



- **Board of Directors**  
***One Water and Stewardship Committee***

11/19/2024 Board Meeting

---

7-3

## Subject

---

Authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of up to 50,000 acre-feet in calendar year 2024 and up to 50,000 acre-feet in calendar year 2025; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

## Executive Summary

---

Staff proposes the Board of Directors (“Board”) authorize the General Manager to enter into Reverse-Cyclic Program (“Program”) agreements with interested member agencies based on modified terms to the existing Program and implement the Program to make up to 50,000 acre-feet available for pre-purchase in each Calendar Year (“CY”) 2024 and 2025 for deferred delivery in a future year. The Program will allow member agencies to pre-purchase supplies at the current full-service rate for deferred delivery in a future year. This will generate new water sales revenues in the current biennium while allowing Metropolitan and the member agencies to defer and manage the delivery of water supply. Staff presented the potential modifications to the Program as an Information Letter to the One Water and Stewardship Committee in September 2024. Staff have since incorporated member agency and committee feedback into the recommended proposed modifications and is seeking approval and implementation of the Program. The Board previously approved and implemented a limited, one-year version of the Program in CY 2022 to help preserve Metropolitan’s limited State Water Project (“SWP”) stored supplies and generate water sales revenues. By initiating the Program this year, Metropolitan will benefit from generating additional revenue while allowing member agencies saturated with high local supplies the ability to pre-purchase supplies for deferred delivery in a future year when they are better able to accept Metropolitan deliveries.

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

---

### Staff Recommendation: Option #1

#### Option #1

Authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies to defer deliveries of up to 50,000 acre-feet in calendar year 2024 and up to 50,000 acre-feet in calendar year 2025.

**Fiscal Impact:** The Program will generate new revenues at the full-service water rate for every acre-foot of program participation without incurring current-year costs associated with the delivery of water supply, providing positive net revenues in the current budget biennium. These new revenues will help Metropolitan to achieve the Board’s approved directive to generate up to \$60 million in new, one-time revenues in Fiscal Years 2024/25 and 2025/26 and manage unrestricted cash reserves in accordance with Board approved policies. Future costs of the delivery of water supply associated with the Reverse-Cyclic Program, if applicable, will be incorporated into the revenue requirements in budget and rates for the appropriate future biennium budgets. In dry years, the difference in revenues due to increases in the full-service rate between the time of purchase and the time of delivery is anticipated to be offset with savings to Metropolitan that would accrue from having to acquire water during drought years of the pre-purchase. In wet years, the Program is

implemented when Metropolitan has water in storage and would have incurred the cost to store that water regardless of the pre-sale. Metropolitan benefits from the time value of the money by receiving revenues this year for deliveries that will be made in a future year. This program balances Metropolitan's current hydrologic and financial conditions, marked by record water storage levels and low water transaction revenues.

**Business Analysis:** The Program will generate revenues in the current budget biennium by increasing water sales revenues from pre-purchased sales. The Program will allow member agencies and Metropolitan to be able to defer and plan for the water deliveries over a future period that ensures that adequate water supplies are available and that the member agencies can take delivery of the deferred water supply.

### Option #2

None required

**Fiscal Impact:** Potential loss of full-service water sales revenue in the current budget biennium.

**Business Analysis:** Not implementing the Reverse-Cyclic Program would decrease the potential for generating new revenues in the current biennium and potentially increase costs necessary to meet demands in future dry years

### Alternatives Considered

---

None

### Applicable Policy

---

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Administrative Code Section 4209: Contracts

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

By Minute Item 43514, dated April 13, 1999, the Board adopted the Water Surplus and Drought Management Plan

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

---

By Minute Item 52707, dated February 8, 2022, the Board authorized the General Manager to enter into Reverse-Cyclic agreements with participating agencies to preserve the availability of State Water Project supplies to Metropolitan.

### Summary of Outreach Completed

---

Staff presented the potential modifications to the Reverse-Cyclic Program to the member agency managers meeting in August 2024.

Staff brought an informational report on the potential modifications to the Reverse-Cyclic Program to the One Water and Stewardship Committee in September 2024.

### California Environmental Quality Act (CEQA)

---

#### CEQA determination(s) for Option #1:

The proposed action is exempt from CEQA because it involves entering into Reverse-Cyclic agreements for the deferred delivery of surplus water at existing public or private facilities with negligible or no expansion of use and no possibility of significantly impacting the physical environment. (State CEQA guidelines Section 15301).

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

None required

## Details and Background

---

### Background

Metropolitan is currently faced with the challenge of managing water supplies while also managing a new revenue requirement in the current budget biennium. Metropolitan seeks to expand its portfolio of water management actions and programs available to address those challenges. While the back-to-back wet years have allowed Metropolitan to reach record-high dry-year storage levels, Metropolitan continues to experience low demands due to the overall cooler weather and member agency constraints such as limited capacity due to refilled reservoirs and replenishment basins. The Program is one of the approaches that can help to generate additional water sales revenues in the current budget biennium and to mitigate capacity or other restricted conditions. Staff proposes authorizing the General Manager to enter into agreements with member agencies based on the proposed modified terms described in **Attachment 1** and implementing the Program to allow all member agencies to pre-purchase a combined amount of up to 50,000 acre-feet in CY 2024 and up to 50,000 acre-feet in CY 2025 for future delivery. Allowing Reverse-Cyclic purchases will generate revenue to help meet the financial requirements of the current biennial budget.

### Board Approval of the 2022 Reverse-Cyclic Program

During the 2020-2022 drought, the Board took actions to mitigate historically low SWP allocations by authorizing programs to preserve limited SWP stored supplies. As a result, in February 2022, the Board approved the Program to allow member agencies to purchase water in CY 2022 for delivery in a future year. Member agencies paid the full-service rate in effect at the time of purchase, generating revenue that Metropolitan would not have received without the Program. Three SWP-Dependent member agencies participated in the 2022 Reverse-Cyclic Program and pre-purchased an aggregate amount of 24,661 acre-feet before the Program ended on December 31, 2022. To date, Metropolitan has completed a majority of the 2022 Reverse-Cyclic deliveries and currently has a Reverse-Cyclic balance of 2,661 acre-feet. Metropolitan expects to complete the remaining 2022 balance by December 2027.

### Member Agency and Committee Feedback on Proposed Modifications

Staff presented potential modifications to the Program to the Member Agencies Managers Meeting (“MAMM”) in August 2024. In September 2024, staff provided an introduction and overview of the proposed modifications to the One Water and Stewardship Committee. In October 2024, this item was deferred to November 2024 to provide member agencies more time to review and evaluate the Program terms. In late October, staff held a workshop with member agencies to address concerns and receive feedback on the proposed modifications. Based on the feedback received, staff has made the following changes to the proposed modifications: (1) removed the request for authorization and delegation to the General Manager for initiating the Program, (2) removed the condition for member agencies to meet a baseline prior to receiving Reverse-Cyclic deliveries, and (3) added a provision that, if member agency total interest exceeds the 100,000 acre-feet for the two authorized calendar years, staff will return to the Board to request an increase to the Reverse-Cyclic water made available for pre-purchase to meet the member agency total interest. If the demand for participation exceeds 100,000 acre-feet but the Board opts to not increase the optimization, staff will propose a methodology to distribute the authorized amount among the interested member agencies to the Board for approval.

### Proposed Modifications to the Reverse-Cyclic Program and General Terms

Staff recommends that the Board authorize the General Manager to enter into Reverse-Cyclic Program agreements with participating agencies based on modified terms from the 2022 version of the Program and initiate the Program to make up to 50,000 acre-feet available for pre-purchase in CY 2024 and up to 50,000 acre-feet in CY 2025. If member agency total demand for the Program exceeds 100,000 acre-feet, staff will return to the Board to request an increase to and allocation of the amount of water made available to the member agencies for pre-purchase for deferred delivery.

## General Terms

The following conditions will apply to the Program:

- Metropolitan and the participating member agencies will enter into individual agreements.
- Metropolitan will make up to 50,000 acre-feet available for pre-purchase in CY 2024 and up to 50,000 acre-feet available for pre-purchase in CY 2025 for deferred delivery.
- Metropolitan will bill the member agency at the full-service water rate in effect, plus the treatment charge, if applicable, at the time of the purchase.
- At the time of purchase, the member agency and Metropolitan agree to defer Metropolitan deliveries of Reverse-Cyclic water.
- Metropolitan will include the future member agency water deliveries under the Program as allocated supply under a Metropolitan Water Supply Allocation Plan implementation or any other allocation or shortage program that may be implemented.
- When Metropolitan determines water is available to deliver to participating agencies, Metropolitan will deliver water to reduce the balance of supplies deferred under the Program.
  - Metropolitan, at its sole discretion, shall determine when the water may be returned.
  - Deliveries will be negotiated based on the conditions for Metropolitan and the member agency but will not exceed five full calendar years from the date of purchase unless the Parties mutually agree to a different delivery schedule.
  - Metropolitan will make best efforts to prioritize deliveries to the member agency if there is a critical need; for example, the groundwater storage basin reaches low levels where wells are not operable, or the basin reaches emergency storage levels.
  - If Metropolitan is unable to deliver the pre-purchased water within five years due to the member agency's inability to receive the water, then losses shall be applied to the pre-purchased water at a rate of 20 percent per year. Metropolitan will not apply any losses to the pre-purchased water if the water is delivered within five years or if delivered after five years due to Metropolitan's inability to deliver the water within that time period.

## Reporting and Billing


Metropolitan regularly reports to the Board on developing supply and demand conditions through WSDM Plan reports. Staff provides these monthly reports through the winter and spring and keeps the Board apprised of developing conditions, including the potential use of storage assets and the likelihood of storing or withdrawing supplies. Implementation of the Program will be incorporated into this regular reporting.

Under the Program, Metropolitan will bill the member agency the full-service water rate plus the treatment charge, if applicable, at the time of the purchase. Under the Program, billing will occur before delivery is made, modifying the timing of billing required under Section 4507 of the Metropolitan Administrative Code (normally required at the time of delivery); all other aspects of Section 4507 will continue to apply. Member agency purchases under the Program will be part of the member agency's Revised Base Firm Demand for the year of the purchase. Metropolitan will include purchases made under this Program to determine the member agency's Readiness-to-Serve Charge at the time of purchase but will not include the purchase or delivery in the determination of the agency's Capacity Charge because the initiation of the Program and the deliveries are at Metropolitan's discretion.

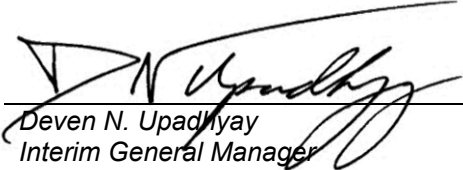
## Summary

Authorizing the General Manager to enter into agreements based on the proposed modifications to the Reverse-Cyclic Program in CY 2024 and CY 2025 would help Metropolitan generate revenue at a time of low sales by allowing all interested member agencies to pre-purchase supplies this biennium for deferred delivery in a future

year. Metropolitan will bill member agencies the full-service rate and applicable treatment charge in effect at the time of purchase. In doing so, the member agency will avoid paying the projected higher service rate that would be in place when Metropolitan makes the deferred delivery.

  
\_\_\_\_\_  
*Brandon J. Goshi*  
*Interim Manager,*  
*Water Resource Management*

11/7/2024  
*Date*

  
\_\_\_\_\_  
*Deven N. Upadhyay*  
*Interim General Manager*

11/12/2024  
*Date*

**Attachment 1 – Term Sheet Reverse-Cyclic Program**

Ref# wrm12701119

## **Term Sheet**

### **Reverse-Cyclic Program**

#### **Program Purpose**

To allow the General Manager to enter into agreements with participating member agencies to allow the pre-purchase of water supplies and defer delivery of Metropolitan Water District of Southern California's ("Metropolitan") water.

#### **Program Criteria**

- Member agency and Metropolitan will enter into a Reverse-Cyclic Program ("Program") agreement to allow for delivery deferrals of water purchased by member agencies, as provided under the Program.
- Member agency will purchase the water at the time of the deferral.
- At the time of purchase, the member agency and Metropolitan agree to defer Metropolitan deliveries of Reverse-Cyclic water.
- Metropolitan will bill the member agency at the full-service water rate in effect, plus the treatment charge if applicable, at the time of the purchase.
- Metropolitan will include member agency purchases under the Program as allocated supply under a Metropolitan Water Supply Allocation Plan implementation or any other allocation or shortage program that may be implemented.
- Water sold and delivered under the Program shall be documented and ineligible for other Metropolitan programs.

#### **Delivery**

- When Metropolitan determines water is available, Metropolitan will deliver water to the member agency to reduce the deferral balance under the Program.
  - Metropolitan, at its sole discretion, shall determine when the water may be returned.
  - Deliveries will be negotiated based on the conditions for Metropolitan and the member agency but will not exceed five full calendar years from the date of purchase unless the Parties mutually agree to a different delivery schedule.
  - Metropolitan will make best efforts to prioritize deliveries to the member agency if there is a critical need; for example, the groundwater storage basin reaches low levels where wells are not operable, or the basin reaches emergency storage levels.

- Metropolitan will not apply any losses to the pre-purchased water if the water is delivered within five years or if delivered after five years due to Metropolitan's inability to deliver the water within that time. If Metropolitan is unable to deliver the pre-purchased water within five years due to the member agency's inability to receive the water, then losses shall be applied to the pre-purchased water at a rate of 20 percent per year.

### **Program Costs**

- Metropolitan will bill the member agency at the full-service water rate in effect, plus the treatment charge if applicable, at the time of the purchase.
- Member agency purchases under the Reverse-Cyclic Program will be considered part of the member agency's Revised Base Firm Demand for the year in which the purchases are made.
- Purchases made under this program are to be included in the determination of the member agency's Readiness-to-Serve Charge at the time of purchase.
- The deliveries will not be counted towards the determination of the member agency's Capacity Charge because the deferred delivery of water will be made at Metropolitan's discretion.

### **Term**

- The Reverse-Cyclic Program Agreement shall terminate once Metropolitan completes the Reverse-Cyclic deliveries.