THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Action

- **Board of Directors**
  Finance, Affordability, Asset Management, and Efficiency Committee

10/13/2026 Board Meeting

8-3

Subject

Adopt Ordinance No. 153 determining that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of $500 million to finance a portion of capital expenditures, and waive the full reading of Ordinance No. 153 (two-thirds vote of the Board); the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The Board's adoption of Ordinance No. 153 (**Attachment 1)** would allow Metropolitan to issue an aggregate principal amount not to exceed $500 million of revenue bonds to fund a portion of board-approved capital expenditures. Approximately $490 million in revenue bond financing is anticipated for FY 2026/27 and FY 2027/28. With approximately $197.7 million of authority remaining under Ordinance No. 152, approximately $292.3 million of additional authority is needed to complete those anticipated issuances. Ordinance No. 153 would provide that authority and approximately $207.7 million of additional capacity for capital expenditures in future fiscal years, subject to subsequent board approval of specific bond issuances.

Funding a portion of capital expenditures with revenue bonds instead of exclusively using operating revenues is consistent with sound financial policy. Bond financing enables Metropolitan to (1) accelerate spending for certain projects, which can help mitigate construction cost escalation; and (2) spread large capital expenditures over time so future ratepayers share in the cost burden for capital investments (generational equity). Adopting Ordinance No. 153 is a prerequisite to the Board approving separate resolutions authorizing specific revenue bond transactions with an aggregate principal amount up to $500 million. Ordinance No. 153 does not alone authorize the issuance of any specific revenue bond.

The Metropolitan Water District Act (MWD Act) authorizes Metropolitan to finance capital expenditures through use of revenue bonds, so long as the voters within Metropolitan's service area have previously approved such a financing mechanism, and so long as the Board, by a two-thirds vote, determines that the interests of the district require use of revenue bonds to finance capital expenditures, the costs of which will be too great to be paid out of the district's ordinary annual income and revenue (operating revenues). The voters approved such a financing mechanism in 1974, and this letter proposes that the Board find that the current interests of Metropolitan require the issuance of revenue bonds to finance a portion of capital expenditures in the aggregate principal amount of $500 million.

The $500 million figure represents an estimate of revenue bond financing currently anticipated for several fiscal years. As it has in the past, the Board may also approve other capital expenditures not anticipated in the adopted budget, the capital investment plan, or the Ten-Year Financial Forecast, and capital expenditures may exceed the projections in an adopted biennial budget.

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

Staff Recommendation: Option #1

Option #1

Adopt Ordinance No. 153, determining that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of $500 million to finance a portion of Metropolitan's capital expenditures and waive the full reading of Ordinance No. 153 (two-thirds vote of the Board). (**Attachment 1.**)

Fiscal Impact: Adoption of Option #1 will have no direct financial impact to Metropolitan but will allow the Board to take future actions to finance a portion of Metropolitan's capital expenditures with revenue bonds. Future Board action is required for approval of future revenue bonds.

Business Analysis: Option #1 will enable the Board to authorize the issuance of revenue bonds, through future adoption of revenue bond resolutions, to finance future capital expenditures.

Option #2

Do not adopt Ordinance No. 153.

Fiscal Impact: Option #2 may have a negative financial impact on Metropolitan by limiting its ability to use revenue bond proceeds to fund capital expenditures. Although approximately $197.7 million of authority remains available under Ordinance No. 152, additional authority would be needed to support anticipated revenue bond financing for the current biennium and future fiscal years. Without sufficient revenue bond authority, Metropolitan may need to use additional reserves, increase water rates beyond levels projected in the Ten-Year Financial Forecast, or defer planned capital expenditures.

Business Analysis: Option #2 would reduce Metropolitan's financial flexibility by limiting its ability to use revenue bond proceeds to finance future capital expenditures beyond existing authority. Without additional authority, Metropolitan may need to defer or curtail capital projects or use other available funding sources.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Water District Act Section 63: Roll Call on Ordinances

Metropolitan Water District Act Section 64: Ordinances; Introduction; Adoption

Metropolitan Water District Act Section 65: Ordinances – Effective Date

Metropolitan Water District Act Section 123: Borrowing, Limitation

Metropolitan Water District Act Section 237: Revenue Bond Purposes. The ordinance in this item is subject to a two-thirds vote requirement.

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 54430, dated April 14, 2026, the Board approved the FY 2026/27 and FY 2027/28 biennial budget, approved appropriations and funding of capital expenditures, and approved a Ten-Year Financial Forecast.

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

Approve and authorize the distribution of Appendix A for use in the issuance and remarketing of Metropolitan's Bonds, October 13, 2026.

Adopt the Twenty-Seventh Supplemental Resolution to the Master Bond Resolution authorizing the issuance of up to $600 million of Water Revenue and Refunding Bonds, 2026 Series A; providing the terms and conditions for the sale and issuance of the Bonds; and approve expenditures to fund the costs of issuance of the Bonds, October 13, 2026.

Adopt the Fifth Supplemental Resolution to the Master Subordinate Resolution authorizing the issuance of up to $300 million of Subordinate Water Revenue Bonds, 2026 Series B; providing the terms and conditions for the sale and issuance of the Bonds; and approve expenditures to fund the costs of issuance of the Bonds, October 13, 2026.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

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

CEQA determination for Option #2

None required

Details and Background

Background

The MWD Act provides that Metropolitan may borrow money, incur indebtedness and issue bonds or other such indebtedness. The Board has utilized this method of financing since voters approved the use of long-term revenue bonds as an alternative to pay-as-you-go financing in 1974. Metropolitan has a manageable debt load, which has declined in recent years, compared to overall assets.

The MWD Act has three prerequisites for the issuance of revenue bonds, which include bonds, notes, loans or other evidences of indebtedness, to finance capital expenditures: (1) voter approval of the issuance and sale of revenue bonds; (2) the adoption of an ordinance determining that the interests of Metropolitan require the use of revenue bonds to finance a portion of capital expenditures; and (3) the adoption of a resolution authorizing the issuance of a specific series of revenue bonds. The first prerequisite was satisfied in 1974, and is discussed further below. The proposed Ordinance No. 153 would satisfy the second prerequisite to issue revenue bonds. Subsequent board action, through the adoption of revenue bond resolutions, will be required to issue revenue bonds up to the aggregate principal amount of $500 million authorized under Ordinance No. 153.

As referenced above, in 1974, the voters in Metropolitan's service area approved the use of long-term revenue bonds as an alternative to funding capital expenditures exclusively with operating revenues. Section 237 of the MWD Act requires the Board, by ordinance adopted by two-thirds of the total vote of the Board, to determine that the interests of Metropolitan require the use of revenue bonds for the statutory purposes and that the cost is too great to be paid out of Metropolitan's ordinary annual income and revenue. Section 237 provides for the use of revenue bonds for financing the acquisition, construction, or completion of capital projects "necessary or convenient to carry out the objects or purposes of the district," including "any preliminary and incidental expenses." This letter proposes that the Board determine the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of $500 million to finance a portion of capital expenditures, consistent with the current biennial budget, projected capital expenditures for the current biennial period, and the approved capital expenditure forecasts.

The adopted biennial budget anticipates financing a portion of planned capital expenditures with revenue bonds because operating revenues available for capital investment are insufficient to fund the full capital investment plan. Without revenue bonds to fund capital expenditures, Metropolitan would need to increase rates beyond projected levels, use additional available reserves, or defer planned capital expenditures. The interests of Metropolitan require the issuance of revenue bonds, as contemplated in the Board-adopted biennial budget for FY 2026/27 and FY 2027/28, to support funding of the projects in the capital investment plan and the average rate increases contemplated in the Ten-Year Financial Forecast.

A balanced approach to financing future capital expenditures with both operating revenues and revenue bond proceeds will also help mitigate increases in water rates, provide financial flexibility, and support sound revenue

bond debt service and fixed charge coverage ratios. These factors will help Metropolitan maintain strong bond credit ratings, which provide tangible benefits to ratepayers in the form of reduced debt service costs. Strong credit ratings provide better access to capital markets, lower interest rates, and better terms on a broad range of debt products. Prudent financial management policies have resulted in bond ratings of AAA from Standard & Poor's, Aa1 from Moody's, and AA+ from Fitch Ratings for Metropolitan's senior lien revenue bonds.

Ordinance No. 153 would provide the foundational authorization to allow for the Board's consideration of revenue bond issuances to finance any capital expenditures approved by the Board. The $500 million authority proposed in Ordinance No. 153 is based on an estimate of revenue bond financing anticipated for several fiscal years.

Additionally, from time to time, when expenditures are necessary or convenient to carry out the purposes of the district, the Board may approve capital expenditures other than, or in addition to, those contemplated by the then-current capital investment plan and may also approve the issuance of revenue bonds authorized by this Ordinance No. 153 to finance all or a portion of those capital expenditures.

The MWD Act requires ordinances to be introduced on a day prior to the time of the Board's adoption of the ordinance. Ordinance No. 153 was introduced at the Board's regular meeting in September. General law cities typically require the reading of the full text of an ordinance unless the full reading is waived. Following a process that is similar to a general law city, Option #1 waives the full reading of Ordinance No. 153.

Katano Kasaine 10/1/2026

Katano Kasaine *Date*
Assistant General Manager/
Chief Financial Officer

Shivaji Deshmukh 10/1/2026

Shivaji Deshmukh *Date*
General Manager

Attachment 1 – Ordinance Of The Board Of Directors Of The Metropolitan Water District Of Southern California Determining That The Interests Of The District Require The Use Of Revenue Bonds In The Aggregate Principal Amount Of $500,000,000 To Finance A Portion Of Capital Expenditures

Ref# cfo12713748

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

ORDINANCE 153

ORDINANCE OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
DETERMINING THAT THE INTERESTS OF THE DISTRICT REQUIRE THE USE OF
REVENUE BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF $500,000,000 TO
FINANCE A PORTION OF CAPITAL EXPENDITURES

The Board of Directors of the Metropolitan Water District of Southern California (the "Board") hereby finds that:

1. Pursuant to Chapter 1.6 of Part 5 of the Metropolitan Water District Act (California Statutes 1969, Chapter 209, as amended, hereinafter sometimes referred to as the "Act"), the Board of The Metropolitan Water District of Southern California (the "District"), on March 12, 1974, adopted Ordinance No. 126, calling a special election to be held within the District on June 4, 1974, for the purpose of submitting to the qualified voters of said District the following proposition:

> To permit use of long-term bonds backed by water revenues as an alternative to pay-as-you-go financing, shall the Board of Directors of the Metropolitan Water District of Southern California be authorized to issue and sell revenue bonds under Chapter 1.6, Part 5, Metropolitan Water District Act?

2. Said election was duly and regularly held and said proposition received the affirmative vote and assent of a majority of all of the qualified voters of the District voting on said proposition, and therefore the Board is authorized to issue and sell revenue bonds under Chapter 1.6 of Part 5 of the Act.

3. Revenue bonds mean bonds, notes, loans or other obligations or evidences of indebtedness, as provided for in the Act and California Government Code.

4. The ability to ensure a reliable supply of high-quality water for the District's 26 member agencies depends upon the District's ongoing ability to fund operations and maintenance, maintain and augment local and imported water supplies, fund replacements and refurbish existing infrastructure, and invest in system improvements.

5. Ordinance 152 was adopted by the Board on July 11, 2023, finding that the interests of the District require the use of revenue bonds in the aggregate principal amount of $500,000,000 to fund a portion of the District's capital investment plan expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District.

Of the $500,000,000 aggregate principal amount of revenue bonds authorized under Ordinance 152, $302.3 million have been issued to date to finance a portion of the District's capital expenditures.

6. On April 14, 2026, the Board approved a biennial budget for FY 2026/27 and FY 2027/28 containing estimated capital expenditures of approximately $467 million and $558 million, respectively. Approximately 51 percent of the FY 2026/27 capital expenditures and 45 percent of the FY 2027/28 capital expenditures, or approximately 48 percent of the capital expenditures over the combined biennium, are anticipated to be funded with debt proceeds.

7. On April 14, 2026, the Board approved a ten-year financial forecast for FY 2026/27 through FY 2035/36 (the "Ten-Year Financial Forecast"). The Ten-Year Financial Forecast projects capital expenditures of approximately $467 million in FY 2026/27 and $558 million in FY 2027/28, for a combined total of approximately $1.025 billion during the two-year period. Thereafter, projected annual capital expenditures generally increase from approximately $525 million in FY 2028/29 to approximately $684 million in FY 2035/36. A portion of the base capital expenditures in each fiscal year is anticipated to be funded with debt proceeds. The Ten-Year Financial Forecast provides estimates of future capital investment plan expenditures.

8. On April 14, 2026, the Board approved the use of approximately $385 million in operating revenues to partially fund the capital investment plan for FY 2026/27 and FY 2027/28. The capital investment plan identifies the capital priorities of the District for the fiscal years of the adopted budget.

9. In order to fully fund the capital investment plan adopted by the Board on April 14, 2026, $490 million in revenue bonds would be required in FY 2026/27 and FY 2027/28. Only $197.7 million of authority remains available under Ordinance 152. Accordingly, approximately $292.3 million of additional authority would be needed to complete the anticipated biennial bond issuances. This Ordinance 153 would provide that additional authority and approximately $207.7 million of remaining capacity for debt issued to finance capital expenditures in future fiscal years.

10. Annual capital expenditures reflected in the Ten-Year Financial Forecast range from approximately $467 million to $684 million during FY 2026/27 through FY 2035/36, a portion of which is anticipated to be funded with debt proceeds.

11. The Board may, from time to time, approve capital expenditures other than or in addition to those contemplated by the capital investment plan at the time of the then current biennial budget.

12. From time to time, capital projects that have been undertaken are delayed, redesigned or deferred by the District for various reasons.

13. This Ordinance would support future Board actions over several years to issue debt to finance capital expenditures approved by the Board in the then-current biennial budget, Capital Investment Plan, or otherwise approved by the Board; provided, however, that the aggregate principal amount of revenue bonds issued pursuant to this Ordinance shall not exceed $500,000,000.

14. Using debt to finance a portion of capital expenditures will provide the District with additional financial flexibility to fund capital expenditures necessary or convenient to carry out the purposes of the District while mitigating increases in water rates and charges.

15. This Ordinance was introduced at the regular meeting of the Board held on September 15, 2026.

NOW, THEREFORE, the Board of Directors of the District, DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

The Board hereby determines that the interests of The Metropolitan Water District of Southern California require the use of revenue bonds in an aggregate principal amount not to exceed $500,000,000 to finance a portion of the District's capital expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of an Ordinance adopted by a two-thirds (2/3) vote of the total vote of the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on October 13, 2026.

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Secretary of the Board of Directors
of the Metropolitan Water District
of Southern California