

Finance, Affordability, Asset Management, and Efficiency Committee



Proposed biennial budget, which includes the Capital Investment Plan and revenue requirements for fiscal years 2026/27 and 2027/28; proposed water rates and charges for calendar years 2027 and 2028 to meet revenue requirements for fiscal years 2026/27 and 2027/28; ten-year financial forecast; and Cost of Service Report (Workshop 4)

Item 5a

March 24, 2026

Presented by: Adam Benson and Arnout Van den Berg

Item 5a
Budget
Workshop #4

Subject

Proposed biennial budget, which includes the Capital Investment Plan and revenue requirements for fiscal years 2026/27 and 2027/28; proposed water rates and charges for calendar years 2027 and 2028 to meet revenue requirements for fiscal years 2026/27 and 2027/28; ten-year financial forecast; and Cost of Service Report (Workshop 4)

Purpose

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

Next Step

- Board **action** regarding Biennial Budget and Calendar Year rates and charges on April 14, 2026

Agenda

Follow-up from Workshop #3

Proposed Budget

City of Los Angeles Alternative Analysis

Eastern, Western, and MWDOC Alternative Analysis

Summary of Alternatives

Other Questions/Topics

Next Steps

Proposed Budget Revisited

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Revised Baseline Budget ⁽¹⁾	14.5% 7.3%	7.2%	6.5%	6.5%	5.0%	5.0%	4.5%	4.5%	4.0%	4.0%
Incremental Drivers										
Proposed Increase Base CIP	0.5%	1.0%	0.5%	0.5%	1.0%	1.0%	0.5%	0.5%	1.0%	1.0%
Proposed Operating Equipment	0.4%									
Proposed Staffing	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%				
Revised Baseline + Inc. Drivers	8.8%	8.7%	7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	5.0%	5.0%
45-MGD PWSC (Stage 1)	0.5%	0.5%	1.5%	1.5%	2.5%	2.5%	4.0%	4.0%	3.0%	3.0%
Revised Proposed Budget (Baseline + Inc. Drivers + PWSC)	18.5% 9.3%	9.2%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	8.0%	8.0%

(1) Revised Baseline Budget includes 272.7 TAF SDCWA Exchange, 5 TAF 2nd right of refusal in the supply program, 51 TAF lower full-service water sales

Note: Displayed as a simple summed total

DCP planning costs drive 3% of the biennium rate increase; deferral would reduce rates by 1.5% in FY 2026/27 and FY 2027/28 and shift that impact to later years

Calendar Year	2027	2028	2029	2030
Defer DCP Planning Cost	-1.5%	-1.5%	+3.0%	0%

City of Los Angeles Alternative Analysis



City of Los Angeles

March 9, 2026

The City of Los Angeles requests that an option be developed and shown at the next Budget Workshop #3 on March 10, as follows:

- Referencing the baseline budget (7.5%, 7.5%)
- Modify this baseline budget option to include these modified assumptions:
 - Use sales forecast at 60% exceedance
 - Hold Property Tax rate at current 0.007
 - Set CIP budget up to \$800M (revised from proposed \$950M by \$150M reduction)
 - No layoffs
 - Operating revenues (PayGo) to fund 35% of CIP

March 24, 2026


Finance, Affordability, Asset Management, and Efficiency Committee

Item 5a Slide 6


Requested Changes to Baseline Budget

- 60% Exceedance Water Sales assumption
 - ~29 TAF higher water sales in FYE 2028 → **3% rate reduction** over the biennium
- \$800M CIP and 35% PAYGO Change

\$M	PAYGO		Debt Financed		Total Biennium	Rate Impact
	FYE 27	FYE 28	FYE 27	FYE 28		
Proposed Base CIP	\$185	\$200	\$265	\$300	\$950	+1.5%
LA Request	\$130	\$150	\$245	\$275	\$800	-3.4%



\$50M lower PAYGO
→ lower rate



\$45M lower debt → lower
debt service → lower rate

~1.9% Net Rate
Reduction over the
Biennium

City of Los Angeles Request

Overall Rate Increases: from Revised Baseline Budget, Increase CIP to \$800M, PAYGO at 35%, water sales at 60% exceedance & Property Tax Rate at 0.007%

Calendar Year	2027	2028
Revised Baseline Budget⁽¹⁾	14.5% 7.3%	7.2%
Other Requested Adjustments		
60% Exceedance Sales	-4.9% -1.6%	-1.4%
\$800M CIP & 35% PAYGO*	-0.9%	-1.0%
Total w/ Requested Adjustments	9.6% 4.8%	4.8%

(1) Revised Baseline Budget includes 272.7 TAF SDCWA Exchange, 5 TAF 2nd right of refusal in the supply program, 51 TAF lower full-service water sales

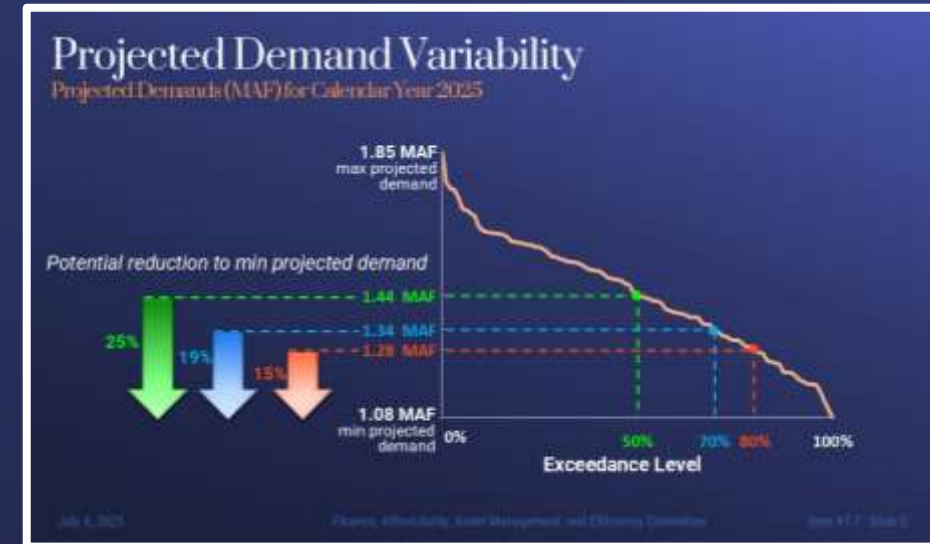
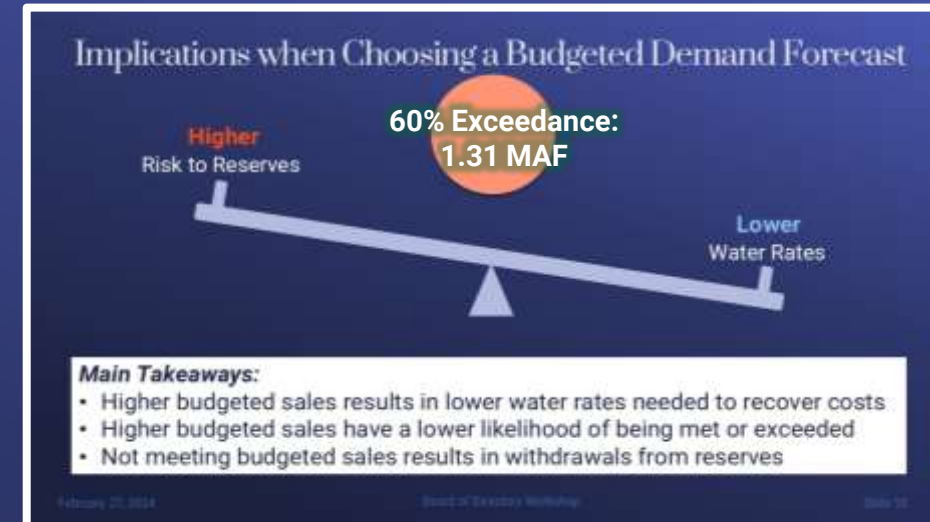
* Decrease from \$950M CIP Budget to \$800M CIP (w/o PWSC) and 35% PAYGO

Note: Displayed as a simple summed total

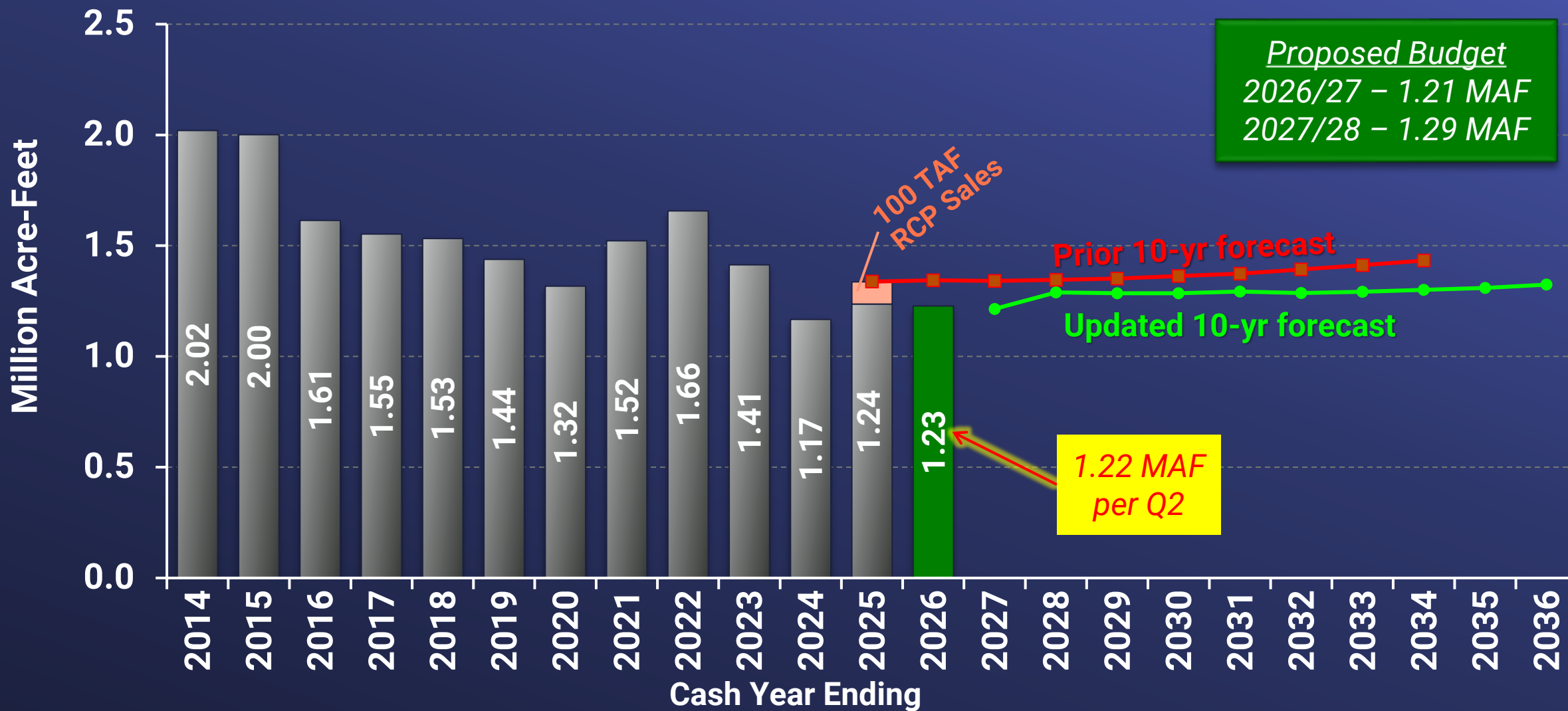
- While this proposal reduces the rate increases in the biennium, it introduces operational and financial risk through reduced CIP, staffing, PAYGO, and lower water demands (60% exceedance)
- Collectively, this proposal will increase long-term rates, putting additional pressure on affordability

Risk Assessments for Setting Water Demands at 60% Exceedance

- In July 2025, Board adopted 70% exceedance
- A less conservative sales forecast increases the risk of revenue under-recovery if actual sales fall short
 - It would also increase the minimum and target unrestricted reserve level per Board's policy, from 19% at 70% exceedance to 22% at 60% exceedance
- These risks are amplified by current uncertainty in projected demand, including possible sales reductions resulting from delivery constraints related to impacts from golden mussels

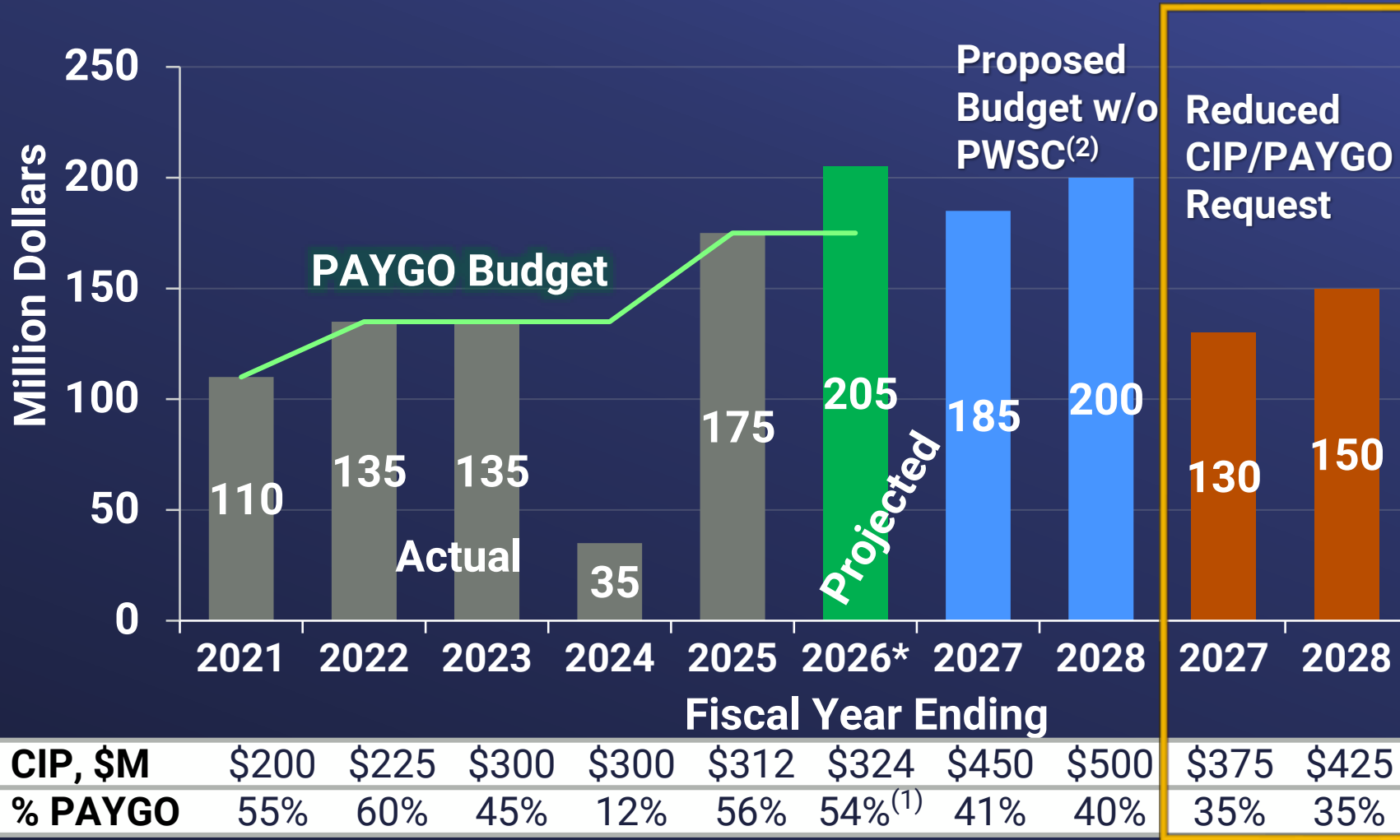


Historical Water Transactions & Forecast⁽¹⁾



(1) Includes non-member agency transactions and SDCWA Exchanges and Wheeling from member agencies
 For FY 2026 & FY 2027, water transactions are adjusted for RCP treated water deliveries, which were prepaid in Dec 2024

Risk Assessments for Reduced PAYGO



✓ The Proposed Budget mitigates most near-term rate impacts of increasing the CIP by fully financing the additional capital spending with debt.

Risks for reduced PAYGO

- ❖ **Reduced** financial adaptability for revenue and expense volatility or emergencies
- ❖ **Higher costs** due to more borrowing and higher interest expense
- ❖ **Pressure on credit ratings** over time add to borrowing costs
- ➔ **Higher long-term rates**

* Board approved an additional \$30M in PAYGO funding to be funded from reserves

(1) The \$205M shown for FYE 2026 includes an additional \$30M CIP from reserves. The % PAYGO shown (54%) is based on the original \$175M / \$324M; including the additional \$30M in both would yield 58%

(1) With \$150M PWSC included in the biennium, CIP will be \$492M & \$608M and % PAYGO will be 38% and 35% the biennium respectively

Risk Assessments: Staffing and Operating Equipment

City of LA alternative increases operational risk by reducing capacity to maintain assets, respond to issues, and support priority work

Operating Equipment Risks

- Over 50% of fleet vehicles are in poor or very poor condition
- More frequent repairs and downtime delay high-priority work
- Higher fleet risk increases safety risk and reduces operational responsiveness

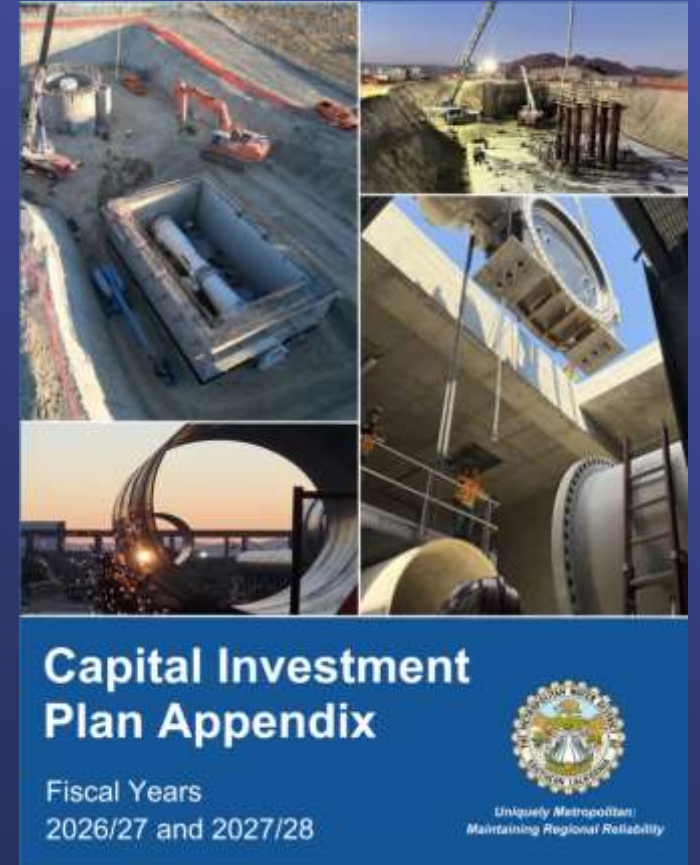
Staffing Risks

- Continued reactive maintenance instead of preventive maintenance
- Greater risk to reliability, compliance, and emergency response
- Greater reliance on overtime, temporary labor, and consultants

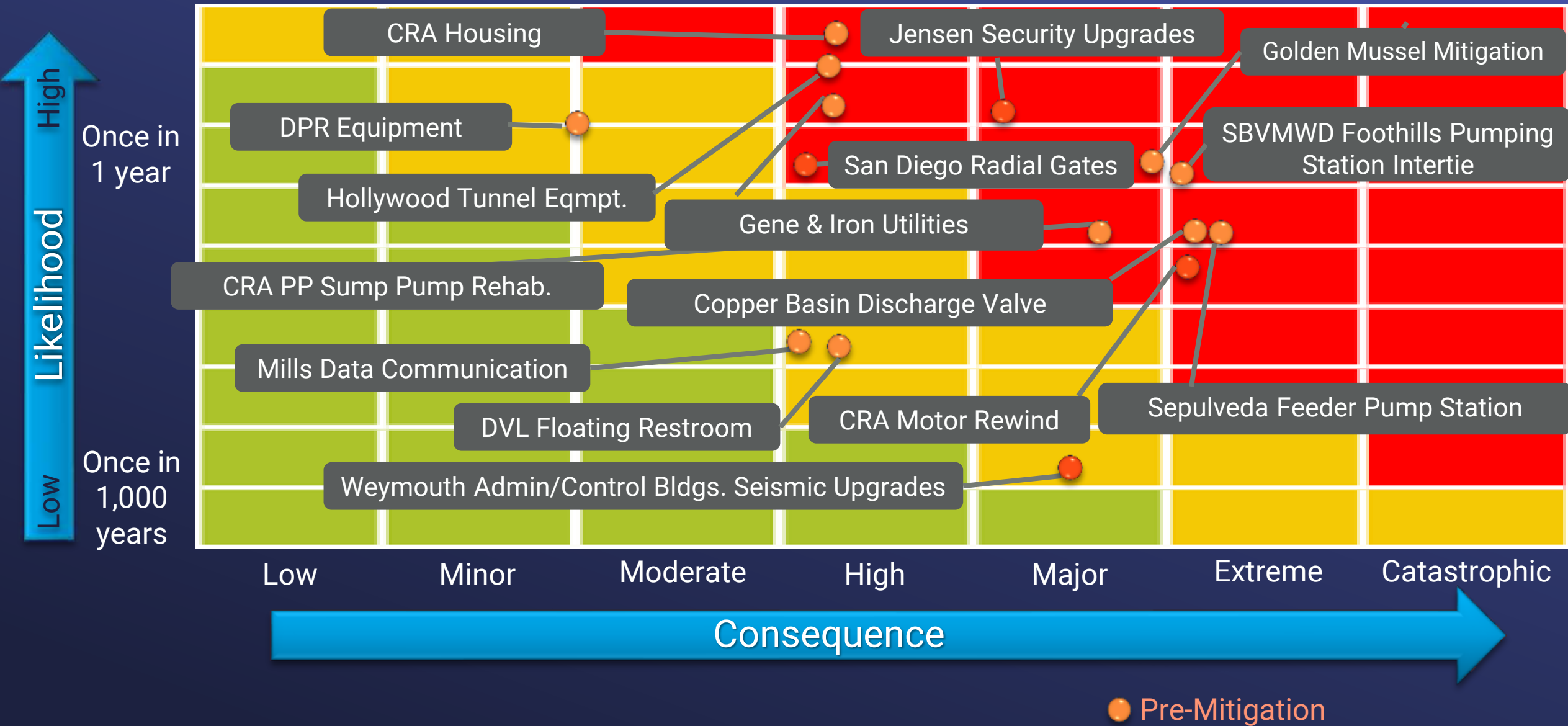
Impact of Reducing CIP to \$800M

CIP driven by R&R, Prioritizing Urgently Needed Projects

- Two types of investment:
 - R&R/Regulatory
 - Non-discretionary
 - 564 projects
 - \$17 B over 30 years
 - Upgrades
 - Drought, sustainability, stewardship
 - 70 projects
 - \$2.38 B over 30 years
- Base CIP budget of \$950 M - \$990 M identified in October board action



Key Contracts Planned with a \$950 M Base CIP Budget



Modify the Budget to Set CIP Budget up to \$800 M

- Two alternatives developed
- Both alternatives assume continuing contracts currently in construction/fabrication



Foothill Pump Station – Inland Feeder Intertie
Butterfly Valve Fabrication



Sepulveda Pump Stations
Venice PCS Site

FY 2026/28 Biennium Budget Set at \$800 M – Alternative #1

- Proceed with award of drought projects
 - Sepulveda Feeder Pump Stations (Sepulveda Site)
 - Foothill Pump Station – Inland Feeder Intertie
- Award rehabilitation projects
 - Allows award of 3 high-priority contracts
 - Weymouth Admin. & Control Bldg. Seismic*
 - Hollywood Tunnel North Portal Improvements*
 - CRA Copper Basin Discharge Valve Replacement
 - Defers significant number of rehabilitation projects that are planned with \$950 M base CIP budget

Construction awards deferred next biennium

- CRA Sump Piping Replacement
- Gene & Iron Utilities Replacement
- Jensen Security
- CRA Housing
- Golden Mussel Projects
- DPR Plant Equipment Installation
- San Diego Canal Radial Gates Replacement
- Met Control Systems Replacement
- DVL Floating Restroom Replacement
- CRA Motors Rewind
- Iron Mtn. Auxiliary Power Improvements
- Black Metal Mtn. Communication Sites Power Improvements
- Weymouth EV Installation

* Advertised

FY 2026/28 Biennium Budget Set at \$800 M – Alternative #2

- Defer award of drought projects
 - Sepulveda Pump Stations (Sepulveda site)
 - Foothill Pump Station – Inland Feeder Intertie
- Award several rehabilitation projects
 - Weymouth Admin. & Control Bldg. Seismic*
 - Hollywood Tunnel North Portal Improvements*
 - Jensen Security
 - CRA Copper Basin Discharge Valve Replacement
 - CRA Sump Piping Replacement
 - CRA Housing
 - Gene & Iron Utilities Replacement
 - Golden Mussel Projects

Construction awards deferred next biennium

- CRA Motors Rewind
- San Diego Canal Radial Gates Replacement
- Met Control Systems Replacement
- DVL Floating Restroom Replacement
- DPR Plant Equipment Installation
- Iron Mtn. Auxiliary Power Improvements
- Black Metal Mtn. Communication Sites Power Improvements
- Weymouth EV Installation

* Advertised

Limiting the CIP budget to \$800 M reduces funds available for R&R



Eastern, Western, and MWDOC Alternative Analysis

Eastern, Western, and MWDOC Alternative Proposal

Assumptions

1. Adjust Ad Valorem rate from 0.007% to 0.010% to match SWP fixed costs with equal fixed revenues
2. Reduce the PWSC capital budget from \$150 M to grant funding only and do not include funding for PWSC in rates until the Board approves the project
3. Reduce new staffing positions from 105 FTE to only those directly necessary to maintain existing system resilience, reliability, and flexibility, including removing the 8 positions for PWSC
4. Limit LRP funding to authorized LRP agreements that have been approved by the Board

PWSC Reduced to Grant-Funded Only

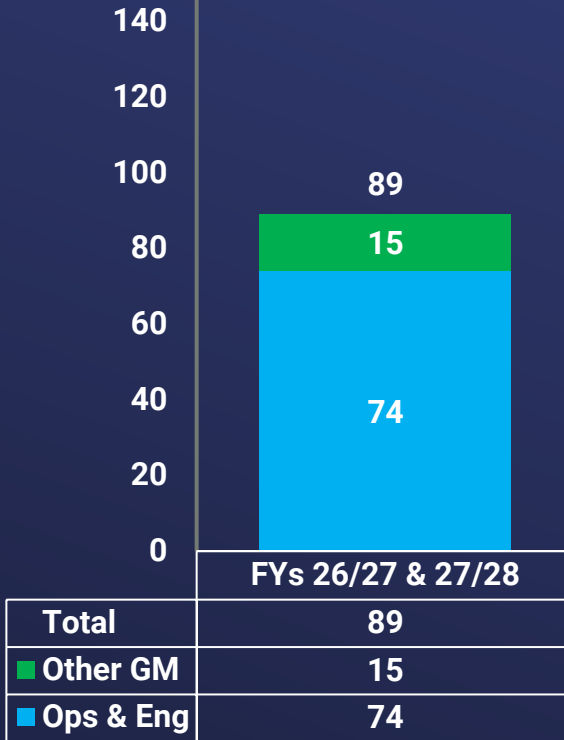
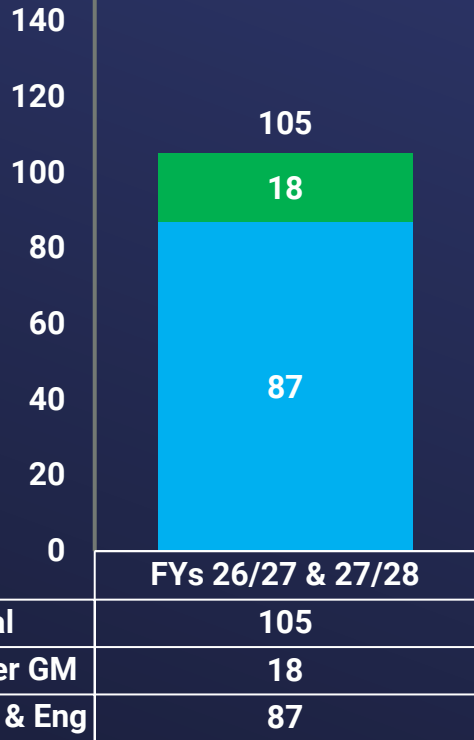
- Current grants available for appropriations = ~\$61.8M from \$80M State Fund and LSWRP grant reimbursements
- Additional \$14 M eligible to be reimbursed if design activities progress
- Approximately \$75.8 M available to advance PWSC

Reduced New Position Requests

Prioritized Operations and Engineering focusing on ~1% rate impact per biennium

GM Direction: Remove 16 Positions

8 O&M and 8 Pure Water Positions Removed



Position Type	FYE 27 & 28
O&M	87
CIP R&R	10
Pure Water	8
Total	105



Position Type	FYE 27 & 28
O&M	79
CIP R&R	10
Pure Water	0
Total	89

- Reduced capacity to support operational demands, regulatory requirements, and emerging programs and initiatives
- Rate impact shown on the following slide reflects an approximately \$1M reduction in the OT budget commensurate with the revised staffing proposal

Eastern, Western, and MWDOC Alternative Scenario

Reduced Staffing, Grants only PWSC, Authorized LRP Agreements & Property Tax Rate increase from 0.007% to 0.010%

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Revised Baseline Budget⁽¹⁾	14.5% 7.3%	7.2%	6.5%	6.5%	5.0%	5.0%	4.5%	4.5%	4.0%	4.0%
Incremental Drivers										
Proposed Increase Base CIP	0.5%	1.0%	0.5%	0.5%	1.0%	1.0%	0.5%	0.5%	1.0%	1.0%
Proposed Operating Equipment	0.4%									
Proposed Staffing	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%				
Revised Baseline + Inc. Drivers	17.5% 8.8%	8.7%	7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	5.0%	5.0%
Other Adjustments										
Authorized LRP Agreements*	-0.3%	-0.2%								
Reduced Staffing & Overtime**	-0.1%	-0.1%								
PTax Rate Increased to 0.010%	-3.0%	-3.0%								
Total w/ all Adjustments	10.8% 5.4%	5.4%	7.5%	7.5%	6.5%	6.5%	5.0%	5.0%	5.0%	5.0%

* LRP Agreements may be executed for projects already authorized by the Board. This does not assume LRP agreements for projects not yet authorized by the Board. LRP funding reduced to \$14.3M in FY 2026/27 & \$20.2M in FY 2027/28

** Overtime reduction estimated with additional filled positions.

Note: Displayed as a simple summed total

Summary of Alternatives

Summary of Alternatives

Alternatives	Property Tax Rate*	Est. Overall Rate Increases for 2027 and 2028	
		w/ 45-MGD PWSC	Grant-funded PWSC
Revised Proposed Budget			
<i>Base CIP at \$950M, fully fund staffing, operating equipment, LRP, and Conservation</i>			
	0.007%	9.3% / 9.2% (18.5%)	8.8% / 8.7% (17.5%)
Alternatives			
<i>Refined staffing, Auth. LRP Agreements, fully fund Conservation</i>			
Alt 1	0.007%	8.9% / 8.9% (17.8%)	8.4% / 8.4% (16.8%)
Alt 2	0.008%	7.9% / 7.9% (15.8%)	7.4% / 7.4% (14.8%)
Alt 3	0.009%	6.9% / 6.9% (13.8%)	6.4% / 6.4% (12.8%)
Eastern, Western, and MWDOC Proposal			
<i>Prop tax rate at 0.010%, refined staffing, grant only funding for PWSC, Auth. LRP Agreements, fully fund Conservation</i>			
	0.010%		5.4% / 5.4% (10.8%)
Los Angeles Proposal			
<i>60% exceedance water demands, no additional staffing, CIP at \$800M, PAYGO at 35%, fully fund LRP and Conservation</i>			
	0.007%		4.8% / 4.8% (9.6%)

* Property tax rate above 0.007% would fund a larger share of State Water Contract expenses

Other Questions/Topics

Question: How much of the overtime would be reduced if the additional staffing is approved?

Answer:

Staff continues to refine the Overtime assumptions with a projected savings of \$1M over the biennium

Majority of OT is non-discretionary and is critical to the reliable operation and maintenance of an aging system. Examples of the Overtime categories are as follows:

- Operator Shifts – 24/7 shift schedules with built-in (PERS-able) overtime
- Shutdowns – Typically 13-hour shifts ensuring timely completion and minimizing agency impacts
- Emergency Response – After-hour call-outs and/or emergency events requiring immediate coverage
- CIP – Capital projects requiring operations support and maintenance (non-shutdown work)
- Other – Additional workload to meet key O&M objectives, perform corrective maintenance, and minimize operational risk

Question: What percentage of the workforce is of retirement age, over 50 years old?

Answer:

- As of March 3, 2026, there are 741 employees over 50 years old
- Out of 1,808 filled positions, 741 employees comprise 41.0% of the MWD workforce

Question: *What policies or procedures are needed to facilitate international hiring? This was asked in relation to desert operations.*

Answer:

- Additional budget would also be needed to expand the District's advertising globally for vacant positions
- As far as procedures, the visa type would typically be permanent, which requires the District to obtain a labor certificate from the DOL that there are no qualified workers available
 - We haven't found that to be the case, so we may get stopped at this stage
 - If we are able to make the case, there is a lengthy and costly process for the District to support the visa process for a foreign worker

Question: Many companies are analyzing how AI will change their staffing needs and levels over the next two to five years. Has MWD done or considered preparing such an analysis? This would be important information to consider before creating new positions.

Answer:

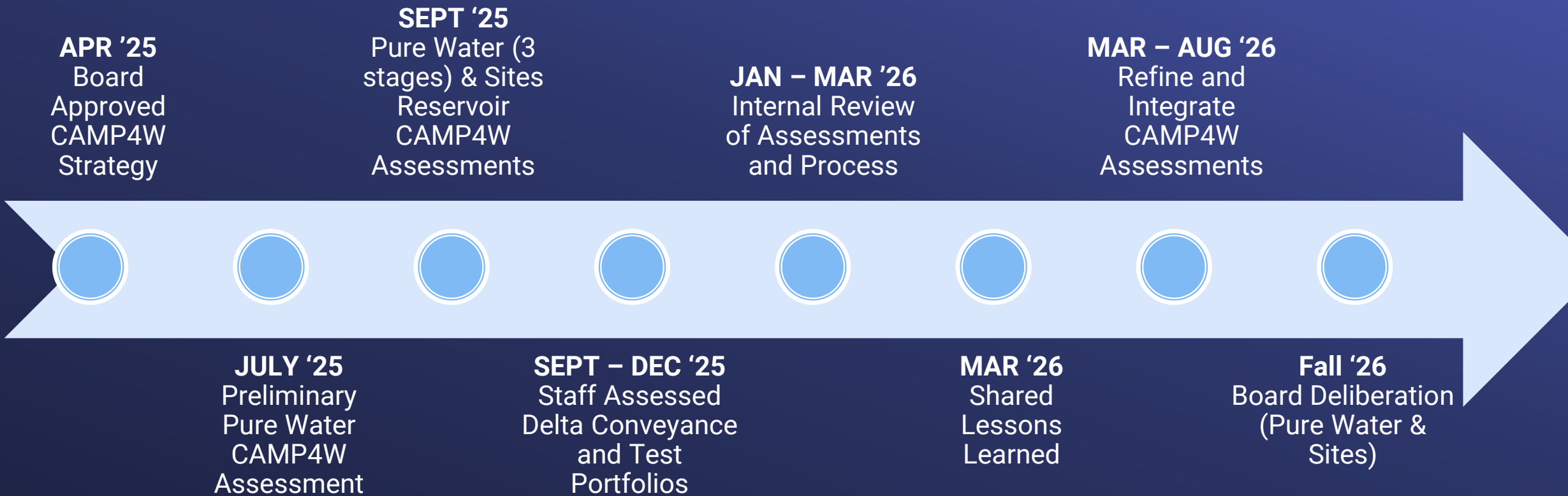
Currently MWD has not associated artificial intelligence to staffing needs or levels, but could be evaluated for future opportunities

Here are a few ways that MWD will be utilizing artificial intelligence to increase productivity:

- Over the next several months, IT will be releasing AI productivity tools to MWD staff that will allow for a wide range of tasks, including conducting research, summarizing documents, editing correspondence drafts, generating ideas, creating content and graphics, and streamlining operational data
- IT has started training application development staff on the use of agentic coding. Agentic coding uses AI agents to code applications and increases the productivity of application development staff

Climate Adaptation Master Plan for Water (CAMP4W) Near-Term Findings and Recommendations

CAMP4W Assessments – Progress and Next Steps



Upcoming Board CAMP4W Discussions
May: CAMP4W Task Force
July: CAMP4W OWA Quarterly Update
Aug: CAMP4W Task Force

CAMP4W Assessments Completed

Individual Project Assessments

- 1) Pure Water Southern California (45 MGD stage, 75 MGD stage, 150 MGD project)
- 2) Sites Reservoir
- 3) Delta Conveyance Project

Portfolio Assessments

- 1) Major Projects Portfolio (modeled for reliability benefits and potential rate impacts)
 - Pure Water Southern California (150 MGD project), Sites Reservoir, Delta Conveyance Project, AVEK Expansion, South of Delta Storage
- 2) Sequence 1
 - Enhanced Conservation Program, Sepulveda Pump Stage 2, Groundwater Augmentation, Pure Water Southern California (45 MGD), Regional Conveyance
- 3) Sequence 2
 - In Delta Investments, AVEK Expansion, South of Delta Storage Reservoir, Sites Reservoir, Delta Conveyance Project

2025 CAMP4W Assessments Takeaways

Staff Recommendations

1. Use risk and vulnerability to prioritize and sequence an adaptive set of investments
2. Refine methodology for integrating project and program assessments across scenarios to identify synergies and tradeoffs
3. Advance low regret investments that maintain flexibility and provide benefits across a range of future scenarios

Recommended Low Regret Actions to Address Identified Risks



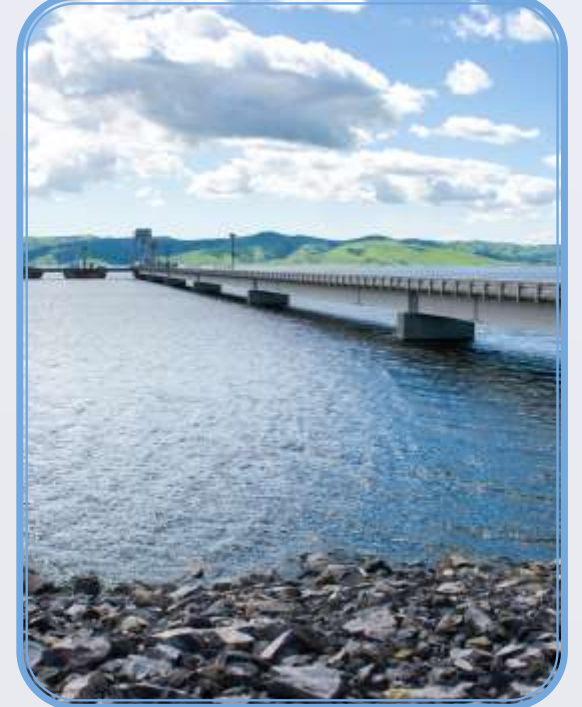
Invest in **infrastructure & operational resilience** through increased CIP



Continue **planning and development** of supply and storage projects



Identify near-term **imported supply resilience** investments



Enhance **flex supply** programs to manage changing conditions

Pure Water Southern California

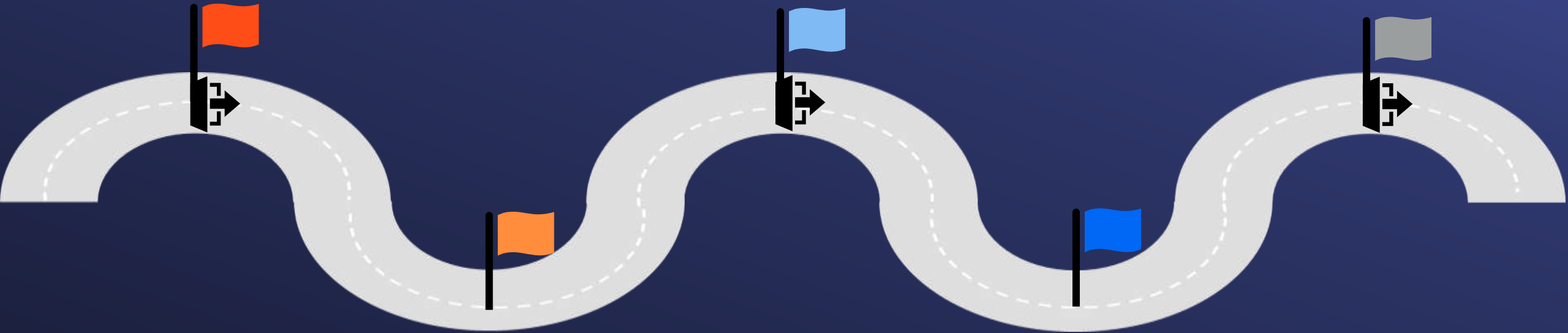
Planned Activities for the Biennium

- Advanced Treatment
 - Progressive Design Build (PDB) solicitation
 - Design-build team - consultant/contractor
 - Board consideration of PDB contract
 - Begin final design + cost estimates + schedule
- Conveyance
 - Construction Manager/General Contractor (CMGC) solicitation
 - MWD engineering consultant + general contractor
 - Board consideration of CMGC contract
 - Begin final design + cost estimates + schedule
- Property acquisition - purchase key site for future pump station
- Construction go/no-go decision points for both contracts 2028/2029

Utilization of USBR Large Scale Water Recycling Program (LSWRP) Grant

- Awarded \$125.5M in January 2025 – 3:1 match
 - Received thru end of FY - \$18.8 M
 - Allocated for LACSD - \$22.1 M
- With proposed biennial budget for PWSC:
 - Metropolitan would access an additional \$29.9 M of grant
- Remaining available grant dollars in LSWR program - \$54.7 M
- To receive the remaining grant money
 - Metropolitan would need to commit (or receive from other sources) \$218.8 M more than what is currently proposed in the biennial budget for PWSC

PWSC Milestones, Information & Board Actions



***Board deliberations are highlighted**

Key Considerations for PWSC Budget Related Decision

Staff's budget recommendation for Pure Water, like the approach MWD is taking for Sites and DSC, supports activities that will clarify:

- Program cost estimates,
- Program schedules for pre-construction and construction tasks, and
- Understanding of permit terms and conditions that could govern operations and maintenance, and
- Opportunities to secure outside funding for the program

Key Considerations for PWSC Budget Related Decision

Staff's budget recommendation for Pure Water allows MWD to continue to assess resource needs, as MWD staff continue to develop information through the CAMP4W Decision Making Framework, including for DCP, Surface Storage (Sites and South of Delta), and availability of imported water supplies

Key Considerations for PWSC Budget Related Decision

Staff's budget recommendation for Pure Water is consistent with other important initiatives, including the efforts to:

- Explore an interstate water transfer and exchange pilot program,
- Explore projects that will help achieve the long-term, statewide water supply goal established by California Water Plan, and
- Expand opportunities for water recycling grant funding.

Question: How much funding and time would staff need to further research Pure Water as a solely direct potable reuse project including determining how much additional conveyance would be needed to move water from PWSC to a holding tank and then to a storage if it was solely DPR?

Answer:

- DPR testing at the Napolitano Innovation Center planned
 - Planned biennium expenditure - \$25 M; project included in base CIP
 - Anticipated duration for design, construction & initial testing – 4-5 years
 - Next step – board action for equipment procurement & design
- DPR Implementation Study underway to evaluate various DPR options, including conveyance needs
 - Next step – board workshop this summer

Next Steps

Next (April 14, 2026)

- Board **action** regarding Biennial Budget and Calendar Year rates and charges on April 14, 2026

Next Steps

- Feb 20, 2026 Notice to member agencies regarding public hearing and proposed adoption of fixed charges
- Feb 24, 2026 FAAME Committee, Workshop #2
- Mar 10, 2026 FAAME Committee, Workshop #3
- Mar 10, 2026 Public hearing on proposed rates and charges
- Mar 24, 2026 FAAME Committee, Workshop #4
- Apr 14, 2026 Board **action** regarding Biennial Budget for FYs 2026/27 and 2027/28, rates and charges for CYs 2027 and 2028, and Ten-Year Financial Forecast
- May 12, 2026 Board **action** regarding continuation of Standby Charge for FY 2026/27
- Aug 18, 2026 Board **action** regarding fixing ad valorem property taxes for FY 2026/27

Questions?

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

MWDBudget@mwdh2o.com

