The Metropolitan Water District of Southern California

Agenda

The mission of the Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

FAAME Committee

C. Miller, Chair
D. Alvarez, VC Budget
J. Armstrong
G. Bryant
B. Dennstedt
L. Fong-Sakai
J. McMillan
M. Petersen
B. Pressman
T. Quinn
K. Seckel

Finance, Affordability, Asset Management, and Efficiency Committee - Final - Revised 1

Meeting with Board of Directors *

June 10, 2025

Tuesday, June 10, 2025 Meeting Schedule	
08:00 a.m.	FAAME
10:30 a.m.	LC
12:30 p.m.	Break
01:00 p.m.	BOD
03:00 p.m.	CWC

8:00 a.m.

Written public comments received by 5:00 p.m. the business day before the meeting is scheduled will be posted under the Submitted Items and Responses tab available here: https://mwdh2o.legistar.com/Legislation.aspx.

The listen-only phone line is available at 1-877-853-5257; enter meeting ID: 862 4397 5848.

Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via teleconference and in-person. To provide public comment by teleconference dial 1-833-548-0276 and enter meeting ID: 815 2066 4276 or to join by computer click here.

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012
Teleconference Locations:
Conference Room • 1545 Victory Boulevard • Glendale, CA 91201
Hotel Raphael, Room 308 • Largo Febo Piazza Navona • Rome, Italy
Cedars-Sinai Imaging Medical Group • 8700 Beverly Boulevard, Suite M 313 • Los Angeles, CA 90048
3008 W. 82nd Place • Inglewood, CA 90305

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* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))

**** CONSENT CALENDAR ITEMS -- ACTION ****

2. CONSENT CALENDAR OTHER ITEMS - ACTION

A. Approval of the Minutes of the Finance, Affordability, Asset Management, and Efficiency Committee Meeting for May 13, 2025 **21-4622**

Attachments: 06102025 FAAME 2A (05132025) Minutes [Revised]

B. ITEM 2B MOVED FROM CONSENT ITEM TO COMMITTEE ITEM 6b.

3. CONSENT CALENDAR ITEMS - ACTION

7-4 Authorize the General Manager to execute a funding agreement extension for support of the Colorado River Board of California, Six Agency Committee, and Colorado River Joint Powers Authority; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA **21-4602**

Attachments: 06102025 FAAME 7-4 B-L
06102025 FAAME 7-4 Presentation

7-5 Adopt a resolution declaring three parcels of real property located in the County of Riverside as exempt surplus land under the Surplus Land Act and authorize their disposal under Metropolitan's surplus land disposal policies and procedures; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [Properties located at 12000 West 14th Avenue in the City of Blythe, California and 3137 Wicklow Drive in the City of Riverside, California] **21-4598**

Attachments: 06102025 FAAME 7-5 B-L
06102025 FAAME 7-5 Presentation

7-6 Approve Metropolitan's Statement of Investment Policy for fiscal year 2025/26, delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [REVISED SUBJECT on 6/4/2025] **21-4599**

Attachments: 06102025 FAAME 7-6 B-L
06102025 FAAME 7-6 Presentation

7-7 Approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for fiscal year 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA **21-4600**

Attachments: 06102025 FAAME 7-7 B-L
06102025 FAAME 7-7 Presentation

7-8 Authorize the amendment of an existing license agreement with Duke Realty Corporation to adjust the license fee and extend the term for up to twenty additional years, thereby allowing continued ingress and egress rights across Metropolitan's Colorado River Aqueduct right of way in Perris, California; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA **21-4597**

Attachments: 06102025 FAAME 7-8 B-L
06102025 FAAME 7-8 Presentation

7-9 Authorize an amendment to the LRP Agreement to extend the start-of-operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase I Project; adopt CEQA determination that the proposed action was previously addressed in the City of Oceanside's adopted 2018 Final MND and Addendum and Olivenhain Municipal Water District's certified 2015 Final PEIR and Addendum and that no further CEQA review is required [REVISED SUBJECT on 6/5/2025] **21-4667**

Attachments: 06102025 FAAME 7-9 B-L
06102025 FAAME 7-9 Presentation

7-10 Adopt a resolution declaring approximately 5,497 acres of Metropolitan-owned real property in the Sacramento-San Joaquin Delta, commonly known as Webb Tract, also identified as Contra Costa County Assessor Parcel Numbers: 026-070-001-8, 026-080-006-5, 026-080-009-9, 026-080-007-3, 026-080-008-1, 026-080-004-0, 026-008-005-7, 026-070-006-7, 026-070-013-3, 026-070-012-5, 026-070-011-7, 026-070-010-9, 026-060-019-2, 026-060-018-4, 026-060-008-5, 026-090-007-7, 026-060-003-6, 026-060-015-0, 026-060-016-8, 026-060-017-6, and 026-060-005-1 as exempt surplus land under the Surplus Land Act; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA **21-4606**

Attachments: 06102025 FAAME 7-10 B-L

**** END OF CONSENT CALENDAR ITEMS ****

4. OTHER BOARD ITEMS - ACTION

8-1 Authorize a new agricultural lease agreement with Bouldin Farming Company for rice farming and related uses on portions of Metropolitan-owned real property in the Sacramento-San Joaquin Bay Delta known as Webb Tract; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [Conference with real property negotiators; properties totaling approximately 2,159 gross acres in the area commonly known as Webb Tract, also identified as Contra Costa County Assessor Parcel Numbers: 026-070-001-8, 026-080-006-5, 026-080-009-9, 026-080-007-3, 026-080-008-1, 026-080-004-0, 026-008-005-7; agency negotiators: Steven Johnson, Kevin Webb, and Kieran Callanan; negotiating parties: John Winther dba Bouldin Farming Company; under negotiation: price and terms; to be heard in closed session pursuant to Government Code Section 54956.8] **21-4601**

Attachments: 06102025 FAAME 8-1 Presentation Open Session

5. BOARD INFORMATION ITEMS

9-5 Overview of Potential Business Model Financial Refinements **21-4661**

Attachments: 06102025 FAAME 9-5 B-L
06102025 FAAME 9-5 Presentation

6. COMMITTEE ITEMS

a. Overview of potential drivers of the next biennium budget **21-4627**

Attachments: 06102025 FAAME 6a Presentation

b. Consider Termination of the Subcommittee on Long-Term Regional Planning Processes and Business Modeling **21-4625**

7. MANAGEMENT ANNOUNCEMENTS AND HIGHLIGHTS

a. Finance, Affordability, Asset Management, and Efficiency activities **21-4624**

Attachments: 06102025 FAAME 7a Report
06102025 FAAME 7a Presentation

8. FOLLOW-UP ITEMS

NONE

9. FUTURE AGENDA ITEMS

10. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Committee agendas may be obtained on Metropolitan's Web site https://mwdh2o.legistar.com/Calendar.aspx. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site https://mwdh2o.legistar.com/Calendar.aspx.

Requests for a disability-related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

Revised 6/2/2025

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

FINANCE, AFFORDABILITY, ASSET MANAGEMENT, AND EFFICIENCY COMMITTEE

May 13, 2025

Chair Miller called the meeting to order at 8:33 a.m.

Members present: Directors Alvarez, Armstrong (AB2449 just cause), Bryant, Dennstedt (teleconference posted location), McMillan (teleconference posted location), Miller, Petersen, Pressman (entered after roll call), Quinn, and Seckel.

Members absent: Director Fong-Sakai.

Other Board Members present: Ackerman (teleconference posted location), Camacho, DeJesus (teleconference posted location), Erdman (teleconference posted location), Faessel, Garza (teleconference posted location), Goldberg, Gray (teleconference posted location), Katz, Kurtz, Lewitt, Luna (AB2449 just cause), McCoy, Ortega, and Shepherd Romey.

Director Armstrong indicated he was participating under AB2449 just cause due to a contagious illness. Director Armstrong appeared by audio and on camera.

Director Luna indicated he was participating under AB2449 just cause due to a contagious illness. Director Luna appeared on camera.

Committee Staff present: Benson, Crosson, Kasaine, Quilizapa, Rubin, Upadhyay, and Williams.

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

None

CONSENT CALENDAR ITEMS - ACTION

2. CONSENT CALENDAR OTHER ITEMS-ACTION

A. Subject: Approval of the Minutes of the Finance, Affordability, Asset Management, and Efficiency Committee Meeting for April 8, 2025

3. CONSENT CALENDAR -ACTION

7-5 Subject: Approve and authorize the distribution of Appendix A for use in the issuance and remarketing of Metropolitan's Bonds; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Motion: Approve the draft of Appendix A **(Attachment 1)** attached to this board letter.

Presented By: Sam Smalls, Manager of Treasury and Debt Management

Ms. Kasaine introduced the item, followed by a presentation from Mr. Smalls summarizing the distribution of Appendix A for use in the issuance and remarketing of Metropolitan bonds. His presentation provided background information on the Appendix A update process, the Board's review and approval procedures, and key highlights of the recent updates. He concluded by outlining anticipated future updates to Appendix A.

After completion of the presentation, Director Seckel made a motion, seconded by Director Bryant, to approve the consent calendar consisting of items 2A, and 7-5 option 1.

The vote was:

Ayes:	Directors Alvarez, Armstrong, Bryant, Dennstedt, McMillan, Miller, Petersen, Quinn, and Seckel.
Noes:	None
Abstentions:	Director Quinn (item 2A)
Absent:	Directors Fong-Sakai, and Pressman.

The motion for item 2A passed by a vote of 8 ayes, 0 noes, 1 abstain, and 2 absent.

The motion for item 7-5 passed by a vote of 9 ayes, 0 noes, 0 abstentions, and 2 absent.

Director Armstrong stated he was alone in the room for his vote.

END OF CONSENT CALENDAR ITEMS

4. OTHER BOARD ITEMS – ACTION

8-2 Subject: Adopt CEQA determination that the proposed action was previously addressed in the adopted 2017 Mitigated Negative Declaration, Addenda Nos. 1, 2 and 3 and related CEQA actions; and adopt resolution that (1) authorizes the execution and delivery of an amended and restated agreement between Antelope Valley-East Kern Water Agency and Metropolitan for the High Desert Water Bank Program, (2) approves the project financing, and (3) authorizes the General Manager and the Assistant General Manager/Chief Financial Officer and Treasurer to negotiate, execute, and deliver various related agreements and documents.

Motion: Adopt CEQA determination that the proposed action was previously addressed in the adopted 2017 Mitigated Negative Declaration, Addenda Nos. 1, 2 and 3 and related CEQA actions; and adopt a resolution that: (1) authorizes the execution and delivery of an amended and restated agreement between Antelope Valley East Kern Water Agency and Metropolitan for the High Desert Water Bank Program, (2) approves the project financing, and (3) authorizes the General Manager and the Assistant General Manager/Chief Financial Officer and Treasurer to negotiate, execute, and deliver various related agreements and documents.

Presented By: Sam Smalls, Manager of Treasury and Debt Management

Ms. Kasaine introduced the item, followed by a presentation from Mr. Smalls, who provided background on the item and an overview of the proposed resolution. He also outlined the project's financing strategy, including the HDWB interim financing plan, and concluded with a summary of the next steps.

The following Directors provided comments or asked questions:

1. Quinn
2. Dennstedt
3. Miller
4. Lewitt
5. Ortega
6. Petersen

Staff responded to the Directors' comments and questions.

After completion of the presentation, Director Bryant made a motion, seconded by Director Seckel, to approve item 8-2 option 1.

The vote was:

Ayes:	Directors Alvarez, Armstrong, Bryant, Dennstedt, McMillan, Miller, Pressman, Quinn, and Seckel.
Noes:	None
Abstentions:	None
Absent:	Directors Fong-Sakai, and Petersen.

The motion for item 8-2 passed by a vote of 9 ayes, 0 noes, 0 abstentions, and 2 absent.

Director Armstrong stated he was alone in the room for his vote.

Director Katz recused himself from Item 8-3 due to a financial interest, as he holds stock in Bank of America. He indicated that he would leave the room during the discussion of this item.

Director Erdman recused himself from Item 8-3 due to a financial interest, as he holds stock in Bank of America. He indicated that he would leave the room during the discussion of this item.

Director Faessel recused himself from Item 8-3 due to a financial interest, as he holds stock in Bank of America. He indicated that he would leave the room during the discussion of this item.

8-3	Subject:	Adopt a resolution authorizing a master equipment lease-purchase program of up to $35 million outstanding balance from time to time and providing for related documents and actions; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA
	Motion:	Adopt a resolution authorizing a master equipment lease-purchase program of up to $35 million outstanding balance from time to time and providing for related documents and actions and set up an ad hoc committee to direct communications with the California Air Resources Board regarding Electric Vehicle regulations and Metropolitan's role as an emergency responder. (revised 6/2/2025)
	Presented By:	Sam Smalls, Manager of Treasury and Debt Management

Ms. Kasaine introduced the item, followed by a presentation from Mr. Smalls. He provided background information and an overview of the proposed resolution, then discussed the Master Lease Purchase Program, including its structure and indicative interest rates. He concluded with a summary of the next steps.

The following Directors provided comments or asked questions:

1. Miller
2. Camacho
3. Dennstedt
4. Seckel

Staff responded to the Directors' comments and questions.

After completion of the presentation, Director Bryant made a motion, seconded by Director Seckel, to approve the item 8-3, amended option 1.

The vote was:

Ayes:	Directors Alvarez, Armstrong, Bryant, Dennstedt, McMillan, Miller, Pressman, Quinn, and Seckel.
Noes:	None
Abstentions:	None
Not Voting	None
Absent:	Directors Fong-Sakai, and Petersen.

The motion for item 8-3 (amended) passed by a vote of 9 ayes, 0 noes, 0 abstentions, and 2 absent.

Director Armstrong stated he was alone in the room for his vote.

8-4	Subject:	Adopt resolution to continue Metropolitan's Water Standby Charge for fiscal year 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA
	Motion:	Adopt resolution to continue Metropolitan's Water Standby Charge for fiscal year 2025/26.
	Presented By:	Nancy Warfel, Senior Resource Specialist

No presentation was requested.

Director Seckel made a motion, seconded by Director Bryant, to approve 8-4 option 1.

The vote was:

Ayes:	Directors Alvarez, Armstrong, Bryant, Dennstedt, McMillan, Miller, Pressman, Quinn, and Seckel.
Noes:	None
Abstentions:	None
Absent:	Directors Fong-Sakai, and Petersen.

The motion for item 8-4 passed by a vote of 9 ayes, 0 notes, 0 abstentions, and 2 absent.

Director Armstrong stated he was alone in the room for his vote.

5. BOARD INFORMATION ITEMS

9-4	Subject:	Renewal Status of Metropolitan's Property and Casualty Insurance Program

No presentation given.

6. COMMITTEE ITEMS

a.	Subject:	Quarterly Investment Activities Report
	Presented By:	Sam Smalls, Manager of Treasury and Debt Management

Mr. Smalls reported on the following:

- Portfolio Overview Credit Quality
- Portfolio Overview Sector Allocation
- Portfolio Overview Statistics
- Portfolio Statistics: Liquidity and Core Segments

The following Directors provided comments or asked questions:

1. Seckel
2. Miller

Staff responded to the Directors’ comments and questions.

b. Subject: Bond Financing Overview (SB 450)

Presented By: Sam Smalls, Manager of Treasury and Debt Management

Mr. Smalls reported on the following:

- SB 450 Requirements
- 2025 Series A Proposed Bond Issuance
- Estimated SB 450 Requirements for the 2025 Series A Proposed Bond Issuance
- Proposed Bond Issuance

The following Directors provided comments or asked questions:

1. Miller

Staff responded to the Directors' comments and questions.

c. Subject: Quarterly Financial Report

Presented By: Khanh Phan-Unit Manager-Rates, Charges & Financial Planning

Ms. Phan reported on the following:

- 3rd Quarter Financial Results and Forecast
- Water transactions
- Update on FY 2024/25 Revenue Generation
- Unaudited Basic Financial Statements

The following Directors provided comments or asked questions:

1. Armstrong
2. Miller
3. Alvarez

Staff responded to the Directors' comments and questions.

d. Subject: Overview of potential drivers of the next biennium budget

Presented By: Adam Benson, Group Manager for Finance and Administration

Mr. Benson reported on the following:

- Financial Challenges and Potential Cost Drivers
- Current Budget and 10-yr Financial Forecast
- Pure Water Southern California (PWSC)
- Funding Zero Emission Vehicle (ZEV)

The following Directors provided comments or asked questions:

1. Quinn
2. Alvarez
3. Miller
4. Ortega
5. Katz
6. Bryant

Staff responded to the Directors' comments and questions.

7. MANAGEMENT ANNOUNCEMENTS AND HIGHLIGHTS

a. Subject: Financial, Affordability, Asset Management, and Efficiency activities

No report was given.

8. SUBCOMMITTEE REPORTS AND DISCUSSION

a. Subject: Report from Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Director Seckel updated the committee on items discussed at the April 22, 2025, Subcommittee meeting

b. Subject: Discuss and provide direction to Subcommittee on Long Term Regional Planning Processes and Business Modeling

No direction was given.

9. FOLLOW-UP ITEMS

None

10. FUTURE AGENDA ITEMS

Directors Seckel and Bryant requested a Board workshop or series of workshops be schedule. Board Chair Ortega responded that this was already being planned.

11. ADJOURNMENT

The meeting adjourned at 11:09 a.m.

C. Martin (Marty) Miller
Chair

Board Action

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

6/10/2025 Board Meeting

7-4

Subject

Authorize the General Manager to execute a funding agreement extension for support of the Colorado River Board of California, Six Agency Committee, and Colorado River Joint Powers Authority; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Staff is requesting authorization for the General Manager to execute a one-year extension to the current Six Agency Committee (SAC) cost-sharing agreement, which funds the Colorado River Board of California (CRB). California established the CRB in 1937 to protect the interests and rights of the state of California with respect to the water and power resources of the Colorado River system. Metropolitan and five other members of the CRB (also known as the SAC) make annual cost-sharing payments to the CRB to fund its operations, studies, and special projects. Typically, those six agencies also fund the Colorado River Joint Powers Authority (Authority), which advances California's interests in Colorado River water and power through educational and informational campaigns. The current agreement expires on June 30, 2025. The Board previously authorized payment for FY 2025/26 as part of the budget biennium. This action does not modify previously approved payments.

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

Staff Recommendation: Option #1

Option #1

Authorize a one-year extension to the funding agreement for support of the CRB, SAC, and Authority.

Fiscal Impact: None
Business Analysis: Allows Metropolitan to provide authorized payments to the CRB, SAC, and Authority.

Option #2

Do not authorize a one-year extension to the funding agreement for support of the CRB, SAC, and Authority.
Fiscal Impact: None
Business Analysis: Requires Metropolitan to renegotiate the cost-sharing formula and potentially seek additional board authorization to make payments to the CRB, SAC, and Authority.

Alternatives Considered

None

Applicable Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Administrative Code Section 11102: Payment of Dues

Metropolitan Water District Administrative Code Section 11103: Participation in Projects or Programs Serving District Purposes

Metropolitan Water District Act Section 126: Dissemination of Information (subject to a two-thirds vote requirement)

By Minute Item 40277, dated June 15, 1993, the Board authorized amending the May 13, 1947, agreement to provide for the appointment of alternate representatives on the Colorado River Association Six Agency Committee.

By Minute Item 46291, dated July 12, 2005, the Board authorized an agreement to create the Colorado River Joint Powers Authority.

By Minute Item 46310, dated July 12, 2005, the Board approved the new funding arrangement for the Colorado River Board based on the proposed cost-sharing percentage.

By Minute Item 50166, dated June 9, 2015, the Board approved executing the Six Agency Committee agreement's amendment to extend the cost-sharing formula through June 30, 2020.

By Minute Item 52019, dated June 9, 2020, the Board approved executing the Six Agency Committee agreement's amendment to extend the cost-sharing formula through June 30, 2025.

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

At the June 10, 2024, One Water Stewardship Committee and the June 11, 2024, Board of Directors meeting, Item 8-2 was approved, authorizing the General Manager to make payment of up to $1,023,408 to the CRB, SAC, and Authority for fiscal year 2025/26.

California Environmental Quality Act (CEQA)

CEQA determination(s) for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)).

CEQA determination(s) for Option #2:

None required

Details and Background

Background

Cost-Sharing Agreement Historical Changes

The CRB was established by the State of California by Act of its Legislature on July 1, 1937, to protect the interests and rights of the State of California with respect to the water and power resources of the Colorado River system. On January 5, 1950, the six agencies with original contracts for Colorado River water in California were interested in protecting their use of Colorado River water and power and entered into the first cost-sharing agreement.

At the inception of the CRB, the State fully funded its operation through the General Fund, but over time, the level of state funding has been reduced and eliminated altogether. Since the first funding agreement between the six agencies was entered into in 1950, there have been multiple amendments that have changed the cost-sharing percentages between the agencies. The history of changes in the cost-sharing percentages is shown in the following table.

Agency	January 5, 1950, Agreement	September 6, 1961, Amendment	August 11, 1980, Amendment	August 1, 2005, Amendment (July 1, 2005 – June 30, 2007)	August 1, 2005, Amendment (July 1, 2007 – June 30, 2010)
	Cost Share Proportion (%)				
Palo Verde Irrigation District (PVID)	1.00	1.00	3.20	5.00	5.00
Coachella Valley Water District (CVWD)	1.00	5.00	10.00	16.25	16.25
San Diego County Water Authority (SDCWA)	2.00	2.00	3.00	8.00	10.00
Imperial Irrigation District (IID)	20.00	19.00	19.00	28.75	28.75
Metropolitan Water District of Southern California (MWD)	46.00	44.50	44.40	32.00	32.00
Los Angeles Department of Water and Power (LADWP)	30.00	28.50	20.40	10.00	8.00

From 1950 to 2005, the cost-sharing percentages for MWD and LADWP decreased while they increased for IID, CVWD, PVID, and SDCWA.

In 2005, it was agreed that half of the funding would be contributed by the agricultural districts (PVID, IID, and CVWD) while the remaining half would come from the municipal water districts (SDCWA, MWD, and LADWP). On August 1, 2005, an amendment was signed by the six agencies to set up a new funding arrangement for the CRB, that has been in place since 2005, with the only change being in 2007 when the relative percentages for SDCWA and LADWP were swapped, bringing SDCWA's share to 10 percent and LADWP's to 8 percent.

Previous Cost-Sharing Agreement

Since the August 1, 2005, amendment expired on June 30, 2010, the agencies comprising the SAC have negotiated and renewed the cost-sharing agreement every five years with no changes. The cost-sharing percentages in the current agreement entered into on July 1, 2020, and terminating on June 30, 2025, are still the same as the last column in the table above.

New Cost-Sharing Agreement Terms

This agreement extends the funding percentages for the CRB, SAC, and the Authority for the next year at the same proportions as the July 1, 2020, amendment. However, there is a desire among the six agencies to explore alternative funding opportunities and to negotiate new cost-sharing percentages. The SAC has committed to working together over the next year to explore possible funding from the state and other partners and to develop new cost-sharing percentages, with the goal of having a new cost-sharing agreement for the period of July 1, 2026, to June 30, 2030.

The total funding requests will vary each year of the agreement based on the overall CRB and SAC budgets. A 2025/26 fiscal year payment of $1,023,408 was previously approved by the Board on June 11, 2024. Therefore, there is no budget impact associated with a one-year extension of the funding agreement for the CRB, SAC, and Authority. Staff will come back to the Board for authorization for future funding requests.

5/30/2025

Brandon J. Goshi *Date*
Manager, Water Resource Manager

5/30/2025

Deven N. Upadhyay *Date*
General Manager

Finance, Affordability, Asset Management & Efficiency Committee

Authorize the General Manager to Execute a Funding Agreement Extension for Support of The Colorado River Board of California, Six Agency Committee, and Colorado River Joint Powers Authority

Item 7-4

June 10, 2025

Item 7-4

Authorize Funding Agreement Extension For Support of The Colorado River Board, Six Agency Committee, and Colorado River Authority

Subject

Authorize the General Manager to Execute a Funding Agreement Extension for Support of The Colorado River Board of California, Six Agency Committee, and Colorado River Joint Powers Authority

Purpose

To Extend the Current Provisions of The Funding Agreement Between The Members of The Six Agency Committee for FY 25/26

Recommendation and Fiscal Impact

Authorize the General Manager to extend the Funding Agreement for FY 25/26. No fiscal impact. The Board previously authorized payment for FY25/26.

Colorado River Board of California Responsibilities

STATE OF CALIFORNIA COLORADO RIVER BOARD

Summary of Responsibilities

- California's official representative to the Basin States and the United States
- Protects California's interests in water and power
- Provides a unified voice in negotiations

Funding Agencies of the Colorado River Board of California

STATE OF CALIFORNIA COLORADO RIVER BOARD

- Coachella Valley Water District (CVWD)
- Palo Verde Irrigation District (PVID)
- Imperial Irrigation District (IID)
- Los Angeles Department of Water & Power (LADWP)
- Metropolitan Water District of Southern California (MWD)
- San Diego County Water Authority (SDCWA)

Funding Pathway

1937

Founding of the CRB (Fully State Funded)

January 1950

First SAC Funding Agreement

August 2005

SAC Funding Agreement Amended (50/50 Ag./Urbn.)

June 2025

Seeking one-year agreement extension

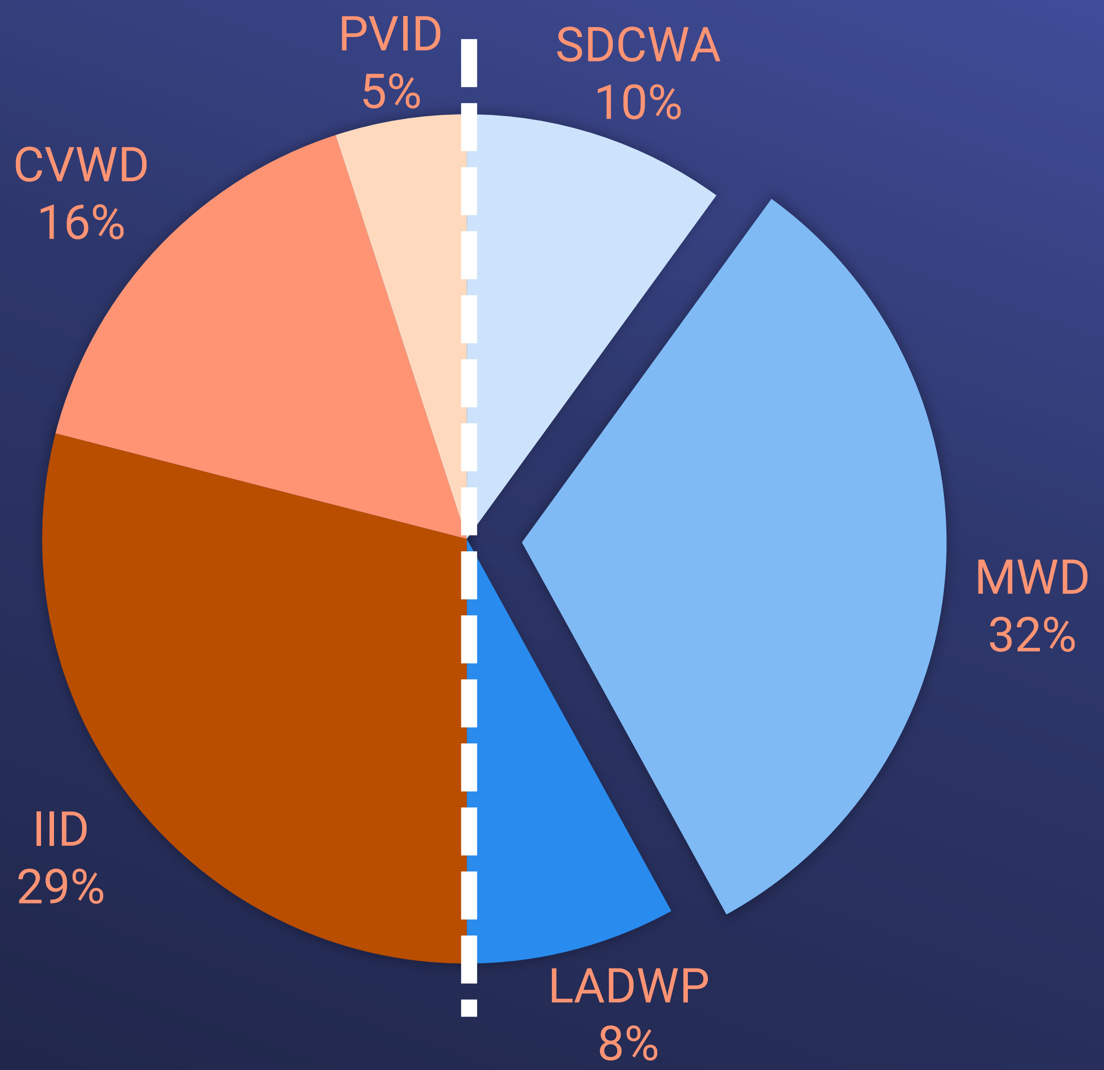
July 2026

Goal: Adopt new funding agreement

Timeline of Funding Changes

Cost-Sharing Agreement Among Six Agency Members

Total: $3,012,000 (FY 25/26)



Cost-Sharing Agreement

STATE OF CALIFORNIA
COLORADO RIVER BOARD

Options

Staff Recommendation

- Option #1
  Authorize a one-year extension to the funding agreement for support of the CRB, SAC, and Authority.

- Option #2
  Do not authorize a one-year extension to the funding agreement for support of the CRB, SAC, and Authority.

Cost-Sharing Agreement Among Six Agency Members

History of Cost-Sharing Agreement

STATE OF CALIFORNIA
COLORADO RIVER BOARD

Agency	January 5, 1950, Agreement	September 6, 1961, Amendment	August 11, 1980, Amendment	August 1, 2005, Amendment (July 1, 2005 - June 30, 2007)	August 1, 2005, Amendment (July 1, 2007 - June 30, 2010)
	Cost Share Proportion (%)				
Palo Verde Irrigation District (PVID)	1.00	1.00	3.20	5.00	5.00
Coachella Valley Water District (CVWD)	1.00	5.00	10.00	16.25	16.25
San Diego County Water Authority (SDCWA)	2.00	2.00	3.00	8.00	10.00
Imperial Irrigation District (IID)	20.00	19.00	19.00	28.75	28.75
Metropolitan Water District of Southern California (MWD)	46.00	44.50	44.40	32.00	32.00
Los Angeles Department of Water and Power (LADWP)	30.00	28.50	20.40	10.00	8.00

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

6/10/2025 Board Meeting

7-5

Subject

Adopt a resolution declaring three parcels of real property located in the County of Riverside as exempt surplus land under the Surplus Land Act and authorize their disposal under Metropolitan's surplus land disposal policies and procedures; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [Properties located at 12000 West 14th Avenue in the City of Blythe, California and 3137 Wicklow Drive in the City of Riverside, California]

Executive Summary

Under the California Surplus Land Act (Government Code Section 54220, et seq.) and the Metropolitan Administrative Code, the sale or lease of excess properties or land requires a board declaration that the land is "surplus land" or "exempt surplus land" as supported by written findings before Metropolitan may dispose of such land consistent with Metropolitan's policies and procedures.

Metropolitan owns three residential properties, totaling approximately 6 acres located in the County of Riverside (**Attachment 1**) that were deemed by staff to be in excess of Metropolitan's current and future foreseeable needs. Staff recommends that the Board adopt the resolution **(Attachment 2)** declaring the properties to be exempt surplus land and direct staff to take necessary actions to sell or otherwise dispose of those properties.

Proposed Action/Recommendation and Options

Staff Recommendation: Option #1

Option #1

Adopt a resolution declaring three parcels of real property located in the County of Riverside as exempt surplus land under the Surplus Land Act and authorize their disposal under Metropolitan's surplus land disposal policies and procedures.

Fiscal Impact: Once the properties are disposed of by sale, Metropolitan will receive revenue less disposition expenses at the close of escrow.
Business Analysis: The properties are surplus to Metropolitan's operational and developmental needs.

Option #2

Do not surplus the properties and retain ownership and property management obligations for those properties.
Fiscal Impact: Continued ownership expenses associated with property management, maintenance and security to be incurred indefinitely without offsetting water supply, employee housing or tenant revenue benefits.
Business Analysis: Metropolitan continues its fee ownership of unused properties and remains exposed to trespassing issues and maintenance expenses.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code §§ 8240-8258 (Disposal of Real Property)

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 44542, dated July 10, 2001, the Board approved Principles of Agreement for a Land Management, Crop Rotation, and Water Supply Program with Palo Verde Irrigation District.

By Minute Item 45053, dated October 22, 2002, the Board authorized entering into agreements for the Palo Verde Irrigation District Land Management, Crop Rotation, and Water Supply Program and community improvement programs.

By Minute Item 48766, dated August 16, 2011, the Board adopted the proposed policy principles for managing Metropolitan's real property assets.

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

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is exempt from CEQA because it consists of sales of surplus government property, and the parcels are not located in an area of statewide, regional, or areawide concern identified in CEQA Guidelines Section 15206(b)(4). (State CEQA Guidelines Section 15312.)

CEQA determination for Option #2:

None required

Details and Background

Background

Metropolitan owns over 211,700 acres of right-of-way comprised of approximately 175,000 acres of fee property and approximately 36,700 acres of easement and water rights across 12 counties in California. These properties are held for current and future planned uses related to the conveyance, storage, and treatment of water and for environmental mitigation and water conservation purposes. The manner in which Metropolitan achieves its mission of providing adequate and reliable supplies of high-quality water evolves over time. Metropolitan's land requirements adjust in tandem with the evolution of Metropolitan's operations and uses.

Under the Metropolitan Administrative Code and the California Surplus Land Act, excess land that is owned in fee simple by Metropolitan may be disposed of only after the Board takes formal action in a regular public meeting declaring the land as exempt surplus or surplus land and not necessary for Metropolitan's use. To support this process, Metropolitan's Land Management Unit performs a periodic evaluation of fee-owned real property pursuant to Metropolitan Administrative Code Section 8240 for the purpose of determining which properties may have become excess to Metropolitan's current and foreseeable operational requirements and other needs.

Basis for Findings that the Properties are Exempt Surplus Land

Two of the subject residential properties were part of Metropolitan's acquisition of approximately 12,819 acres of land from Verbena LLC in the Palo Verde Valley (PVV) in 2015. Metropolitan made this portfolio land purchase to protect and augment its Colorado River supplies through the promotion and support of water-efficient farming and agricultural activity and to acquire landowner water management and fallowing rights. These lands were mainly made up of agricultural holdings but also included two residential properties within the City of Blythe.

Metropolitan's Geodetics staff initially occupied one of the identified PVV properties for several years while surveying the newly acquired properties. Upon completion of the surveys, Geodetics staff vacated the property, and no other use has been identified. The other PVV property has no planned Metropolitan use and was always identified as a property for potential future disposal. The two PVV properties are adjacent to each other and located at 12000 West 14th Avenue, Blythe, CA 92225(Riverside County Assessor Parcel Numbers 824-200-045 and 824-200-050.) The first property is made up of 2.42 acres, while the second property is made up of 3.37 acres.

The third subject residential property, which is located in the City of Riverside, was acquired in May 1999 to house an on-call emergency responder for Metropolitan's Lake Mathews Facility. The property is located at 3137 Wicklow Drive, Riverside, CA 92503 (Riverside County Assessor Parcel Number 136-211-023), and it comprises 0.17 acres. The need for extensive repairs and a deterioration of the surrounding neighborhood led to the relocation of the emergency responder to a single-family residence in Riverside that is currently under lease to Metropolitan. This leased property is located within a nearby community that is gated and therefore does not have the neighborhood safety and security concerns of the Metropolitan-owned residence. The leased residence presents a more cost-effective solution to house Metropolitan's emergency responders than Metropolitan-owned and maintained housing in this area.

After extensive evaluation by the operational, water resource management and other teams of Metropolitan, staff considers the three properties to be excess to Metropolitan's needs and recommends that the properties be declared exempt surplus land and sold to generate revenue for Metropolitan to offset operational costs. Benefits of declaring the land surplus and disposal of the subject properties would include the elimination of maintenance and security expenses as well as the avoidance of trespass and nuisance abatement issues associated with any unlawful activities on the properties.

Disposal Process

The Metropolitan Administrative Code and the Surplus Land Act require the Board to make a written surplus or exempt surplus declaration of land prior to its disposal by way of sale or long-term lease. Department of Housing and Community Development (HCD) guidelines require the submission of such written findings and other documentation at least 30 days prior to disposition. The resolution provided as part of this Board action documents such findings and satisfies other legal requirements.

After this process, Metropolitan's Administrative Code allows for the disposal of property by auction, open listing, and other means that accrue the highest sale price. Staff requests authority to satisfy all requirements related to the disposal of surplus property and to begin the disposition process in accordance with Metropolitan's policies and procedures.

6/3/2025

Elizabeth Crosson *Date*
Chief Sustainability, Resilience and Innovation Officer

6/3/2025

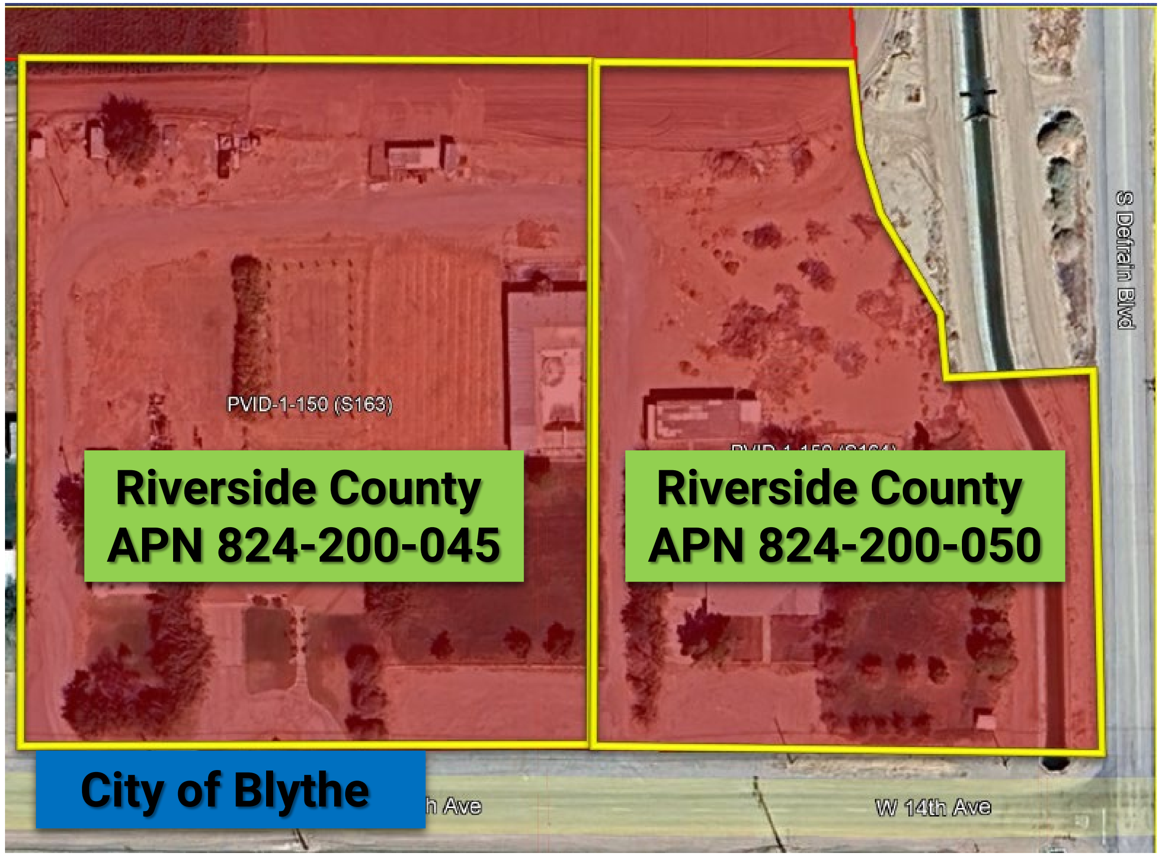
Deven Upadhyay *Date*
General Manager

Attachment 1 – Location Map

Attachment 2 – Resolution

Ref# sri12700161


Riverside County APN 136-211-023
140-18-100 (S000)
3137 Wicklow Dr
Wicklow Dr
City of Riverside


S Defrain Blvd
PVID-1-150 (S163)
Riverside County APN 824-200-045
Riverside County APN 824-200-050
City of Blythe
W 14th Ave

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION NO. __________

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA DECLARING THREE PARCELS OF REAL PROPERTY LOCATED IN THE COUNTY OF RIVERSIDE AS EXEMPT SURPLUS LAND UNDER THE SURPLUS LAND ACT AND AUTHORIZING THEIR DISPOSAL

WHEREAS, the Metropolitan Water District of Southern California ("Metropolitan") is the fee owner of certain real property at 12000 West 14th Avenue in the City of Blythe, California (Riverside County Assessor Parcel Nos. 824-200-045 and 824-200-050) and 3137 Wicklow Drive in the City of Riverside, California (Riverside County Assessor Parcel Nos. 136-211-023) (referred to collectively herein as the "Properties");

WHEREAS, Metropolitan is a metropolitan water district created under the authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended) (the "Act") which authorizes Metropolitan amongst other things to buy and sell interests in real property and to spend funds to: facilitate water conservation, water recycling, and groundwater recovery efforts in a sustainable, environmentally sound, and cost-effective manner; acquire water and water rights within or without the state; develop, store, and transport water; provide, sell, and deliver water at wholesale for municipal and domestic uses and purposes; and acquire, construct, operate, and maintain any and all works, facilities, improvements, and property necessary or convenient to the exercise of such powers;

WHEREAS, pursuant to Section 54221(b)(1) of the Surplus Land Act (California Government Code Sections 54220 – 54234) and the Surplus Land Act Guidelines of the California Department of Housing and Community Development, the Board of Directors of Metropolitan (the "Board") must declare the Properties to be "surplus land" or "exempt surplus land" before Metropolitan may take any action to dispose of the Properties, whether by sale or long term lease;

WHEREAS, Government Code Section 54221(f)(1)(N) defines "exempt surplus land" to include real property that is used by a district for agency's use expressly authorized in Government Code Section 54221(c); and

WHEREAS, Section 54221(c)(2) of the Government Code provides that "agency's use" may also include commercial or industrial uses or activities, including nongovernmental retail, entertainment or office development, or be for the sole purpose of investment or generation of revenue if the agency's governing body takes action in a public meeting declaring that the use of the site will directly further the express purpose of agency work or operations.

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

Section 1. Recitals. The recitals set forth above are true and correct and are incorporated into this Resolution by this reference and are made a part of the official findings of the Board of Directors.

Section 2. Board Findings. The Properties are "exempt surplus land" pursuant to California Government Code Section 54221(f)(1)(N) and 54221(c)(2) because the sale of the listed properties would constitute an "agency use" for purposes of the Surplus Land Act, under the grounds set forth in the recitals of this resolution and the board letter accompanying this resolution and incorporated herein by reference. In particular, the sale or disposal of all the Properties would generate revenues that can be used to directly further the water transportation, storage, treatment, delivery of water, and other statutory purposes of Metropolitan and the acquisition, construction, operation and maintenance of public works, facilities, improvements, and property necessary or convenient to the exercise of such powers. The sale of the Properties within the City of Blythe would also further agency purposes and policies by increasing the stock of agricultural workforce housing and commercial parcels available to support water-efficient farming in the region, directly furthering the Colorado River and water conservation policies and plans adopted by the Board and supporting the agricultural economy and local community within the Palo Verde Valley. The sale of the Properties within the City of Riverside would also further agency purposes and policies by increasing the stock of workforce housing available to support water district and water supply purposes.

Section 3. Staff Authorizations. Metropolitan staff is hereby authorized to provide the Department of Housing and Community Development ("HCD") all necessary documentation and to take such actions as deemed necessary or proper to effectuate the purposes of this Resolution and to dispose of the Properties in accordance with Metropolitan's policies and procedures.

I HEREBY CERTIFY, that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on June 10, 2025.

____

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

Finance, Affordability, Asset Management and Efficiency Committee

Declare Three Parcels Exempt Surplus

Item 7-5

June 10, 2025

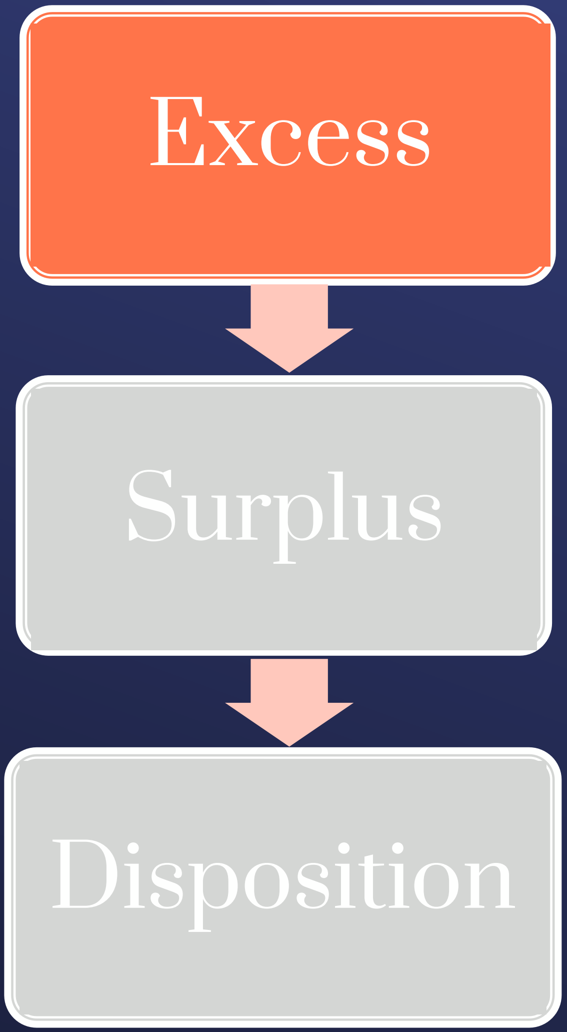
7-5 Overview of Surplus Action

Subject

- Adopt a resolution declaring three parcels as exempt surplus and authorize their disposal

Purpose

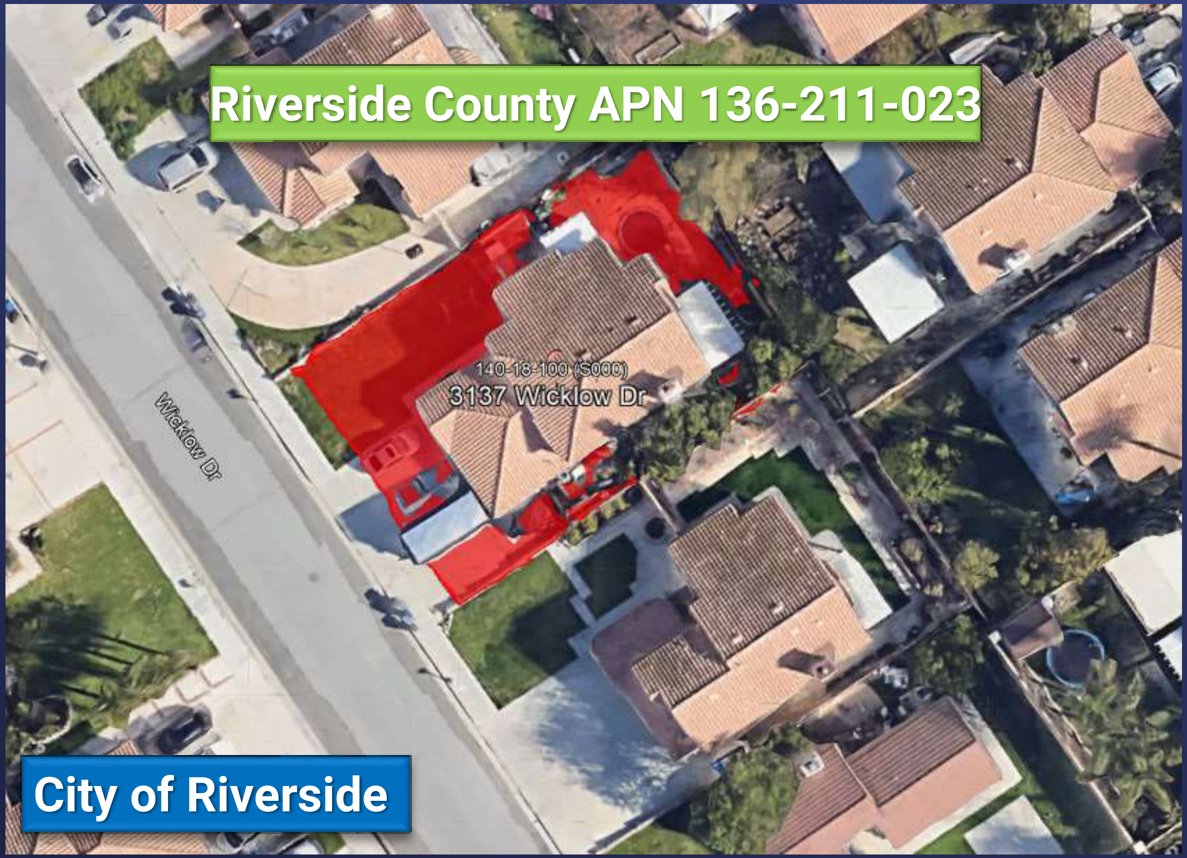
- The sale of excess properties requires a board declaration before Metropolitan may dispose of such land consistent with Metropolitan's policies and procedures.

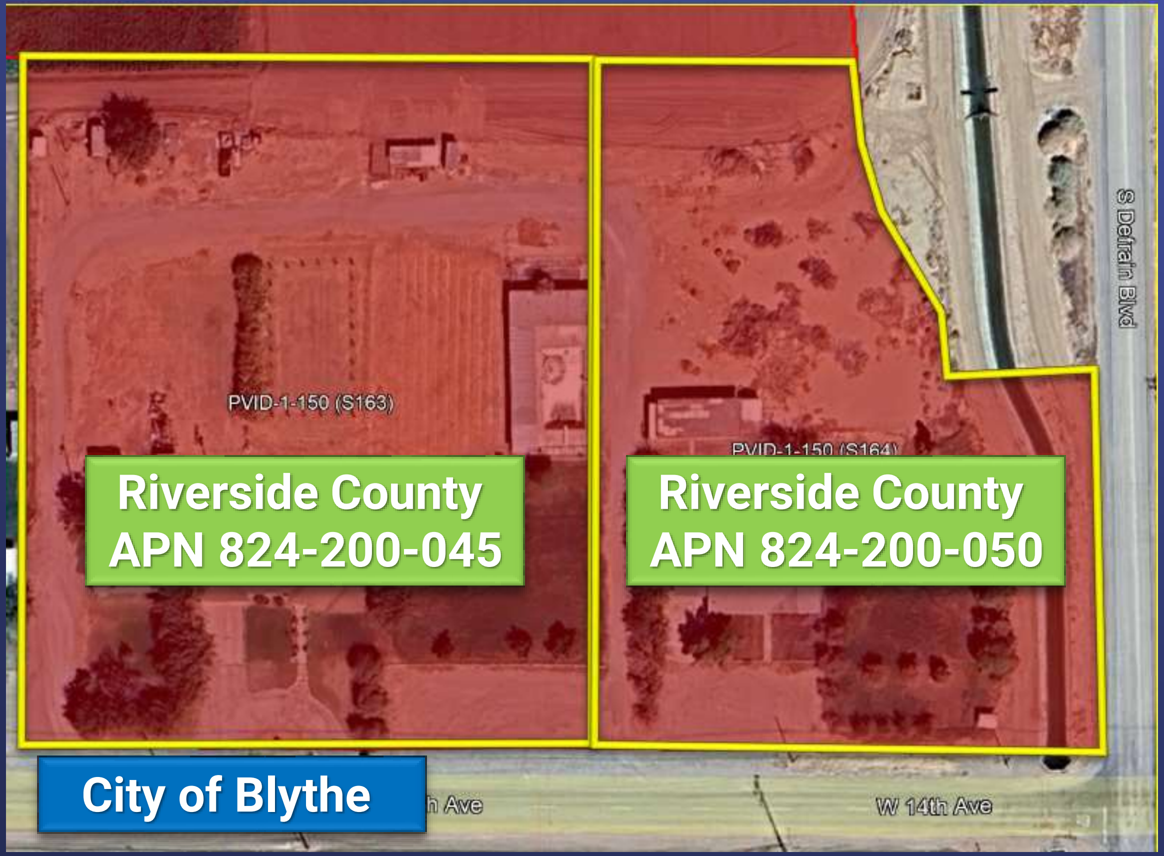


- Periodic Evaluations to determine excess parcels
- Excess parcels presented to Board for consideration as Surplus
- Board declares surplus resolution
- Disposition for sale

Service Area & CRA Map

Site Maps


Riverside County APN 136-211-023
140-18-100 (S000)
3137 Wicklow Dr
Wicklow Dr
City of Riverside


PVID-1-150 (S163)
PVID-1-150 (S164)
Riverside County
APN 824-200-045
Riverside County
APN 824-200-050
S Defrain Blvd
W 14th Ave
City of Blythe

Board Options

Option No. 1

Adopt a resolution declaring three parcels as exempt surplus land and authorize their disposal according to Metropolitan's surplus land disposal policies and procedures

Option No. 2

Do not declare the parcels to be surplus to Metropolitan's needs

Board Options

Staff Recommendation

- Option No. 1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Action

- **Board of Directors**

Finance, Affordability, Asset Management, and Efficiency Committee

6/10/2025 Board Meeting

7-6

Subject

Approve Metropolitan's Statement of Investment Policy for fiscal year 2025/26, delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Per Section 5114 of the Metropolitan Water District Administrative Code, staff seeks board approval of Metropolitan's Statement of Investment Policy (Policy) for fiscal year (FY) 2025/26. Staff also seeks board approval for the delegation of authority to the Treasurer to invest Metropolitan's funds for FY 2025/26, pursuant to the Government Code of the state of California (California Government Code).

The Policy has been updated to ensure that it complies with the requirements of the California Government Code, conforms to the investment policy certification standards established by the California Municipal Treasurers Association, provides a balance between investment restrictions and investment flexibility, and expresses Metropolitan's investment objectives and preferences with clarity and consistency.

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

Staff Recommendation: Option #1

Option #1

Approve Metropolitan's Statement of Investment Policy for fiscal year 2025/26; and delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2025/26.

Fiscal Impact: Allows Metropolitan's portfolio to continue to earn a reasonable return on investments while meeting the overarching goals of safety and liquidity.
Business Analysis: Permits the Treasurer to continue managing Metropolitan's investment portfolios and approves the Statement of Investment Policy for fiscal year 2025/26, governing investment practices.

Option #2

Do not approve the Statement of Investment Policy for fiscal year 2025/26, and do not delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2025/26.
Fiscal Impact: May prevent Metropolitan's portfolio from earning a reasonable return on investments
Business Analysis: Not approving the Statement of Investment Policy would be an exception to the Metropolitan Water District Administrative Code requirement in Section 5114. Not delegating authority to the Treasurer to invest Metropolitan's funds would require the Board to directly manage Metropolitan's daily investments or have an authorized Board representative available to approve daily investment transactions identified by the Treasurer. This would likely result in lost investment income should the Board be unavailable to either manage or approve daily investment transactions.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Act Section 125: Investment of Surplus Money

Metropolitan Water District Administrative Code Section 2701(a): Treasurer's Reports

Metropolitan Water District Administrative Code Section 5101: Investment of Surplus Funds

Metropolitan Water District Administrative Code Section 5114: Reporting Requirements of the Treasurer

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

None

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

Under Section 5114 of the Metropolitan Water District Administrative Code, not less than annually, the Treasurer is required to render a Statement of Investment Policy for the following fiscal year for approval by the Board.

Metropolitan's Policy for FY 2025/26 (**Attachment 1**) adheres to the following three criteria:

1. **Safety of Principal.** Investments shall be undertaken which first seek to ensure the preservation of principal in the portfolio. The Treasurer shall ensure each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
2. **Liquidity**. Investments shall be made whose maturity date is compatible with cash flow requirements of the District and which will permit easy and rapid conversion into cash without substantial loss of principal.
3. **Return on Investment**. Investments shall be undertaken to produce an acceptable rate of return after first considering the safety of principal and liquidity and the prudent investor standard.

In accordance with Section 53607 of the California Government Code, the authority to invest public funds granted to the Board may be delegated to the Treasurer for a one-year period. The Board's prior delegation to the Treasurer expires on June 30, 2025. Subject to review, the Board may renew the delegation to the Treasurer annually.

Details

The Policy for FY 2025/26 is updated. The proposed Policy is included as **Attachment 1**. **Attachment 2** is a redlined document that compares the Policy for FY 2024/25 to the proposed Policy for FY 2025/26. The following changes to Sections X.5 and its related summary table and footnote of the Policy are highlighted for the Board's consideration:

Section X.5 – This section is updated to: (1) require eligible corporate notes be rated in the AA category by at least one NRSRO; (2) allow for purchase of corporates that are rated split rated by NRSROs, as either AA by at least one NRSRO and NR or A or better by other NRSRO(s), or the equivalent; and (3) exempt corporate notes purchased prior to July 1, 2025.

Katano Kasaine 6/3/2025

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

Deven Upadhyay 6/3/2025

Deven Upadhyay *Date*
General Manager

Attachment 1 – Statement of Investment Policy Fiscal Year 2025/26

Attachment 2 – Redline of Statement of Investment Policy Fiscal Year 2025/26

Ref# cfo12709276

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENT OF INVESTMENT POLICY
FISCAL YEAR 2025/26

June 10, 2025

I. POLICY

This Statement of Investment Policy (Policy) is intended to outline the guidelines and practices to be used in managing the Metropolitan Water District of Southern California's (District) investment portfolio. District funds not required for immediate cash disbursements will be invested in compliance with the Government Code of the state of California (California Government Code).

II. INVESTMENT AUTHORITY

As authorized by Section 53607 of the California Government Code, authority to invest or reinvest funds of the District is hereby delegated by the Board of Directors to the Treasurer, for a period of one-year, who shall thereafter assume full responsibility for the investment program until the delegation of authority is revoked or expires. Subject to review, the Board of Directors may renew the delegation of authority each year. The Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

The Treasurer may also delegate the day-to-day execution of investments to registered investment managers through written agreements. The investment manager(s), in coordination with the Treasurer, will manage on a daily basis the District's investment portfolio pursuant to the specific and stated investment objectives of the District. The investment manager(s) shall follow this Policy, the specific investment guidelines provided to each investment manager, and such other written instructions provided by the Treasurer or their designee(s). The investment manager(s) may be given discretion to acquire and dispose of assets in their designated account, but the investment manager(s) shall not be permitted to have custodial control over the District's investment portfolio.

III. STATEMENT OF OBJECTIVES

In accordance with California Government Code Section 53600.5, and in order of importance, the Treasurer shall adhere to the following three criteria:

1. Safety of Principal. Investments shall be undertaken which first seek to ensure the preservation of principal in the portfolio. The Treasurer shall ensure that each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss. Diversification of the portfolio will be used in order to reduce exposure to principal loss.
2. Liquidity. Investments shall be made whose maturity date is compatible with cash flow requirements of the District and which will permit easy and rapid conversion into cash without substantial loss of principal.
3. Return on Investment. Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

IV. SCOPE

This Policy applies to all funds and investment activities under the direct authority of the District and accounted for in the Annual Comprehensive Financial Report (ACFR), except for the employee's retirement and deferred compensation funds. In addition, deposits with banks under the California Government Code's "Deposit of Funds" provisions are excluded from this Policy's requirements. Funds of the District will be invested in compliance with the provisions of, but not necessarily limited to securities specified in the California Government Code Section 53601 et seq. and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of the District's bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this Policy.

V. PRUDENT INVESTOR STANDARD

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the "prudent investor standard". The prudent investment standard obligates a trustee to ensure that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

VI. SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of individual securities dealers, all investment transactions involving deliverable securities will be conducted on a delivery versus payment (DVP) basis. All deliverable securities owned by the District, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All financial institutions that provide safekeeping services for the District shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession. The Controller shall also maintain evidence of the District ownership in non-deliverable securities (e.g. LAIF, CAMP, and Time CDs).

VII. INVESTMENT TRANSACTIONS

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations for investment transactions will be sent directly to the Controller for audit. When practical, the Treasurer shall solicit more than one quotation on each trade.

VIII. REPORTING

If the Board delegates responsibility of the investment program to the Treasurer, then in accordance with the Metropolitan Water District Administrative Code, Section 5114, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund and date of maturity, and shall provide the current market value of all securities, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity, including yield and earnings, and the status of cash by depository.

In addition, the monthly report shall also include a statement denoting the ability to meet the District's expenditure requirements for the next six (6) months. The report shall also state compliance of the portfolio to this Policy, or manner in which the portfolio is not in compliance. In the event of non-compliance, staff will prepare a report for the Board that details the compliance issue, provides analysis, and provides a recommendation to bring the portfolio back into compliance with this Policy.

IX. PERFORMANCE STANDARDS

The investment portfolio shall be managed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the District. The District will employ an active management approach that allows for the sale of securities prior to their scheduled maturity dates. Securities may be sold for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall a transaction be used for purely speculative purposes. The District recognizes that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

Because the composition of the portfolio fluctuates, depending on market and credit conditions, various appropriate indices selected by the Treasurer will be used to monitor performance.

X. INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the investments listed below are authorized.

The District is prohibited from investing in any investment authorized by the California Government Code but not explicitly listed in this Policy without the prior approval of the Board of Directors. Some of the limitations on investments set forth below are more stringent than required by the California Government Code and have been included to better manage the credit risks specific to the District's portfolio. Under the provisions of California Government Code Sections 53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity, except as authorized by Code Section 53601.6.

1. US Treasury Obligations

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

2. Federal Agency Obligations

Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

3. Banker's Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: One-hundred eighty (180) days
- Credit requirement: A-1 or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
- Issued by banks with total deposits of over one billion dollars ($1,000,000,000)
- Issued by banks from offices in the USA.

4. Commercial Paper

Commercial paper is defined as short-term, unsecured promissory notes issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Two hundred seventy (270) days
- Credit requirement: Highest ranking or highest letter and number rating as provided by an NRSRO.
- Entity issuing the commercial paper must meet the conditions of California Government Code Section 53601(h)(1) or (2).

5. Medium Term Corporate Notes

All corporate and depository institution debt securities (not to include other investment types specified in Code) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

- Maximum allocation: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by at least one NRSRO. If rated by any other NRSRO, eligible securities must also be rated A or its equivalent or better.

  **Effective July 1, 2025, the credit requirement was updated to, AA or its equivalent or better by at least one NRSRO. Securities purchased before July 1, 2025, meet the prior rating requirement of, A or its equivalent or better by an NRSRO. Securities purchased before July 1, 2025, do not need to be sold to meet the new rating requirement.*

6. Negotiable Certificates of Deposit

Issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.

- Maximum allocation: Thirty percent (30%) of the portfolio, five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- Issued by banks with total deposits of one billion dollars ($1,000,000,000) or more

7. Bank Deposit

Insured or collateralized time certificates of deposits, saving accounts, market rate accounts, or other bank deposits.

- Maximum limit: Thirty percent (30%) of the portfolio for all deposits
- Maximum maturity: Five (5) years
- Credit requirement: All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
- Deposits are limited to a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, located in California.
- Deposits must meet the conditions of California Government Code Sections 53630 et seq.

Pursuant to Government Code 53637, the District is prohibited from investing in deposits of a state or federal credit union if a member of the District's Board of Directors, or any person at the District with investment decision-making authority, serves on the board of directors or committee of the state or federal credit union.

8. Money Market Mutual Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the SEC.

- Maximum maturity: N/A
- Maximum allocation: Twenty percent (20%) of the portfolio
- Credit requirement: Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements
- The use of money market funds is limited to Government money market funds that provide daily liquidity and seek to maintain a stable Net Asset Value (NAV)

9. State of California, Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. The maximum investment amount authorized by the Local Agency Investment Fund (LAIF) is set by the California State Treasurer's Office. The LAIF is held in trust in the custody of the State of California Treasurer. The District's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget.

- Maximum limit: The current limit set by LAIF for operating accounts
- Maximum maturity: N/A
- Credit requirement: N/A

10. Municipal Bonds and Notes

Municipal obligations issued by the State of California, any other of the states in the union, or a local agency within the State of California. This may include bonds, notes, warrants, or other evidences of indebtedness including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by an authorized entity.

- Maximum limit: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO

- Must be issued by State of California, any of the other 49 states, or a California local agency

11. Repurchase Agreement

A repurchase agreement is a purchase of authorized securities with terms including a written agreement by the seller to repurchase the securities on a future date and price.

- Maximum allocation: Twenty percent (20%) of the portfolio
- Maximum maturity: Two hundred seventy (270) days
- Master Repurchase Agreement must be on file
- Limited to primary dealers or financial institutions rated in a rating category of “A” or its equivalent or higher by an NRSRO.
- Fully collateralized at market value of at least one hundred two percent (102%) with US government or federal agency securities

12. California Asset Management Program (CAMP)

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7.

- Maximum allocation: Forty percent (40%) of the portfolio
- Maximum maturity: N/A
- Credit requirement: AAAm or its equivalent or better by an NRSRO
- Joint powers authority has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission, has five or more years of experience investing in the securities and obligations authorized under California Government Code Section 53601, and has assets under management in excess of five hundred million dollars ($500,000,000).

13. Supranationals

Securities issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) and eligible for purchase and sale within the United States.

- Maximum allocation: Thirty percent (30%) of the portfolio
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

14. Asset-Backed Securities

A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivisions (1) or (2) above, the following limitations apply:

- Maximum allocation: Twenty percent (20%) of the portfolio, five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

XI. DIVERSIFICATION

The District shall seek to diversify the investments within the investment portfolio to avoid incurring unreasonable risks inherent in concentrated holdings in specific instruments, individual financial institutions or maturities. To promote diversification, this Policy sets various percentage holding limits by investment type and issuer. Investment type and issuer percentage limitation listed in this Policy are calculated at the time the security is purchased. Per issuer limits, when listed, are calculated across investment types at the parent company level. Should an investment percentage be exceeded due to instances such as the fluctuation in overall portfolio size, or market valuation changes, the Treasurer is not required to sell the affected securities. However, no additional investments can be made in that investment type or issuer while it is above the limits established by this Policy.

XII. CREDIT RATINGS

Credit rating requirements for eligible securities in this Policy specify the minimum credit rating category required at the time of purchase without regard to +, -, or 1, 2, 3 modifiers, if any. The security, at the time of purchase, may not be rated below the minimum credit requirement by any of the NRSROs that rate the security.

If a security is downgraded below the minimum rating criteria specified in this Policy, the Treasurer shall determine a course of action to be taken on a case-by-case basis considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security. The Treasurer shall note in the monthly report any securities which have been downgraded below Policy requirements and the recommended course of action.

XIII. MATURITY

The Treasurer shall maintain a system to monitor and forecast revenues and expenditures so that the District's funds can be invested to the fullest extent possible while providing sufficient liquidity to meet the District's reasonably anticipated cash flow requirements.

The final maturity of any investment in the portfolios shall not exceed five (5) years with certain exceptions:

- The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Endowment Fund.
- The core portfolio may hold United States Treasury and Federal Agency securities with maturities in excess of five years.

XIV. DURATION

Duration is a measure of a security's price sensitivity to interest rate changes. It indicates the approximate percentage change of a security's value given a 1% change in interest rates. A portfolio's duration is the weighted average of the individual security durations held in the portfolio.

The investment portfolio is divided into liquidity, core, and endowment fund portfolios. The Policy's duration limits only apply to the liquidity and core portfolios. The duration of the liquidity portfolio is limited to the duration of the benchmark index plus or minus 0.5 years. The duration of the core portfolio will be limited to the duration of the benchmark index plus or minus 1.5 years. The appropriate benchmark indices will be set by the Treasurer and reported to the Board in the Monthly Treasurer's Report.

XV. ADMINISTRATION

The Treasurer may, at any time, establish more restrictive requirements for securities approved for investment as deemed appropriate in this Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, shorter maturities and additional collateral requirements for collateralized investments.

XVI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

For investments not purchased directly from the issuer, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the Financial Industry Regulatory Authority (FINRA) or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attests the individual has reviewed the District's Policy, and intends to present only those investment recommendations and transactions to the District that is appropriate under the terms and conditions of the Policy.

The District's external investment manager(s) may be granted discretion to purchase and sell investment securities in accordance with this Policy. Investment managers may also use their own list of internally-approved issuers, broker-dealers and other financial firms, so long as such managers are registered under the Investment Advisers Act of 1940.

XVII. INTERNAL CONTROLS

The Treasurer or designee shall maintain a system of internal control procedures designed to ensure compliance with the Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets. The internal control procedures shall apply to the investment activities of any person with investment decision-making authority acting on behalf of the District. Procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgement by management. As part of the annual audit, the District's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

XVIII. ETHICS AND CONFLICT OF INTEREST

The Treasurer and designees shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions.

The Treasurer and designees shall disclose to the Ethics Officer and General Counsel any personal financial interests that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

XVIX. INVESTMENT POLICY

This Policy shall be reviewed periodically by the Treasurer with any and all modifications made thereto approved by the Board of Directors at a public meeting.

SUMMARY TABLE OF
INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

The following table is intended to be a summary of the Policy's requirements in Section X of this Policy. If there is a discrepancy between Section X and this table, the requirements listed in Section X take precedence.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
US Treasury Obligations	100%	N/A	5 Years[1]	N/A
Federal Agency Obligations	100%	N/A	5 Years[1]	N/A
Bankers' Acceptance	40%	5% per issuer[2]	180 days	"A-1" or its equivalent or higher by an NRSRO.
Commercial Paper	40%	5% per issuer[2]	270 days	Highest ranking or of the highest letter and number rating as provided for by an NRSRO.
Medium Term Corporate Notes	30%	5% per issuer[2]. US licensed and operating corporations	5 years	"AA" or its equivalent or higher by at least one NRSRO.
Negotiable CD	30%	5% per issuer[2], National or state charted bank, S&L, or branch of foreign bank	5 years	"A-1" (short-term) or "A" (long-term) or their equivalents or higher by an NRSRO.
Bank Deposit	30%	See California Government Code Section 53637	5 Years	Collateralized/FDIC Insured in accordance with California Government Code
Money Market Mutual Funds	20%	Gov't MMF. Stable NAV	Daily Liquidity	Highest ranking by two NRSROs or advisor requirements
Local Agency Investment Fund ("LAIF")	LAIF limit for operating accounts	Subject to California Government Code Section 16429.1 limitations	N/A	N/A
Municipal Bonds and Notes	30%	5% per issuer[2]. State of California or California agencies or other 49 states	5 Years[1]	"A" or its equivalent or higher by an NRSRO.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
Repurchase Agreements ("REPO")	20%	Limited to primary dealers or financial institutions rated "A" or better by a NRSROs	270 days	Collateralized (min 102% of funds invested) with US Government or federal agency securities with maximum 5 year maturities
California Asset Management Program ("CAMP")	40%	N/A	Daily Liquidity	"AAAm" or its equivalent or higher by a NRSRO
Supranationals	30%	Limited to IBRD, IFC, IADB	5 Years	"AA" or its equivalent or higher by an NRSRO.
Asset-Backed Securities	20%	5% per issuer[2]	5 Years	"AA" or its equivalent or higher by an NRSRO.

Notes:

1. The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund.

   The core portfolio may be invested in United States Treasury and Federal Agency securities with maturities in excess of five years.

2. Per issuer limits, when listed, are calculated across investment types at the parent company level.

3. Effective July 1, 2025, the credit requirement was updated to, AA or its equivalent or better by at least one NRSRO. Securities purchased before July 1, 2025, meet the prior rating requirement of, A or its equivalent or better by an NRSRO. Securities purchased before July 1, 2025, do not need to be sold to meet the new rating requirement.

GLOSSARY

The glossary is provided for general information only. It is not to be considered a part of the Policy for determining Policy requirements or terms.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

ASSET BACKED: Securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt..

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

BASIS POINT: One-hundredth of one percent (i.e., 0.01%).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

BOND: A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

BROKER: A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity date.

CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP): A local government investment pool organized as joint powers authority in which funds from California local agency investors/participants are aggregated together for investment purposes.

CASH EQUIVALENTS (CE): Highly liquid and safe instruments or investments that can be converted into cash immediately. Examples include bank accounts, money market funds, and Treasury bills.

CASH FLOW: An analysis of all changes that affect the cash account during a specified period.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called trances. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

COMMERCIAL PAPER: Short-term, unsecured, negotiable promissory notes of corporations.

CORPORATE NOTE: Debt instrument issued by a private corporation.

COUPON: The annual rate at which a bond pays interest.

CREDIT RATINGS: A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

CREDIT RISK: The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

CUSIP: Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

CURRENT YIELD: The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVES: A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

DIRECT ISSUER: Issuer markets its own paper directly to the investor without use of an intermediary.

DISCOUNT: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

EFFECTIVE RATE OF RETURN: The annualized rate of return on an investment considering the price paid for the investment, its coupon rate, and the compounding of interest paid. (Total Earnings / Average daily balance) x (365/ # of days in the reporting period)

FACE VALUE: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

FANNIE MAE: Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently $250,000.

FEDERAL FARM CREDIT BANK (FFCB): Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL GOVERNMENT AGENCY SECURITIES: Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GUARANTEED INVESTMENT CONTRACTS (GICS): An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

INDEX: An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities. Examples of relevant indices for Metropolitan include, but not limited to, ICE BofAML, 3-Month Treasury Bill Index, and ICE BofAML, 1 - 5 years AAA-A US Corporate and Government Index

INTEREST RATE: The annual yield earned on an investment, expressed as a percentage.

INTEREST RATE RISK: The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

INVESTMENT AGREEMENTS: A contract providing for the lending of issuer funds to a financial institution that agrees to repay the funds with interest under predetermined specifications.

INVESTMENT GRADE (LONG TERM RATINGS): The minimum, high-quality ratings for long-term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution or government agency for investment purposes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

LOCAL AGENCY INVESTMENT FUND (LAIF): An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that Agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

LOCAL AGENCY INVESTMENT POOL: A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

MARKET RISK: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

MARKET VALUE: The price at which a security is currently being sold in the market. See FAIR VALUE.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date that the principal or stated value of a debt instrument becomes due and payable.

MEDIUM-TERM CORPORATE NOTES (MTNs): Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION: The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

MONEY MARKET: The market in which short-term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

MORTGAGED BACKED SECURITIES: A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

MUNICIPAL BONDS: Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school Agencies, state universities, sewer agency, municipally owned utilities and authorities running bridges, airports and other transportation facilities

MUTUAL FUND: An entity that pools money and can invest in a variety of securities that are specifically defined in the fund's prospectus.

NEGOTIABLE CERTIFICATE OF DEPOSIT: A large denomination certificate of deposit that can be sold in the open market prior to maturity.

NET PORTFOLIO YIELD: Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earnings during the period divided by the sum of all Average Daily Portfolio Balances.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): is a credit rating agency that issues credit ratings that the U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

PAR VALUE: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

PORTFOLIO: The collection of securities held by an individual or institution.

PREMIUM: The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

PRIME (SHORT TERM RATING): High-quality ratings for short-term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PRIVATE PLACEMENTS: Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR STANDARD: A standard of conduct for fiduciaries. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

PUBLIC DEPOSIT: A bank that is qualified under California law to accept a deposit of public funds.

PURCHASE DATE: The date in which a security is purchased for settlement on that or a later date. Also known as the “trade date”.

RATE OF RETURN: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

REALIZED GAIN (OR LOSS): Gain or loss resulting from the sale or disposal of a security.

REPURCHASE AGREEMENT (RP or REPO): A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the District) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the District) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the “buyer” for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): The opposite of a repurchase agreement. A reverse repo is a transaction in which the District sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the District) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING: A service that banks offer to clients for a fee, where physical securities are held in the bank’s vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank’s name for the benefit of the client. As an agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on the call date, if called.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECONDARY MARKET: A market for the repurchase and resale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds.

SPREAD: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTE: A complex, fixed-income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include “inverse floating rate” notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and “dual index floaters”, which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code allows local agencies to purchase the United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

TIME DEPOSIT: A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to $250,000 are insured by FDIC. Deposits over $250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

TOTAL RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return that equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity. (Net Invested Income/Time Weighted Invested Value) X (365/ # of days in the reporting period)

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK: A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER: A dealer which purchases a new issue of municipal securities for resale.

U.S. GOVERNMENT AGENCY SECURITIES: Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

U.S. TREASURY OBLIGATIONS: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

TREASURY BILLS: Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES: Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

TREASURY BOND: Long-term coupon-bearing securities with initial maturities of ten years or longer.

UNREALIZED GAIN (OR LOSS): Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

VOLATILITY: Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

WEIGHTED AVERAGE MATURITY: The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

YIELD: The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

YIELD CURVE: Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD TO MATURITY: Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

RATING DESCRIPTION TABLE

Long Term Debt Ratings			
Credit Quality	**Moody's**	**S&P**	**Fitch**
Strongest Quality	Aaa	AAA	AAA
Strong Quality	Aa1/Aa2/Aa3	AA+/AA/AA-	AA
Good Quality	A1/A2/A3	A+/A/A-	A
Medium Quality	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB
Speculative	Ba1/Ba2/Ba3	BB+/BB/BB-	BB
Low	B1/B2/B3	B+/B/B-	B
Poor	Caa	CCC+	CCC
Highly Speculative	Ca/C	CCC/CCC-/CC	CC
Short Term Debt Ratings			
Credit Quality	**Moody's**	**S&P**	**Fitch**
Strongest Quality	P-1	A-1+	F1
Strong Quality		A-1	
Good Quality	P-2	A-2	F2
Medium Quality	P-3	A-3	F3

Note: Investment Grade ratings apply to securities with at least a medium credit quality or higher by one of the nationally recognize statistical rating organization; anything below the medium credit quality is non-investment grade.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

STATEMENT OF INVESTMENT POLICY
FISCAL YEAR 202~~4~~5/2~~5~~6

June 1~~1~~0, 202~~4~~5

I. POLICY

This Statement of Investment Policy (Policy) is intended to outline the guidelines and practices to be used in managing the Metropolitan Water District of Southern California's (District) investment portfolio. District funds not required for immediate cash disbursements will be invested in compliance with the Government Code of the state of California (California Government Code).

II. INVESTMENT AUTHORITY

As authorized by Section 53607 of the California Government Code, authority to invest or reinvest funds of the District is hereby delegated by the Board of Directors to the Treasurer, for a period of one-year, who shall thereafter assume full responsibility for the investment program until the delegation of authority is revoked or expires. Subject to review, the Board of Directors may renew the delegation of authority each year. The Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

The Treasurer may also delegate the day-to-day execution of investments to registered investment managers through written agreements. The investment manager(s), in coordination with the Treasurer, will manage on a daily basis the District's investment portfolio pursuant to the specific and stated investment objectives of the District. The investment manager(s) shall follow this Policy, the specific investment guidelines provided to each investment manager, and such other written instructions provided by the Treasurer or their designee(s). The investment manager(s) may be given discretion to acquire and dispose of assets in their designated account, but the investment manager(s) shall not be permitted to have custodial control over the District's investment portfolio.

III. STATEMENT OF OBJECTIVES

In accordance with California Government Code Section 53600.5, and in order of importance, the Treasurer shall adhere to the following three criteria:

1. Safety of Principal. Investments shall be undertaken which first seek to ensure the preservation of principal in the portfolio. The Treasurer shall ensure that each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss. Diversification of the portfolio will be used in order to reduce exposure to principal loss.
2. Liquidity. Investments shall be made whose maturity date is compatible with cash flow requirements of the District and which will permit easy and rapid conversion into cash without substantial loss of principal.
3. Return on Investment. Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

IV. SCOPE

This Policy applies to all funds and investment activities under the direct authority of the District and accounted for in the Annual Comprehensive Financial Report (ACFR), except for the employee's retirement and deferred compensation funds. In addition, deposits with banks under the California Government Code's "Deposit of Funds" provisions are excluded from this Policy's requirements. Funds of the District will be invested in compliance with the provisions of, but not necessarily limited to securities specified in the California Government Code Section 53601 et seq. and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of the District's bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this Policy.

V. PRUDENT INVESTOR STANDARD

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the "prudent investor standard". The prudent investment standard obligates a trustee to ensure that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

VI. SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of individual securities dealers, all investment transactions involving deliverable securities will be conducted on a delivery versus payment (DVP) basis. All deliverable securities owned by the District, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All financial institutions that provide safekeeping services for the District shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession. The Controller shall also maintain evidence of the District ownership in non-deliverable securities (e.g. LAIF, CAMP, and Time CDs).

VII. INVESTMENT TRANSACTIONS

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations for investment transactions will be sent directly to the Controller for audit. When practical, the Treasurer shall solicit more than one quotation on each trade.

VIII. REPORTING

If the Board delegates responsibility of the investment program to the Treasurer, then in accordance with the Metropolitan Water District Administrative Code, Section 5114, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund and date of maturity, and shall provide the current market value of all securities, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity, including yield and earnings, and the status of cash by depository.

In addition, the monthly report shall also include a statement denoting the ability to meet the District's expenditure requirements for the next six (6) months. The report shall also state compliance of the portfolio to this Policy, or manner in which the portfolio is not in compliance. In the event of non-compliance, staff will prepare a report for the Board that details the compliance issue, provides analysis, and provides a recommendation to bring the portfolio back into compliance with this Policy.

IX. PERFORMANCE STANDARDS

The investment portfolio shall be managed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the District. The District will employ an active management approach that allows for the sale of securities prior to their scheduled maturity dates. Securities may be sold for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall a transaction be used for purely speculative purposes. The District recognizes that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

Because the composition of the portfolio fluctuates, depending on market and credit conditions, various appropriate indices selected by the Treasurer will be used to monitor performance.

X. INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the investments listed below are authorized.

The District is prohibited from investing in any investment authorized by the California Government Code but not explicitly listed in this Policy without the prior approval of the Board of Directors. Some of the limitations on investments set forth below are more stringent than required by the California Government Code and have been included to better manage the credit risks specific to the District's portfolio. Under the provisions of California Government Code Sections 53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity, except as authorized by Code Section 53601.6.

1. US Treasury Obligations

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

2. Federal Agency Obligations

Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

3. Banker's Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: One-hundred eighty (180) days
- Credit requirement: A-1 or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
- Issued by banks with total deposits of over one billion dollars ($1,000,000,000)
- Issued by banks from offices in the USA.

4. Commercial Paper

Commercial paper is defined as short-term, unsecured promissory notes issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Two hundred seventy (270) days
- Credit requirement: Highest ranking or highest letter and number rating as provided by an NRSRO.
- Entity issuing the commercial paper must meet the conditions of California Government Code Section 53601(h)(1) or (2).

5. Medium Term Corporate Notes

All corporate and depository institution debt securities (not to include other investment types specified in Code) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

- Maximum allocation: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: AA~~A~~ or its equivalent or better by ~~an~~ at least one NRSRO. If rated by any other NRSRO, eligible securities must also be rated A or its equivalent or better.

  **Effective July 1, 2025, the credit requirement was updated to, AA or its equivalent or better by at least one NRSRO. Securities purchased before July 1, 2025, meet the prior rating requirement of, A or its equivalent or better by an NRSRO. Securities purchased before July 1, 2025, do not need to be sold to meet the new rating requirement.*

6. Negotiable Certificates of Deposit

Issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.

- Maximum allocation: Thirty percent (30%) of the portfolio, five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- Issued by banks with total deposits of one billion dollars ($1,000,000,000) or more

7. Bank Deposit

Insured or collateralized time certificates of deposits, saving accounts, market rate accounts, or other bank deposits.

- Maximum limit: Thirty percent (30%) of the portfolio for all deposits
- Maximum maturity: Five (5) years
- Credit requirement: All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
- Deposits are limited to a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, located in California.
- Deposits must meet the conditions of California Government Code Sections 53630 et seq.

Pursuant to Government Code 53637, the District is prohibited from investing in deposits of a state or federal credit union if a member of the District's Board of Directors, or any person at the District with investment decision-making authority, serves on the board of directors or committee of the state or federal credit union.

8. Money Market Mutual Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the SEC.

- Maximum maturity: N/A
- Maximum allocation: Twenty percent (20%) of the portfolio
- Credit requirement: Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements
- The use of money market funds is limited to Government money market funds that provide daily liquidity and seek to maintain a stable Net Asset Value (NAV)

9. State of California, Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. The maximum investment amount authorized by the Local Agency Investment Fund (LAIF) is set by the California State Treasurer's Office. The LAIF is held in trust in the custody of the State of California Treasurer. The District's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget.

- Maximum limit: The current limit set by LAIF for operating accounts
- Maximum maturity: N/A
- Credit requirement: N/A

10. Municipal Bonds and Notes

Municipal obligations issued by the State of California, any other of the states in the union, or a local agency within the State of California. This may include bonds, notes, warrants, or other evidences of indebtedness including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by an authorized entity.

- Maximum limit: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO

- Must be issued by State of California, any of the other 49 states, or a California local agency

11. Repurchase Agreement

A repurchase agreement is a purchase of authorized securities with terms including a written agreement by the seller to repurchase the securities on a future date and price.

- Maximum allocation: Twenty percent (20%) of the portfolio
- Maximum maturity: Two hundred seventy (270) days
- Master Repurchase Agreement must be on file
- Limited to primary dealers or financial institutions rated in a rating category of "A" or its equivalent or higher by an NRSRO.
- Fully collateralized at market value of at least one hundred two percent (102%) with US government or federal agency securities

12. California Asset Management Program (CAMP)

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7.

- Maximum allocation: Forty percent (40%) of the portfolio
- Maximum maturity: N/A
- Credit requirement: AAAm or its equivalent or better by an NRSRO
- Joint powers authority has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission, has five or more years of experience investing in the securities and obligations authorized under California Government Code Section 53601, and has assets under management in excess of five hundred million dollars ($500,000,000).

13. Supranationals

Securities issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) and eligible for purchase and sale within the United States.

- Maximum allocation: Thirty percent (30%) of the portfolio
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

14. Asset-Backed Securities

A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivisions (1) or (2) above, the following limitations apply:

- Maximum allocation: Twenty percent (20%) of the portfolio, five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

XI. DIVERSIFICATION

The District shall seek to diversify the investments within the investment portfolio to avoid incurring unreasonable risks inherent in concentrated holdings in specific instruments, individual financial institutions or maturities. To promote diversification, this Policy sets various percentage holding limits by investment type and issuer. Investment type and issuer percentage limitation listed in this Policy are calculated at the time the security is purchased. Per issuer limits, when listed, are calculated across investment types at the parent company level. Should an investment percentage be exceeded due to instances such as the fluctuation in overall portfolio size, or market valuation changes, the Treasurer is not required to sell the affected securities. However, no additional investments can be made in that investment type or issuer while it is above the limits established by this Policy.

XII. CREDIT RATINGS

Credit rating requirements for eligible securities in this Policy specify the minimum credit rating category required at the time of purchase without regard to +, -, or 1, 2, 3 modifiers, if any. The security, at the time of purchase, may not be rated below the minimum credit requirement by any of the NRSROs that rate the security.

If a security is downgraded below the minimum rating criteria specified in this Policy, the Treasurer shall determine a course of action to be taken on a case-by-case basis considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security. The Treasurer shall note in the monthly report any securities which have been downgraded below Policy requirements and the recommended course of action.

XIII. MATURITY

The Treasurer shall maintain a system to monitor and forecast revenues and expenditures so that the District's funds can be invested to the fullest extent possible while providing sufficient liquidity to meet the District's reasonably anticipated cash flow requirements.

The final maturity of any investment in the portfolios shall not exceed five (5) years with certain exceptions:

- The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Endowment Fund.
- The core portfolio may hold United States Treasury and Federal Agency securities with maturities in excess of five years.

XIV. DURATION

Duration is a measure of a security's price sensitivity to interest rate changes. It indicates the approximate percentage change of a security's value given a 1% change in interest rates. A portfolio's duration is the weighted average of the individual security durations held in the portfolio.

The investment portfolio is divided into liquidity, core, and endowment fund portfolios. The Policy's duration limits only apply to the liquidity and core portfolios. The duration of the liquidity portfolio is limited to the duration of the benchmark index plus or minus 0.5 years. The duration of the core portfolio will be limited to the duration of the benchmark index plus or minus 1.5 years. The appropriate benchmark indices will be set by the Treasurer and reported to the Board in the Monthly Treasurer's Report.

XV. ADMINISTRATION

The Treasurer may, at any time, establish more restrictive requirements for securities approved for investment as deemed appropriate in this Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, shorter maturities and additional collateral requirements for collateralized investments.

XVI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

For investments not purchased directly from the issuer, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the Financial Industry Regulatory Authority (FINRA) or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attests the individual has reviewed the District's Policy, and intends to present only those investment recommendations and transactions to the District that is appropriate under the terms and conditions of the Policy.

The District's external investment manager(s) may be granted discretion to purchase and sell investment securities in accordance with this Policy. Investment managers may also use their own list of internally-approved issuers, broker-dealers and other financial firms, so long as such managers are registered under the Investment Advisers Act of 1940.

XVII. INTERNAL CONTROLS

The Treasurer or designee shall maintain a system of internal control procedures designed to ensure compliance with the Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets. The internal control procedures shall apply to the investment activities of any person with investment decision-making authority acting on behalf of the District. Procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgement by management. As part of the annual audit, the District's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

XVIII. ETHICS AND CONFLICT OF INTEREST

The Treasurer and designees shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions.

The Treasurer and designees shall disclose to the Ethics Officer and General Counsel any personal financial interests that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

XVIX. INVESTMENT POLICY

This Policy shall be reviewed periodically by the Treasurer with any and all modifications made thereto approved by the Board of Directors at a public meeting.

SUMMARY TABLE OF
INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

The following table is intended to be a summary of the Policy’s requirements in Section X of this Policy. If there is a discrepancy between Section X and this table, the requirements listed in Section X take precedence.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
US Treasury Obligations	100%	N/A	5 Years[1]	N/A
Federal Agency Obligations	100%	N/A	5 Years[1]	N/A
Bankers’ Acceptance	40%	5% per issuer[2]	180 days	“A-1” or its equivalent or higher by an NRSRO.
Commercial Paper	40%	5% per issuer[2]	270 days	Highest ranking or of the highest letter and number rating as provided for by an NRSRO.
Medium Term Corporate Notes	30%	5% per issuer[2]. US licensed and operating corporations	5 years	“AA” or its equivalent or higher by ~~an~~ at least one NRSRO.
Negotiable CD	30%	5% per issuer[2], National or state charted bank, S&L, or branch of foreign bank	5 years	“A-1” (short-term) or “A” (long-term) or their equivalents or higher by an NRSRO.
Bank Deposit	30%	See California Government Code Section 53637	5 Years	Collateralized/FDIC Insured in accordance with California Government Code
Money Market Mutual Funds	20%	Gov’t MMF. Stable NAV	Daily Liquidity	Highest ranking by two NRSROs or advisor requirements
Local Agency Investment Fund (“LAIF”)	LAIF limit for operating accounts	Subject to California Government Code Section 16429.1 limitations	N/A	N/A
Municipal Bonds and Notes	30%	5% per issuer[2]. State of California or California agencies or other 49 states	5 Years[1]	“A” or its equivalent or higher by an NRSRO.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
Repurchase Agreements ("REPO")	20%	Limited to primary dealers or financial institutions rated "A" or better by a NRSROs	270 days	Collateralized (min 102% of funds invested) with US Government or federal agency securities with maximum 5 year maturities
California Asset Management Program ("CAMP")	40%	N/A	Daily Liquidity	"AAAm" or its equivalent or higher by a NRSRO
Supranationals	30%	Limited to IBRD, IFC, IADB	5 Years	"AA" or its equivalent or higher by an NRSRO.
Asset-Backed Securities	20%	5% per issuer[2]	5 Years	"AA" or its equivalent or higher by an NRSRO.

Notes:

1. The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund.

   The core portfolio may be invested in United States Treasury and Federal Agency securities with maturities in excess of five years.

2. Per issuer limits, when listed, are calculated across investment types at the parent company level.

3. Effective July 1, 2025, the credit requirement was updated to, AA or its equivalent or better by at least one NRSRO. Securities purchased before July 1, 2025, meet the prior rating requirement of, A or its equivalent or better by an NRSRO. Securities purchased before July 1, 2025, do not need to be sold to meet the new rating requirement.

GLOSSARY

The glossary is provided for general information only. It is not to be considered a part of the Policy for determining Policy requirements or terms.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

ASSET BACKED: Securities whose income payments and hence value is derived from and collateralized (or “backed”) by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt..

BANKERS’ ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

BASIS POINT: One-hundredth of one percent (i.e., 0.01%).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investment.

BOND: A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

BOOK VALUE: The value at which a debt security is shown on the holder’s balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

BROKER: A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity date.

CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP): A local government investment pool organized as joint powers authority in which funds from California local agency investors/participants are aggregated together for investment purposes.

CASH EQUIVALENTS (CE): Highly liquid and safe instruments or investments that can be converted into cash immediately. Examples include bank accounts, money market funds, and Treasury bills.

CASH FLOW: An analysis of all changes that affect the cash account during a specified period.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called trances. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

COMMERCIAL PAPER: Short-term, unsecured, negotiable promissory notes of corporations.

CORPORATE NOTE: Debt instrument issued by a private corporation.

COUPON: The annual rate at which a bond pays interest.

CREDIT RATINGS: A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

CREDIT RISK: The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

CUSIP: Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

CURRENT YIELD: The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVES: A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

DIRECT ISSUER: Issuer markets its own paper directly to the investor without use of an intermediary.

DISCOUNT: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

EFFECTIVE RATE OF RETURN: The annualized rate of return on an investment considering the price paid for the investment, its coupon rate, and the compounding of interest paid. (Total Earnings / Average daily balance) x (365/ # of days in the reporting period)

FACE VALUE: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

FANNIE MAE: Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently $250,000.

FEDERAL FARM CREDIT BANK (FFCB): Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL GOVERNMENT AGENCY SECURITIES: Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GUARANTEED INVESTMENT CONTRACTS (GICS): An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

INDEX: An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities. Examples of relevant indices for Metropolitan include, but not limited to, ICE BofAML, 3-Month Treasury Bill Index, and ICE BofAML, 1 - 5 years AAA-A US Corporate and Government Index

INTEREST RATE: The annual yield earned on an investment, expressed as a percentage.

INTEREST RATE RISK: The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

INVESTMENT AGREEMENTS: A contract providing for the lending of issuer funds to a financial institution that agrees to repay the funds with interest under predetermined specifications.

INVESTMENT GRADE (LONG TERM RATINGS): The minimum, high-quality ratings for long-term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution or government agency for investment purposes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

LOCAL AGENCY INVESTMENT FUND (LAIF): An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that Agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

LOCAL AGENCY INVESTMENT POOL: A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

MARKET RISK: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

MARKET VALUE: The price at which a security is currently being sold in the market. See FAIR VALUE.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date that the principal or stated value of a debt instrument becomes due and payable.

MEDIUM-TERM CORPORATE NOTES (MTNs): Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION: The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

MONEY MARKET: The market in which short-term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

MORTGAGED BACKED SECURITIES: A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

MUNICIPAL BONDS: Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school Agencies, state universities, sewer agency, municipally owned utilities and authorities running bridges, airports and other transportation facilities

MUTUAL FUND: An entity that pools money and can invest in a variety of securities that are specifically defined in the fund's prospectus.

NEGOTIABLE CERTIFICATE OF DEPOSIT: A large denomination certificate of deposit that can be sold in the open market prior to maturity.

NET PORTFOLIO YIELD: Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earnings during the period divided by the sum of all Average Daily Portfolio Balances.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): is a credit rating agency that issues credit ratings that the U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

PAR VALUE: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

PORTFOLIO: The collection of securities held by an individual or institution.

PREMIUM: The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

PRIME (SHORT TERM RATING): High-quality ratings for short-term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PRIVATE PLACEMENTS: Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR STANDARD: A standard of conduct for fiduciaries. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

PUBLIC DEPOSIT: A bank that is qualified under California law to accept a deposit of public funds.

PURCHASE DATE: The date in which a security is purchased for settlement on that or a later date. Also known as the “trade date”.

RATE OF RETURN: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

REALIZED GAIN (OR LOSS): Gain or loss resulting from the sale or disposal of a security.

REPURCHASE AGREEMENT (RP or REPO): A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the District) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the District) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the “buyer” for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): The opposite of a repurchase agreement. A reverse repo is a transaction in which the District sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the District) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING: A service that banks offer to clients for a fee, where physical securities are held in the bank’s vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank’s name for the benefit of the client. As an agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on the call date, if called.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECONDARY MARKET: A market for the repurchase and resale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds.

SPREAD: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTE: A complex, fixed-income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include “inverse floating rate” notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and “dual index floaters”, which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code allows local agencies to purchase the United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

TIME DEPOSIT: A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to $250,000 are insured by FDIC. Deposits over $250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

TOTAL RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return that equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity. (Net Invested Income/Time Weighted Invested Value) X (365/ # of days in the reporting period)

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK: A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER: A dealer which purchases a new issue of municipal securities for resale.

U.S. GOVERNMENT AGENCY SECURITIES: Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

U.S. TREASURY OBLIGATIONS: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

TREASURY BILLS: Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES: Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

TREASURY BOND: Long-term coupon-bearing securities with initial maturities of ten years or longer.

UNREALIZED GAIN (OR LOSS): Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

VOLATILITY: Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

WEIGHTED AVERAGE MATURITY: The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

YIELD: The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

YIELD CURVE: Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD TO MATURITY: Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

RATING DESCRIPTION TABLE

Long Term Debt Ratings			
Credit Quality	**Moody's**	**S&P**	**Fitch**
Strongest Quality	Aaa	AAA	AAA
Strong Quality	Aa1/Aa2/Aa3	AA+/AA/AA-	AA
Good Quality	A1/A2/A3	A+/A/A-	A
Medium Quality	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB
Speculative	Ba1/Ba2/Ba3	BB+/BB/BB-	BB
Low	B1/B2/B3	B+/B/B-	B
Poor	Caa	CCC+	CCC
Highly Speculative	Ca/C	CCC/CCC-/CC	CC

Short Term Debt Ratings			
Credit Quality	**Moody's**	**S&P**	**Fitch**
Strongest Quality	P-1	A-1+	F1
Strong Quality		A-1	
Good Quality	P-2	A-2	F2
Medium Quality	P-3	A-3	F3

Note: Investment Grade ratings apply to securities with at least a medium credit quality or higher by one of the nationally recognize statistical rating organization; anything below the medium credit quality is non-investment grade.

Finance, Affordability, Asset Management and Efficiency Committee

Statement of Investment Policy and Authority to Invest

Item 7-6
June 10, 2025

Item 7-6

Statement of Investment Policy and Authority to Invest

Subject

Statement of Investment Policy and Authority to Invest

Purpose

Obtain Board approval on the FY2025/26 Investment Policy and delegate authority to the Treasurer to invest Metropolitan’s funds for FY2025/26

Next Steps

Manage compliance with Metropolitan’s Investment Policy

Investment Policy and Authority to Invest

Section 5114 of Metropolitan's Administrative Code requires the Treasurer to submit a Statement of Investment Policy to the Board for approval for the following fiscal year.

Sections 53600 et seq. of the California Government Code expressly grant the authority to the Board to invest public funds and that authority may be delegated to the Treasurer for a one-year period.

Statement of Investment Policy –Change

	FY2024/25	FY2025/26	Rationale
§X.5	All corporate and depository institution debt securities (not to include other investment types specified in Code) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. • Maximum allocation: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer • Maximum maturity: Five (5) years • Credit requirement: A or its equivalent or better by an NRSRO.	All corporate and depository institution debt securities (not to include other investment types specified in Code) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. • Maximum allocation: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer • Maximum maturity: Five (5) years • Credit requirement: AA or its equivalent or better by at least one NRSRO. If rated by any other NRSRO, eligible securities must also be rated A or its equivalent or better.	The credit requirement at the time of purchase is increased to lower the default risk of corporate bond issuers and provide a greater degree of safety and stability.

Options for Considerations

Option #1:

Approve the Statement of Investment Policy for fiscal year 2025/26; and
Delegate authority to the Treasurer to invest Metropolitan‘s funds for fiscal year 2025/26.

Option #2:

Do not approve the Statement of Investment Policy for fiscal year 2025/26 and do not delegate authority to the Treasurer to invest Metropolitan’s funds for fiscal year 2025/26.

Staff Recommendation

Option #1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Action

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

6/10/2025 Board Meeting

7-7

Subject

Approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for Fiscal Year 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The Property and Casualty Insurance Policy premiums for fiscal year (FY) 2025/26 will increase by up to $314,000 or approximately 14.5 percent from about $2.171 million for the current fiscal year, to approximately $2.485 million, if Metropolitan maintains the same coverage limits and retentions. The cost increase results from the insurance market pricing in a confluence of conditions and trends, including catastrophic storm and wildfire losses, persistent inflation, economic uncertainty, global instability, and surging liability claim costs experienced by government entities and corporations. Finally, rising medical costs are contributing to rising settlement costs and higher premiums across multiple lines of coverage.

The following insurance coverages within the Property and Casualty Insurance Program will be expiring on June 30, 2025:

1. $75 million general liability coverage in excess of a $25 million self-insured retention.
2. $60 million fiduciary and employee benefits liability coverage in excess of a $25 million self-insured retention.
3. $65 million public officials, directors, and officers' liability coverage in excess of a $25 million self-insured retention.
4. $5 million crime coverage for exposures such as fraud, theft, faithful performance, and employee dishonesty in excess of a $150,000 deductible.
5. $25 million aircraft liability coverage; $10 million Unmanned Aerial Vehicle (UAV) liability coverage; and aircraft hull coverage up to the planes' assessed values.
6. Statutory workers' compensation, and $1 million employer's liability coverage, in excess of a $5 million self-insured retention; and statutory coverage for Washington, D.C. employees.
7. Property damage coverage up to the stated property value, with a $25 million policy limit.
8. Cyber liability with $5 million policy limits.
9. Special contingency crime coverage with $5 million in policy limits.
10. Travel accident coverage with a $250,000 policy limit.

Attachment 1 compares the current coverage and premium costs to those proposed for FY 2025/26.

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

Staff Recommendation: Option #1

Option #1

Approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for Fiscal Year 2025/26.

Fiscal Impact: The anticipated $2.485 million premium cost for FY 2025/26 would result in an approximate $314,000 cost increase compared with the $2.171 million premium cost for FY 2024/25. The $2.485 million is included in the current board-approved budget.
Business Analysis: Protects Metropolitan's financial position against the risk of catastrophic loss.

Option #2

Do not approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program.
Fiscal Impact: Not approving the renewal for FY 2025/26 would result in an approximate savings of $2.171 million compared with the $2.171 million premium cost expended for FY 2024/25, and up to $2.485 million saved versus option one. Not approving the purchase of insurance leaves Metropolitan without excess coverage above the self-insured retentions for general liability and workers' compensation, and unprotected against catastrophic loss. Metropolitan would also be exposed to financial loss in all other categories of insurance currently covered.
Business Analysis: Option #2 does not protect Metropolitan's financial position against catastrophic loss, and therefore increases Metropolitan's exposure to liability loss, as well as adding exposure for first-party losses that have been previously insured.

Alternatives Considered

Reviewed both higher and lower self-insured retentions for Excess General Liability coverages, but neither is a viable option.

Applicable Policy

Metropolitan Water District Administrative Code Section 5201: Restricted Funds

Metropolitan Water District Administrative Code Section 5202: Fund Parameters

Metropolitan Water District Administrative Code Section 6413: Insurance Program

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination(s) for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)).

CEQA determination(s) for Option #2:

None required

Details and Background

Background

Self-Insured Retention and Excess Limits – For all coverages, staff reviews the self-insured retention levels and excess coverage limits to ensure that coverage is adequate, premium costs are controlled, and to take advantage of market changes that create opportunities to increase coverage limits and decrease premiums or self-insured retention levels. This process is completed with the services of actuarial consultants, Metropolitan's insurance broker, staff review, and comparisons with other like agencies. To attempt to limit the expected premium cost increases for Excess General Liability coverage (catastrophic coverage for claims exceeding Metropolitan's $25 million self-insured retention), staff requested premium quotes at various retention levels. For the FY2024/25 renewal, staff obtained additional premium indications for the first policy layer of this coverage with self-insured retentions of **$35 million and $50 million, versus our current 25 million retention level.** The cost savings were minimal and did not justify the risk added. For the FY2025/26 renewal, there is no cost savings from raising the retention level to $35 million or $50 million because of the insurance market conditions and Metropolitan's already high level. Staff also reviewed a lower retention level of $15 million, but the indication of price to the lower retention level would increase the cost of the General Liability coverage by 300 percent. This is in line with what we would expect during a period of sharply rising premium rates for general liability, and is not a cost-effective option. Because there is no premium savings to gain from increasing the retention level, and since lowering the retention below the current $25 million would create a significant cost increase, we believe that the current retention level remains suitable and cost-effective for Metropolitan's risk profile in this environment.

In addition to the usual coverage review, such as that described above, staff investigates other coverage options, such as earthquake insurance or property coverage for headquarters, which we have been evaluating over the last couple of years. Due to notable price increases for our existing coverages and Metropolitan's recent Headquarters Building earthquake retrofit project, it has not been timely to pursue earthquake coverage at this time. Because of the dramatic rise in cyber-attacks worldwide and the increasing threat, and because there was more market capacity and the market had softened for the coverage, Metropolitan was able to add cyber liability to the portfolio as part of the 2024/25 renewal.

All coverage limits and retentions are reviewed to maintain appropriate protection at cost-effective rates. Historically, there have been more changes to Metropolitan's self-insured retention and excess coverage limits for the workers' compensation policies than the other coverages during the last two decades due to global events and medical cost trends. Because of the overall difficult insurance market where coverage has become less available and prices continue to rise, we are not recommending changes to the existing coverage portfolio retentions and limits. Each of the different lines of insurance coverage is described below.

General Liability – The two layers of excess general liability, and public officials, directors, and officers' liability (D&O) policies provide catastrophic coverage for claims exceeding Metropolitan's $25 million self-insured retention level, and make up the largest portion of Metropolitan's casualty and specialty insurance premium budget. The cost of these coverages in the aggregate is projected to increase by about 15 percent, from about $1,734,000 in FY 2024/25, to an estimated $1,994,000 for FY 2025/26. The estimates this year do not yet include the disclosure of the likely continuity credit (a dividend or rebate for good aggregate claims experience, and remaining with the insurer), which last year lowered the cost of the excess general liability by about $27,000. Within the total general liability aggregate, the premium for the two layers of D&O coverage in FY 2024/25 was lowered from about $350,000 to approximately $320,000 after the continuity credit of $30,200 was declared. For FY 2025/26, the projected premium cost, without inclusion of a likely continuity credit, is expected to be approximately $367,600, an increase of 15 percent. The possible inclusion of continuity credit would reduce that price increase.

Fiduciary Liability – In FY 2019/20, Metropolitan added coverage to include the deferred compensation program to its existing fiduciary coverage for the first $35 million layer of coverage. Metropolitan also carries a second layer of excess coverage with $40 million in limits. For FY 2024/25, the premium cost for the two layers of coverage was $96,989. For FY 2025/26, the premium cost is anticipated to increase slightly by approximately 4.1 percent from FY 2024/25 to an estimated amount of $101,000.

Workers' Compensation – Excess workers' compensation insurance protects Metropolitan against the financial exposure of workplace injury and illness claims. This coverage is designed to handle an individual's catastrophic injury, or, for example, an event such as multiple injuries occurring at the Metropolitan Headquarters Building due to a major disaster. Metropolitan is self-insured for the first $5 million in losses, after which the excess coverage with statutory limits goes into effect. Metropolitan also carries a separate first dollar (no deductible) policy to cover employees based in Washington, D.C. Over the last 15 years, Metropolitan has actively adjusted its self-insured retention and coverage limit in reaction to changes in the insurance market in order to maintain cost-efficient and adequate coverage. To control skyrocketing premium costs during the early 2000s that resulted from the 9/11 terrorist attacks and other global events, Metropolitan incrementally increased the self-insured retention to its current level of $5 million. Since FY 2011/12, premium costs have leveled off, and occasionally even declined. Consequently, Metropolitan took advantage of the premium rate reduction and increased the coverage limit from $25 million to $50 million. In 2015, Metropolitan again took advantage of market opportunities and was able to obtain statutory limit excess workers' compensation coverage. Metropolitan's good claims experience has also contributed to keeping the excess premium costs down.

The total premium costs for FY 2025/26 for the excess workers' compensation policy and the first dollar policy for Washington D.C. employees will increase by about 10.4 percent, from $134,899 in FY 2024/25 to $148,978. Within that total amount, the premium for the first dollar policy for Washington, D.C. employees will decrease slightly, from $1,198 to $1,179.

Property Insurance – In order to have obtained reimbursement of over $500,000 from the Federal Emergency Management Agency for damage resulting from the 2009 fall season fires, Metropolitan maintains a property damage insurance policy to cover the area damaged in that fire. The policy premium was $8,027 in FY 2024/25, and will rise by as much as 25 percent to an estimated $10,000 for FY 2025/26. Though a small dollar amount, the projected large percentage increase is due to the past five years' historic catastrophic wildfire seasons, and the continuing exposure of loss to property owners and insurers going forward.

Specialty Coverages – Metropolitan carries aviation coverage, which includes aircraft liability and hull coverage, and liability coverage for our UAV fleet. In addition, Metropolitan carries cyber liability, crime, travel accident, and special contingency crime policies to complete its insurance portfolio. The cyber liability policy includes protection against cyberattack-related risks such as business interruption, data loss, and system failure, to name a few. The premium cost will remain flat at $102,498 for FY2025/26. The aviation policy provides $25 million aircraft liability, hull coverage up to the assessed value of the planes, and UAV liability coverage up to $10 million. For FY 2024/25, policies covering Metropolitan's two planes and eight UAVs cost $86,126. For FY 2025/26, the premium will increase by 4.6 percent to $90,104. The crime policy provides $5 million in coverage with a $150,000 deductible to protect against losses such as fraud, public employee dishonesty, and forgery. The cost to obtain this policy will remain at $8,245 for the coming year. Metropolitan also carries three-year duration special contingency crime and travel accident policies last purchased in FY 2022/23 for the amounts of $4,442 and $21,633, respectively. The estimated renewal cost of the travel accident policy is expected to rise by approximately 15 percent to about $24,900. The estimated renewal cost for the special contingency crime premium is about $5,100.

The estimated total cost of the insurance renewal for FY 2025/26, with similar limits and retentions and without the inclusion of the expected continuity credits, is $2,485,000, up from about $2,171,000 million, an increase of $314,000 over FY 2024/25 if Metropolitan renews all expiring coverages without changes to the self-insured retention levels.

Project Milestones

Insurance policies are bound (official decision to purchase) in June or once they become final and are paid immediately thereafter.

6/2/2025	
Katano Kasaine	*Date*
Assistant General Manager/	
Chief Financial Officer	

6/2/2025	
Deven Upadhyay	*Date*
General Manager	

Attachment 1 – Metropolitan's Casualty and Property Insurance Program Insurance Premium Comparison in Dollars

Ref# cfo12709199

Metropolitan's Casualty and Property Insurance Program
Insurance Premium Comparison
In Dollars

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2024/25 Insurance Premiums	2025/26 Quoted and Estimated Premiums Cost	2025/26 Quoted and Estimated Premiums Cost Change	2025/26 Quoted and Estimated Premiums % Change
Excess General Liability [1]	$25 million	$75 million	1,414,290	1,626,500 *	212,210	15%
Fiduciary and Employee Benefits Liability [1]	$25 million	$60 million	96,989	101,000 *	4,011	4.1%
Public Officials Directors and Officers Liability [1]	$25 million	$65 million	319,677	367,600 *	47,923	15%
Crime	$150,000	$5 million	8,245	8,245	0	0%
Aviation	$7,500	$25 million	86,126	90,104	3,978	4.6%
Excess Workers' Compensation, CA	$5 million	Statutory	133,701	147,799	14,098	10.5%
Excess Workers' Compensation, D.C.	$0	Statutory	1,198	1,179	(19)	-1.6%
Property	$0	Asset value	8,027	10,000 *	1,973	24.6%
Cyber Liability	$500,000	$5 million	102,498	102,498	0	0%
Special Contingency Crime [2]	$0	$5 million	4,442	5,100 *	658	14.8%
Travel Accident [2]	$0	$250,000	21,633	24,900 *	3,267	15.1%
Total			**2,170,753**	**2,484,925**	**314,172**	**14.5%**

[1] Premium Quoted and Estimated costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability.
[2] Three-year duration policies last purchased July 2022, and are up for renewal FY 2025/26.
* 2025/26 Estimated Premiums Cost.

Finance, Affordability, Asset Management and Efficiency Committee

Approve up to $2.485 Million to Purchase Insurance Coverage for Metropolitan's Property and Casualty Insurance Program for Fiscal Year 2025/26

Item 7-7

June 10, 2025

Item 7-7

Approve Insurance Coverage for MWD's Property & Casualty Insurance Program

Subject

Approve up to $2.485 million to Purchase Insurance Coverage for Metropolitan's Property and Casualty Insurance Program for Fiscal Year 2025/26

Purpose

Review the Current Property and Casualty Insurance Program and obtain Board approval to renew and replace coverages

Metropolitan's Property and Casualty Insurance Program

Self-Insured Retention

General Liability	$25 million
Workers' Compensation	$ 5 million
Property Damage *	Self-Insured

* Excluding Stand Alone Property Insurance Coverage

Excess Insurance

Metropolitan's Property and Casualty Insurance Program

General Liability	$75 million
Public Official, Directors & Officers Liability	$65 million
Fiduciary & Employee Benefit Liability	$60 million
Workers' Compensation	Statutory

Specialty Insurance

Metropolitan's Property and Casualty Insurance Program

Aircraft Liability	$25 million
Aircraft Hull	Assessed Value
Property Damage	Assessed Value
Crime	$5 million
Cyber Liability	$5 million
Special Risk *	$5 million
Travel Accident *	$250,000

* 3-year duration policies last purchased FY 2022/2023

Metropolitan's Property and Casualty Insurance Program

2025/26 Outlook

14.5% Overall Cost Increase

Factors Driving Expected Cost Increase

- Persistent inflation and economic uncertainty
- Catastrophic climate change fueled storm and wildfire losses
- International instability and military conflicts
- Political and social unrest
- Surging government entity liability claim costs

Total Policy Renewal is **estimated** to increase from

$2.171 million to **$2.485 million**

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

1928

- **Board of Directors**

Finance, Affordability, Asset Management, and Efficiency Committee

6/10/2025 Board Meeting

7-8

Subject

Authorize the amendment of an existing license agreement with Duke Realty Corporation to adjust the license fee and extend the term for up to twenty additional years, thereby allowing continued ingress and egress rights across Metropolitan's Colorado River Aqueduct right of way in Perris, California; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This action authorizes the General Manager to amend an existing license agreement with Duke Realty Corporation to adjust the license fee and maintain an existing 50-foot driveway for ingress and egress purposes across Metropolitan's fee-owned Colorado River Aqueduct (CRA) right of way in Perris, California (**Attachment 1**). Metropolitan entered into the license agreement for a crossing over the Colorado River Aqueduct in order to accommodate a non-code-required 50-foot driveway serving an industrial development located both north and south of the CRA near Indian Avenue in the City of Perris. Board authorization to grant this license extension is required as the total term of the real property interest to be conveyed, including both the base license term and its extensions, exceeds five years.

Proposed Actions/Recommendations and Options

Staff Recommendation: Option #1

Option #1

Authorize the amendment of an existing license agreement with Duke Realty Corporation to adjust the license fee and extend the term for up to twenty additional years, thereby allowing continued ingress and egress rights across Metropolitan's Colorado River Aqueduct right of way in Perris, California.

Fiscal Impact: Metropolitan will receive license fee payments of $12,000 per year, subject to a four percent annual escalator and a right to reappraise and reset the base license fee every five years.

Business Analysis: Metropolitan will not be responsible for costs associated with annual maintenance, weed abatement, security, illegal dumping, and trespassing for the described portion of Metropolitan's right of way.

Option #2

Do not approve the license amendment.

Fiscal Impact: Metropolitan will forgo annual license fee revenue.

Business Analysis: Metropolitan will be responsible for costs associated with annual maintenance, weed abatement, security, illegal dumping, and trespassing.

Applicable Policy

Metropolitan Water District Administrative Code Section 8201: Authorization to General Manager

Metropolitan Water District Administrative Code Section 8230: Grants of Real Property Interests

Metropolitan Water District Administrative Code Section 8231: Appraisal of Real Property Interests

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 48766, dated August 16, 2011, the Board adopted fair market value policies for managing Metropolitan's real property assets.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action to grant a license amendment is exempt from CEQA because it involves the operation, maintenance, licensing, and minor alteration of existing public structures or facilities involving negligible or no expansion of existing or former use and no possibility of significantly impacting the physical environment. (State CEQA Guidelines Section 15301.)

CEQA determination for Option #2:

None required

Details and Background

Background

Duke Realty Corporation is requesting to extend the existing license agreement in order to continue the use and maintenance of an existing 50-foot driveway for ingress and egress purposes across Metropolitan's Colorado River Aqueduct (CRA) right of way in Perris, California. The non-code required 50-foot driveway was constructed to accommodate an industrial development which is located both to the north and to the south of the CRA near Indian Avenue in the City of Perris.

The CRA conveys water from the Colorado River to Lake Mathews and is a cut-and-cover conduit in this area. A protective slab over the CRA was constructed to accommodate the proposed crossing. The portion of the CRA right of way that is the subject of this license agreement totals .29 acres, and the licensee is currently using the surface of the property for ingress and egress to access their fee-owned properties on both sides of the aqueduct. The current license fee is $10,265, and the licensee is responsible for upkeep of the surface of the property, including annual maintenance costs at its sole cost and expense.

The license amendment will have the following key provisions:

- Subject to Metropolitan's paramount rights reservation
- Four five-year options to extend, providing up to twenty additional years to the term of the license agreement.
- Annual license fee of $12,000
- Four percent annual fee increases
- Right to reappraise the license fee every five years
- Either party can terminate the agreement with 90 days' advance written notice

The new license fee was established pursuant to an appraisal completed by our appraisal team.

	5/28/2025
Elizabeth Crosson *Chief Sustainability, Resilience and Innovation Officer*	*Date*
	5/28/2025
Deven Upadhyay *General Manager*	*Date*

Attachment 1 – Location Map

Ref# sri12701535

Location Map

Finance, Affordability, Asset Management and Efficiency Committee

Duke Realty Corporation License Amendment

Item 7-8

June 10, 2025

8-1
Overview of License Amendment

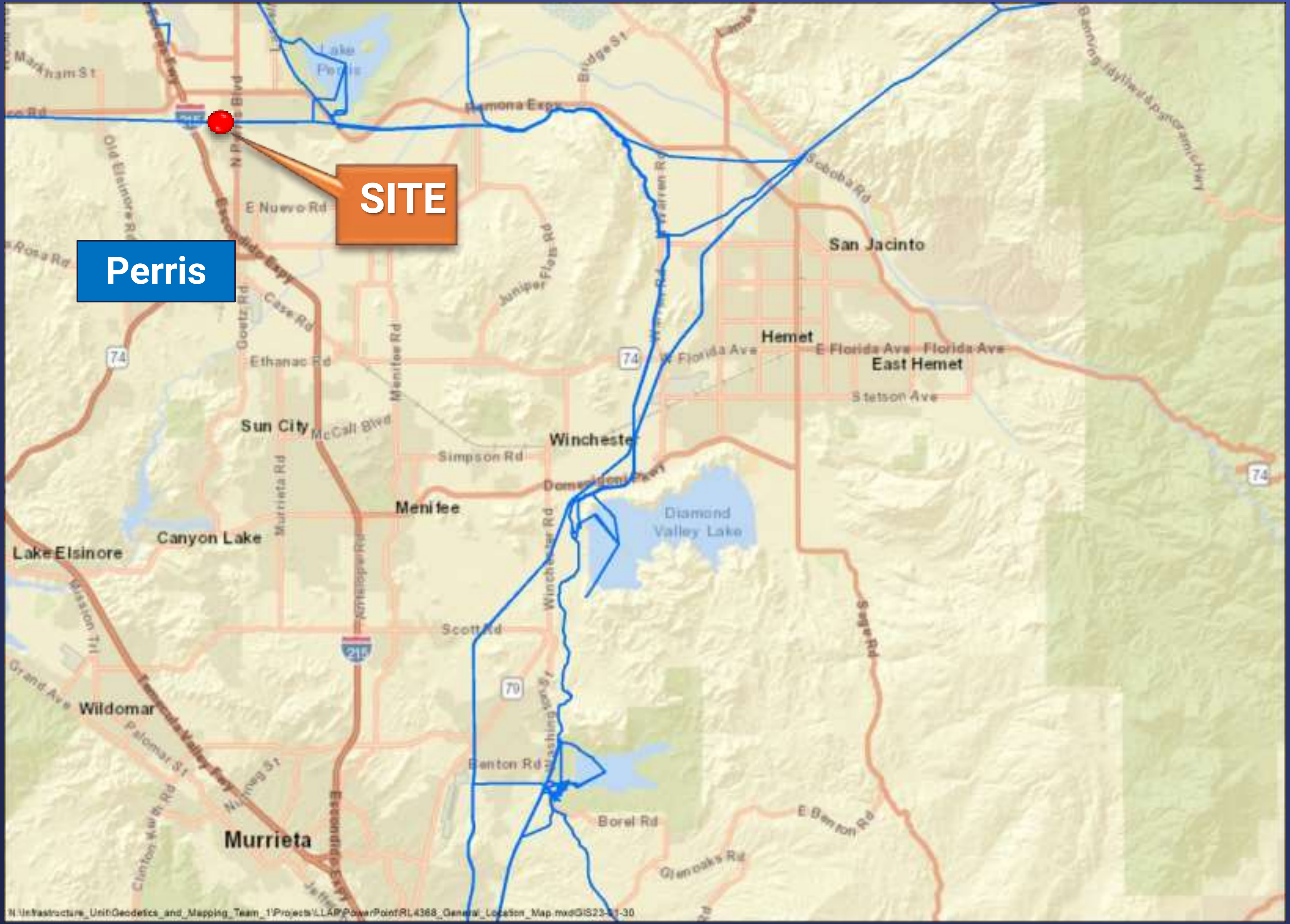
Subject

Authorize the amendment of an existing license agreement with Duke Realty Corporation to adjust the license fee and extend the term

Purpose

Allows continued ingress and egress rights across Metropolitan's Colorado River Aqueduct right of way in Perris, California

General Location Map



Site Map

Duke Perris
Logistic Center
Indian Ave
SITE
RL4070
(Area = 0.296 acres)
N Perris Blvd
Sta. 11594+00
Colorado River Aqueduct
Sta. 11633+00
Duke Perris
Logistic Center

Key Provisions

- Subject to Metropolitan's paramount rights reservation
- Four five-year options to extend, providing up to twenty additional years to the term of the license agreement
- Annual license fee of $12,000
- Four percent annual fee increases
- Right to reappraise the license fee every five years
- Either party can terminate the agreement with 90 days' advance written notice

Board Options

Option No. 1

- Authorize the amendment of an existing license agreement with Duke Realty Corporation to adjust the license fee and extend the term for up to twenty additional years, thereby allowing continued ingress and egress rights across Metropolitan's Colorado River Aqueduct right of way in Perris, California

Option No. 2

- Do not approve the license amendment

Board Options

Staff Recommendation

- Option No. 1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

1928

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Action

- **Board of Directors**

  Finance, Affordability, Asset Management, and Efficiency Committee

6/10/2025 Board Meeting

7-9

Subject

Authorize an amendment to the LRP Agreement to extend the start-of-operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase I Project; adopt CEQA determination that the proposed action was previously addressed in the City of Oceanside's adopted 2018 Final MND and Addendum and Olivenhain Municipal Water District's certified 2015 Final PEIR and Addendum and that no further CEQA review is required

Executive Summary

This letter requests authorization for Metropolitan to approve the San Diego County Water Authority's (SDCWA) request to amend the Local Resources Program Agreement by extending the start-of-operation deadline from June 30, 2025, to June 30, 2028, for the Oceanside Pure Water and Recycled Water Expansion Phase I Project (Project) consistent with the adopted framework under the Local Resources Program (LRP).

The LRP provides financial incentives to encourage the development of local water supplies in Southern California. Each LRP agreement includes milestones for timely construction, operation, and production. In June 2021, the Board adopted a framework and evaluation criteria for considering future extension requests. In October 2021, the Board approved a framework for amending program agreements to provide additional flexibility to agencies to return projects to operation after a disruption. Under the approved framework for extension requests, member agencies may request an extension to the start of operation of their LRP project by up to three additional fiscal years if the member agency conforms to the approved criteria.

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

Staff Recommendation: Option #1

Option #1

Authorize an amendment to the LRP Agreement to extend the start-of-operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase I Project; adopt CEQA determination that the proposed action was previously addressed in the City of Oceanside's adopted 2018 Final MND and Addendum and Olivenhain Municipal Water District's certified 2015 Final PEIR and Addendum and that no further CEQA review is required.

Fiscal Impact: No new fiscal obligations will result from the proposed amendment. Payments to the Project are included in the budget and are currently projected to begin in 2025. Payments to the Project will be shifted by three years to begin in 2028. The maximum financial obligations were provided when the Board approved the LRP Agreement for this Project on November 5, 2019, and remain at up to $42.7 million over 15 years for a project yield of 150,000 acre-feet (AF) over 25 years.

Business Analysis: The Project would help Metropolitan support local supply development and meet legislative mandates while alleviating the burden on Metropolitan's infrastructure and reducing overall system costs.

Option #2

Do not extend the LRP Agreement start-of-operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase I Project.

Fiscal Impact: Metropolitan's financial commitment for up to $42.7 million over 15 years would be removed from the budget forecast.

Business Analysis: Metropolitan would no longer provide financial incentives for the Project and potentially delay meeting the LRP's target goals.

Alternatives Considered

Not applicable

Applicable Policy

By Minute Item 49923, dated October 14, 2014, the Board approved refinements to the Local Resources Program to encourage additional local resource production.

By Minute Item 51356, dated October 9, 2018, the Board approved an interim Local Resources Program target yield of 170,000 AFY of new water production.

By Minute Item 51794, dated November 5, 2019, the Board approved authorizing the General Manager to enter into a Local Resources Program Agreement with the San Diego County Water Authority and the City of Oceanside for the Oceanside Pure Water and Recycled Water Expansion Phase I Project for up to 6,000 AFY of recycled water.

By Minute Item 52415, dated June 8, 2021, the Board approved changes to the start-of-operation timing for four Local Resources Program Projects and formally adopted the policy described in the board letter for evaluation of future LRP extension requests.

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

Not applicable

Summary of Outreach Completed

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

On November 5, 2019, the Board acted as a Responsible Agency and certified that it reviewed and considered the information in the City of Oceanside's 2018 Final Mitigated Negative Declaration (MND) and Addendum, and adopted the Lead Agency's findings and Mitigation Monitoring and Reporting Program (MMRP); and certified that it reviewed and considered the information in Olivenhain Water District's certified Final 2015 Program Environmental Impact Report (PEIR) and Addendum and adopted the Lead Agency's findings and MMRP; and approved the terms and conditions of an LRP agreement for the Oceanside Pure Water and Recycled Water Expansion Phase I Project. The proposed action to extend the LRP Agreement start-of-operation deadline represents a minor modification affecting only the fiscal aspects of the Project. Thus, the previous environmental documentation acted on by the Board in conjunction with the LRP project complies with CEQA, and no further action is required.

CEQA determination for Option #2:

None required

Details and Background

Background

In 1982, Metropolitan created the LRP to provide financial incentives to help local agencies develop water recycling and groundwater recovery projects and, therefore, assist Metropolitan in reaching its regional water reliability goals. Since the LRP's inception, Metropolitan has provided about $549 million in incentives for the development of more than 3.2 million AF of recycled water and about $209 million in incentives for the development of more than 1.3 million AF of recovered groundwater. There are 118 projects currently under contract. LRP projects increase water supply reliability, reduce imported water demands, decrease the burden on Metropolitan's infrastructure, reduce system costs, and free up conveyance capacity. In addition, the LRP helps Metropolitan meet its legislative mandates under Senate Bill 60 to expand water conservation, recycling, and groundwater storage and replenishment measures. Overall, the LRP benefits all member agencies regardless of the project location.

In November 2019, the Board authorized the General Manager to enter into an LRP Agreement with SDCWA and the City of Oceanside (City) for the Oceanside Pure Water and Recycled Water Expansion Phase I Project (Project). In December 2020, the LRP Agreement (Agreement) was executed. The Project met its first milestone for the start of construction by June 30, 2023.

Oceanside Pure Water and Recycled Water Expansion Phase I Project (Project)

The Project consists of two components: (1) the Oceanside Pure Water Project, and (2) the Upper and Lower Recycled Water System Phase I Expansion Project. For Component 1, the Oceanside Pure Water Project consists of the construction of a 4.5 million gallon per day advanced water purification facility (AWPF) to produce up to 5,040 AFY of purified water to inject 3,360 AFY into the Mission Basin Groundwater Purification Facility to supplement the City's potable water supply. For Component 2, the Upper and Lower Recycled Water System Phase I Expansion project consists of the construction of the upper conveyance system in the northeastern portion of the City and the lower conveyance system in the southeastern region of the City. The upper system is planned to blend and transport up to 1,680 AFY of purified water with Title 22 tertiary recycled water to provide up to 2,640 AFY to agricultural, landscape, and urban irrigation customers.

The Project facilities under the Agreement include the AWPF (reverse osmosis filtration and ultraviolet-advanced oxidation process), nitrification and denitrification upgrades to the existing San Luis Rey Water Reclamation Facility (SLRWRF), a pump station, conveyance and backwash pipelines, injection and monitoring wells, 60,700 feet of recycled water pipeline, a 3.0-million-gallon storage reservoir, and pump stations for the Upper System, and 28,500 linear feet of recycled water pipeline, a 2.2-million-gallon storage reservoir, a pump station, and connections to existing recycled water pipeline for the Lower System.

2021 Framework and Criteria for Evaluating the Request to Extend the Start of Operation

In June 2021, the Board approved a framework and evaluation criteria proposed by staff for extensions due to delays in the start-of-operation milestones for the LRP projects. To qualify, the project must have an active agreement and currently be under construction. The member agency must also meet the following four criteria: (1) formally request an extension and describe the reasons for the delay; (2) affirm that all parties to the Agreement are still pursuing the project; (3) provide a revised schedule; and (4) affirm that the project will start operation within the requested extension (not to exceed three fiscal years).

SDCWA's Request to Extend the Start-of-Operation Deadline – Agreement Amendment

On May 22, 2025, SDCWA, on behalf of the City, submitted a formal request to Metropolitan for an extension to the Project's start of operation due to unforeseen delays, including technical, regulatory, and operational challenges, as described in their letter (**Attachment 1**). The Project has an active LRP Agreement and is under construction. Metropolitan staff determined their request satisfied the Board established criteria to seek an extension because the letter formally requested an extension, described the reasons for the delay, affirmed that all parties to the Agreement continue to pursue the Project, provided a revised schedule, and affirmed that the Project would start operating within the requested extension of three fiscal years.

After initiating advanced treatment at the AWPF, the City encountered a series of operational issues in early 2022, including microbiologically influenced corrosion in the injection wells, causing damage to the stainless-steel components, and external fouling in the facility's strainers. The original strainer design made in-place flushing inefficient, requiring frequent labor-intensive cleaning. Therefore, a more suitable replacement was identified, but the procurement was delayed by COVID-19-related supply chain issues. In 2023, the air compressor system failed, halting ultrafiltration operations. The City experienced procurement delays for the replacement unit, and a redesign of the compressor pipe was needed to maintain equipment warranties, which further extended the installation schedule. During this time, injection operations remained offline. The City is awaiting final regulatory inspection; further testing and optimization are needed for full implementation of the AWPF. The City is also working to transition from manual to automated operations, which are needed to support continuous 24/7 facility operations.

The City has also experienced delays in the construction of its recycled water system expansion. The Fire Mountain and pump station construction has been delayed due to rising costs and equipment procurement.

Additionally, the City experienced staffing transitions, specifically the primary contacts for the LRP. While some of these positions have recently been filled, the vacancy of the Water Utilities Director role has contributed to the delay in submitting the extension request.

If the Board grants SDCWA's extension request, the Agreement will terminate 25 years following the new start-of-operation date. **Attachment 2** summarizes the Project's current LRP contract terms and the revised terms if the Board approves the extension request. Metropolitan would not incur any new financial obligations from such an extension. The Project is included in the budget, and the current forecast includes payments to the Project starting in 2025. If the extension is granted, staff will shift the timing of the payments by three years. If the extension request is not granted, the Agreement will terminate, and the estimated payments to the Project will be removed from the forecasted expenditures of the LRP.

6/3/2025

Brandon J. Goshi — *Date*
Manager, Water Resource Management

6/3/2025

Deven N. Upadhyay — *Date*
General Manager

Attachment 1 – SDCWA Letter Requesting Start-of-Operation Extension

Attachment 2 – LRP Project Requesting Start-of-Operation Extensions

Ref# wrm12706870

San Diego County
Water Authority

Brandon Goshi
Water Resource Management Group Manager
Metropolitan Water District of Southern California
700 North Alameda Street
Los Angeles, CA 90012

May 22, 2025

RE: MWD's Local Resource Program Agreement No. 191282 for Oceanside Pure Water and Recycled Water Expansion Phase I Project - Request for Contract Extension

Dear ~~Mr. Goshi~~ Brandon:

The San Diego County Water Authority (Water Authority) is submitting this letter to Metropolitan Water District of Southern California (MWD) to formally request a three-year extension to the contractual start date for operations under the above referenced Local Resources Program (LRP) Agreement (Agreement).

On December 1, 2020, the Water Authority, the City of Oceanside (City), and MWD executed the above referenced Agreement for the Oceanside Pure Water and Recycled Water Expansion Phase I Project (Project), which will be owned and operated by the City, a member agency of the Water Authority.

On behalf of the City, the Water Authority requests an extension of the Project's start of production deadline from June 30, 2025, to June 30, 2028. This request is made as a result of unforeseen delays related to COVID-19 supply chain issues, construction delays, and a series of technical and operational challenges. This request for an extension is consistent with the requirements outlined in Item 7-7, as approved by MWD's Water Planning and Stewardship Committee and MWD's Board of Directors on June 8, 2021.

Despite the unforeseen setbacks, the City continues to make progress and is fully committed to bringing the Project online as a local and sustainable water source for the region. The City will meet the requested extension deadline and continue to work to bring the Project online sooner, if possible. The Water Authority remains supportive of the City in completing the Project according to the revised schedule.

Attached is a letter from the City with additional information that details the reasons for the delay and its commitment to complete the Project under the three-year extension. Also attached is a revised schedule for Project implementation with a revised start of production date as required by MWD.

San Diego County Water Authority

Thank you for considering our request. If you have any questions, please contact Jesica Cleaver at JCleaver@sdcwa.org or 858-522-6764.

Sincerely,

Meena Westford

Meena Westford
Director of Imported Water

Attachment – Extension Request Letter from City of Oceanside and Revised Project Schedule

CC: Kira Alonzo, MWD, Water Resource Management Group
Nadia Hardjadinata, MWD, Water Resource Management Group
Tracy Abundez, MWD, Water Resource Management Group

CITY OF OCEANSIDE
WATER UTILITIES DEPARTMENT

May 22, 2025

Mr. Dan Denham
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, California 92123

Re: MWD's Local Resources Program Agreement No. 191280 for Oceanside Pure Water and Recycled Water Expansion Phase I Project - Request for Contract Extension

Dear Mr. Denham,

This letter is required for the San Diego County Water Authority (SDCWA) to initiate a request to the Metropolitan Water District of Southern California (MWD) to extend for three fiscal years the contractual date for start of production of advanced treated water and recycled water under the above referenced Local Resources Program (LRP) Agreement (Agreement).

The Oceanside Pure Water and Recycled Water Expansion Phase I Project (Project) will be owned and operated by the City of Oceanside (City). The City is constructing a multi-phased Pure Water Oceanside Program which includes construction of a 4.5 million gallon per day (MGD) advanced water purification facility (AWPF), nitrification and denitrification (NDN) upgrades to the existing San Luis Rey Water Reclamation Facility (SLRWRF), a pump station, conveyance and backwash pipelines, and injection and monitoring wells. The Project will provide up to 5,040 AFY of purified water to inject 3,360-acre feet per year (AFY) into the Mission Basin aquifer which will be treated at the Mission Basin Groundwater Purification Facility (MBGPF) to supplement the City's potable water supply.

In addition, the Project includes the construction of the Upper and Lower Recycled Water System Expansion Phase I Project. The Upper system is planned to blend and transport up to 1,680 AFY of fully advanced treated water with Title 22 tertiary recycled water to provide up to 2,640 AFY to agricultural, landscape and urban irrigation customers to the Upper System. The Lower distribution system will include conveyance pipelines, a reservoir, and pump station to irrigation customers.

On December 1, 2020, the City, MWD, and SDCWA executed the above referenced Agreement. The City is requesting to extend the start of production from June 30, 2025 to June 30, 2028, due to unforeseen delays including supply chain challenges, resulting from the COVID-19 pandemic, unforeseen operational and construction issues, and environmental challenges.

<u>Reason for Requested Extension</u>
The City of Oceanside is requesting a one-time, three-fiscal-year extension of the required production date under the Local Resources Program Agreement due to a series of technical, regulatory, and operational challenges that have delayed full implementation of the Project.

After initiating advanced treatment at the AWPF on December 30, 2021, the City encountered early operational issues in 2022, including microbiologically influenced corrosion in the injection wells that caused damage to stainless steel components. Around the same time, the facility's strainer experienced significant external fouling. The original design made in-place flushing ineffective, requiring frequent labor-intensive cleaning. A more suitable replacement was identified, but procurement was delayed by supply chain constraints. These post-COVID delays continued to affect material and equipment availability across the construction industry, including this Project. As a result, the delivery of the replacement strainer delivery was delayed approximately nine months compared to pre-pandemic lead times.

In 2023, the air compressor system failed, halting ultrafiltration operations. Although the vendor initially estimated a lead time of 7 to 9 weeks, the replacement unit did not arrive for five months – more than double the originally quoted timeframe. Additionally, a redesign of the compressor piping was required to maintain equipment warranties, further extending the installation schedule. Installation was ultimately in March 2025. Injection remained offline during this period, though the City has completed system testing and implemented maintenance protocols. Final regulatory inspection is scheduled for June 30, 2025.

Manual operations, limited automation, optimization of programming and integration of equipment, including staffing shortages have prevented continuous 24/7 facility operation. In addition, the Fire Mountain Reservoir and Pump Station project—supporting the City's recycled water system expansion—has faced delays due to rising construction costs and equipment procurement.

While the City has secured funding and continues to make steady progress, these compounded delays have extended the project schedule. The City requests an extension of the production start date to **June 30, 2028** to complete construction, obtain regulatory approvals, and achieve LRP production goals.

Additionally, the City experienced staffing transitions earlier this year, including the departure of its primary contacts for the LRP. While one of these positions has recently been filled, the vacancy of the Water Utilities Director role has contributed to the delay in submitting the extension request.

Commitment to Project Completion

The City of Oceanside remains fully committed to advancing the Pure Water Oceanside program and Recycled Water System Expansion and delivering a drought-resilient, local water supply for our region. Significant progress has been made, and the City continues to allocate resources toward facility optimization, staffing, permitting, and construction. The City will meet the requested extension of three fiscal years to complete construction and begin production by June 30, 2028, and anticipates this to occur sooner based on the current conditions. A revised implementation schedule from the original LRP application dated March 2019 is shown below for your review.

We respectfully request that this extension be considered by the MWD Board ahead of the current production deadline.

300 NORTH COAST HIGHWAY•OCEANSIDE, CA 92054•TELEPHONE 760-435-5800•FAX 760-435-5821

Thank you for your consideration of our request. We appreciate your continued support and look forward to working collaboratively with SDCWA and MWD staff to advance this important local water supply for the region.

Please feel free to contact me at (760) 435-5819 or MUyeda@oceansideca.org with any questions or requests for additional information.

Sincerely,

Mabel Uyeda

Mabel Uyeda, P.E.
Water Engineering Manager
Water Utilities Department
City of Oceanside

Enclosures: Revised schedule for Pure Water Oceanside

cc: Michael Gossman, Assistant City Manager
Aaron Cooley, Project Manager
John McKelvey, Principal Management Analyst

Revised Pure Water Oceanside and Recycled Water Expansion Project Implementation Schedule	
Injection Well Capacity Testing	January 2019 – April 2022
Monitoring Well Construction	November 2019 – January 2020
Injection Well Construction and Rehabilitation	November 2019 – September 2024
AWPF/NDN Upgrades Construction	January 2020 – November 2021
Conveyance/Backwash Piping Construction	March 2020 – October 2021
AWPF/NDN Upgrades Startup	October 2021 – December 2021
Tracer Test/Operational Support	October 2021 – December 2025
Operation Re-Design and Improvements/Implementation	January 2022 – March 2025
Monitoring Well Sampling Begins	March 2022
Upper Ph 1 Recycled Water Pipeline Final Design	April 2022 – September 2025
Lower Ph 1 Recycled Water Reservoir and Pump Station Construction	January 2025 – July 2026
Final Regulatory Inspection	June 30,2025
AWPF Design Optimization and Blending with Recycled Water	September 2025 – March 2028
Water First Reaches Production Wells #2 for extraction at MBGPF	March 2026
AWPF Water Production	March 2028

LOCAL RESOURCES PROGRAM (LRP) PROJECT REQUESTING START-OF-OPERATION EXTENSION

Project Information	
LRP Project	Oceanside Pure Water and Recycled Water Expansion Phase I Project
Member Agency	San Diego County Water Authority (SDCWA)
Ultimate Yield (AF)	6,000 AF
Date of Agreement Execution	December 1, 2020
Extension Timeline	
Start-of-Operation Milestone	June 30, 2025
Revised Start-of-Operation Milestone	June 30, 2028
Length of Extension Request	36 months
Additional Information	
Project currently under construction? ☑	
Member agency affirmed all parties pursuing project? ☑	
Member agency provided revised schedule? ☑	
Member agency affirmed that the project will start operation within 3 fiscal years? ☑	
Reasons for Requested Extension	
The extension request is due to unforeseen delays including supply chain challenges resulting from the COVID-19 pandemic supply chain issues, unforeseen construction delays, and a series of technical and operational challenges.	

Finance, Affordability, Asset Management, and Efficiency Committee

Authorize an amendment to LRP Agreement to extend start-of-operation deadline for Oceanside Pure Water and Recycled Water Expansion Phase I Project

Item 7-9

June 10, 2025

Item 7-9

Amendment to LRP Agreement for Oceanside Pure Water and Recycled Water Expansion Phase I Project

Subject

Authorize an amendment to LRP Agreement to extend the start of operation deadline for Oceanside Pure Water and Recycled Water Expansion Phase I Project

Purpose

To obtain Board approval to amend the LRP Agreement to extend the start of operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase I Project

Recommendation and Fiscal Impact

Staff recommends authorizing an amendment to the LRP Agreement to grant an extension to the start of operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase I Project

No new fiscal obligations result from the proposed amendment. Payments will be shifted by three years, beginning in 2028.

Local Resources Program

Background

Provides incentives for Metropolitan's member agencies to develop new local projects to increase water supply reliability in the region

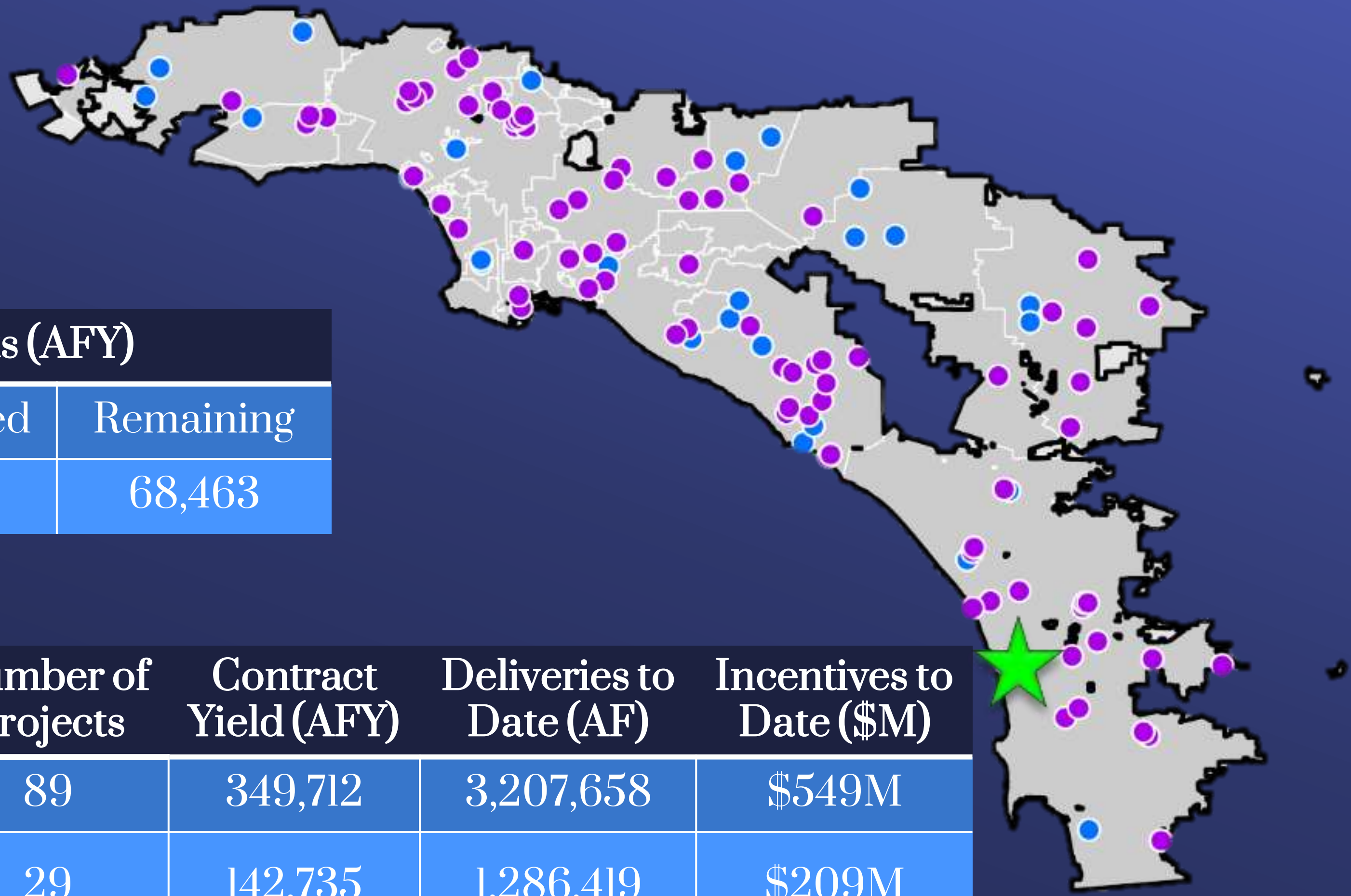
Recycled Water
(1982)

Groundwater Recovery
(1991)

Seawater Desalination
(2014)

Program Status

Local Resources Program



LRP Targets (AFY)		
Target	Committed	Remaining
170,000	101,537	68,463

Type	Number of Projects	Contract Yield (AFY)	Deliveries to Date (AF)	Incentives to Date ($M)
Recycling	89	349,712	3,207,658	$549M
Groundwater Recovery	29	142,735	1,286,419	$209M
Total	118	492,447	4,494,077	$758M

Oceanside Pure Water and Recycled Water Expansion Phase I Project

Project Details

- On November 5, 2019, the Board authorized the General Manager to enter into an LRP agreement with SDCWA and the City of Oceanside
- Oceanside Pure Water and Recycled Water Expansion Phase I Project
  - Recycled water for groundwater recharge for potable purposes (purified water)
  - Recycled water for agricultural & landscape irrigation
  - Treatment plant, pump stations, pipelines
  - Injection wells
  - Storage tanks
  - Capacity: 6,000 acre-feet

Approved LRP Framework

- On June 8, 2021, the Board approved framework and criteria for member agency requests to extend the start of operation milestone
  - Project must be under construction and have an active LRP agreement
- Evaluation criteria for extensions:

Formal Extension Request by Project Sponsor
- Include project-specific circumstances for extension request

→

Continuing Pursuance of Project by Parties
- Affirm that all parties to the agreement are still pursuing the project

→

Project Schedule
- Provide a revised schedule

→

Start of Operation Extension
- Affirm project will start operation within requested extension
- Maximum of three fiscal years

- Extension requests meeting evaluation criteria must be approved by the Board.

Start of Operation Extension

Request Details

- SDCWA submitted formal request to extend start-of-operation milestone from June 30, 2025 to June 30, 2028.
  - Parties are committed to the completion of the project
  - Project will begin operation on or before June 30, 2028
- Reasons for additional time needed
  - Design modifications
  - Supply chain challenges
  - Operational adjustments and staffing shortages

Summary

- Extension request meets Board-approved criteria
- All other terms of existing LRP Agreement remain unchanged
  - Amendment changes the start of operation milestone
- No further CEQA review is required
- No change to the maximum financial commitment approved by the Board
  - Shifts the timing of expenditures

Board Options

- Option #1

  Authorize an amendment to LRP Agreement to extend the start of operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase 1 Project; adopt CEQA determination that the proposed action was previously addressed in the City of Oceanside's adopted 2018 Final MND and Addendum and Olivenhain Municipal Water District's certified 2015 Final PEIR and Addendum and that no further CEQA review is required

- Option #2

  Do not extend the LRP Agreement start of operation deadline for the Oceanside Pure Water and Recycled Water Expansion Phase 1 Project

Staff Recommendation

- Option #1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

1928

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Action

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

6/10/2025 Board Meeting

7-10

Subject

Adopt a resolution declaring approximately 5,497 acres of Metropolitan-owned real property in the Sacramento-San Joaquin Delta, commonly known as Webb Tract, also identified as Contra Costa County Assessor Parcel Numbers: 026-070-001-8, 026-080-006-5, 026-080-009-9, 026-080-007-3, 026-080-008-1, 026-080-004-0, 026-008-005-7, 026-070-006-7, 026-070-013-3, 026-070-012-5, 026-070-011-7, 026-070-010-9, 026-060-019-2, 026-060-018-4, 026-060-008-5, 026-090-007-7, 026-060-003-6, 026-060-015-0, 026-060-016-8, 026-060-017-6, and 026-060-005-1 as exempt surplus land under the Surplus Land Act; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The long-term lease of Metropolitan-owned lands to further agency uses and purposes for more than fifteen years requires written documentation that such lands constitute "exempt surplus land" under the California Surplus Land Act (Government Code Section 54220, et seq.). The resolution before the Board declares certain portions of Webb Tract in the Sacramento-San Joaquin Delta region **(Attachment 1)** as exempt surplus land available for rice farming and other agricultural and ecorestoration and habitat maintenance-related uses that would further Metropolitan's water quality and water supply resiliency goals.

Proposed Action/Recommendation and Options

Staff Recommendation: Option #1

Option #1

Adopt a resolution declaring approximately 5,497 acres of Metropolitan-owned real property in the Sacramento-San Joaquin Delta, commonly known as Webb Tract, as exempt surplus land under the Surplus Land Act.

Fiscal Impact: No direct fiscal impact. The action merely makes a Board finding as to the availability of the land for certain agency uses and its administrative categorization.

Business Analysis: The generation of rental payments and other revenues and costs would be dependent on separate Metropolitan action. The current action making an exempt surplus land determination under the Surplus Land Act does not commit Metropolitan to the implementation of any specific future transaction or property use.

Option #2

None required.

Fiscal Impact: No direct fiscal impact. Existing property management and agency uses of the land would continue to the extent they do not require certain actions under the Surplus Land Act.

Business Analysis: Forgo future possible land utilization proposals associated with long-term leases that require actions under the Surplus Land Act.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code §§ 8240-8258 (Disposal of Real Property)

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 48766, dated August 16, 2011, the Board adopted the proposed policy principles for managing Metropolitan's real property assets.

By Minute Item 53012, dated October 11, 2022, the Board adopted the amended revision and restatement of Bay-Delta Policies, as set forth in Agenda Item 7-9

By Minute 53254, dated May 9, 2023, the Board adopted a resolution to support an approximately $20.9 million grant application to the Sacramento-San Joaquin Delta Conservancy to develop a multi-benefit landscape opportunity on Webb Tract; and authorized the General Manager to accept the grant if awarded.

Metropolitan Water District of Southern California Climate Action Plan.

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

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is exempt from CEQA because the action consists of the operation, repair, maintenance, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features involving negligible or no expansion of existing or former use and no possibility of significantly impacting the physical environment. In addition, the proposed action consists of minor public or private alterations in the condition of land, water, and/or vegetation which do not involve removal of healthy, mature, scenic trees except for agricultural purposes. (State CEQA Guidelines Sections 15301 and 15304.)

CEQA determination for Option #2:

None required

Details and Background

Background

Metropolitan owns the land area commonly known as Webb Tract in Contra Costa County. At the Board's request, Metropolitan staff presented in February 2024 a Delta Islands Strategic, Fiscal, and Risk Analysis, which outlined in part a possible multi-benefit land use strategy for Webb Tract and other Metropolitan land holdings in the Sacramento-San Joaquin Bay-Delta area. This strategy includes the issuance of long-term agricultural leases producing crops such as rice that reduce land subsidence and the advancement of ecorestoration goals while providing greenhouse gas emissions reduction and other environmental benefits and revenues to the district to further its statutory mission.

Before Metropolitan may award leases of land with terms of fifteen years or more or undertake certain other land conveyance-related actions, the Metropolitan is required to take the administrative step of declaring such parcels "exempt surplus land" under the Surplus Land Act and Metropolitan Administrative Code that is available for the furtherance of agency uses and purposes. The requested declaration is set forth in the resolution attached to this board letter (**Attachment 2**) and will be submitted to the California Department of Housing and Community Development, the entity with oversight over local agency compliance with the Surplus Lands Act. No dispositions or allocations to specific tenants or parties are implemented by this action.

Requested Exempt Surplus Determination

Staff recommends that the Board adopt the resolution declaring the roughly 5,497 acres making up Webb Tract as exempt surplus land available for long-term lease for rice farming and other agricultural and ecorestoration and habitat maintenance-related uses.

Basis for Findings that the Properties are Exempt Surplus Land

The identified Metropolitan-owned parcels in Webb Tract have historically been used for farming, open space, and recreational uses. The attached resolution would continue to make these lands available for agricultural and other property use of these lands, compatible with local ecosystems and habitat. Such activities would promote agency uses and purposes related to water supply and water quality protection through the stopping and reversal of land subsidence, the generation of revenues from rice fields and wetlands uses that could be used to fund Metropolitan projects and activities, increasing levee stability and the prevention of levee failures in the Sacramento-San Joaquin region, and other water-related goals.

6/3/2025

Elizabeth Crosson *Date*
Chief Sustainability, Resilience and Innovation Officer

6/3/2025

Deven Upadhyay *Date*
General Manager

Attachment 1 – Location Map

Attachment 2 -Resolution for Exempt Surplus Land

Ref# sri12705333


PARCEL ONE (WEBB TRACT)
COUNTY OF CONTRA COSTA, STATE OF CALIFORNIA
BD5000180 (S230)
026-080-006-5
BD5000180 (S170)
026-070-001-8
BD5000180 (S220)
026-080-009-9
BD5000180 (S240)
026-080-007-3
BD5000180 (S225)
026-080-008-1
RL4478
(Area = +/- 2,159 acres)
BD5000180 (S210)
026-008-005-7
BD5000180 (S215)
026-080-004-0

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION NO. __________

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA DECLARING APPROXIMATELY 5,497 ACRES OF METROPOLITAN-OWNED REAL PROPERTY IN THE SACRAMENTO-SAN JOAQUIN DELTA, COMMONLY KNOWN AS WEBB TRACT, AS EXEMPT SURPLUS LAND UNDER THE SURPLUS LAND ACT

WHEREAS, The Metropolitan Water District of Southern California ("Metropolitan") is the fee owner of certain real property located in the Sacramento-San Joaquin Bay Delta region in the County of Contra Costa, commonly known as Webb Tract. Metropolitan is considering devoting up to 5,497 acres of Webb Tract to long-term leases for rice and other crop production and ecorestoration and habitat maintenance-related uses. Such property is also identified as Contra Costa County Assessor Parcel Numbers 026-060-003, 026-060-015, 026-060-016, 026-060-017, 026-060-018, 026-060-019, 026-070-010, 026-070-011, 026-070-012, 026-070-013, 026-070-001, 026-070-006, 026-060-007, 026-060-008, 026-080-004, 026-080-005, 026-080-008, 026-080-009, 026-080-006, 026-080-007 (referred to collectively herein as the "Properties");

WHEREAS, Metropolitan is a metropolitan water district created under the authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended) (the "Act") which authorizes Metropolitan amongst other things to buy and sell interests in real property and to spend funds to: facilitate water conservation, water recycling, and groundwater recovery efforts in a sustainable, environmentally sound, and cost-effective manner; acquire water and water rights within or without the state; develop, store, and transport water; provide, sell, and deliver water at wholesale for municipal and domestic uses and purposes; and acquire, construct, operate, and maintain any and all works, facilities, improvements, and property necessary or convenient to the exercise of such powers;

WHEREAS, pursuant to Section 54221(b)(1) of the Surplus Land Act (California Government Code Sections 54220 – 54234) and the Surplus Land Act Guidelines of the California Department of Housing and Community Development, the Board of Directors of Metropolitan (the "Board") must declare the Properties to be "surplus land" or "exempt surplus land" before Metropolitan may take any action to dispose of the Properties, whether by sale or long-term lease;

WHEREAS, Government Code Section 54221(f)(1)(N) defines "exempt surplus land" to include real property that is used by a district for agency's use expressly authorized in Government Code Section 54221(c); and

WHEREAS, Section 54221(c)(2) of the Government Code provides that "agency's use" may also include commercial or industrial uses or activities, including nongovernmental retail, entertainment or office development, or be for the sole purpose of investment or generation of revenue if the agency's governing body takes action in a public meeting declaring that the use of the site will directly further the express purpose of agency work or operations.

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

Section 1. Recitals. The recitals set forth above are true and correct and are incorporated into this Resolution by this reference and are made a part of the official findings of the Board of Directors.

Section 2. Board Findings. The Properties are "exempt surplus land" pursuant to California Government Code Section 54221(f)(1)(N) and 54221(c)(2) because the long-term lease of the Properties would constitute an "agency use" for purposes of the Surplus Land Act, under the grounds set forth in the recitals of this Resolution and the board letter accompanying this Resolution and incorporated herein by reference. In particular, the long-term lease or disposal of all the Properties would generate revenues that can be used to directly further the water transportation, storage, treatment, delivery of water, and other statutory purposes of Metropolitan and the acquisition, construction, operation and maintenance of public works, facilities, improvements, and property necessary or convenient to the exercise of such powers. The long-term lease of the Properties would also promote agency uses and purposes related to water supply and water quality protection through the stopping and reversal of land subsidence, ecological benefits in the form of habitat for waterfowl and other species, improvements to levee stability and the prevention of levee failures in the Sacramento-San Joaquin region, and other water-related goals.

Section 3. Staff Authorizations. Metropolitan staff is hereby authorized to provide the Department of Housing and Community Development ("HCD") all necessary documentation and to take such actions as deemed necessary or proper to effectuate the purposes of this Resolution.

I HEREBY CERTIFY, that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on June 10, 2025.

____

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

Finance, Affordability, Asset Management and Efficiency Committee

Authorize a New Lease on Webb Tract

Item 8-1

June 10, 2025

8-1 Overview of New Lease

Subject

- Authorize a new agricultural lease agreement with Bouldin Farming Company for rice farming and related uses

Purpose

- Enter into long-term lease to convert existing agricultural land to rice farming, which will increase revenue and market value, and provide land subsidence and ecological benefits

General Location Map

Site Map

PARCEL ONE (WEBB TRACT)
CITY OF CONTRA COSTA, STATE OF CALIFORNIA
BD5000180 (S230)
026-080-006-5
BD5000180 (S170)
026-070-001-8
BD5000180 (S220)
026-080-009-9
BD5000180 (S240)
026-080-007-3
BD5000180 (S225)
026-080-008-1
BD5000180 (S210)
026-008-005-7
BD5000180 (S215)
026-080-004-0

Sacramento-San Joaquin Delta Conservancy Grant

Webb Tract Multi-Benefit Mosaic Landscape Projects

- Board approved Phase 1 – Design and outreach for RFP
- $20.9 million grant funds two projects:
  - Rice Conversion Project up to $4 million
  - Wetland Restoration Project remaining funds
- Requires 15-year commitment to grow rice or other wet crop

Webb Tract Rice Conversion Project RFP

Request for Proposal (RFP)

- Released February 2025
  - Offered grant funding up to $3,000/acre as a one-time investment for conversion
  - Two acceptable proposals received

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Information

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

6/10/2025 Board Meeting

9-5

Subject

Overview of Potential Business Model Financial Refinements

Executive Summary

In response to the Board's directive in April 2024 to review the Treatment Surcharge and broader business model issues, Metropolitan established an Ad Hoc Working Group of member agency general managers. The group formed a Financial Policies Business Model Support Sub-Working Group (the "Financial Sub-Working Group") to focus on the business model issues relating to financial matters while forming other sub-working groups to address water resources and engineering matters. The Financial Sub-Working Group was tasked with addressing treated water cost recovery, fixed and volumetric revenues, and other key fiscal priorities.

Over the course of more than a dozen workshops, the Financial Sub-Working Group developed proposals across four areas determined to be most relevant to enhance Metropolitan's long-term financial stability. The four key financial areas include: Treated Water Cost Recovery, Unrestricted Reserve Policy, Conservative Water Demand Projections, and Other Fixed Revenues. The discussion in this report reflects a year-long collaborative process informed by member agency input, technical analyses, and independent review and verification by Raftelis Financial Consultants (Raftelis), Metropolitan's external rate consultant.

1. Treated Water Cost Recovery

After twelve (12) months of evaluating alternative approaches to Treated Water Cost Recovery, there is broad recognition that the current 100 percent volumetric structure is inconsistent with the Board's previously adopted Policy Principles on Treated Water. One proposal—supported by a majority of member agency managers—would recover approximately 30 percent of Metropolitan's treatment revenues through a fixed charge, reflecting the agency's fixed costs associated with standby and peaking capacity. The peaking component of this charge would be based on an annual peak day billing determinant. A second alternative proposal, which has significantly less support, follows the same general structure but differs in its billing determinant. Instead of using an annual peak day, it proposes a summer peak day as the basis for the peaking component.

The March 14, 2025, member agency proposal with an annual peak day determinant received support from managers representing 18 member agencies. The alternative March 14, 2025 proposal with a summer peak day determinant is supported by one (1) member agency. One (1) member agency remains neutral, as it does not receive treated water service and is deferring the decision to agencies that receive treated water. The remaining six (6) agencies have not provided feedback on the alternatives.

The Financial Sub-Working Group identified four items for further review in advance of the fiscal year (FY) 2028/29 budget process: (1) a potential Regional Drought Reliability charge; (2) considerations related to incremental peaking billing determinants; (3) refinement of the unused standby charge to better reflect potential use of standby capacity rather than relying solely on volumetric usage; and (4) collaboration with member agencies to identify opportunities to partially or fully decommission unneeded treatment infrastructure.

<table>
<tr><th>Features</th><th>Option 1:
Mar 14, 2025 Proposal
w/Annual Peak</th><th>Option 2:
Alternative Mar 14, 2025 Proposal
w/ Summer Peak</th></tr>
<tr><td rowspan="2">Peaking Capacity Charge</td><td>A fixed charge would be collected based on a 3-year trailing maximum annual peak day demand in cubic feet per second (CFS).</td><td>A fixed charge would be collected based on a 3-year trailing maximum summer peak day demand in CFS.</td></tr>
<tr><td colspan="2">Treatment peaking capacity costs <u>~10 percent</u> of total treatment costs based on allocated revenue requirements</td></tr>
<tr><td>Standby Capacity Charge</td><td colspan="2">Used Standby Capacity Charge: A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e., 10-year maximum annual use minus average use in acre-feet (AF).

Remaining Standby Capacity Charge: A fixed charge for remaining standby capacity would be collected based on 5-year trailing maximum annual use in AF.

This charge inclusive of the Peaking and Used Standby Charge would add up to 30 percent of the Treatment Revenue Requirements, unless the allocated combined fixed costs are less than 30 percent.</td></tr>
<tr><td>Volumetric</td><td colspan="2">Remaining (~70 percent) of treatment costs</td></tr>
</table>

There was broad support among member agency managers for phased-in implementation of the Peaking and Standby fixed charges to minimize initial member agency impacts and provide opportunities for member agencies to adjust operations accordingly. These two remaining proposals were developed following extensive data review and presentations by Metropolitan staff, with Raftelis Financial Consultants actively participating throughout the evaluation. Raftelis provided technical input, reviewed cost-of-service (COS) methodologies and conducted an independent assessment of the final proposals. In their memorandum, Raftelis concluded that both offer a reasonable balance between cost recovery principles and Metropolitan's broader objectives and priorities (see **Attachment 1**).

2. Unrestricted Reserve Policy

To enhance financial stability and better address evolving risks, including those driven by climate change, the Financial Sub-Working Group recommends technical refinements to the reserve policy.

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

Under the 70 percent exceedance scenario, the minimum reserve would increase from $229 million to $467 million, while the target reserve would rise from $645 million to $1.189 billion. This change would not result in a rate impact, as current projected reserve balances fall within the new minimum and target levels. Importantly, as additional fixed revenues are approved by the Board (e.g., standby and peaking treatment fixed revenues, property taxes, etc.), the minimum and target reserve levels reflected above would be reduced. Furthermore, these target levels do not incorporate the recently announced baseline deliveries under the SDCWA/MWD settlement agreement, which would further reduce both the minimum and target reserve levels.

3. Conservative Water Demand Projections

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

4. Other Fixed Revenues Under Consideration

The Financial Sub-Working Group recommends that Metropolitan consider adopting and implementing the proposed fixed treatment charges as outlined in the Treated Water Cost Recovery recommendations while continuing to evaluate additional fixed revenue alternatives. Potential fixed revenue alternatives that require additional discussion include:

- Voluntary Level Pay Plan
- Fixed charge for Demand Management (i.e., conservation, Local Resource Program)
- Expansion of current Readiness-to-Serve and Capacity Charge to recover operations and maintenance costs
- Ad Valorem Property Taxes

Metropolitan staff will convene additional meetings with interested member agencies to continue these discussions.

Fiscal Impact

The recommended refinements do not result in immediate fiscal impacts but are intended to strengthen Metropolitan's long-term financial stability.

Adoption of one of the leading treated water cost recovery options would increase the share of fixed revenues to approximately 30 percent of total revenues, aligning more closely with industry standards for fixed-variable cost recovery. This adjustment would enhance revenue stability by ensuring recovery of standby and peaking treatment capacity costs through fixed charges and would support a more equitable allocation of treatment service costs, consistent with cost-of-service principles.

Proposed updates to the Unrestricted Reserve Policy would further enhance financial resilience by linking reserve targets to conservative water demand projections (70 percent exceedance level, with a long-term target of 80 percent). Under the 70 percent exceedance scenario, the minimum reserve would increase from $229 million to $467 million, while the target reserve would rise from $645 million to $1.189 billion. This change would not result in a rate impact, as current projected reserve balances fall within the new minimum and target levels. This approach mitigates the risk of underperforming sales, reduces reliance on unplanned reserve draws, and provides greater protection against revenue volatility from treated water sales, supply fluctuations, and uncertain or one-time funding sources.

Collectively, these refinements support Metropolitan's efforts to improve revenue reliability and fiscal resilience under variable supply and demand conditions.

Applicable Policy

Metropolitan Water District Act Section 124.5: Ad Valorem Tax Limitation

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

Metropolitan Water District Act Section 133: Fixing of Water Rates

Metropolitan Water District Act Section 134: Adequacy of Water Rates; Uniformity of Rates

Metropolitan Water District Act Section 134.5: Water Standby or Availability of Service Charge

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

Metropolitan Water District Administrative Code Section 4401: Rates

Metropolitan Water District Administrative Code Section 5202: Fund Parameters

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

The following sets forth the proposed schedule for proposed board action on the various policy refinements and business model updates.

- July 2025 – Board to consider action to Approve a Treated Water Cost Recovery Rate Structure to be included with the staff proposal for the FY 26/27 and 27/28 Biennial Budget and CYs 27 and 28 Rates and Charges
- July 2025 –Board to consider action to Approve Revisions to Metropolitan's Reserves Policy and Direct Staff to Implement Specific Sales Projections for the proposed FY26/27 and 27/28 Biennial Budget

Details and Background

Background

Extreme weather conditions in recent years—swings from severe and extended drought to record-setting wet seasons—pose a unique challenge to Southern California, placing mounting pressure on the year-to-year management of available water resources.

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

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

Metropolitan System Use by Member Agencies

Metropolitan plays a critical role in supporting the region’s water reliability by delivering both treated and untreated water tailored to the infrastructure and operational needs of its 26 member agencies. The distinction between treated and untreated water usage reflects each agency’s strategic approach to water management.

Agencies with robust local treatment capabilities often opt for untreated water to enhance flexibility and reduce costs, while others depend on Metropolitan's treated water to meet public health and service requirements.

Fifteen of the 26 member agencies – Beverly Hills, Calleguas, Compton, Foothill, Fullerton, Glendale, Las Virgenes, Long Beach, Pasadena, San Fernando, San Marino, Santa Ana, Santa Monica, Torrance, and West Basin—receive only treated water. One (1) agency, Inland Empire, exclusively takes untreated water. The remaining 10 agencies —Anaheim, Burbank, Central Basin, Eastern, Los Angeles, MWDOC, San Diego, Three Valleys, Upper San Gabriel, and Western—receive a combination of both treated and untreated supplies. Over the past five years, agencies limited to treated water have accounted for approximately 44 percent of total annual treated water sales, underscoring their significant reliance on Metropolitan's centralized treatment system.

The Collaborative Process with Member Agencies

Beginning in May 2024, Metropolitan held 13 workshops, including seven Treated Water Cost Recovery workshops and six Financial Policies Business Model Support Sub-Working Group workshops (the group was renamed in January 2025). These workshops served as a forum for in-depth exploration of treatment system operations, historical treated water usage, COS principles, and alternative rate design methodologies.

The process was supported by multiple rounds of detailed financial and operational analyses, including evaluations of usage data, cost allocations, and rate design impacts. These analyses were performed following workshops to provide member agencies with additional supporting information and to address specific questions and feedback received at the workshops. Input collected throughout the process from member agencies helped shape the direction of the discussions, informed subsequent analyses, and guided the development of alternative options to ensure that the proposed approaches addressed member agency concerns and reflected operational realities.

Raftelis Financial Consultants, Metropolitan's independent rate consultant, played an integral role throughout the Treated Water Cost Recovery process by validating methodologies, providing expert assessments, and ensuring alignment with COS principles and industry best practices. Building on this involvement, Metropolitan engaged Raftelis in late April to conduct an independent review of the two remaining proposals and to prepare a memorandum summarizing their evaluation and findings (**Attachment 1**).

Potential Business Model Financial Refinements

1. **<u>Treated Water Cost Recovery</u>**

On April 9, 2024, the Metropolitan Board adopted the FY 2024/25 and FY 2025/26 Biennial Budget that directed staff to work with member agencies to evaluate and analyze the Treatment Surcharge. Specifically, the Board directed staff to address issues identified through the analysis, including potential modifications to the calculation methodology. The Board further emphasized that a final methodology should be prioritized as part of the broader new business model discussion and recommended for adoption as soon as possible, but no later than the approval of the new business model.

Beginning in May 2024, Metropolitan convened a series of 13 workshops with participating member agency managers under the Treated Water Cost Recovery Workgroup—renamed in January 2025 to the Financial Policies Business Model Support Sub-Working Group. These workshops provided a forum for in-depth exploration of treatment system operations, historical treated water usage, COS principles, and alternative rate design methodologies.

Throughout the process, regular status updates were provided to the Subcommittee on Long-Term Regional Planning Processes and Business Modeling Workgroup, the Business Model Review and Refinement Ad Hoc Working Group, and the Finance, Affordability, Asset Management, and Efficiency Committee. The work was grounded in detailed data analysis and consistently informed by Metropolitan's external rate consultant, Raftelis Financial Consultants. Raftelis actively participated by attending meetings, responding to technical questions, offering expert insights, and presenting key information to ensure alignment with COS principles and industry best practices.

Throughout the evaluation process, Metropolitan provided comprehensive data to support the analysis of various peak and standby capacity charge alternatives. This included daily flow records for all member agency meters from 2014 through 2023, historical treatment plant capacity utilization (by facility and in aggregate), connected capacity by member agency, treatment plant capacities, a review of COS fundamentals, and member agency treated water demands over the same period. Metropolitan's Integrated Operations Planning and Support Service and Water Quality teams participated in these discussions.

For each alternative, agency-specific historical treated water use and demand patterns were incorporated into the billing determinants, expressed in either acre-feet (AF) or cubic feet per second (CFS), depending on the alternative's structure. These billing determinants formed the basis for calculating member agency cost allocations and assessing recovery of the total revenue requirement. The analysis featured illustrative member agency bills looking back over multiple years, showing how costs would have varied based on historical usage patterns and the characteristics of each alternative had these changes already been in place. Year-over-year dollar and percentage changes were calculated to highlight potential variability and sensitivity in agency costs under each scenario.

Results were summarized to reflect a full range of potential impacts—both increases and decreases—offering a clear view of each alternative's distributional effects and revenue stability. This side-by-side comparison, grounded in historical data, was designed to reflect agency-specific operational characteristics. It is important to note that these results are based on historical information—the best available at the time—and do not represent future impacts, as actual demands may differ from past usage patterns.

As part of this extensive review, Metropolitan and member agencies considered:

- Six (6) Treatment Peaking Alternatives
- Nine (9) Treatment Standby Alternatives
- Five (5) separate proposals were introduced by member agencies in January 2025, February 2025, March 2025, March 14, 2025, and March 14, 2025 with Summer Peak.

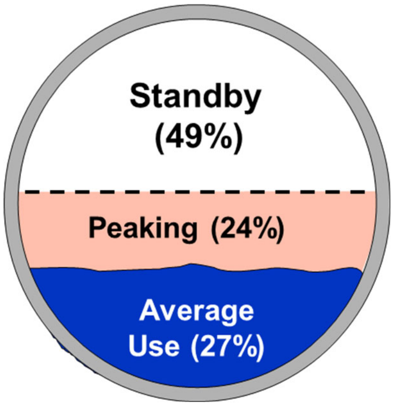
Guiding Framework for Rate Design Solutions

In alignment with the 2017 Adopted Policy Principles and incorporating feedback from member agencies received during the FY 2024/25–2025/26 biennial budget process and subsequent Treated Water Cost Recovery workshops, the Financial Sub-Working Group developed a guiding framework for rate design solutions to support the evaluation of alternatives, facilitate comparisons, and inform discussion and decision-making.

1. **Be consistent with industry-standard cost-of-service principles**
   - Provide a nexus between member agency cost responsibility and benefits received.
   - "Rate charged should reflect the cost of having capacity reserved and available for the customer" (AWWA M1 Principles of Water Rates, Fees, and Charges, 7th Edition)
2. **Align treatment rates with treatment services received**
   - Align the treated water cost recovery with (1) the service commitments and (2) infrastructure capital investments made by Metropolitan.
   - Reflect the cost to maintain the treatment capacity and the treatment benefits received for average, peaking, and standby uses.
   - Evaluate the portion of standby capacity that provides regional drought reliability.
3. **Enhance rate stability and predictability**
   - Recover a portion of the treatment costs on fixed charge(s).
   - Work closely with member agencies to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure and minimize future operations and maintenance (O&M) and capital expenditures.
   - Continue to obtain member agency commitment to utilize new or expanded future capacity.

After twelve (12) months of evaluating alternative approaches to Treated Water Cost Recovery, there is broad recognition that action is necessary, as the current 100 percent volumetric structure is inconsistent with the Board's previously adopted Policy Principles on Treated Water.

Treatment Plant Capacity, Use, and Cost



The water treatment system is built with a total designed capacity of 3,651 CFS, strategically allocated across various operational categories to meet treated water demand for average use, peaking use, standby for unforeseen demands, and emergency readiness.

Metropolitan's existing COS process already identifies the function of costs to allocate them to standby, peaking, and average use (in the "Allocated Cost" section, pages 70–72 of the Metropolitan Cost-of-Service Report Fiscal Years2024/25 and 2025/26). Metropolitan functionalizes those costs and then combines them into a bundled Treatment Surcharge. For the process of identifying fixed charge alternatives, staff further refined the functionalization of treatment costs to identify peaking and standby capacity costs.

Approximately 27 percent of the system's capacity is dedicated to average use, which represents the routine, ongoing water treatment demand. Another 24 percent of the system's capacity is allocated for peaking use, which is designed to handle short-term demand spikes, such as those that occur during heat waves or seasonal usage increases. While not used constantly, maintaining this capacity incurs substantial readiness costs and results in a notable portion of the treatment cost. The remaining 49 percent of capacity is reserved as treatment standby. This includes both used and unused standby capacity that provides critical system redundancy and allows for operational flexibility during planned maintenance or emergencies. Although this capacity is not frequently used, the associated infrastructure is maintained and kept operational, contributing a considerable share of fixed costs.

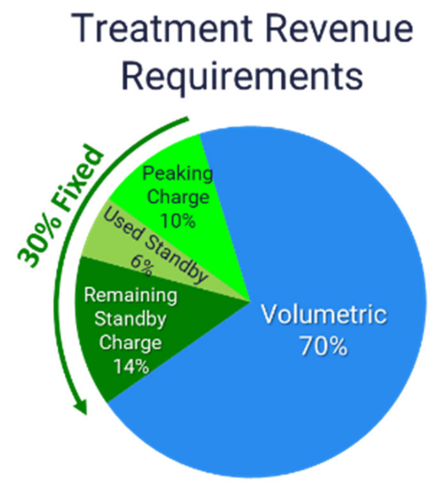
Under the current cost recovery model, these costs are recovered entirely through a volumetric surcharge, charging agencies based on the amount of water delivered. While this method is simple and usage-based, it does reflect the full cost of maintaining system capacity but does not account for the varying patterns of system use by member agencies. Additionally, because this model relies solely on volumetric charges, it creates a revenue vulnerability as demand declines, despite the substantial fixed costs required to maintain system capacity, including peaking and standby readiness.

This has led to concerns that agencies with lower water use, with peaking use for a short period of time in a year, are contributing less than the funds needed to support Metropolitan's treatment infrastructure. Recognizing this misalignment, Metropolitan and its member agencies have undertaken a comprehensive review of the rate structure. Through a collaborative, year-long process involving workshops and technical evaluations, two leading proposals have emerged.

Both proposals retain the volumetric approach for recovering the majority of treatment costs but introduce a hybrid model that shifts up to 30 percent of treatment revenue recovery to fixed charges. These fixed costs would be allocated based on each agency's use of standby and peaking capacity, more accurately aligning cost recovery with the drivers of system investment and operational readiness. This change does not increase overall costs but reallocates existing costs to better reflect the infrastructure and service levels required to meet all levels of demand. The remaining 70 percent, or more, of treatment costs would continue to be recovered through volumetric rates, ensuring that usage-based pricing remains a core component of the rate structure.

Leading Proposals

As a result of an extensive engagement process, two leading proposals have emerged to refine the approach to recovering treated water costs. Both proposals seek to recover up to 30 percent of Metropolitan's total treatment revenue requirements through fixed charges based on the percentage of fixed costs associated with standby and peaking capacity. While they share common foundational elements, the proposals differ in the methodology used to calculate the Treatment Peaking Charge.



Key Difference: Treatment Peaking Charge Determinant

Option 1 – March 14, 2025, MA Proposal, Annual Peak Day

- A fixed charge would be collected based on a 3-year trailing maximum annual peak day demand in cubic feet per second (CFS).

Option 2 – March 14, 2025, Alternative Proposal, Summer Peak Day

- A fixed charge would be collected based on a 3-year trailing maximum summer peak day demand in CFS.

Features	Option 1: Mar 14, 2025 Proposal w/Annual Peak	Option 2: Mar 14, 2025 Alternative Proposal w/ Summer Peak
Peaking Capacity Charge	A fixed charge would be collected based on a 3-year trailing **maximum annual peak day** demand in CFS.	A fixed charge would be collected based on a 3-year trailing **maximum summer peak day** demand in CFS.
	Treatment peaking capacity costs **~10 percent** of total treatment costs based on allocated revenue requirements.	
Standby Capacity Charge	**Used Standby Capacity Charge**: A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e., 10-year maximum annual use minus average use in AF. **Remaining Standby Capacity Charge**: A fixed charge for remaining standby capacity would be collected based on a 5-year trailing maximum annual use in AF. This charge, inclusive of the Peaking and Used Standby Charge, would add up to 30 percent of the Treatment Revenue Requirements, unless the allocated combined costs are less than 30 percent.	
Volumetric	Remaining (~70 percent) of treatment costs	

Currently, the March 14, 2025, member agency proposal has the most support among member agency managers. Based on recent input:

- The March 14, 2025, proposal has received support from managers representing 18 member agencies.
- The alternative March 14, 2025, proposal with a Summer Peak component has received support from one (1) member agency.
- One (1) member agency has remained neutral, deferring to agencies that receive treated water to guide the decision.

The following adjustments / Certifications to Peaking Flows are applicable to all proposals:

- Similar to the existing Capacity Charge, treated water peaking flows resulting from Metropolitan's operational requests (e.g., shutdowns, service disruptions, wet year operations, dry year operations) do not reflect member agency demand on Metropolitan and, therefore, will not be included in an agency's peaking calculations; and,
- All data and adjustments would be fully documented and validated by each agency, following the existing process for Readiness-To-Serve and Capacity Charges.

The Financial Sub-Working Group identified four items for further review in advance of the FY2028/29 budget process: (1) a potential Regional Drought Reliability charge; (2) considerations related to incremental peaking billing determinants; (3) refinement of the unused standby charge to better reflect potential use of standby capacity rather than relying solely on volumetric usage; and (4) collaboration with member agencies to identify opportunities to partially or fully decommission unneeded treatment infrastructure.

There was broad support among member agency managers for phased-in implementation of the Peaking and Standby fixed charges to minimize initial member agency impacts and provide opportunities for member agencies to adjust operations accordingly:

- Peaking = 3-year phase-in
- Standby:
  - Used = 10-year phase-in
  - Remaining = 5-year phase-in

In late April, Metropolitan engaged Raftelis to conduct an independent review of the two remaining proposals and to prepare a memorandum summarizing their evaluation and findings. In their memorandum, Raftelis concluded that both proposals offer a reasonable balance between cost recovery principles and Metropolitan’s broader objectives and priorities (see **Attachment 1**).

Alternatives Considered

The Financial Sub-Working Group developed and evaluated multiple alternatives for recovering treated water costs related to peaking and standby capacity (summarized in **Attachment 2**). While the concept of a regional drought reliability benefit was also analyzed, further discussion is needed. It is recommended that these discussions continue with the goal of incorporating potential changes into Metropolitan’s rate structure prior to the FY 2028/29 budget process.

Hypothetical impact analyses were conducted for all proposed alternatives, along with sensitivity analyses illustrating year-over-year changes to fixed charges for member agencies under each scenario. Raftelis reviewed the alternatives and concluded that each presents a reasonable nexus to COS standards.

Next Steps

The Financial Sub-Working Group has concluded its technical evaluation of the treated water cost recovery proposals, including detailed assessments of implementation strategies, COS alignment, and legal compliance. Based on board input and recommendation, staff plans to bring back action items in the July/August timeframe.

2. **Unrestricted Reserve Policy**

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

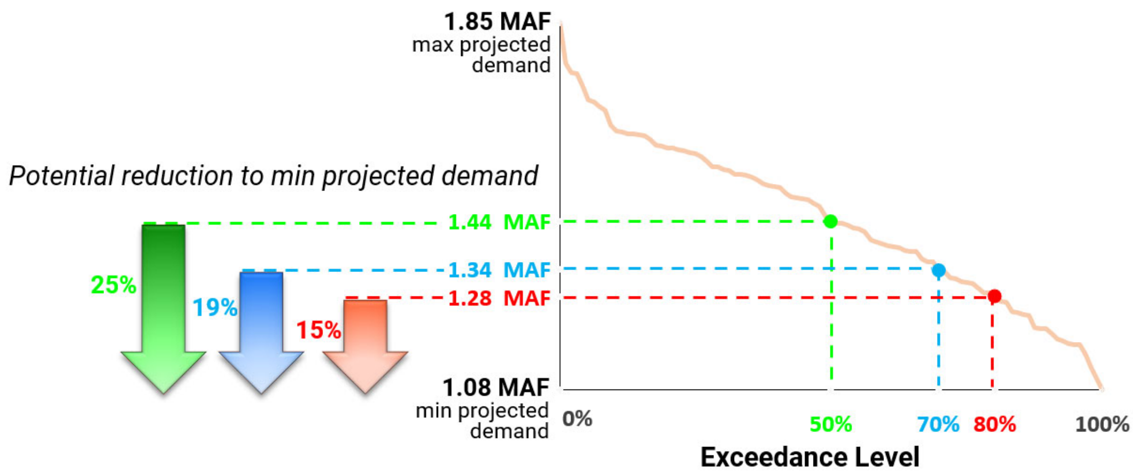
The existing reserve calculation is based on hydrologic risk estimates from the 1999 Long Range Finance Plan. However, climate change, which has exacerbated the volatility of both demand and supply, and the associated risks over the years, have highlighted the need for refinements. The minimum reserve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

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

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

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

Figure 1: Projected Demand Variability for Calendar Year 2025



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

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

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

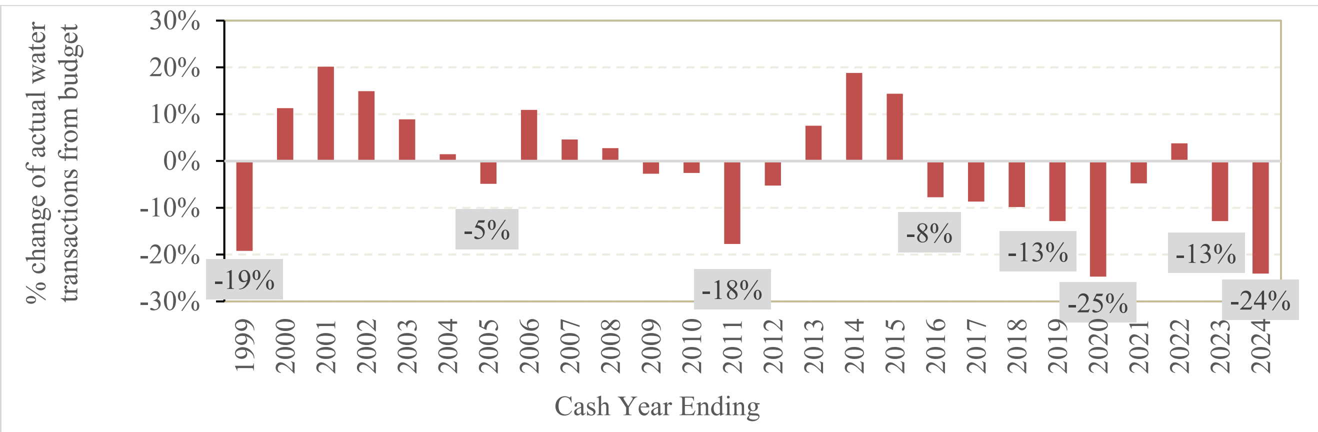
Under the 70 percent exceedance scenario, the minimum reserve would increase from $229 million to $467 million, while the target reserve would rise from $645 million to $1.189 billion. This change would not result in a rate impact, as current projected reserve balances fall within the new minimum and target levels. Importantly, as additional fixed revenues are approved by the Board (e.g., standby and peaking treatment fixed revenues, property taxes, etc.), the minimum and target reserve levels reflected above would be reduced. Furthermore, these target levels do not incorporate the recently announced baseline deliveries under the SDCWA/MWD settlement agreement, which would further reduce the minimum and target reserve levels.

3. **<u>Conservative Water Transactions in Rate Setting</u>**

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

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

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



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

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

4. **<u>Other Fixed Revenue Recommendations</u>**

The Financial Sub-Working Group recommends that Metropolitan consider adopting and implementing the proposed fixed treatment charges as outlined in the Treated Water Cost Recovery recommendations while continuing to evaluate additional fixed revenue alternatives.

Potential fixed revenue alternatives that require additional discussion include:

- Voluntary Level Pay Plan
    - Member agencies interested in a Voluntary Level Pay Plan will make recommendations to Metropolitan staff. Staff will convene a meeting with the interested member agencies to explore

the alternatives, analyze the impacts, and identify the changes to Metropolitan's policies that would be required for implementation.

- Fixed charge for Demand Management (i.e., conservation, Local Resource Program)
    - Staff will evaluate fixed charges based upon the recommendations made by the water resources sub-working group.
- Expansion of current Readiness-to-Serve and Capacity Charge to recover O&M costs
- Ad Valorem Property Taxes
    - Staff will evaluate the impacts on rates, charges, and reserves from increasing the ad valorem property tax rate in future budgets.

Metropolitan staff will convene additional meetings with interested member agencies to continue these discussions.

Katano Kasaine 6/3/2025

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

Deven Upadhyay 6/3/2025

Deven Upadhyay *Date*
General Manager

Attachment 1 – Raftelis' Technical Memorandum and Presentation for June 10, 2025 FAAME Committee Meeting

Attachment 2 – Appendix A, Summary of Treated Water Cost Recovery Alternatives

Ref# cfo12706328

TECHNICAL MEMORANDUM

To: Metropolitan Water District of Southern California

From: John Mastracchio, CFA, P.E., John Wright, CPA, Raftelis

Date: May 19, 2025

Re: Treatment Surcharge – Peaking Cost Recovery

Introduction

This memorandum was prepared for the Metropolitan Water District of Southern California ("Metropolitan"). It summarizes Raftelis' comments on Metropolitan using the annual maximum peak day demands of member agencies, as measured on a three-year trailing basis (Option 1) and using the summer maximum peak day demands of member agencies, as measured on a three-year trailing basis (Option 2) to calculate a new water treatment peaking capacity charge. We understand that Metropolitan is considering adopting one of these cost recovery options and desires input from Raftelis on how this alternative aligns with industry cost-of-service principles and Metropolitan's objectives.

Cost-of-Service Principles and Metropolitan Objectives

According to the American Water Works Association ("AWWA"), water utility rates are generally considered to be fair and equitable when they provide for full cost recovery from customers in proportion to the benefits received and the cost to serve each class of customer.[1] While recovery of the full revenue requirement in a fair and equitable manner is a key objective of the cost-of-service ratemaking process, it is often not the only objective. There are other objectives that can be considered in establishing cost-based rates, including the following:

- Effectiveness in yielding the total revenue requirements (full cost recovery)
- Revenue stability and predictability
- Stability and predictability of the rates themselves from unexpected or adverse changes
- Promotion of efficient resource use
- Fairness in the apportionment of total costs of service among different ratepayers
- Avoidance of undue discrimination (subsidies) within the rates
- Dynamic efficiency in responding to changing supply-and-demand patterns
- Simple and easy to understand and administer
- Legal and defensible

[1] AWWA, Manual of Water Supply Practices M1, Seventh Edition.

In considering alternatives for the treatment surcharge, Metropolitan has identified the following high priority objectives:

1. Be consistent with industry standard cost of service principles
    a. Provide a clear nexus between member agency cost responsibility and the benefits received.
    b. Establish rates that reflect the cost of having capacity reserved and available for member agencies.
2. Align treatment rates with treatment services received
    a. Align the treated water cost recovery with (1) the service commitments, and (2) infrastructure capital investments made by Metropolitan.
    b. Reflect the cost to maintain the treatment capacity and the treatment benefits received for average, peaking, and standby uses.
    c. Evaluate the portion of standby capacity that provides regional drought reliability.
3. Enhance rate stability and predictability
    a. Recover a portion of the treatment cost on fixed charge(s)
    b. Work closely with member agencies to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure and minimize future operations and maintenance ("O&M") expenses and capital expenditures.
    c. Continue to obtain member agency commitment to utilize new or expanded future capacity.

Evaluation of Using a Three-year Trailing Maximum Annual Peak Day Demand as the Basis for the Water Treatment Peaking Capacity Charge

Several member agencies have proposed that Metropolitan utilize a three-year trailing maximum annual peak day demand (Option 1) as the basis or billing determinant for charging member agencies a water treatment peaking capacity charge. Raftelis has reviewed this option in comparison to the objectives described above and finds the option is acceptable from a cost-of-service principles standpoint and reasonably satisfies Metropolitan's other stated objectives. Our review comments are summarized below.

Consistency with Cost-of-Service Principles

Metropolitan has built water treatment capacity and has made this treatment capacity available to member agencies to utilize anytime throughout the year.[2] Under Option 1, those that use or benefit from the water treatment capacity to satisfy customer water use peaking throughout the year would help pay for the capacity. This directly aligns with the cost-of-service principles discussed above.

For example, some member agencies served by Metropolitan have their highest peak day use in the summer months whereas others have their highest peak day use in the winter months. Furthermore, Metropolitan has built more than sufficient water treatment capacity to satisfy customer peak demands regardless of whether they occur in the summer months or the winter months. Option 1 charges each member agency a

[2] The current capacity of Metropolitan's five water treatment plants is 2,360 million gallons per day (MGD) or 3,651 cubic feet per second (CFS). Metropolitan's peak treatment capacity usage estimated for the 2024/25 budget year is 1,859 CFS.

proportionate share of costs of the use of the system to satisfy its own peak day demands regardless of when the peak occurs. This is referred to as their non-coincident peak – the peak day usage of each member agency regardless of when the system as a whole peaks (i.e., when the total system coincident peak occurs).

Utilizing this approach results in a fair and equitable sharing of the cost of peak treatment capacity in proportion to each member agency's individual needs and how much they use the system overall. Using non-coincident peaking helps to ensure that all member agencies share in the cost of their use of peak treatment capacity fairly and avoids penalizing a group of member agencies just because their individual peak usage is aligned with the system's overall peak or allowing member agencies to use system peaking capacity without sharing in the cost. This outcome can occur if a peaking charge is based on a member agency's contribution to total system coincident peak but their actual agency specific peak occurs at a different time. For example, if the total system coincident peak occurs during the summer months but a member agency's actual peak usage occurs during the fall or winter months, they may receive a lower allocation of costs during the cost-of-service process.

Align Treatment Rates with Treatment Services Received

Option 1 aligns the peaking capacity charge with the treatment services received. Member agencies that utilize the peak treatment capacity, whenever it is used, share in the cost of infrastructure capital investments that have been made by Metropolitan to make and maintain the capacity available to customers.

Enhance Rate Stability and Predictability

Option 1, if implemented, would result in a fixed charge that would provide stable and predictable fixed revenues for Metropolitan and rate stability and predictability for member agencies. This is because the basis of billing, i.e., three-year trailing maximum annual peak day demand, incorporates three years of member agency water demand data. Peak day demand for a member agency over the trailing three-year period has the potential to stay consistent for up to three years. In addition, the treatment peaking charge would be set by Metropolitan annually and member agencies would know what their peaking charge will be in the upcoming year, providing them with predictability in their water treatment charges from Metropolitan.

Other Considerations

This option does not provide member agencies with an incentive to shift their peak usage of treatment capacity during off-peak usage periods, although such an incentive exists with the capacity charge. This incentive may be advantageous to minimize the cost of maintaining treatment capacity to satisfy demands during system peak periods by potentially allowing Metropolitan to decommission more unused capacity. However, Metropolitan's water treatment plants have more than sufficient treatment capacity to meet coincident peak capacity demands and it does not need to incentivize the use of capacity during non-peak periods to be able to accommodate peak usage of treatment capacity.

Evaluation of Using a Three-year Trailing Maximum Summer Peak Day Demand as the Basis for the Water Treatment Peaking Charge

Another member agency proposal is for Metropolitan to utilize a three-year trailing maximum summer peak day demand (Option 2) as the basis or billing determinant for charging member agencies a water treatment peaking charge. Raftelis has reviewed this option in comparison to the objectives described above and finds that the option is acceptable from a cost-of-service principles standpoint and reasonably satisfies Metropolitan's other stated objectives. Our review comments are summarized below.

Consistency with Cost-of-Service Principles

Utilizing this option results in full cost recovery of peak treatment capacity in proportion to the use of the capacity during the period when the system realizes its maximum period usage, i.e., during the summer. Using coincident peaking helps to recover costs from those that require Metropolitan to maintain sufficient treatment capacity to meet system peak demands and could help Metropolitan minimize future maintenance and capital expenses.

Align Treatment Rates with Treatment Services Received

Option 2 aligns the peaking capacity charge with the treatment services received. Member agencies that have their peak capacity demands during the periods when the system peaks share in the cost of infrastructure that has been maintained to make water treatment capacity available to customers during peak usage periods when the system experiences its maximum peak day demands.

Enhance Rate Stability and Predictability

Option 2, if implemented, would result in a fixed charge that would provide stable and predictable fixed revenues for Metropolitan and rate stability and predictability for member agencies. Peak day summer demand for a member agency over the trailing three-year period has the potential to stay consistent for up to three years. In addition, the treatment peaking charge would be set by Metropolitan annually and member agencies would know what their peaking charge will be in the upcoming year, providing them with predictability in their water treatment charges from Metropolitan.

Other Considerations

Some utilities charge their customers for their contribution to the use of capacity during the total system coincident peak. A capacity constrained utility may desire to send a price signal to customers to minimize their usage during the time of the total system coincident peak in order better manage limited system capacity. For example, Metropolitan has limited distribution capacity and has adopted a capacity charge that recovers the cost to provide peak capacity within the distribution system. It also provides a price signal to encourage agencies to reduce peak demands on the distribution system and shift demands that occur during the summer period to the winter period, resulting in the benefit of deferring capacity expansion costs.

In the case of Metropolitan's water treatment plants, it has more than sufficient treatment capacity to meet coincident peak capacity demands and it does not need to incentivize the use of water treatment capacity during other periods. Therefore, Option 2, while acceptable from a cost-of-service perspective, may not be the preferred approach if Metropolitan does not desire to incentivize the off-peak usage of the treatment capacity.

Conclusion

Based on a review of the member agency proposed options for recovery of water treatment peaking costs, both options are consistent with cost-of-service principles, would help to align member agency treatment rates with treatment services received, and provide an enhancement in rate stability and predictability over the existing method of recovery of Metropolitan's water treatment costs. Neither option is a perfect solution from a cost recovery principle standpoint. However, both options reflect a reasonable balance between cost recovery principles and Metropolitan's other objectives and priorities.

Review of New Treated Water Cost Recovery Alternatives for Peak Capacity Costs

June 10, 2025

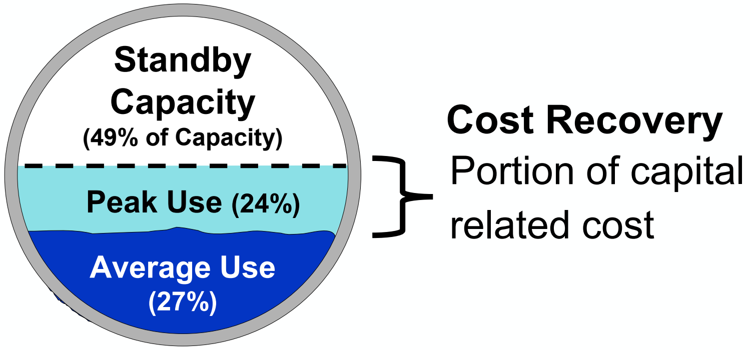
RAFTELIS

Review of the March 14, 2025 proposal w/ Annual Peak and w/ Summer Peak

Features	Option 1: Mar 14, 2025 Proposal w/ Annual Peak	Option 2: Alternative Mar 14, 2025 Proposal w/ Summer Peak
Peaking Capacity Charge	A fixed charge would be collected based on a 3-year trailing **maximum annual peak day** demand in cubic feet per second (CFS)	A fixed charge would be collected based on a 3-year trailing **maximum summer peak day** demand in CFS
	Treatment peaking capacity costs **~10%** of total treatment costs based on allocated revenue requirements	
Standby Capacity Charge	**Used Standby Capacity Charge**: A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in acre feet (AF) **Remaining Standby Capacity Charge**: A fixed charge for remaining standby capacity would be collected based on 5-year trailing maximum annual use in AF This charge inclusive of the Peaking and Used Standby Charge would add up to 30% of the Treatment Revenue Requirements, unless the allocated combined fixed costs are less than 30%.	
Volumetric	Remaining (~70%) of treatment costs	

What are the Treatment Surcharge Peaking Costs?

- Treatment peaking costs are a portion of capital-related costs. They are existing and ongoing costs associated with paying for and maintaining the treatment capacity to satisfy peak demand.
- These are not new costs incurred when peak demands occur or caused directly by the peaking usage today.
- These treatment capacity costs are segregated into categories:
  - Capacity available for standby or emergency use
  - Capacity used to satisfy peak demands
  - Capacity used for average demands



Cost of Service Guiding Principles

Full cost recovery in proportion to the benefits received and the cost to serve

May consider other objectives that result in a reasonable fit for the utility.

Metropolitan's Rate Structure Framework

Stability of revenue and coverage of cost	Fairness	Certainty and predictability	No significant economic disadvantage	Reasonably simple and easy to understand	Dry-year allocation should be based on need

Review of Proposed Options

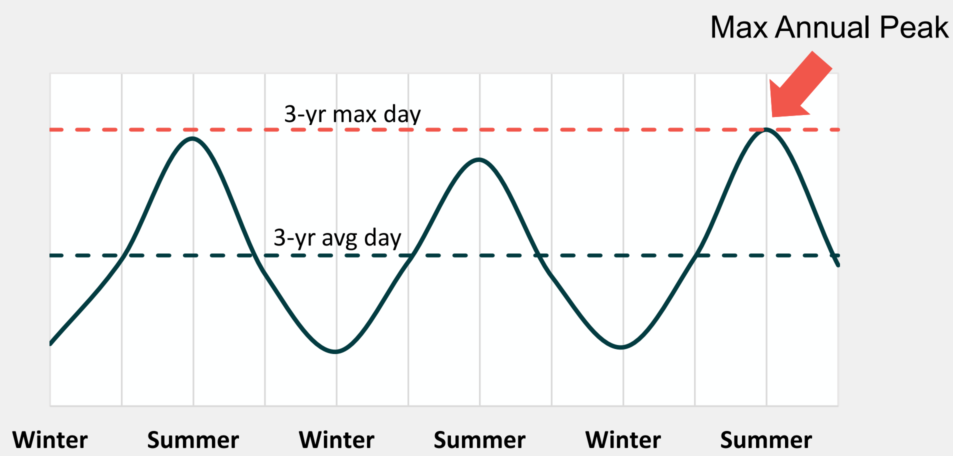
RAFTELIS

Proposal	Description	Comments
March 14th Option 1	3-Yr Trailing Annual Peak	• Customers that use MET's water treatment capacity shares in the cost, whenever it is used. • Avoids allowing MAs to utilize available treatment capacity without having to share in its costs. • Enhancement of rate and revenue stability and predictability over current treatment surcharge. • Since MET has excess treatment capacity available to meet all MA demands, there is no need to incentivize MAs to shift when their maximum use of the treatment capacity occurs. Incentive already exists with capacity charge.
March 14th Option 2	3-Yr Trailing Summer Peak	• Recovers costs from MA's that require MET to maintain sufficient treatment capacity to meet system peak demands. • Could help MET minimize future maintenance and capital expenses by allowing MET to decommission more unused capacity. • Enhancement of rate and revenue stability and predictability over current treatment surcharge. • Provides added incentivize for MAs to shift when their maximum use of the treatment capacity occurs.

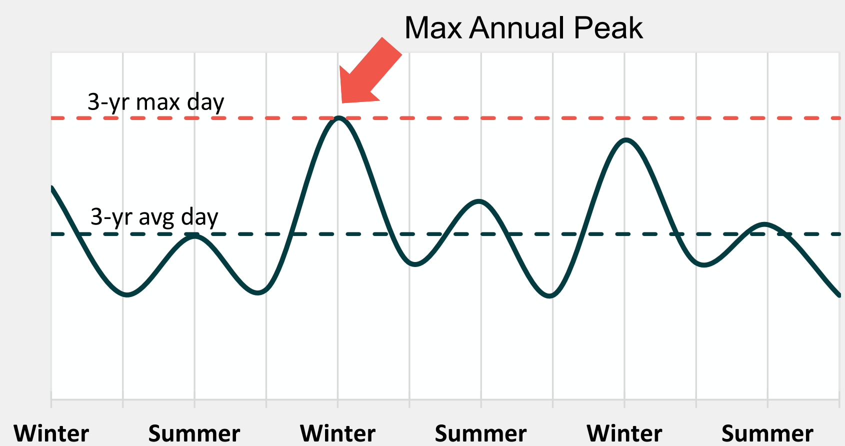
Option 1 - Annual Maximum Peak Day Demand Measured Over a Trailing 3-Year Period

Under Option 1, both Customers A and B would pay a peaking charge in accordance with their peak use of the system over a trailing three-year period.

Customer A (Summer Peak)



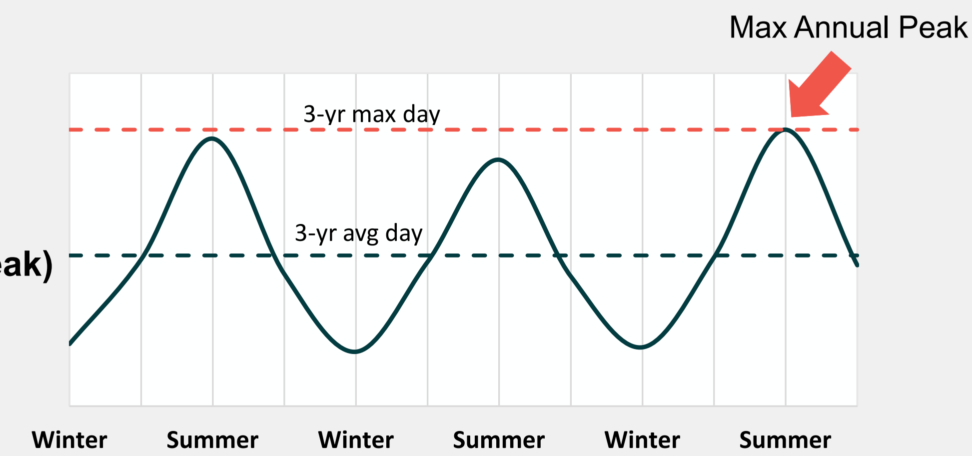
Customer B (Winter Peak)



Option 2- Summer Maximum Peak Day Demands Measured Over a Trailing 3-Year Summer Period

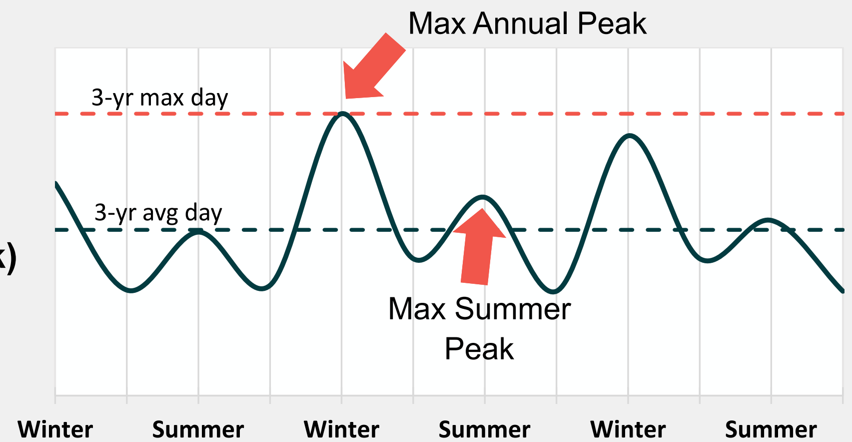
Customer A (peaks in the summer) and would pay a peaking charge in accordance with their peak use of the system

Customer A (Summer Peak)



Customer B (peaks in the winter) and would pay a peaking charge that does not reflect their full peak use

Customer B (Winter Peak)



Raftelis Summary Comments on Options 1 & 2

1. Both options are consistent with cost-of-service principles
   - Both would help to align water treatment surcharges with treatment services received.
2. Both provide an enhancement in rate and revenue stability and predictability over the existing method of recovery of water treatment capacity costs.
3. There is no perfect option - both provide a reasonable balance between cost recovery and other objectives and priorities.
4. Suggest Option 1 (Annual Peak) if MET does not desire to further incentivize the use of treatment peak capacity during off-peak periods

Appendix A
Summary of Treated Water Cost Recovery Alternatives

This appendix summarizes the treated water cost recovery alternatives developed and evaluated by the sub-working group for peaking and standby use. Tables 1 and 2 present these alternatives and illustrate potential billing determinants under each option, supporting the discussions in the main report.

The alternatives were designed to explore different methods for recovering existing costs associated with providing treated water service, particularly for demands related to peaking and standby demands. The analysis included hypothetical impact assessments and a sensitivity analysis of year-over-year changes to Member Agency fixed charges.

Table 1 – Treatment Peaking Cost Recovery Alternatives Analyzed

	Billing Determinants	Units	Details	Descriptions
Alt 1	3-yr trailing maximum ***summer*** peak day demand	CFS	3-yr trailing max day **May-Sep**	Proposed in 2017 Treatment Capacity Charge (similar to the current Capacity Charge), represents member agencies' summer peak use.
Alt 2	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Represents member agencies' peak use throughout the year
Alt 3	3-yr trailing **annual incremental** peak demand	CFS	3-yr trailing max day Jan-Dec minus 3-yr avg day	Represents member agencies' ***incremental*** peak use throughout the year
Alt 4	3-yr trailing **summer incremental** peak demand	CFS	3-yr trailing max day May-Sep minus 3-yr avg day	Represents member agencies' ***incremental*** peak use during summer and supports local supply development
Alt 5	3-yr trailing **annual incremental seasonally adjusted** peak demand	CFS	3-yr trailing seasonal adjusted max day minus 3-yr avg day	Represents member agencies' ***incremental*** peak use with seasonal factors to reduce summer peak impact on MWD distribution system
Alt 6	3-yr trailing **average incremental** peak demand	CFS	3-yr **average** trailing of max day Jan-Dec minus avg day	Represents member agencies' **average *incremental*** peak use over the 3-year period
Feb 2025 MA Proposal - Peaking	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Recovers treatment peaking costs, capped at 10% of treatment costs, billing determinants same as Alt 2
Mar 2025 MA Proposal	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Same as Alt 2
Mar 14 2025 MA Proposal – Annual Peaking	3-yr trailing maximum ***annual*** peak day demand	CFS	3-yr trailing max day **Jan-Dec**	Same as Alt 2
Mar 14 2025 MA Proposal – Summer Peaking	3-yr trailing maximum ***summer*** peak day demand	CFS	3-yr trailing max day **May-Sep**	Same as Alt 1

Appendix A
Summary of Treated Water Cost Recovery Alternatives

Table 2 – Treatment Standby Cost Recovery Alternatives Analyzed

	Billing Determinants	Units	Details	Descriptions
Alt A	Max of TYRA or 1998-2007 Avg	AF	(TYRA= 10-yr rolling avg)	1998-2007 Represents the basis when MWD made major investments in treatment plants
Alt B	10-yr Trailing Max Year	AF	Max annual usage in the past 10 years	Represents MA's standby use in the past 10-yrs beyond seasonal peak
Alt C	10-yr Trailing Annual Standby Use	AF	10-yr max annual usage minus 10-yr average use	Represents MA's standby use in the past 10-yrs beyond seasonal peak and average use
Alt D	Treatment Connected Capacity	CFS	Sum of Member Agency treated connections	Potential Member Agency capacity to MWD's treatment system
Alt E	Treatment Capacity Reservation	CFS		Capacity requested by each Member Agency
Alt F	Treatment Connected Capacity available for Standby	CFS	Treatment connected capacity minus 3-yr trailing max day (Alt 2)	Potential Member Agency capacity to MWD's treatment system not used in the last 3-yrs but available for emergency use (standby)
Alt G	10-yr Trailing Standby Use	CFS	10-yr max day minus 3-yrs trailing max day (Alt 2)	Represents the standby use as incremental use above peak day flows in the past 10-yrs
Alt H	10-yr Trailing Max Day Flow	CFS	10-yr max day	Represents MA's max use in the past 10 years
Alt I	5-yr Average Annual Demand	AF	5-year rolling average of annual treated demand	Recovers all treatment standby costs, inclusive of Regional Drought Benefits, on fixed charge and offers member agencies greater rate stability and predictability
Jan 2025 MA Proposal	5-yr Average Annual Demand	AF	25% Fixed Charge on 5-yr average annual treated demand	Recovers 25% of Treatment Costs based on 5-year rolling average treated demand. Provides MWD with additional fixed cost recovery and offers member agencies greater rate stability & predictability.
Feb 2025 MA Proposal - Standby	10-yr Trailing Annual Standby Use	AF	10-yr max annual usage minus 10-yr average use	Recovers all treatment standby costs, capped at 20% of Treatment Costs
Mar 2025 MA Proposal	Treatment Fixed Charge	AF	Remaining 30% Treatment Fixed Charge based on a 5-yr average annual treated demand	This charge inclusive of the Peaking Charge adds up to 30% of the Treatment Revenue Requirements.
Mar 14 2025 MA Proposal - Standby	Used Treatment Standby Charge	AF	10-yr max annual usage minus 10-yr average use	Recovers used treatment standby costs based on 10-yr annual standby use (Alt C)
	Remaining Treatment Standby Charge	AF	5-yr Trailing Max Annual Demand	Recovers remaining treatment standby costs, up to 30% of treatment costs inclusive of peaking and used standby charges, based on 5-yr max annual demand

Finance, Affordability, Asset Management, and Efficiency Committee

Overview of Potential Business Model Refinements

June 10, 2025

Item 9-5

Item 9-5

Overview of Potential Business Model Refinements

Subject

- Potential Business Model Refinements

Purpose

- Inform the Board on the recommended proposals for Treated Water Cost Recovery, Unrestricted Reserve Policy Refinements, Conservative Water Demand Projections, and Other Fixed Revenues

Treated Water Cost Recovery

Metropolitan System Use by Member Agencies

- Metropolitan plays a critical role in supporting the region's water reliability by delivering both treated and untreated water tailored to the infrastructure and operational needs of its 26 member agencies
  - Fifteen (15) member agencies – Beverly Hills, Calleguas, Compton, Foothill, Fullerton, Glendale, Las Virgenes, Long Beach, Pasadena, San Fernando, San Marino, Santa Ana, Santa Monica, Torrance, and West Basin — receive only treated water
  - One (1) agency, Inland Empire, exclusively takes untreated water
  - Ten (10) agencies — Anaheim, Burbank, Central Basin, Eastern, Los Angeles, MWDOC, San Diego, Three Valleys, Upper San Gabriel, and Western — receive a combination of both treated and untreated supplies

- Over the past five years, agencies limited to treated water have accounted for approximately 44 percent of total annual treated water sales

Summary of work completed to-date

Treated Water Cost Recovery

13 Workshops since May 2024

- ***Participants:*** member agency managers, Metropolitan staff from Finance, Integrated Operations Planning and Support Service and Water Quality teams
- Reviewed key concerns/issues raised by MA's during Budget Adoption with the Treatment Surcharge
- Discussed goals and objectives of the Treated Water Cost Recovery workgroup, previously adopted Policy Principles on Treated Water, and revised past efforts on Treated Water Cost Recovery
- Evaluated MWD's treatment operations, capacity, utilization, cost, and Cost of Service with the support of a rate consultant
  - *Metropolitan provided comprehensive data, including daily flow records for all member agency meters from 2014 through 2023; historical treatment plant capacity utilization (by facility and in aggregate); connected capacity by member agency; treatment plant capacities; a review of COS fundamentals; and member agency treated water demands over the same period*
  - *Metropolitan staff conducted multiple rounds of detailed financial and operational analyses, including evaluations of usage data, cost allocations, hypothetical agency-specific impacts, and year-to-year agency bill change analyses*

Guiding Framework for Rate Design Solutions

Consistent with 2017 Adopted Policy Principles and Feedback

Treatment Rates & Charges Should:

1. Be consistent with industry standard cost of service principles
   - Provide a clear nexus between member agency cost responsibility and benefits received
     - "Rate charged should reflect the cost of having capacity reserved and available for the customer" (AWWA M1 Principles of Water Rates, Fees, and Charges, 7th Edition)
2. Align treatment rates with treatment services received
   a) Align the treated water cost recovery with (1) the service commitments and (2) infrastructure capital investments made by Metropolitan
   b) Reflect the cost to maintain the treatment capacity and the treatment benefits received for average, peaking and standby uses
   c) Evaluate the portion of standby capacity that provides regional drought reliability
3. Enhance rate stability and predictability
   a) Recover a portion of the treatment cost on fixed charge(s)
   b) Working closely with Member Agencies to continue to identify opportunities to partially or fully decommission unneeded treatment infrastructure & minimize future O&M & capital expenditures
   c) Continue obtaining member agency commitment to utilize new or expanded future capacity

Evaluating Treated Water Cost Recovery

Workgroup developed treated water cost recovery alternatives for Peaking and Standby capacity use:

- 6 Treatment Peaking Alts evaluated
- 9 Treatment Standby Alts evaluated
- 5 separate proposals introduced by MA: January 2025, February 2025, March 2025, March 14 2025, and March 14 2025 with Summer Peak

Leading Proposal, supported by managers representing 18 member agencies

- Option 1 – March 14, 2025 Proposal, Annual Peak Day

Alternative Proposal, proposal by manager representing 1 member agency

- Option 2 – March 14, 2025 Alternative Proposal, Summer Peak Day

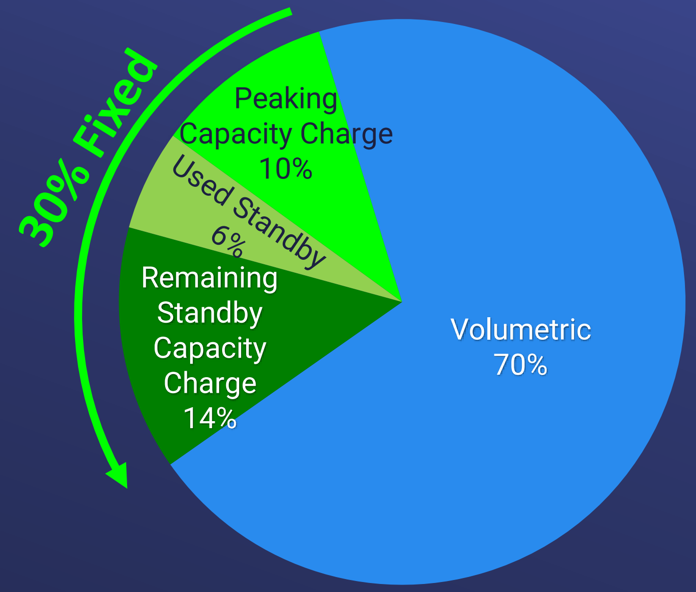
There is broad recognition that action is necessary, as the current 100% volumetric structure is inconsistent with the Board's previously adopted Policy Principles on Treated Water

Leading Proposals

Support for proposals: 20 received responses (18 for Opt 1, 1 for Opt 2, 1 Neutral)

Features	**Option 1:** **Mar 14, 2025 Proposal w/ Annual Peak** (Support by 18 MAs)	**Option 2:** **Mar 14, 2025 Alt Proposal w/ Summer Peak** (Proposed by 1 MA)
Peaking Capacity Charge	A fixed charge would be collected based on a 3-year trailing **maximum annual peak day** demand in CFS	A fixed charge would be collected based on a 3-year trailing **maximum summer peak day** demand in CFS
	Treatment peaking capacity costs **~10%** of total treatment costs based on allocated revenue requirements	
Standby Capacity Charge	**Used Standby Capacity Charge**: A fixed charge for used standby capacity would be collected based on a 10-year trailing annual standby use, i.e. 10-year maximum annual use minus average use in AF **Remaining Standby Capacity Charge**: A fixed charge for remaining standby capacity would be collected based on 5-yr trailing maximum annual use in AF This charge inclusive of the Peaking and Used Standby Charge would add up to 30% of the Treatment Revenue Requirements, unless the allocated combined costs are less than 30%.	
Volumetric	Remaining (~70%) of treatment costs	

Treatment Revenue Requirements



Adjustments / Certifications to Peaking Flows for All Alternatives

- Similar to the existing Capacity Charge, treated water peaking flows resulting from Metropolitan's operational requests (e.g., shutdowns, service disruptions, wet year operations, dry year operations) do not reflect member agency demand on Metropolitan and therefore, will not be included in an agency's peaking calculations; and,

- All data and adjustments would be fully documented and validated by each agency, following the existing process for RTS and Capacity Charges

Implementation of New Charges

*Member Agency managers support implementation strategies to **minimize initial impacts** and provide opportunities for MA to adjust operations accordingly*

Treatment ***peaking*** capacity charge:

- 3-year phase-in billing determinants (Annual or Summer)

Treatment ***standby*** capacity charges:

- Used Standby Capacity: 10-year phase-in
- Remaining Standby Capacity: 5-year phase-in

Items for further review

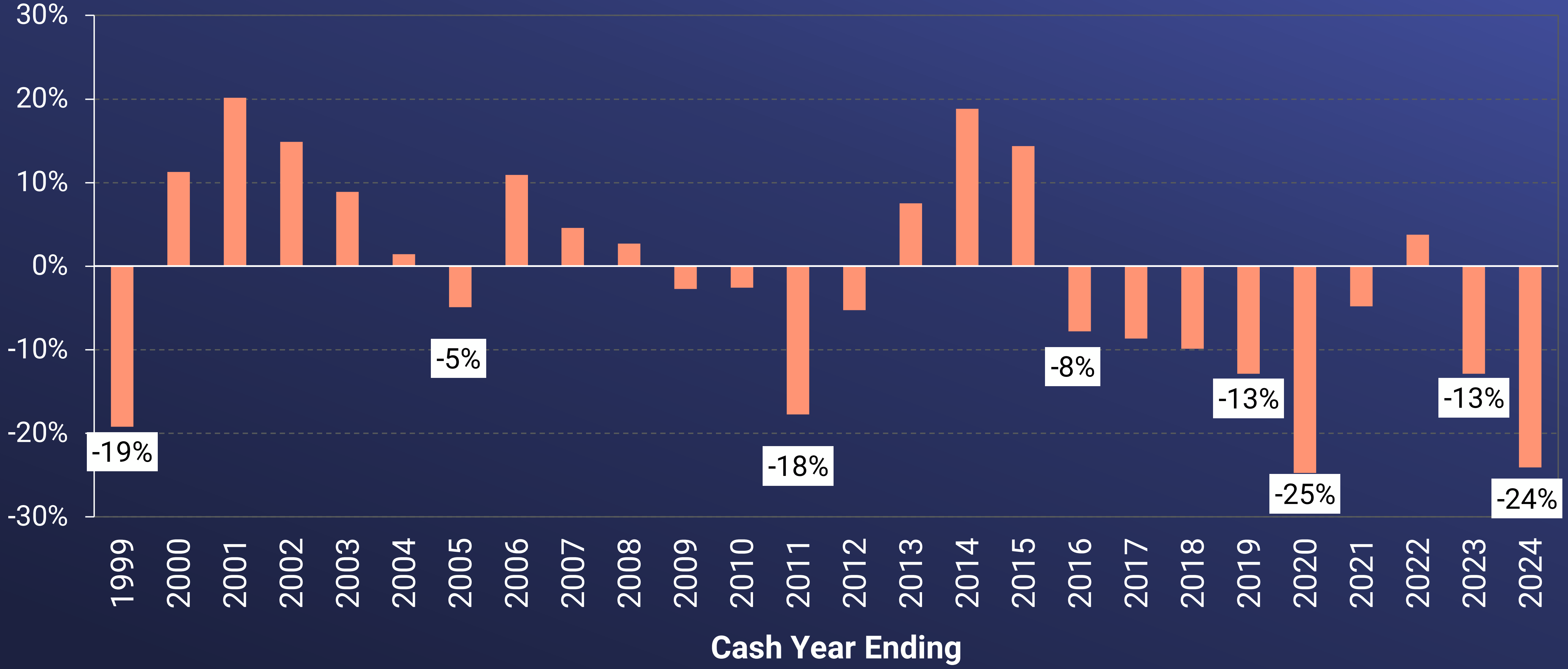
The Financial Sub-Working Group identified four items for further review in advance of the FY2028/29 budget process

- Potential Regional Drought Reliability charge;
- Considerations related to incremental peaking billing determinants;
- Refinement of the unused standby capacity charge to better reflect potential use of standby capacity rather than relying solely on volumetric usage; and
- Collaboration with member agencies to identify opportunities to partially or fully decommission unneeded treatment infrastructure

Workgroup Recommendations on Unrestricted Reserve Policy

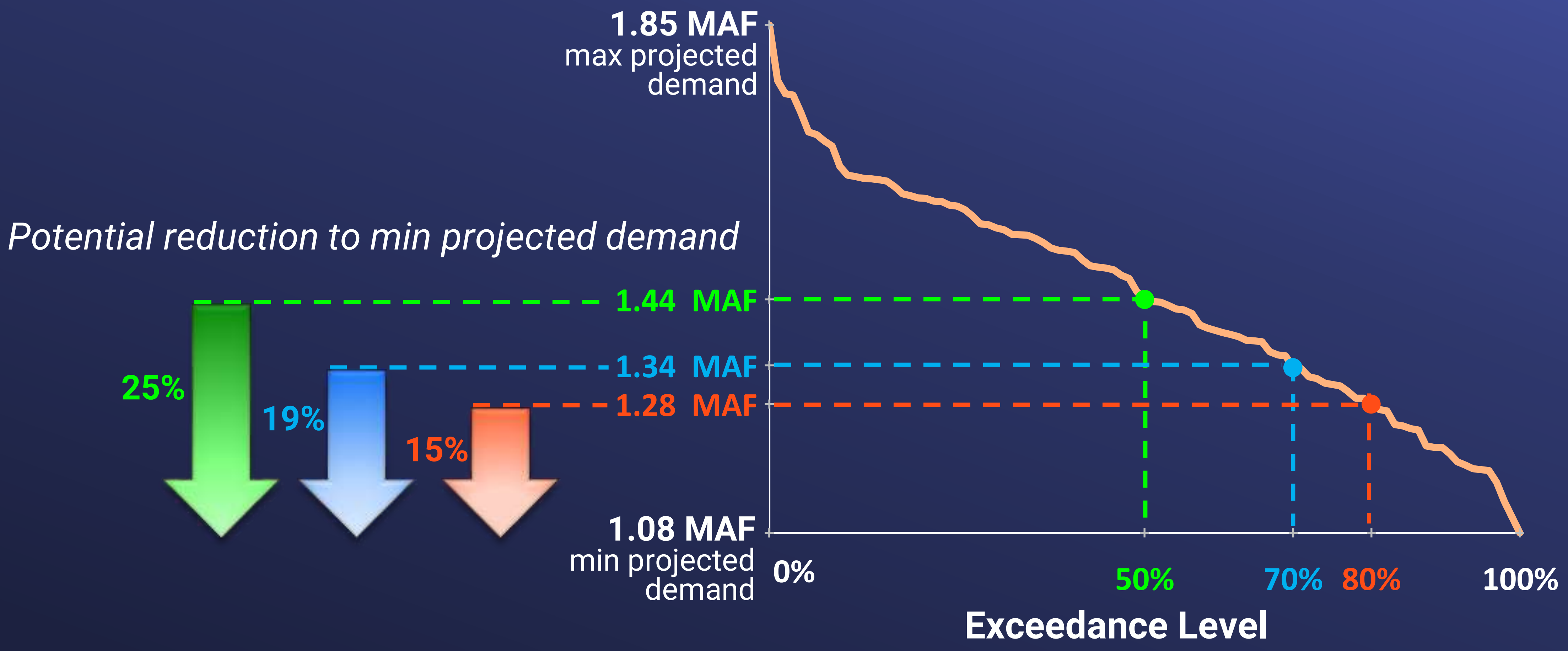
Variability Metropolitan's Historic Water Transactions

% change from budget



Projected Demand Variability

Projected Demands (MAF) for Calendar Year 2025



Recommendations: Unrestricted Reserve Policy Changes

Technical Changes:

1. Update the Percent Reserves to reflect recent water sales volatility
   - ✓ Incorporate conservative demand assumptions in rate setting into the calculation
     - ➢ Adopt policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%.
2. Recognize the disconnect between supplies and sales
   - ✓ Exclude variable costs from reserve calculations
   - ✓ No correlation between water sales and variable costs
3. Incorporate protection for treated water sales volatility
   - ✓ Include Treatment revenue requirements in the Unrestricted Reserve Minimum and Target Levels to enhance volatility protection for treated water sales revenues → Treatment Surcharge Stabilization Fund would be combined into unrestricted reserves
4. Adjust required reserve calculation to exclude one-time revenues and unawarded grants

Policy Changes

1. Update Admin Code language regarding the appropriate use of reserves in excess of target levels
2. Add language specifying the intentional use of reserve for one-time expenditures, unforeseen revenue shortfalls or increases in existing expenditures

Current Unrestricted Reserve Calculation

for June 30th, 2025, in millions of dollars

	2025/26 Budget	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Gross Revenue Requirement	**$2,274**	**$2,408**	**$2,597**	**$2,773**
Less Property Tax	*$334*	*$342*	*$351*	*$359*
Less Interest Income, Power Sales & Misc. Revenues	*$120*	*$97*	*$84*	*$86*
Less Unawarded Grants & One-time Revenues	*$127*	*$20*	*$20*	*$20*
Less Fixed Charges				
RTS Charge	*$185*	*$188*	*$202*	*$219*
Capacity Charge	*$46*	*$48*	*$52*	*$56*
Net Water Rate Revenue Requirements	**$1,462**	**$1,713**	**$1,889**	**$2,033**
Less Variable Costs				
Treatment Surcharge Rev Req.	$342	$342	$362	$369
SWC Variable Power Costs	$238	$236	$235	$233
CRA Power Costs	$93	$97	$99	$102
Fixed Costs Recovered by Water Rate	**$789**	**$1,037**	**$1,193**	**$1,329**
Percent Reserved	17.5%	17.5%	17.5%	17.5%
Annual Amount Reserved	**$138**	**$181**	**$209**	**$232**

Minimum Reserve Level = 138 + 181 / 2 **= $229 million** ← *18 months*

Target Reserve Level = 138 + 181 + 209 + 232 / 2 **= $645 million** ← *42 months*

Proposed Refinements to Unrestricted Reserve Calc.

for June 30th, 2025, in millions of dollars

	2025/26 Budget	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Gross Revenue Requirement	**$2,274**	**$2,408**	**$2,597**	**$2,773**
Less Property Tax	*$334*	*$342*	*$351*	*$359*
Less Interest Income, Power Sales & Misc. Revenues	[illegible]	[illegible]	[illegible]	[illegible]
~~Less Unawarded Grants & One-time Revenues~~	[illegible]	[illegible]	[illegible]	[illegible]
Less Fixed Charges				
RTS Charge	*[illegible]185*	*$188*	*$202*	*$219*
Capacity Charge	*$46*	*$48*	*$52*	*$56*
Net Water Rate Revenue Requ[illegible]	**[illegible]462**	**$1,713**	**$1,889**	**$2,033**
~~Less Variable Costs~~				
~~Treatment Surcharge R[illegible]~~	[illegible]	[illegible]	~~$362~~	~~$369~~
~~SWC Variable Power Co[illegible]~~	[illegible]	[illegible]	~~$235~~	~~$233~~
~~CRA Power Costs~~	[illegible]	[illegible]	~~$99~~	~~$102~~
~~**Fixed Costs Recovered by Water Rate**~~	~~**$789**~~	~~**$1,037**~~	~~**$1,193**~~	~~**$1,329**~~
Percent Reserved	~~17.5%~~	~~17.5%~~	~~17.5%~~	~~17.5%~~
Annual Amount Reserved	**$138**	**$181**	**$209**	**$232**

Adjust required reserve calculation to exclude one-time revenues and unawarded grants

Maintain current flexibility to automatically adjust unrestricted reserves for new fixed charges

Incorporate protection for the treated water sale volatility

Recognize the disconnect between supplies and sales

Update % Reserved to reflecting 70% exceedance demand used for rate setting

Updated Unrestricted Reserve Policy - 70% Exceedance Demand

for June 30th, 2025, in millions of dollars

	2025/26 Budget	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Gross Revenue Requirement	**$2,274**	**$2,408**	**$2,597**	**$2,773**
Less Property Tax	*$334*	*$342*	*$351*	*$359*
Less Interest Income, Power Sales & Misc. Revenues*	*$120*	*$97*	*$84*	*$86*
Less Fixed Charges				
RTS Charge	*$185*	*$188*	*$202*	*$219*
Capacity Charge	*$46*	*$48*	*$52*	*$56*
Net Water Rate Revenue Requirements	**$1,590**	**$1,733**	**$1,909**	**$2,053**
Percent Reserved	19%	19%	19%	19%
Annual Amount Reserved	**$302**	**$329**	**$363**	**$390**

for 70% Exceedance Demand

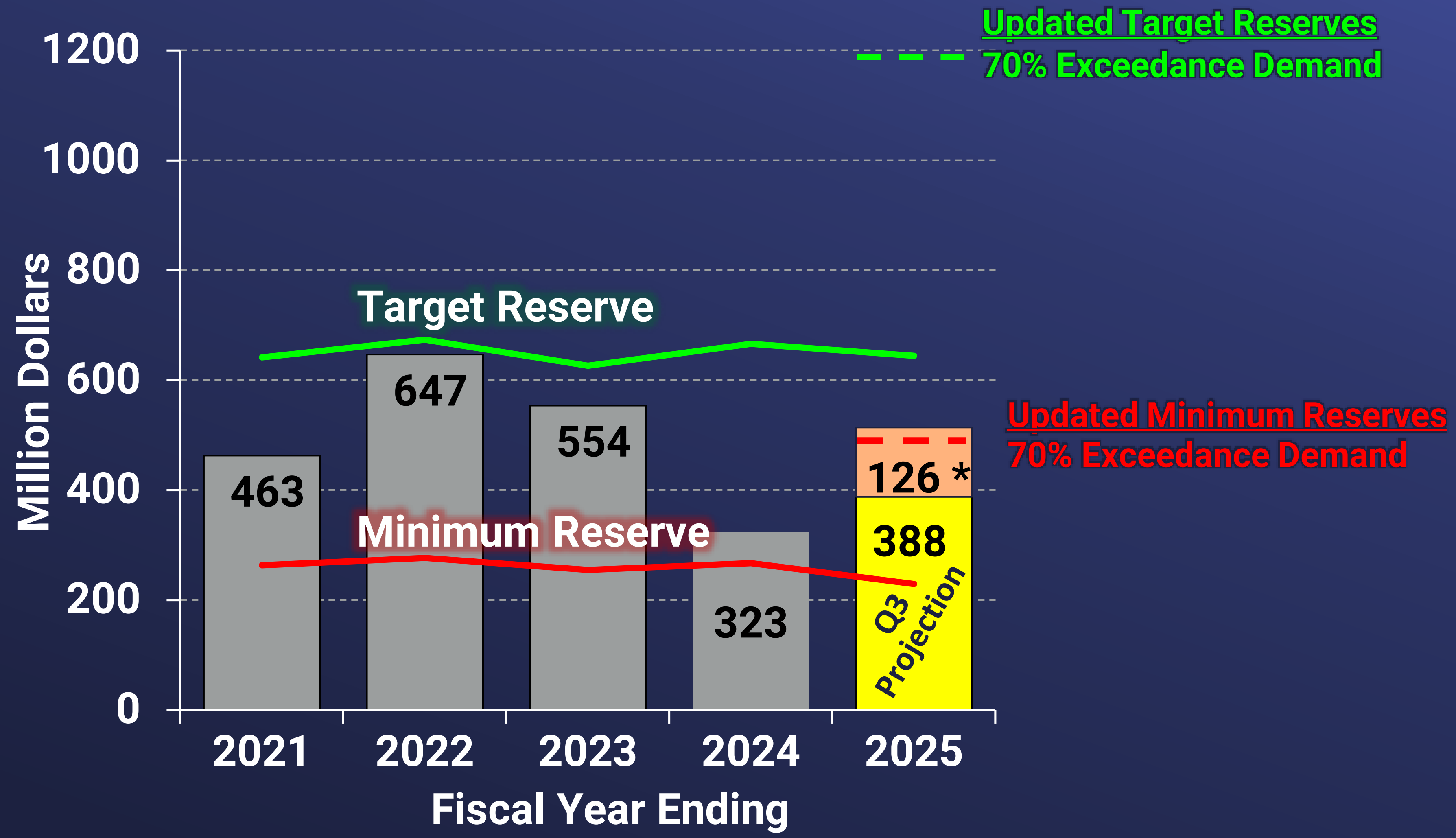
Minimum Reserve Level = $302 + $329 / 2 = $467 million ← *18 months*

Target Reserve Level = $302 + $329 + $363 + $390/2 = $1,189 million ← *42 months*

** Misc. Revenues – Lease, Non-MA Sales, $80M State Fund Use and Awarded Grants, excluding one-time revenues such as IRA Fallowing Revenues, $60M Stored Water Sales, Sales of Assets*

Updated Unrestricted Reserve Policy

for June 30th, 2025, in millions of dollars



*Revenue from Reverse Cyclic Program (RCP) pre-sales

Implementation Strategy

Adopt reserve policy to set water demand at 70% exceedance for rate setting with a long-term target of 80%.

Unrestricted Reserve Policy Refinements

Policy Change – Modify language in Admin Code for appropriate use of reserves in excess of target levels

Funds in excess of the target level shall be utilized as directed by the Board for:

- Funding capital expenditures of the District in lieu of the issuance of additional debt,
- Redemption or defeasance of outstanding bonds or commercial paper,
- Addressing District's pension or OPEB (other post-employment benefit) liabilities (including but not limited to the establishment or funding of a pension trust fund), or
- Meeting other legal or financial obligations.

Additional proposed policy: *"Reserves, by nature, are one-time funds; therefore, fiscal prudence dictates that they should <u>not</u> be used to cover ongoing expenditures"*

Workgroup Recommendations on Conservative Water Transactions Assumptions for Water Rate Settings

Conservative Water Transactions Assumptions

Recommendations

Establish a policy to set water demand projections at 70% exceedance for rate setting with a long-term target of 80%.

- ✓ This approach creates a mechanism to maintain reserves at the target level, providing additional protection against rate spikes

Other Fixed Revenues

- Voluntary Level Pay Plan
  - Member agencies interested in a Voluntary Level Pay Plan will make recommendations to Metropolitan staff. Staff will convene a meeting with the interested member agencies to explore the alternatives, analyze the impacts, and identify the changes to Metropolitan's policies that would be required for implementation.
- Fixed charge for Demand Management
  - Staff will evaluate fixed charges based upon the recommendations made by the Water Resources Sub-Working Group
- Expansion of current RTS and Capacity Charge to also recover O&M costs
- Ad Valorem Property taxes
  - Staff will evaluate the impacts on rates, charges, and reserves from increasing the ad valorem property tax rate in future budgets

Next Steps

July 2025	Board Action to Approve a Treated Water Cost Recovery Rate Structure to be included with the staff proposal for the FY 26/27 and 27/28 Biennial Budget and CYs 27 and 28 Rates and Charges
July 2025	Board Action to Approve Revisions to Metropolitan's Reserves Policy and Direct Staff to Implement Specific Sales Projections for the proposed FY26/27 and 27/28 Biennial Budget

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Finance, Affordability, Asset Management and Efficiency Committee

Overview of Potential Drivers of the Next Biennium Budget

Item 6a
June 10, 2025

Item 6a

Overview of Potential Drivers of the Next Biennium Budget

Subject

- Overview of Potential Drivers of the Next Biennium Budget

Purpose

- Inform the Board on the Potential Drivers of the Next Biennium Budget

Known Financial Challenges and Potential Cost Drivers

Next Biennium FY 2026/27 & 2027/28 and 10-year Financial Forecast

- Additional CIP Expenditures
  - Higher CIP to maintain current system (Refurbishment & Replacement (R&R))
  - Drought Mitigation projects
- Possible new Major Capital Projects
  - Pure Water Southern California (PWSC)
  - Delta Conveyance Project (DCP)
  - Regional Conveyance Improvement (East-West Conveyance)
  - Surface Storage
  - Sites
- Funding Zero Emission Vehicles (ZEV)
- Staffing Challenges
- Other Potential Budget Drivers

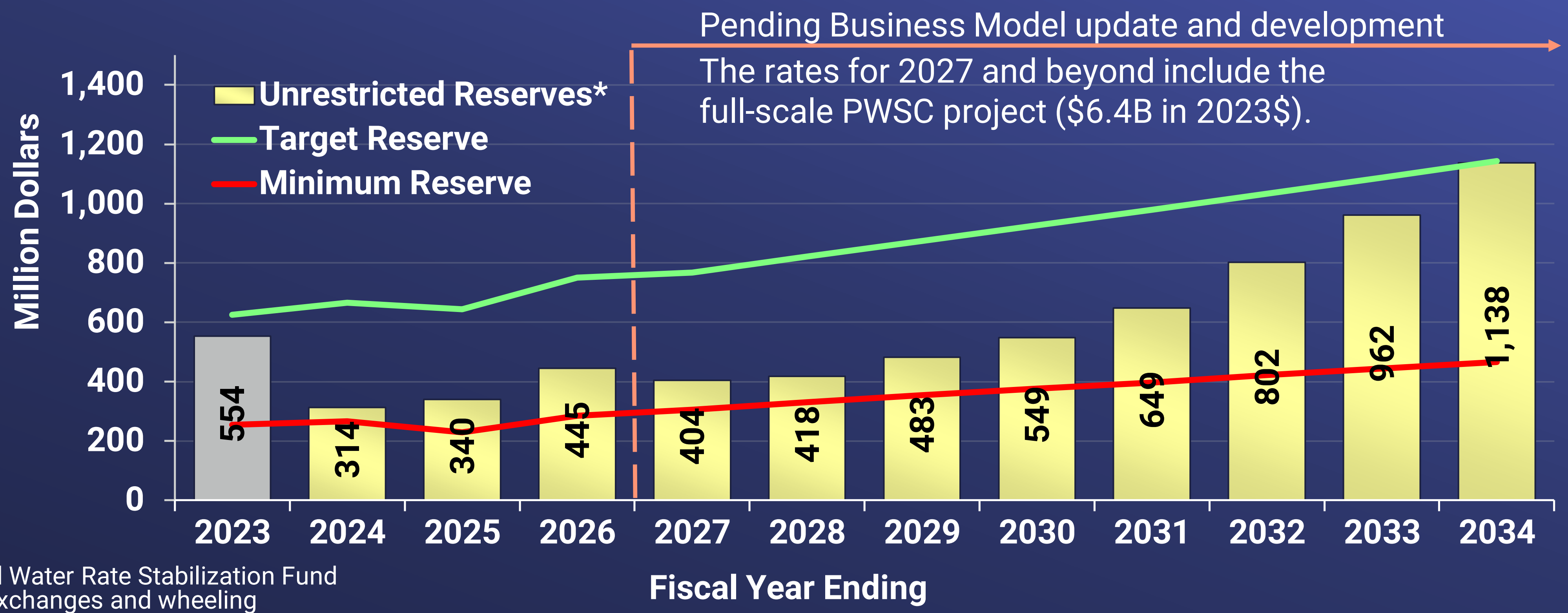
Notes

- Information included in this presentation is ***preliminary*** and will change when more information is available
- Each item will be presented to the Board according to the project timeline and some are anticipated as part of the upcoming biennial budget process

Current Budget and 10-yr Financial Forecast

Ten-year Financial Projection

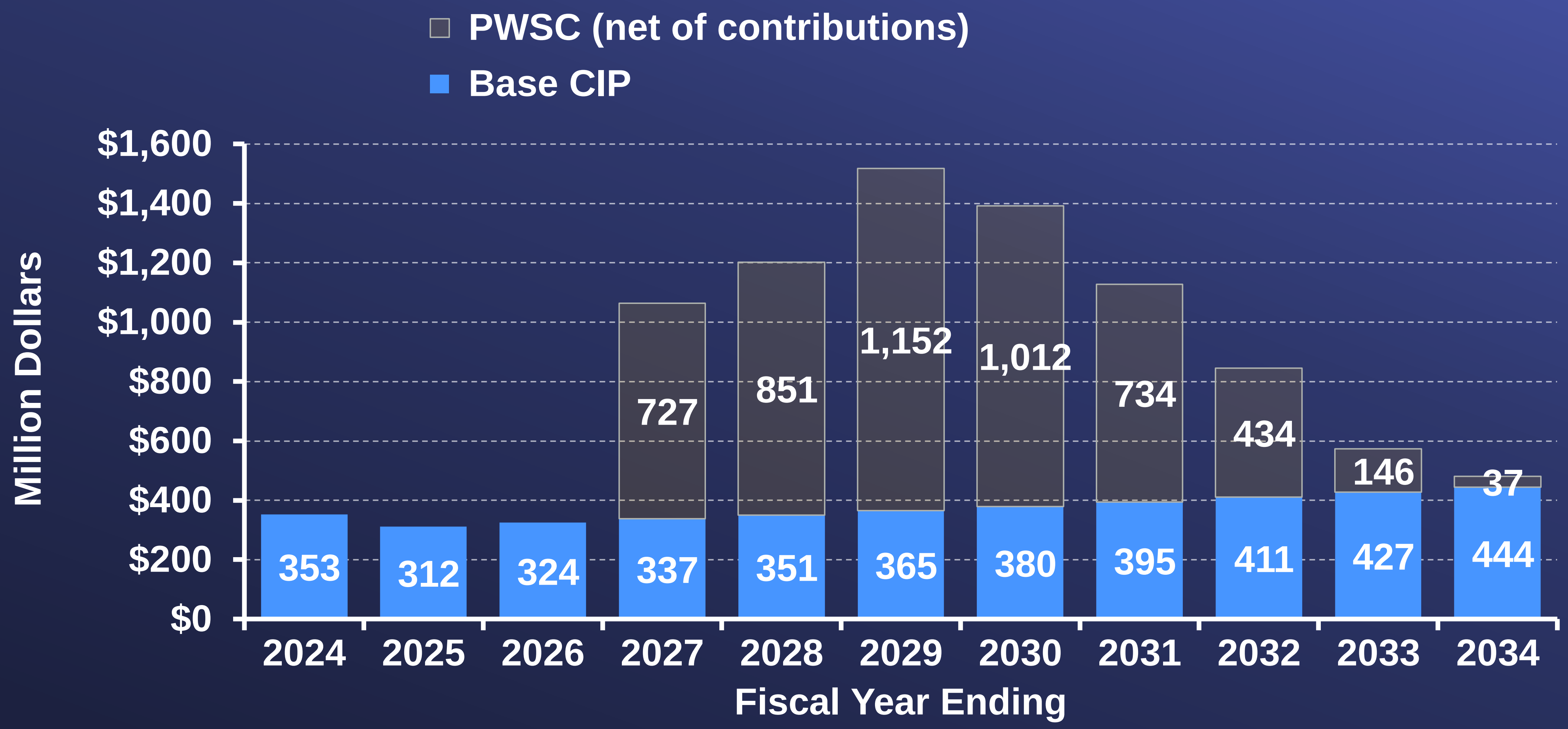
Adopted FY 2024/25 and FY 2025/26 Budget



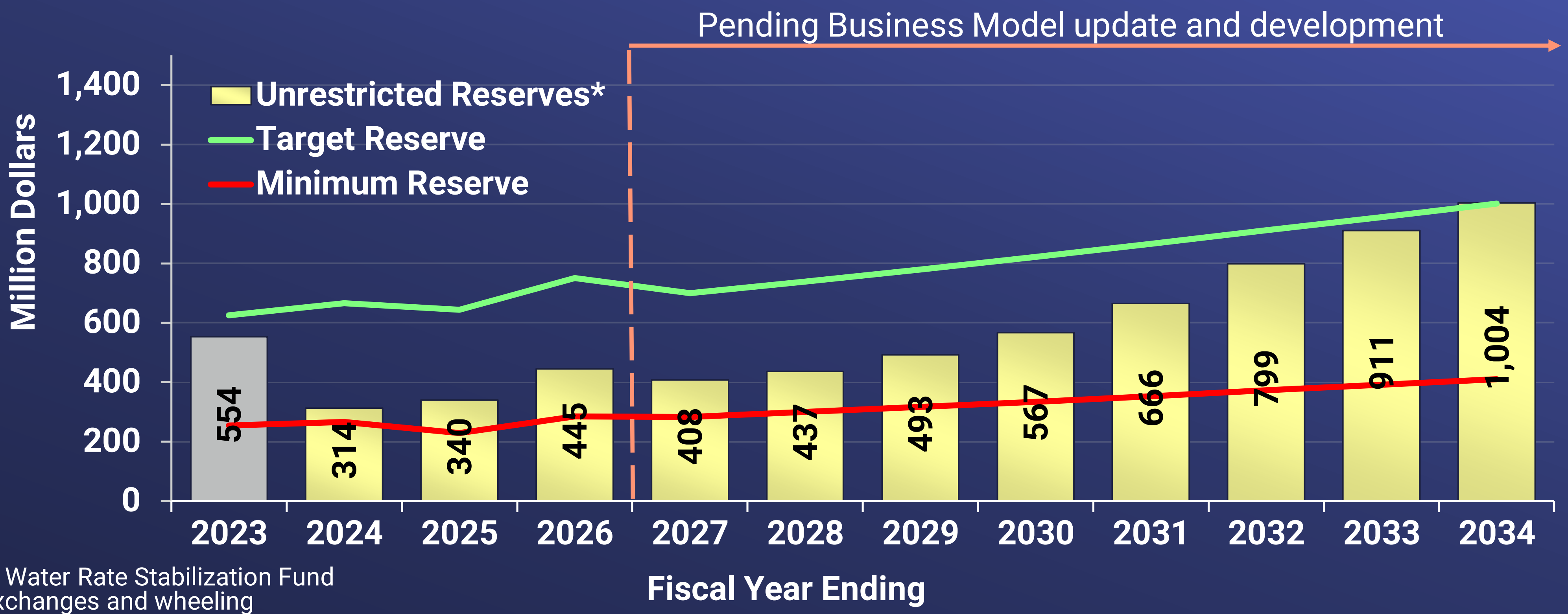
* Revenue Remainder and Water Rate Stabilization Fund
** Includes water sales, exchanges and wheeling

Overall Rate Inc.	5%	5%	8.5%	8.5%	11.5%	11.5%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
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	1.8	1.9	1.8	1.8	1.7	1.7	1.7
CIP, $M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, $M	135	35	175	175	175	250	275	275	250	225	230	240

10-Year Forecast without PWSC Project



Ten-year Financial Projection without PWSC Project



* Revenue Remainder and Water Rate Stabilization Fund
** Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
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

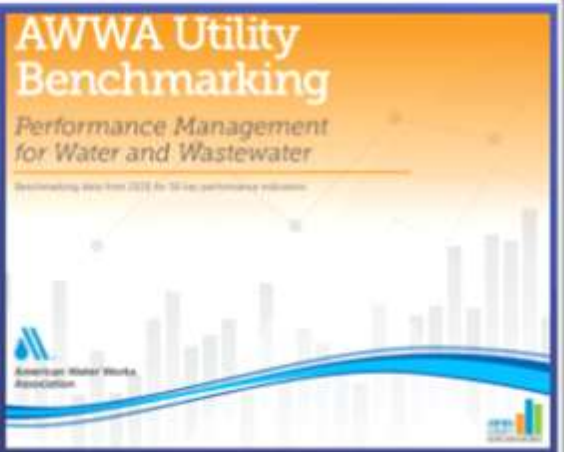
Additional CIP Expenditures

- ❑ Increased Refurbishment and Replacement (R&R) to Maintain Current System
- ❑ Drought Mitigation Projects

Presented to the Engineering, Operations & Technology Committee on Mar 10, 2025

Industry Benchmarks
System R&R Rates

- 2020 survey for water transm. & distr. pipe networks serving > 0.5M people
- Values are for R&R only
- ERC = Estimated replacement cost



Percentile of Respondents	25th	Median	75th
R&R Spend as % of ERC	0.70%	1.1%	2.0%
Equivalent Metropolitan Spend Based on $46B ERC	$322M	$506M	$920M

March 10, 2025 Engineering, Operations, & Technology Committee Item # 6b Slide 7

About 75% of the adopted CIP budget is for R&R projects or about $239M/yr

Estimated Impact of Increased R&R CIP Funding from $239M to $500M/yr

in million $	100% PAYGO	100% Debt Financing*
1-time Rate Increase to Fund additional PAYGO	15.4%	
Annual Rate Increase to Fund Additional Debt Service		1.5% / year

* 4%, 30yrs

- Pay-as-you-go ("PAYGO") financing results in a lower cost of capital compared to debt. However, it requires a significant 1-time rate increase to generate current year revenues (~15.4%). The optimal mix of PAYGO and debt to fund an increase in the R&R CIP will depend upon the financial conditions, financial metrics (e.g., coverage ratios), and other budget assumptions
- Implementation of increasing CIP funding will require additional staff
- Staff is currently in the process of determining the appropriate R&R needs for our current system
  - Anticipated as part of the upcoming biennial budget process

Drought Mitigation Projects

Presented on Feb 12, 2024 to Engineering, Operations and Technology Committee

Drought Mitigation Actions Portfolio
Cost-Effective Projects Providing Timely Relief (for Implementation)

Projects Under Implementation

Project Title	Completion
DVL to Rialto Delivery (4 projects)	2026/2027
Sepulveda Feeder Pumping Stage 1	2026

Projects Prepared for Implementation

Project Title	Completion
Burbank B-5 to B-5A Shift	2026
TVMWD Miramar Pumpback Upgrades	2027/2028
Sepulveda Feeder Pumping Stage 2	2032

February 12, 2024 Engineering, Operations, and Technology Committee Item #9-2 Slide 7

Drought Mitigation Projects for Further Consideration

Presented on Feb 12, 2024 to Engineering, Operations and Technology Committee

Drought Mitigation Actions Portfolio Projects for Further Consideration

Projects for Targeted Improvements

Project Title	Category
AVEK to West Branch	Conveyance
East Valley Feeder Parallel Pipeline	Conveyance
Western SWPDA Reservoir	Surface Storage
In-Region Groundwater Storage	Groundwater Storage

February 12, 2024

Engineering, Operations, and Techn

Drought Mitigation Actions Portfolio Projects for Further Consideration

Projects with Regional Benefits

Project Title	Category
E-W Regional Raw-Water Conveyance Line	Conveyance
SWP Storage - East San Joaquin Valley	Surface Storage
Flexible Storage (State & Federal Programs)	Surface Storage
AVEK Water Bank Expansion	Groundwater Storage
Recycled Water, Desalination	Local Supply

February 12, 2024

Engineering, Operations, and Technology Committee

Item #9-2 Slide 10

More discussion in June/July time frame through Engineering Committee Workshop

Pure Water Southern California (PWSC)

Presented at Subcommittee on Pure Water Southern California and Regional Conveyance on Jan 22, 2025

Overview of Updated Program Costs

- Based on program costs presented in November 2023
  - Phase 1 – 115 MGD
  - Upsized pipeline for LADWP PWLA Program
  - All treatment facilities – MBR, RO, UV-AOP, etc.
- Modifications since 2023
  - Agreement with LACSD assigns construction costs of pre-treatment facilities (MBR etc.) to LACSD

January 22, 2025 Subcommittee on Pure Water Southern California and Regional Conveyance

Estimated PWSC Financial Impact and Unit Cost

in 2023 dollars   Phase 1 with no upsizing, w/o LACSD Scope, and w/o out-of-area contributions.

PWSC Project	115 MGD	75 MGD	45 MGD
Capital Construction Cost	**$4.3B**	**$3.6B**	**$1.5B**
Annual Capital Financing Costs*	$249M	$206M	$88M
Annual O&M Cost	$139M	$104M	$60M
Annual R&R Cost	$68M	$38M	$20M
Production Yield	118,500 AF	77,300 AF	46,400 AF
Construction Period	10 years	10 years	9 years
Point-in-Time Unit Cost	$3,300/AF	$4,000/AF	$3,200/AF
Lifecycle Unit Cost	$2,000/AF	$2,200/AF	$2,000/AF
Overall Melded Cost Increase***	25%	20%	10%
Avg Annual Cost Increase Over Construction Period**	2.5% / yr	2.0% / yr	1.1% / yr

* *Assuming 100% debt financed for this analysis at 4% rate / 30-year term*

** *Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact*

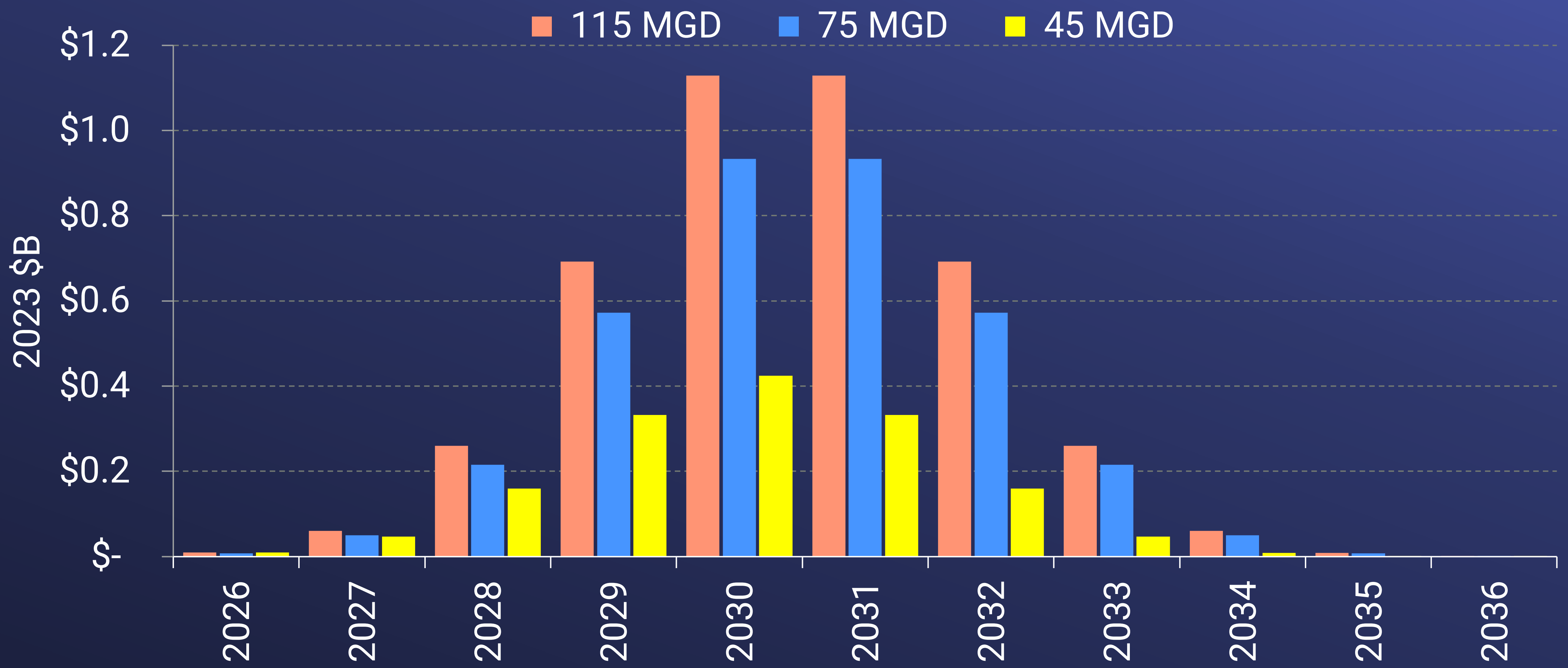
*** *Based on Metropolitan's 2024/25 Revenue Requirement of $1,550 M*

Point-in-Time Unit Cost assumes all debt is issued at once in year one and the project is in full operation in year one.

Lifecycle Unit Cost estimates the average unit cost over the 100-year project life and includes needed replacements and refurbishments (R&R).

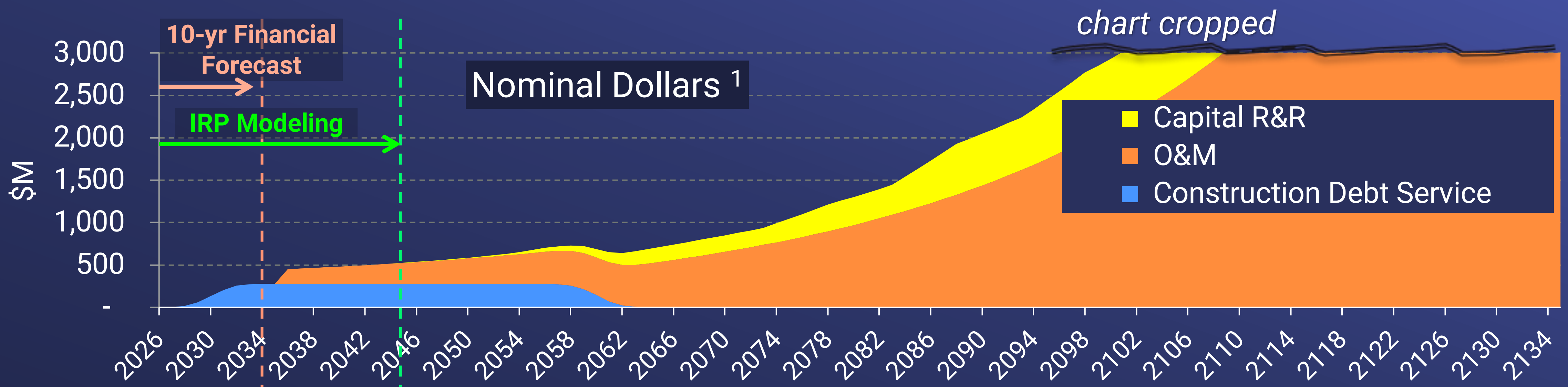
PWSC Design/Construction Costs

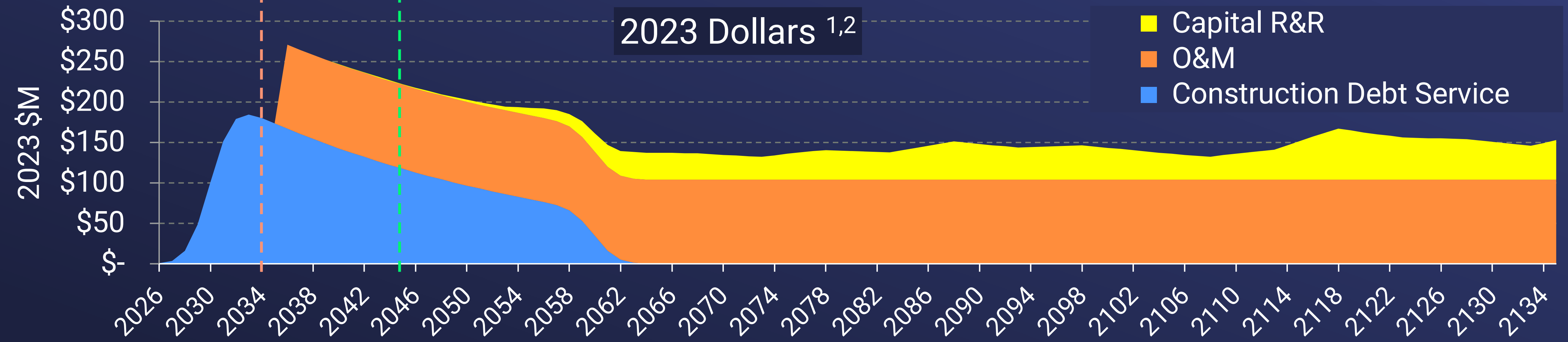
in 2023 dollars



PWSC Cash Flows

Phase 1 Option 2 - 75 MGD, No Upsizing, w/o LACSD Scope, in 2023 dollars

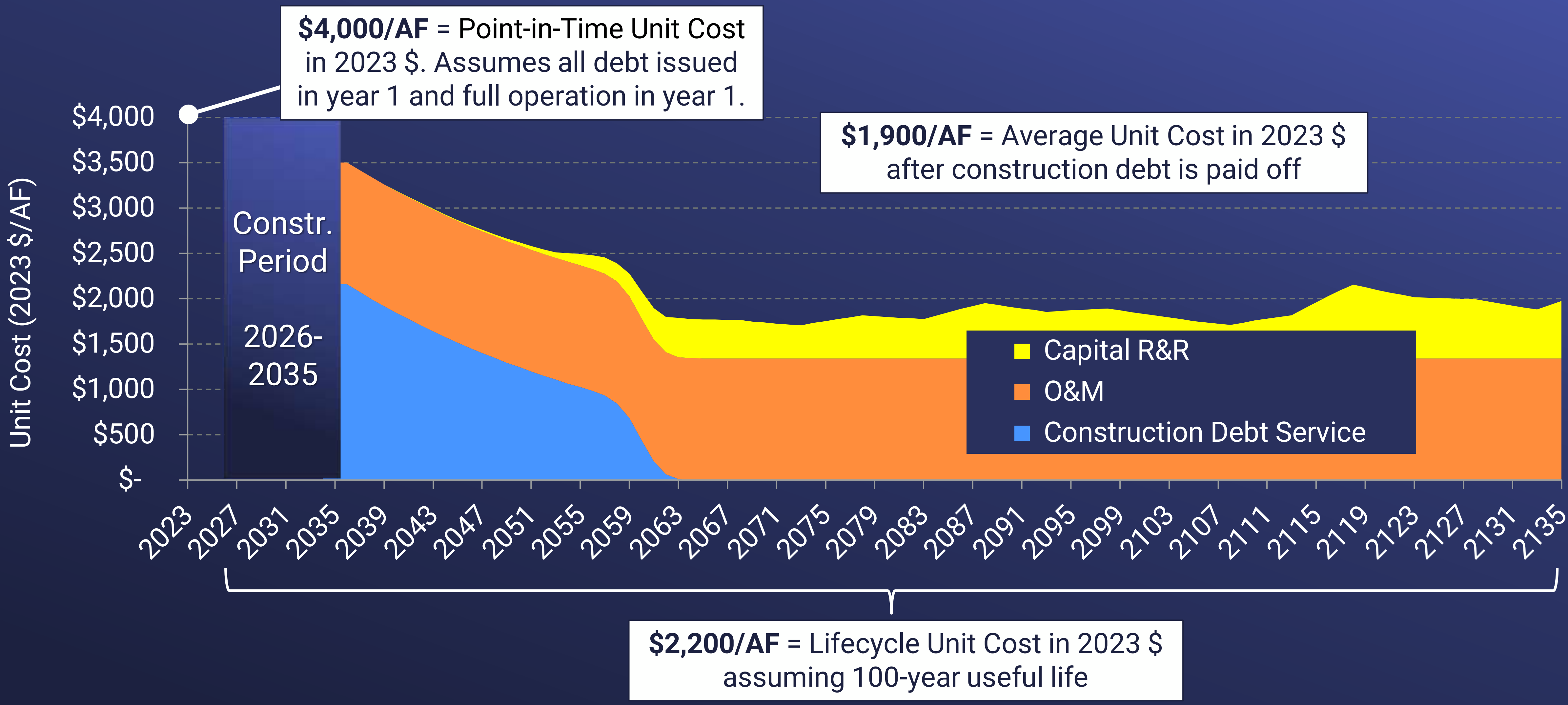




1) Escalation rate 4%
2) Discount rate 4%

PWSC Lifecycle Cost Analysis

Phase 1 Option 2 - 75 MGD, No Upsizing, w/o LACSD Scope, in 2023 dollars



Future Updates

- Engineering staff is currently working to revise the program costs in 2025 dollars to be presented to the Board in Fall 2025
- Adoption of Final PEIR and potential Board action for project approval in January 2026

Delta Conveyance Project

Metropolitan's Share of DCP Planning Costs*

Approved by the Board on December 9, 2024

Metropolitan's Share of DCP Planning Costs

in millions of dollars

	FY 2025/26	FY 2026/27	FY 2027/28	Total	CY 2027 Rate Impact [1]
Planning Costs – no refund offset	$25.7	$74.7	$41.3	**$141.6**	**6%**
Planning Costs net of $75M refund	$0.0	$25.3	$41.3	**$66.6**	**3%**

(1) Overall calendar year 2027 rate increase needed to generate additional revenues for DCP planning and preconstruction costs on a cash basis by June 30, 2028

* *$75M refund will be applied to ongoing SWC costs. The refund is being shown for purposes of providing the entire scope of upcoming costs only*

Estimated DCP Financial Impact and Unit Cost*

in 2023 dollars → Updated Project Costs Expected in 2026-2027

Delta Conveyance Project		
Capital Cost	**$20.1B**	Debt issued by DWR @ 4% rate, 40-year term
Annual O&M Cost	$29.1M	At full operation, excl. Capital Equipment Refurbishment & Replacement (R&R)
Annual Capital Equipment R&R Cost	$23.6M	After full operation, for major Capital Equipment R&R, est. by DCA
Average additional deliveries	403,000 AF	2070 median w/1.8' sea level rise w/o adaptation measures
Construction Period	20 years	Assumed operational in 2045

Metropolitan's assumed 47.13% Share	
MWD Capital Cost	**$9.5B**
MWD Annual O&M Cost	$13.7M
MWD Annual Capital Equipment R&R Cost	$10.3M
MWD Average additional deliveries	189,915 AF
Point-in-Time Unit Cost*	$2,900/AF
Lifecycle Unit Cost*	$1,000/AF
Overall Melded Cost Increase**	37%
Avg annual cost increase over construction period	1.8% / yr

Point-in-Time Unit Cost assumes all debt is issued at once in year one and the project is in full operation in year one.

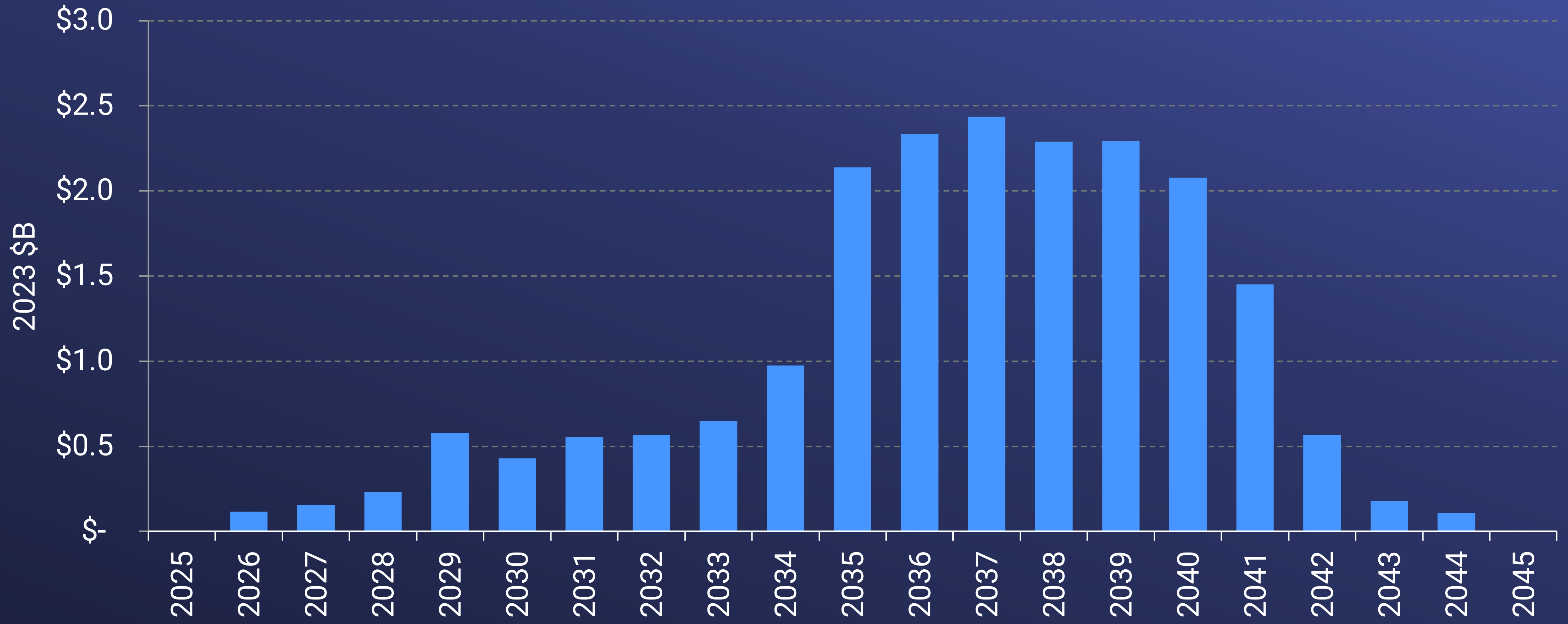
Lifecycle Unit Cost estimates the average unit cost over the 100-year project life and includes needed replacements and refurbishments.

* *Based on average additional deliveries, for illustrative and comparative purposes: MWD obligations are based on participation percentage, not quantity of water*

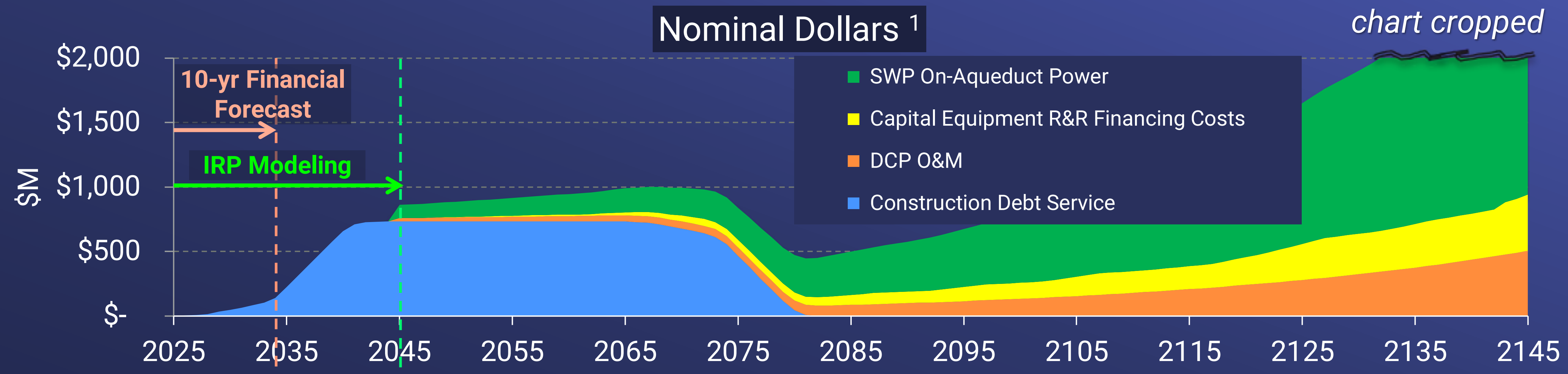
** *Based on Metropolitan's 2024/25 Revenue Requirement of $1,550 M*

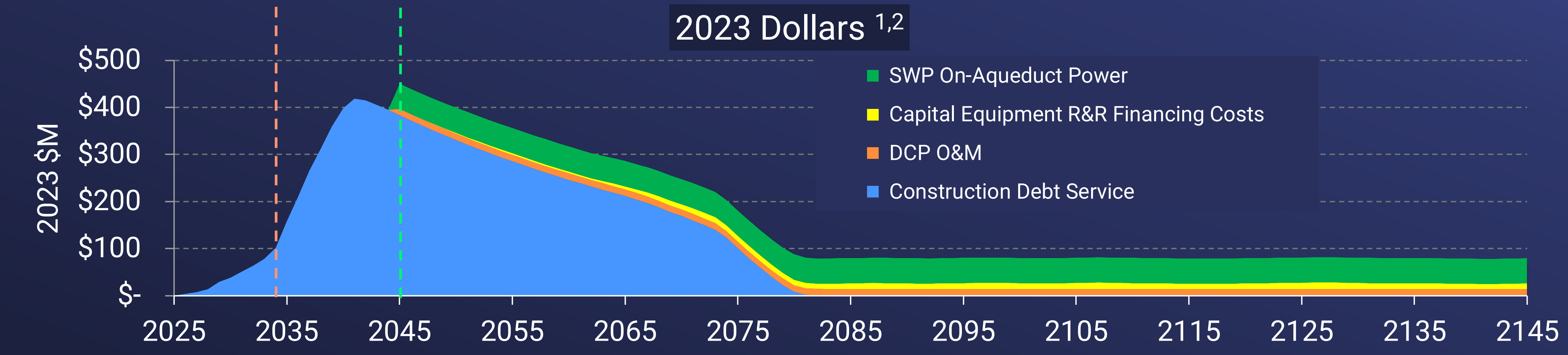
DCP Design/Construction Costs

Total $20.1 billion in 2023 dollars



DCP Cash Flows – Metropolitan Share

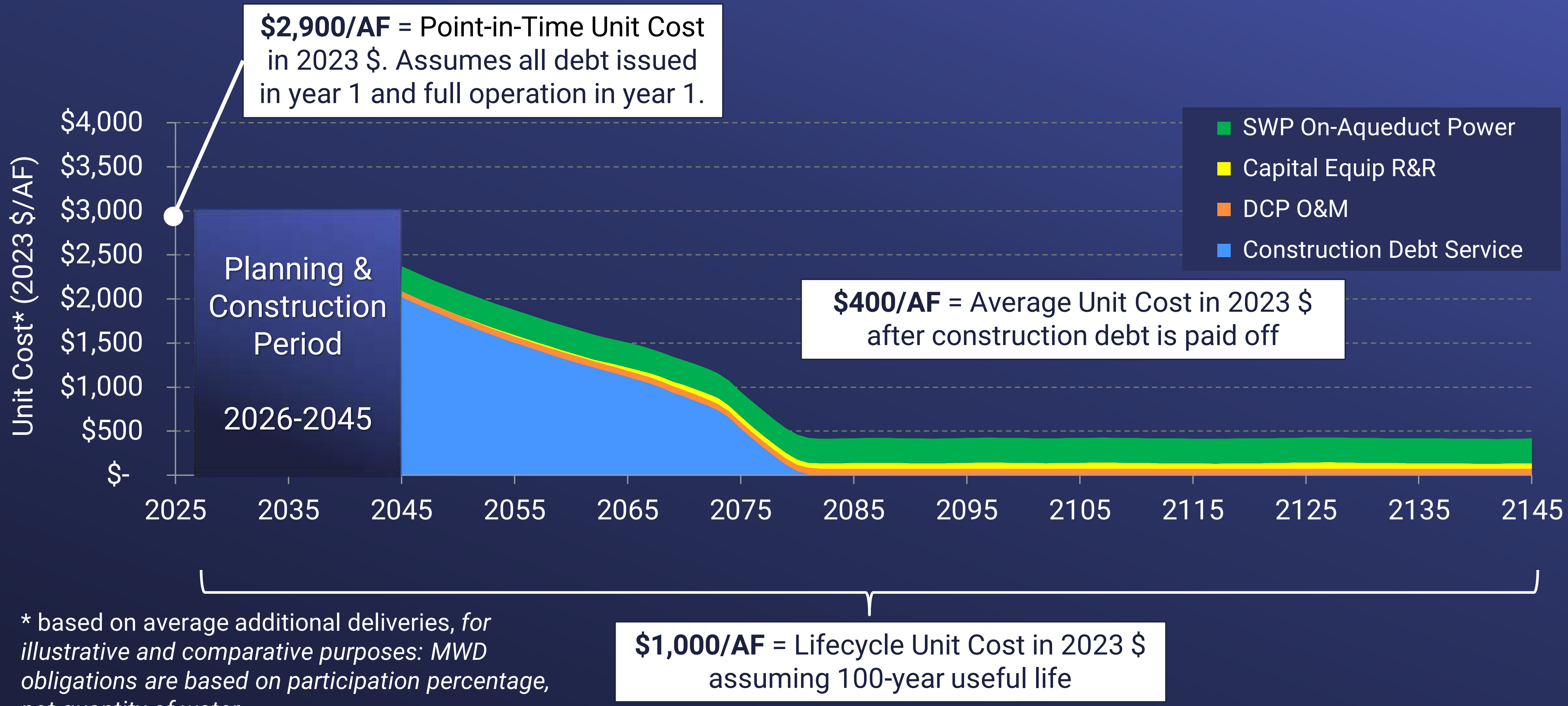




1) Escalation rate 3%
2) Discount rate 3%

DCP Lifecycle Cost Analysis for MWD

Unit costs* in 2023 dollars



* based on average additional deliveries, *for illustrative and comparative purposes: MWD obligations are based on participation percentage, not quantity of water*

Regional Conveyance Improvement & New Surface Storage

Regional East/West Conveyance Improvements

- Bi-directional pipeline
  - Drought operation
  - Surplus operation
- Potential Supply sources
  - SWP
  - CRA
  - DVL storage
  - Purified water
- 300 CFS capacity
- Conceptual-level estimated construction cost: $ 4.5 B (for planning purposes only)

Estimated Costs & Impacts for East West Conveyance

in 2024 Dollars

	East West Conveyance
Capital Construction Cost	**$4.5B**
Annual Capital Financing Costs*	$398M
Construction Period	15 yrs

Overall Melded Cost Increase**	26%
Avg Annual Cost Increase Over Construction Period**	1.7% / yr

* Assuming 100% debt financed for this analysis at 4% rate / 30-year term

** Based on Metropolitan's 2024/25 Revenue Requirement of $1,550 M. Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact.

Surface Water Storage Study - Phase 2

Presented on May 12, 2025, to Engineering, Operations and Technology Committee

Phase 2B Evaluation Process

Category	Key Criteria/Metrics
Facility Characteristics	• Storage efficiency and potential for sediment inflow • Facility relocations
Water Quality	• Inflow water quality • Risks of stored water impairment
System-Wide Considerations	• Contribution to storage objective • Operational flexibility
Constructability	• Capital cost per acre- capacity • Construction risk/cor
Geologic Risk	• Seismicity, liquefacti risk
Environmental Risk	• Environmental compl complexity
Climate Adaptability & Reliability	• Pumped storage pote • Seismic resilience, fir
Critical Risks	• Extreme dam height • Excessive relocation

May 12, 2025 Engineering, Operations, & Technology Committee

Phase 2B Evaluation Results

Site Scoring & Ranking

- Detailed site evaluation of using consistent methodology and criteria
- Each criterion scored from 1 (least favorable) to 5 (most favorable)
- Site rankings developed from scores :
  - Technical and non-technical criteria
  - North and South of East Branch/West Branch Bifurcation

Sites Retained

Site Name	Storage Capacity (AF)
Ingram Creek	300
Del Puerto Creek Large	330
Crow Creek	139
Lower Garzas Creek	334
Lower Garzas Creek Large	646
Upper Quinto Creek	500
Kettleman Plain	97
Sunflower Valley	339
Freeman Canyon	108
Eagle Valley Round	210

May 12, 2025 Engineering, Operations, & Technology Committee

Estimated Costs & Impacts for Surface Storage

in 2024 Dollars

	Lower Bound	Upper Bound
Capital Construction Cost*	**$0.96B**	**$3.88B**
Annual Capital Financing Costs**	$85M	$343M
Storage Capacity (TAF)	334 TAF	646 TAF
Capital Cost / Storage Capacity ($/AF)	$2,900/AF	$6,100/AF
Overall Melded Cost Increase***	**5%**	**22%**

* *Concept-level total capital cost estimate for relative comparison only*

** *Assuming 100% debt financed for this analysis at 4% rate / 30-year term.*

*** *Based on Metropolitan's 2024/25 Revenue Requirement of $1,550M. Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact.*

Sites Reservoir Project

Presented to One Water and Stewardship Committee on Feb 10, 2025

- Recent information:
  - The Sites Project is a multi-benefit project being developed according to the beneficiary pays principle
  - Based on Amendment 3, MWD will have a 22% share of total storage, resulting in an estimated average annual yield of 40-50 TAF
  - Updated cost estimate expected in Jul-Aug 2025

Sites Cost Analysis Update

- Project provides both water supply and water storage benefits
  - Increases in storage lead to increases in expected average annual yield
  - Ongoing analysis to refine unit-cost methodology for project
- 2023 Plan of Finance
  - Did not include a schedule of future R&R costs, which is essential for lifecycle cost comparability
  - Considers multiple financing strategies, each with different short- and long-term impacts on rates:
    - PAYGO
    - Financing annual capital costs
    - Capitalizing Interest during construction

Sites Estimated Cost & Overall Rate Impact

in 2023 dollars*

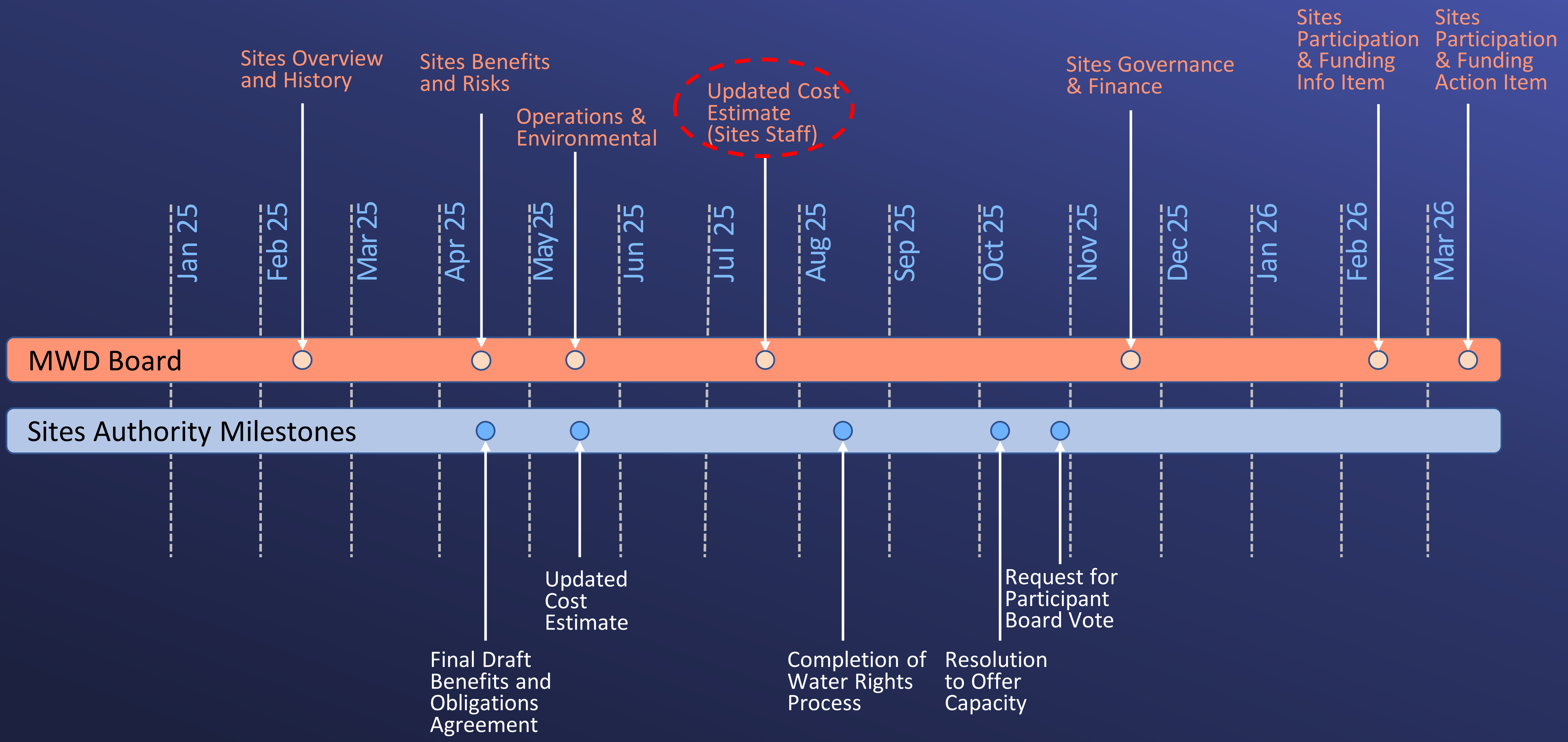
Total Project Capital Costs	**$4.20B**
State and Federal Contributions	$1.12B
Net Participant Capital Costs	$3.08B
MWD Share of Capital Costs	30.4%
Construction Period	6 Years
Net MWD Capital Costs	**$936M**
Annual Capital Financing Costs**	$54M
Annual O&M Costs	$6M
Overall Melded Cost Increase* **	**4.0%**
Average Annual Cost Increase Over Construction Period* **	**0.6%**

**   Figures are approximate, and totals may not foot due to rounding.*

***   Assuming 100% debt financed for this analysis at 4% rate / 30-year term. Interest is not capitalized during construction.*

**** Based on Metropolitan's 2024/25 Revenue Requirement of $1,550M. Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact.*

Sites Draft Timeline – Subject to Change & Modification



Funding Zero Emission Vehicle (ZEV)

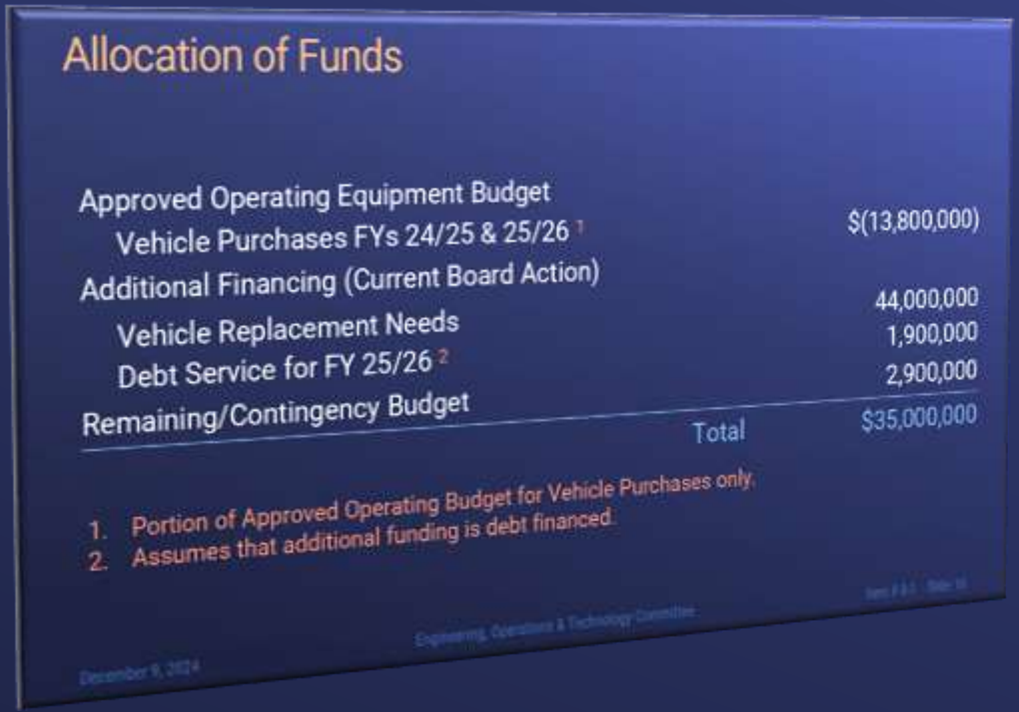
Fleet Operating Equipment Budget

- Fleet Operating Equipment with ZEV is part of the Operating Equipment in the Adopted Budget
- Items include:
  - Portion of Construction / Shop / Maintenance Equipment
  - Heavy Equipment
  - Automobiles, Trucks & Utility Vans

Approved Budget	FY 2024/25	FY 2025/26
Fleet Operating Equipment	$7.9M	$8.5M
Other Operating Equipment	$1.7M	$1.6M
Total Operating Equipment	**$9.6M**	**$10.1M**

Fleet Operating Equipment Budget with Zero Emission Vehicles (ZEV)

- Zero Emission Transition Program: $35M
  - December 10, 2024, Board approved additional program funding of $35M
    - Replace aging high-critical vehicles
    - Reduce operational risk
    - Ensure compliance with CARB and CAP



Allocation of Funds

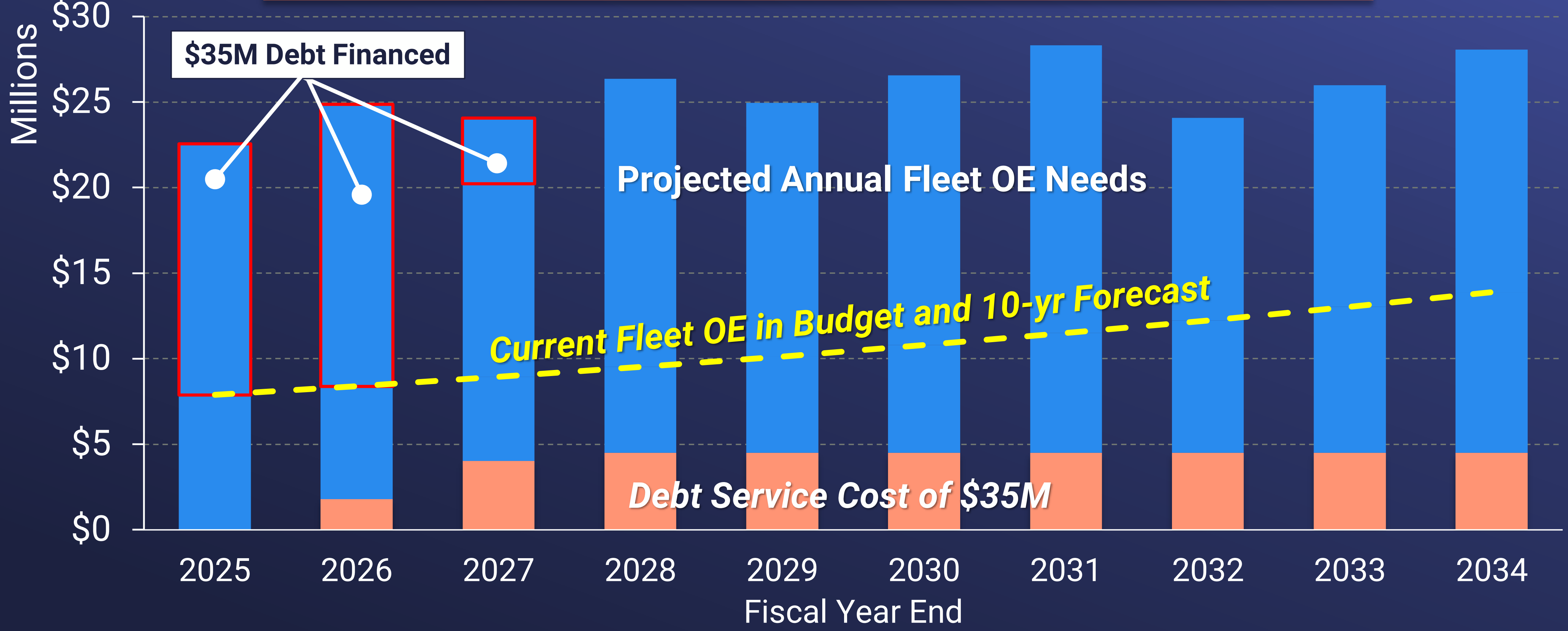
Approved Operating Equipment Budget	
Vehicle Purchases FYs 24/25 & 25/26 [1]	$(13,800,000)
Additional Financing (Current Board Action)	
Vehicle Replacement Needs	44,000,000
Debt Service for FY 25/26 [2]	1,900,000
Remaining/Contingency Budget	2,900,000
Total	$35,000,000

1. Portion of Approved Operating Budget for Vehicle Purchases only.
2. Assumes that additional funding is debt financed.

Fleet Operating Equipment (OE) with ZEV

Board Approved the $35M Debt Financed of the Initial Increases in Fleet OE

To fund on-going annual fleet OE needs, the OE needs to increase about $12M/yr resulting in a one-time overall rate increase of ~0.8%



Staffing Challenges

Staffing Needs Analysis: Steps Taken

- MWD is currently conducting a detailed staffing analysis by Group to determine:
  - Current/future staffing needs and operational risks/challenges
  - Financial strategies for funding new position requests in upcoming budgets
- Metropolitan staff will bring a multi-year/budget cycle staffing plan to the Board for discussion in the Fall 2025. Staff will incorporate the Board's feedback into the next biennium budget (released in January 2026)
- Consistent with prior budget requests (see table below) as well as feedback received from MWD's employee engagement survey, we anticipate significant position requests from various groups

Position Build	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget	FY24 Budget	FY25 Budget	FY26 Budget
Beginning Positions (FY20 Budget)	1907						
New Positions Added		0	0	22	22	19	19
Pure Water Positions Added		0	0	0	17	0	0
Total Positions	**1,907**	**1,907**	**1,907**	**1,929**	**1,946**	**1,965**	**1,965**
Unfunded Position Requests		**35**	**35**	**81**	**81**	**104**	**104**

Other Drivers

Other Potential Budget Drivers

- Continuing lower water sales trends
- Additional treatment costs for AVEK High Desert Water Bank Program (e.g., nitrate, arsenic)
- Macro-economic drivers (e.g., tariffs, inflation, interest rates)
- Labor costs (e.g., wages, pension, active & retiree medical)
- O&M cost increases (e.g., chemicals)

Next Steps

- Various updated cost estimates are anticipated in the coming months as the budget is developed
- The financial analysis will also be part of CAMP4W evaluative criteria for major projects to facilitate Board deliberations

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Report

Finance and Administration Group

- **Finance and Administration Group Activities Report**

Summary

This report provides a summary of the Finance and Administration group activities for April 2025 and May 2025

Purpose

Informational

Attachments

Attachment 1 – Finance and Administration group activities for April 2025 and May 2025.

Date of Report: June 10, 2025

Finance and Administration Group Activities Report for April 2025 and May 2025

Maintain Strong Financial Position

Provide timely and discerning financial analyses, planning, and management to ensure that forecasted revenues are sufficient to meet planned expenses and provide a prudent level of reserves consistent with board policy.

In May, the Finance, Affordability, Asset Management, and Efficiency Committee took action to adopt a resolution to continue Metropolitan's Water Standby Charge for fiscal year 2025/26. In addition, information reports were provided on (1) Metropolitan's 3rd Quarter financial projections for fiscal year 2024/25 and (2) potential drivers of the next biennium budget.

Manage risk to protect Metropolitan's assets against exposure to loss.

The Risk Management Unit completed 48 incident reports, communicating instances of Metropolitan property damage, liability, workplace injuries, regulatory visits, and spills.

Risk Management completed 42 risk assessments on contracts, including professional service agreements, construction contracts, entry permits, special events, and film permits.

Business Continuity

Facilitate district-wide planning and training to prepare employees and managers to effectively carry out critical roles and recover mission-critical functions, thus ensuring continuity of operations and resiliency in the event of a disaster.

Manage the Business Continuity Management Program in accordance with Operating Policy A06.

Staff continued working with various areas across the District to facilitate Business Continuity plan updates.

In collaboration with the Office of Safety, Security and Protection, staff participated in several meetings in an effort to transition to a new MetAlert emergency notification system. Staff continues to spend a significant amount of time moving information from the existing system (MIR3) to the new system (Everbridge).

In collaboration with Information Technology, a Disaster Recovery Business Continuity live exercise was conducted to validate the functionality of critical Oracle-based applications in the backup-up data center. Cognos and AP Imaging were in scope for business user testing and both applications tested successfully. Performing periodic testing of critical backup applications ensures readiness and application availability during an emergency.

Staff responded to a power outage incident at Union Station Headquarters on May 13, 2025, to monitor for business impacts and ensure business continuity. Stemming from a major electrical failure, the outage impacted the low-rise areas only. Security operations and building cameras, along with board and committee meetings were primarily impacted, and staff had to implement workarounds for business continuity. Staff from the affected areas were able to continue working remotely. Business continuity plans will be reviewed and updated with lessons learned.

Financial Management

Manage Metropolitan's finances in an ethical and transparent manner and provide consistent, clear, and timely financial reporting. Update Metropolitan's capital financing plans and work with rating agencies and investors to communicate Metropolitan's financial needs, strategies, and capabilities, thus ensuring that Metropolitan has cost-effective access to capital markets and the ability to finance ongoing future needs. In addition, actively manage Metropolitan's short-term investment portfolio to meet ongoing liquidity needs and changing economic environments.

Record and report the financial activities of Metropolitan in a timely, accurate, and transparent manner to the Board, executive management, member agencies, and the financial community.

FY24-25 Cash Water Transactions and Revenues Budget vs Actual (Preliminary, subject to change)

Month		Acre-Feet (AF)[2]		Variance		Revenue ($)[1]		Variance	
Delivered/ Billed In	To be Collected in	Budget	Actual	AF	%	Budget	Actual	$	%
May	July	111,381	93,988	(17,393)	-16%	115,411,844	111,844,425	(3,567,419)	-3%
June	August	119,830	101,259	(18,571)	-15%	142,766,424	100,440,378	(42,326,046)	-30%
July	September	133,150	113,715	(19,435)	-15%	141,775,001	121,901,017	(19,873,984)	-14%
August	October	136,454	116,650	(19,804)	-15%	145,410,622	129,047,328	(16,363,294)	-11%
September	November	127,137	114,291	(12,846)	-10%	133,836,426	124,663,850	(9,172,576)	-7%
October	December	123,989	115,743	(8,246)	-7%	128,665,932	122,055,973	(6,609,959)	-5%
November	January	124,881	99,081	(25,800)	-21%	125,782,252	110,437,861	(15,344,391)	-12%
December	February[3]	104,337	240,153	135,816	130%	103,324,010	265,305,379	161,981,369	157%
January	March	88,988	85,190	(3,799)	-4%	95,074,177	97,621,268	2,547,091	3%
February	April	77,291	67,427	(9,864)	-13%	81,911,825	75,915,932	(5,995,893)	-7%
March	May	82,757	80,579	(2,178)	-3%	88,153,603	89,256,411	1,102,808	1%
April	June	107,565	107,388	(177)	0%	116,431,176	128,935,943	12,504,767	11%
FY Total		**1,337,760**	**1,335,464**	**(2,297)**	**0%**	**1,418,543,292**	**1,477,425,765**	**58,882,473**	**4%**

[1] Includes Water Sales, Exchanges, and Wheeling for member agency and non-member agency.
[2] AF reflected does not include non-member agency transactions.
[3] Actual amounts include 100 TAF and $125.6 million of Reversed Cyclic sales to be delivered within five years.

Update capital financing plans and work with rating agencies and investors to communicate financial needs and capabilities, ensure cost-effective access to capital markets, and maintain long-term bond ratings of AA or better.

In May 2025, Metropolitan and Bank of America, N.A., completed the renewal of a Standby Bond Purchase Agreement to support the $221.2 million Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A.

Also in May, staff and the respective financing teams were finalizing documentation for two bond issues to be issued in July 2025. Metropolitan's General Manager, AGM/CFO, Group Finance Manager and Treasury and Debt Manager prepared and presented an update of Metropolitan's key credit factors to the respective rating agencies involved in the two upcoming bond sales.

Treasury operations and Debt management staff worked through several technical updates to the DebtBook cash management and debt modules for customization of their respective implementations.

Prudently manage the investment of Metropolitan's funds in accordance with policy guidelines and liquidity considerations.

As of April 30, 2025, Metropolitan's investment portfolio balance was $1.5 billion; the total April earnings were $4.73 million, and the effective rate of return was 4.27 percent.

In April 2025, Metropolitan's portfolio manager executed 29 buy and six sell trades.

Treasury staff managed daily cash flow to cover Metropolitan's operational expenditures and invest excess funds.

Treasury staff completed the following transactions:

- 43 Dreyfus Cash Management Fund transactions
- 25 CAMP Investment Pool transactions
- $55.09 million in Metropolitan's bond and SWAP payments
- $0.28 million BANA Revolver interest payments
- $0.95 million renewal of SMARA PNC Certificate of Deposit
- 1,006 disbursements by check, 23 by Automated Clearing House (ACH), and 206 by wire transfer
- 77 receipts by check, 29 by ACH, and 64 by incoming wires and bank transfers
- One exception confirmation and no unauthorized ACH
- Stop payments: 7 for Demand Account; 2 for Payroll Account

The Treasury staff also processed for DCA the following transactions:

- Received and deposited 11 checks totaling $1.93 million
- Issued 6 checks and 12 wires totaling approximately $1.79 million

In addition, Treasury staff processed thirteen professional services invoice payment requests totaling approximately $0.73 million.

Furthermore, 9,869 P-One Card transactions, totaling $1.43 million, recorded in the April bank statement were monitored by the P-One Card Administrator.

Administrative Services

Accomplishments

The La Verne Warehouse Team was called upon to provide off-hours emergency services and support on Wednesday, April 23rd at approximately 8:00 PM. Conveyance & Distribution Teams were in immediate need of replacement valves to resolve a potential failure that had only presented itself a few short hours prior to the call for support. Shutdown stakeholders collaborated with responding Warehouse Team personnel and arranged to meet at the F.E. Weymouth facility in La Verne to obtain the required valve units. Under Warehouse Team Manager supervision, Raymond Hy (operating the forklift in the image below) provided expert Storekeeper support to the shutdown staff by successfully fulfilling their emergency order, including the loading and securing of the desired units onto MWD vehicles for immediate mobilization.

Once again, the La Verne Warehouse Team was tasked with providing expert warehouse support during the recently completed Rialto Feeder Shutdown during the weekend of May 9th through May 11th. The LV Team strategically positioned one Inventory Coordinator and one Storekeeper as onsite support for a full day of coverage for Friday, Saturday, and Sunday. This staffing commitment allows the shutdown stakeholders immediate support when visiting the warehouse for supplies, materials, and tools. Additionally, the support provided by the Warehouse Team during shutdowns increases efficiencies by reducing time lost to acquiring goods from non-MWD sources and provides an active onsite P-Cardholder to acquire emergency non-inventory items quickly when traditional procurement methods are not readily available due to off-hours operations.

Finance, Affordability, Asset Management and Efficiency Committee

Finance and Administration Group Activities Report

Item 7a

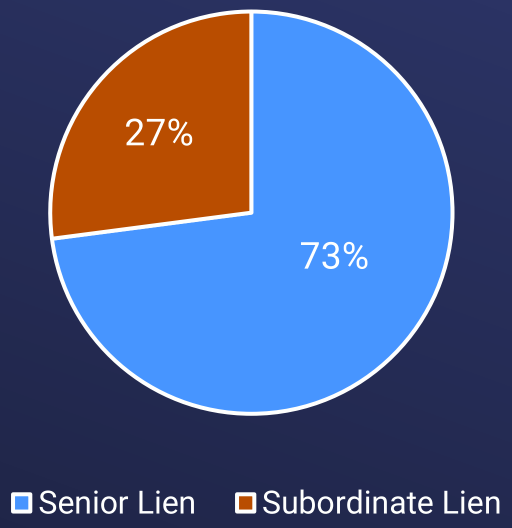
June 10, 2025

Metropolitan Debt Portfolio Overview

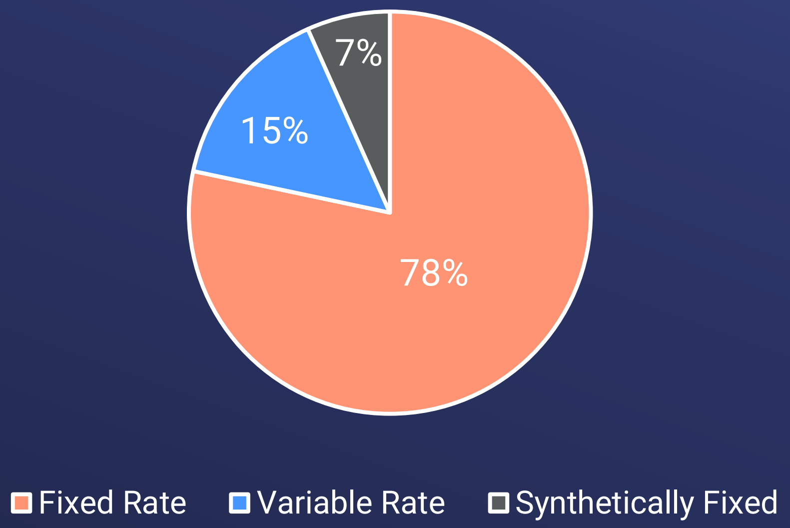
MWD Debt Portfolio Key Statistics

- As of June 10, MWD has approximately $4.076 billion in bonds outstanding
- MWD will also have approximately $272.9 million in fixed payor interest rate swaps outstanding

Debt Portfolio by Lien



Debt Portfolio by Type



2025 Borrowing Needs

Metropolitan Anticipates Selling Four Series of Bonds in CY 2025

- Series 2025A Bonds being issued to refund all of the Series 2022C-1 VRDBs, converting them from taxable VRDBs to tax-exempt fixed rate bonds
- Shortly after the 2025A Bonds, Metropolitan anticipates two series of new money bonds for the Antelope Valley – East Kern (AVEK) High Desert Water Bank Program for a par amount of $177.9 million
- Metropolitan anticipates issuing the Series 2025B Refunding Bonds to refund the Series 2022C-2 Bonds ($134.6 million outstanding) later in CY 2025

Series 2025A Overview

2025A Senior Lien Refunding Bonds

- Water Revenue Refunding Bonds, 2025 Series A
  - Senior lien refunding bonds; tax-exempt fixed rate
  - Refunding of:
    - $147,650,000 outstanding principal of Special Variable Rate Water Revenue Refunding Bonds 2022 Series C-1
  - No debt service reserve fund
  - Expected closing July 1, 2025
  - Municipal Advisors: PFM Financial Advisors LLC

Bond Ratings are an Essential Component of Investor Credit Review

Metropolitan Bond Credit Ratings

- As a part of our debt issuance process, we seek bond credit ratings from one or more nationally recognized credit rating agencies
- Depending on the bond issue, Metropolitan will have ratings from
  - Standard & Poor's (S&P)
  - Moody's
  - Fitch
- Current rating review in conjunction with the sale of Water Revenue Refunding Bonds, 2025 Series A

Metropolitan's Current Bond Ratings Affirmed

Rating Agency	Metropolitan Lien and Mode	Rating Assigned	Rating Outlook	
S&P Global Ratings	General Obligation Bonds	AAA (highest)	Stable	**Confirmed May 30, 2025**
	Senior Lien – Long-Term Bonds	AAA (highest)	Stable	
	Subordinate Lien – Long-Term Bonds	AA+	Stable	
	Short-Term Obligations – Senior and Subordinate Liens	A-1+ (highest)	Stable	
Moody's Ratings	General Obligation Bonds	Aaa (highest)	Stable	**Confirmed June 2, 2025**
	Senior Lien	Aa1	Stable	
Fitch Ratings	General Obligation Bonds (2014A)	AAA (highest)	Stable	**Pending**
	Senior Lien and Subordinate Lien	AA+	Stable	
	Short-Term Obligations	F1+ (highest)	Stable	

Key Credit Rating Highlights: S&P

Rating Agency	Rating Rationale	Rating Upgrade Factors	Rating Downgrade Factors
S&P Global Ratings **AAA (Senior Lien)**	• District's comprehensive resource planning, well-defined risk management practices and financial policies are cornerstone to its credit quality • Management's prudent approach to mitigating the short and long-term credit risk associated with Climate Change and related impacts to water supply and demands • District's ability to maintain steady financial metrics despite variability in water sales is a key credit strength • Strategic importance of District to both its large member base and broad service area economy. Diverse water sources and ample water storage are additional credit strengths.	Not Applicable	Not continuing emergency measures to bolster interconnections between SWP-dependent areas to infrastructure that would provide access to other supplies Not adjusting rates to maintain consistently strong financial performance Material underperformance to forecast District's policies and practices no longer support strong liquidity and DSC levels

Key Credit Rating Highlights: Moody's

Rating Agency	Rating Rationale	Rating Upgrade Factors	Rating Downgrade Factors
Moody's Ratings **Aa1 (Senior Lien)**	• Indispensable water wholesaler to expansive service area • Lowest-priced alternatives for water supplies in the region • Effective rate setting strategies and willingness to raise rates • Extensive, multi-year planning and investment ensures variable water supplies meet long-term demand and provides for flexibility to meet changing conditions	Additions to drought hardened supplies and system redundancy at state/local level Sustained DSC closer to 2.00x and reduced volatility in DSC . Maintain days' cash at around 365 days	Continued drought conditions that strain supplies, stored water Weakened financial performance in DSC and liquidity. Increased capital costs that drive weakened financials and water affordabili

Questions

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

1928