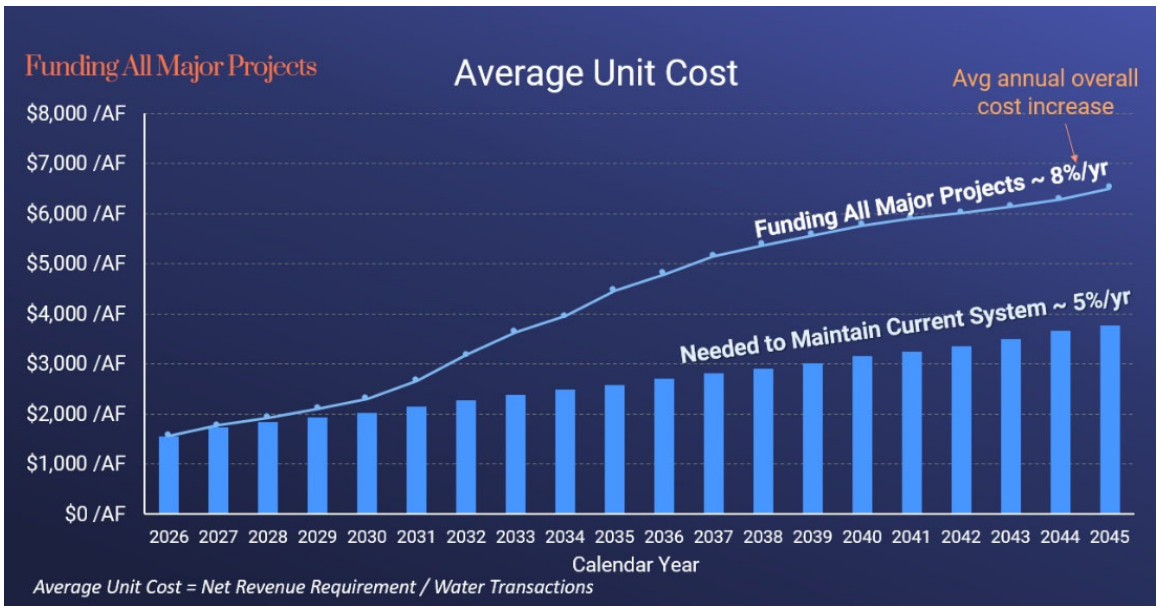
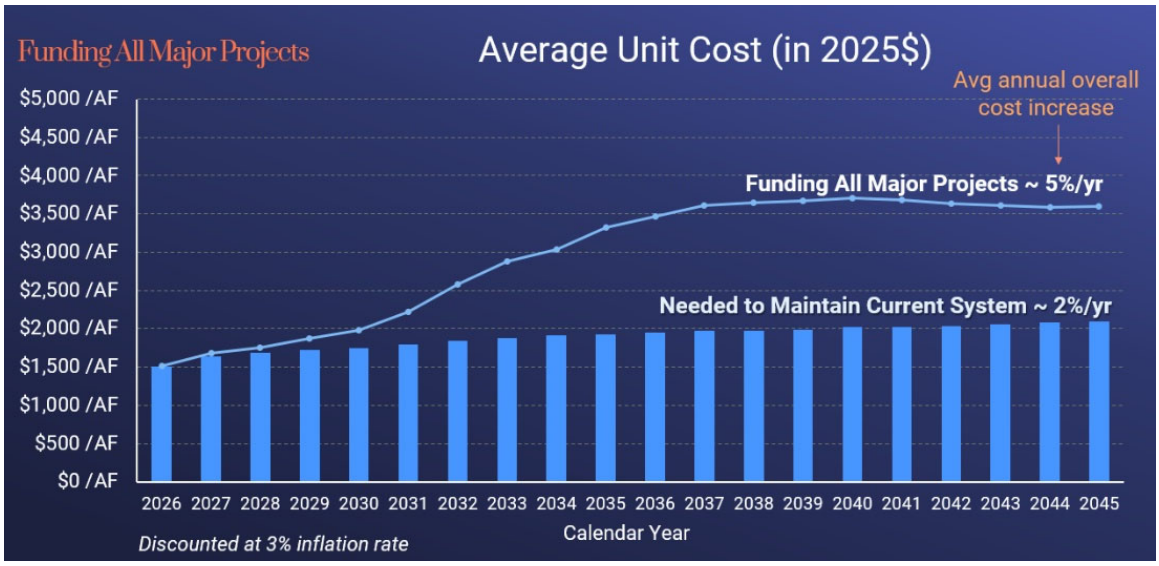


Figure 4 presents the same two scenarios but adjusts all costs to 2025 dollars, removing the effects of inflation. This normalization allows the Board to compare future costs to today's values, providing a clearer, more direct view of real cost growth over time. Under this inflation-adjusted view, the 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

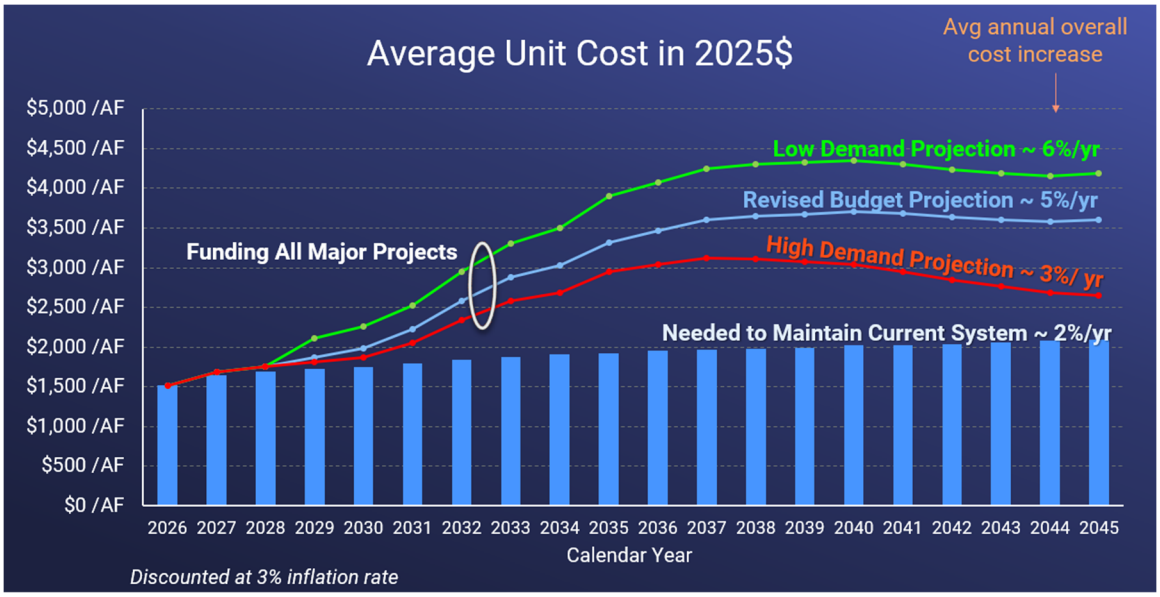


While Figures 3 and 4 compare system-only vs. system-plus-project costs, they assume a single, fixed water demand projection. Figure 5 expands this analysis by incorporating High- and Low-demand forecasts, demonstrating how water sales volume affects unit costs. The Revised Budget Projection represents 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	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%**

18%
21%
21%

** 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.

10/6/2025

Katano Kasaine *Date*
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10/6/2025

Deven Upadhyay *Date*
General Manager

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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.