

# APPENDIX A

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## The Metropolitan Water District of Southern California

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## INTRODUCTION

*This Appendix A provides general information regarding The Metropolitan Water District of Southern California (“Metropolitan”), including information regarding Metropolitan’s operations and finances. Statements included or incorporated by reference in this Appendix A constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “estimate,” “budget” or other similar words. Such statements are based on facts and assumptions set forth in Metropolitan’s current planning documents including, without limitation, its most recent biennial budget. The achievement of results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results may differ from Metropolitan’s forecasts. Metropolitan is not obligated to issue any updates or revisions to the forward-looking statements in any event.*

*Metropolitan maintains a website that may include information on programs or projects described in this Appendix A; however, none of the information on Metropolitan’s website is incorporated by reference or intended to assist investors in making an investment decision or to provide any additional information with respect to the information included in this Appendix A. The information presented on Metropolitan’s website is not part of the Official Statement and should not be relied upon in making investment decisions.*

### **Formation and Purpose**

Metropolitan is a metropolitan water district created in 1928 under authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended (herein referred to as the “Act”). The Act authorizes Metropolitan to: levy property taxes within its service area; establish water rates; impose charges for water standby and service availability; incur general obligation bonded indebtedness and issue revenue bonds, notes and short-term revenue certificates; execute contracts; and exercise the power of eminent domain for the purpose of acquiring property. In addition, Metropolitan’s Board of Directors (the “Board”) is authorized to establish terms and conditions under which additional areas may be annexed to Metropolitan’s service area.

Metropolitan’s primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member public agencies. If additional water is available, such water may be sold for other beneficial uses. Metropolitan serves its member agencies as a water wholesaler and has no retail customers.

The mission of Metropolitan, as promulgated by the Board, 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.

Metropolitan’s charges for water sales and availability are fixed by its Board, and are not subject to regulation or approval by the California Public Utilities Commission or any other state or federal agency. Metropolitan imports water from two principal sources: northern California via the Edmund G. Brown California Aqueduct (the “California Aqueduct”) of the State Water Project owned by the State of California (the “State” or “California”) and the Colorado River via the Colorado River Aqueduct (“CRA”) owned by Metropolitan.

### **Member Agencies**

Metropolitan is comprised of 26 member public agencies, including 14 cities, 11 municipal water districts, and one county water authority, which collectively serve the residents and businesses of more than 300 cities and numerous unincorporated communities. Member agencies request water from Metropolitan at

The State has requested federal emergency funding to help offset costs related to the response efforts. The Federal Emergency Management Agency has approved the State's request for federal assistance.

Following the rainy season, the spillways will be repaired on a more permanent basis in preparation for the following winter. DWR's initial assessments indicate costs may range from \$100-200 million. These estimates are subject to revision as more detailed information becomes known. Metropolitan is unable to assess at this time what costs, if any, it will incur as a State Water Contractor, associated with the spillway repairs.

State Water Project water allocations to State Water Contractors for calendar year 2017 are currently estimated to be 60 percent of contracted amounts. In spite of the damage to the main spillway and the unknowns associated with DWR's corresponding repair plan, the State Water Project allocation is expected to increase from the current estimate of 60 percent. If realized, this would result in an allocation that is higher than average, and likely higher than any allocation since 2011. Nonetheless, future water supplies will be primarily dependent on hydrology.

### **Integrated Water Resources Plan**

**Overview.** The Integrated Water Resources Plan ("IRP") is Metropolitan's principal water resources planning document. Metropolitan, its member agencies, subagencies and groundwater basin managers developed their first IRP as a long-term planning guideline for resources and capital investments. The purpose of the IRP was the development of a portfolio of preferred resources to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner. The first IRP was adopted by the Board in January 1996 and has been subsequently updated in 2004, 2010 and 2015.

On January 12, 2016, Metropolitan's Board adopted the most recent IRP update (the "2015 IRP Update") as a strategy to set goals and a framework for water resources development. This strategy enables Metropolitan and its member agencies to manage future challenges and changes in California's water conditions and to balance investments with water reliability benefits. The 2015 IRP Update provides an adaptive management approach to address future uncertainty, including uncertainty from climate change. It was formulated with input from member agencies, retail water agencies, and other stakeholders including water and wastewater managers, environmental and business interests and the community.

The 2015 IRP Update seeks to provide regional reliability through 2040 by stabilizing Metropolitan's traditional imported water supplies and continuing to develop additional conservation programs and local resources, with an increased emphasis on regional collaboration. It also advances long-term planning for potential future contingency resources, such as storm water capture and seawater desalination.

Specific projects that may be developed by Metropolitan in connection with the implementation of the 2015 IRP Update will be subject to future Board consideration and approval, as well as environmental and regulatory documentation and compliance. The 2015 IRP Update and associated materials are available on Metropolitan's website at: <http://www.mwdh2o.com/AboutYourWater/Planning/Planning-Documents/Pages/default.aspx>. The information set forth on Metropolitan's website is not incorporated by reference.

**An Adaptive Management Strategy.** Adaptive water management, as opposed to a rigid set of planned actions over the coming decades, is the most nimble and cost-effective manner for Metropolitan and local water districts throughout Southern California to effectively prepare for the future. An adaptive management approach began to evolve with Metropolitan's first IRP in 1996, after drought-related shortages in 1991 prompted a rethinking of Southern California's long-term water strategy. Reliance on imported supplies to meet future water needs has decreased steadily over time, replaced by plans for local actions to

meet new demands. The 2015 IRP Update continues to build a robust portfolio approach to water management.

The following paragraphs describe the goals, approaches and targets for each of the resource areas that are needed to ensure reliability under planned conditions.

State Water Project. The State Water Project is one of Metropolitan’s two major sources of water. The goal for State Water Project supplies is to adaptively manage flow and export regulations in the near term and to achieve a long-term Bay-Delta solution that addresses ecosystem and water supply reliability challenges. Achieving this goal will require continued participation and successful outcomes in the California WaterFix and the California EcoRestore efforts. See “–State Water Project” and “REGIONAL WATER RESOURCES–Local Water Supplies” in this Appendix A. The stated goal of the IRP is to manage State Water Project supplies in compliance with regulatory restrictions in the near-term for an average of 980,000 acre-feet of annual supplies, and to pursue a successful outcome in the California WaterFix and California EcoRestore efforts for long-term average supplies of approximately 1.2 million acre-feet annually from this resource. See “–State Water Project – Bay-Delta Proceedings Affecting State Water Project.”

Colorado River Aqueduct. The CRA delivers water from the Colorado River, Metropolitan’s original source of supply. Metropolitan has helped to fund and implement agricultural conservation programs, improvements to river operation facilities, land management programs and water transfers and exchanges through agreements with agricultural water districts in southern California, entities in Arizona and Nevada that use Colorado River water, and the Bureau of Reclamation. See “–Colorado River Aqueduct” and “–Water Transfer, Storage and Exchange Programs – Colorado River Aqueduct.” The stated goal of the IRP for the CRA supplies is to maintain current levels of water supplies from existing programs, while also developing flexibility through dry-year programs and storage to ensure that a minimum of 900,000 acre-feet of CRA deliveries are available when needed, with a target of 1.2 million acre-feet in dry years.

Water Transfers and Exchanges. Under voluntary water transfer or exchange agreements, agricultural communities using irrigation water may periodically sell or conserve some of their water allotments for use in urban areas. The water may be delivered through existing State Water Project or CRA facilities, or may be exchanged for water that is delivered through such facilities. Metropolitan’s policy toward potential transfers states that the transfers will be designed to protect and, where feasible, enhance environmental resources and avoid the mining of local groundwater supplies. See “–Water Transfer, Storage and Exchange Programs.” The stated goal of the IRP is to pursue transfers and exchanges to hedge against shorter-term water demand and supply imbalances while long-term water supply solutions are developed and implemented.

Water Conservation. Conservation and other water use efficiencies are integral components of Metropolitan’s IRP. Metropolitan has invested in conservation programs since the 1980s. Historically, most of the investments have been in water efficient fixtures in the residential sector. With outdoor water use comprising at least 50 percent of residential water demand, Metropolitan has increased its conservation efforts to target outdoor water use reduction in its service area. See “CONSERVATION AND WATER SHORTAGE MEASURES.” The stated goal of the IRP is to pursue further water conservation savings of 485,000 acre-feet annually by 2040 through continued increased emphasis on outdoor water-use efficiency using incentives, outreach/education and other programs.

Local Water Supplies. Local supplies are a significant and growing component to the region’s diverse water portfolio. While the extent to which each member agency’s water supply is provided by imported water purchased from Metropolitan varies, in the aggregate, local supplies can provide over half of the region’s water in a given year, and the maintenance of these supplies remain an integral part of the IRP. Similar to water conservation, local supplies serve the important function of reducing demands for imported water supplies and thereby making regional water system capacity and storage available and accessible to

meet the needs of the region. Local water supply projects may include, among other things, recycled water, groundwater recovery, conjunctive use, and seawater desalination. Metropolitan offers financial incentives to member agencies to help fund the development of a number of these types of local supply projects. The stated goal of the IRP is to seek to develop 230,000 acre-feet of additional local supplies produced by existing and future projects, with the region reaching a target of 2.4 million acre-feet of total dependable local supply by 2040. See “REGIONAL WATER RESOURCES–Local Water Supplies” in this Appendix A.

## **State Water Project**

### **Background**

One of Metropolitan’s two major sources of water is the State Water Project, which is owned by the State, and managed and operated by DWR. The State Water Project is the largest state-built, multipurpose, user-financed water project in the country. It was designed and built primarily to deliver water, but also provides flood control, generates power for pumping, is used for recreation, and enhances habitat for fish and wildlife. The State Water Project provides irrigation water to 750,000 acres of farmland, mostly in the San Joaquin Valley, and provides municipal and industrial water to approximately 25 million of California’s estimated 39.2 million residents, including the population within the service area of Metropolitan.

The State Water Project’s watershed encompasses the mountains and waterways around the Feather River, the principal tributary of the Sacramento River, in the Sacramento Valley of Northern California. Through the State Water Project, Feather River water stored in and released from Oroville Dam (located about 70 miles north of Sacramento, east of the city of Oroville, California) and unregulated flows diverted directly from the Bay-Delta are transported south through the Central Valley of California, over the Tehachapi Mountains and into Southern California, via the California Aqueduct, to four delivery points near the northern and eastern boundaries of Metropolitan’s service area. The total length of the California Aqueduct is approximately 444 miles long. See “METROPOLITAN’S WATER DELIVERY SYSTEM–Primary Facilities and Method of Delivery – State Water Project” in this Appendix A.

### **State Water Contract**

In 1960, Metropolitan signed a water supply contract (as amended, the “State Water Contract”) with DWR to receive water from the State Water Project. Metropolitan is one of 29 agencies and districts that have long-term contracts for water service from DWR (known collectively as the “State Water Contractors” and sometimes referred to herein as “Contractors”). Metropolitan is the largest of the State Water Contractors in terms of the number of people it serves (approximately 18.8 million), the share of State Water Project water that it has contracted to receive (approximately 46 percent), and the percentage of total annual payments made to DWR by agencies with State water contracts (approximately 52 percent for 2016). Metropolitan received its first delivery of State Water Project water in 1972.

Pursuant to the terms of the State water contracts, all water-supply related expenditures for capital and operations, maintenance, power, and replacement costs associated with the State Water Project facilities are paid for by the State Water Contractors. In exchange, Contractors have the right to participate in the system, with an entitlement to water service from the State Water Project and the right to use the portion of the State Water Project conveyance system necessary to deliver water to them. Each year DWR estimates the total State Water Project water available for delivery to the State Water Contractors and allocates the available project water among the State Water Contractors in accordance with the State water contracts. DWR’s total water supply availability projections are refined over the course of the winter season based upon updated rainfall and snowpack values and allocations to the State Water Contractors are adjusted accordingly.

Metropolitan’s State Water Contract has been amended a number of times since its original execution and delivery. Several of the amendments, entered into by DWR and various subsets of State Water Contractors, relate to the financing and construction of a variety of State Water Project facilities and

FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED).”

Metropolitan currently provides post-employment medical insurance to retirees and pays the post-employment medical insurance premiums to PERS. On January 1, 2012, Metropolitan implemented a longer vesting schedule for retiree medical benefits, which applies to all new employees hired on or after January 1, 2012. Payments for this benefit were \$23.1 million in fiscal year 2015-16. Under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, Metropolitan is required to account for and report the outstanding obligations and commitments related to such benefits, commonly referred to as other post-employment benefits (OPEB), on an accrual basis.

The actuarial valuation dated June 30, 2015, was released in June of 2016. This valuation indicates that the Annual Required Contribution (ARC) in fiscal years 2016-17 and 2017-18 will be \$29.3 million and \$30.1 million, respectively. The ARC was based on the entry-age normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a general inflation component of 3.0 percent and (c) increases to basic medical premiums of 7.0 percent for non-Medicare plans for 2017, grading down to 5.0 percent for 2021 and thereafter. As of June 30, 2015, the date of the OPEB actuarial report, the unfunded actuarial accrued liability was estimated to be \$258.8 million. The unfunded actuarial accrued liability is amortized over a fixed 30-year period starting with fiscal year 2007-08 and ending in 2037. Changes to assumptions, actuarial gains and losses, and plan changes are amortized over a fixed 15-year period.

In September 2013, Metropolitan’s Board established an irrevocable OPEB trust fund with an initial deposit of \$40.0 million. During fiscal year 2013-14, the Board approved funding of an additional \$100.0 million which was deposited into the irrevocable OPEB trust fund. As part of its biennial budget process, the Board approved the full funding of the ARC for fiscal years 2016-17 and 2017-18.

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, was issued in June 2015, relating to accounting and financial reporting by state and local governments for OPEB. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources, and expenses. For defined benefit OPEB, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB also are addressed. This statement is effective for Metropolitan for 2018. Major changes would be: (i) the inclusion of net OPEB liabilities on Metropolitan’s Statement of Net Position (they are currently included as notes to Metropolitan’s financial statements); and (ii) more variable OPEB expense as it will now be based on the net OPEB liability change between reporting dates, with some sources of change recognized immediately and others spread over years, instead of being based on actual contributions.

## **HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

The “Historical and Projected Revenues and Expenses” table below provides a summary of revenues and expenses of Metropolitan prepared on a modified accrual basis. This is consistent with the adopted biennial budget for fiscal years 2016-17 and 2017-18. The table does not reflect the accrual basis of accounting, which is used to prepare Metropolitan’s annual audited financial statements. The modified accrual basis of accounting varies from the accrual basis of accounting in the following respects: depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. Under the modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are

earned and expenses are recognized when incurred. Thus water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. The change to modified accrual accounting is for budgeting purposes and Metropolitan will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Resolutions in accordance with their terms.

The projections are based on assumptions concerning future events and circumstances that may impact revenues and expenses and represent management's best estimates of results at this time. See footnotes to the table below entitled "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" for relevant assumptions, including projected water sales and average annual increase in the effective water rate, and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" for a discussion of potential impacts. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material.

Metropolitan's resource planning projections are developed using a comprehensive analytical process that incorporates demographic growth projections from recognized regional planning entities, historical and projected data acquired through coordination with local agencies, and the use of generally accepted empirical and analytical methodologies. See "METROPOLITAN'S WATER SUPPLY-Integrated Water Resources Plan" in this Appendix A. Metropolitan has conservatively set the water sales projections in the following table. Due to the variability of supplemental wholesale water sales and unpredictability of future hydrologic conditions, sales projections are based on long-term average forecasts consistent with Metropolitan's latest Board adopted Integrated Resources Plan, the 2015 IRP Update.

Nevertheless, Metropolitan's assumptions have been questioned by directors representing SDCWA on Metropolitan's Board. Metropolitan has reviewed SDCWA's concerns and, while recognizing that assumptions may vary, believes that the estimates and assumptions that support Metropolitan's projections are reasonable based upon history, experience and other factors as described above.

Metropolitan's water sales projections are the result of a comprehensive retail demand, conservation, and local supply estimation process, including supply projections from member agencies and other water providers within Metropolitan's service area. Retail demands for water are estimated with a model driven by projections of relevant demographics provided by SCAG and SANDAG. Retail demands are adjusted downward for conservation savings and local supplies, with the remainder being the estimated demand for Metropolitan supplies. Conservation savings estimates include all conservation programs in place to date as well as estimates of future conservation program goals that will result from regional 20 percent reductions by 2020 conservation savings. See "CONSERVATION AND WATER SHORTAGE MEASURES" in this Appendix A. Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, recycled water, and seawater desalination (see "REGIONAL WATER RESOURCES" in this Appendix A). For example, water sales projections for fiscal year 2016-17 assumed that local projects such as groundwater recovery and desalination projects (see "REGIONAL WATER RESOURCES-Local Water Supplies" in this Appendix A) would become operational and produce local supplies in 2017. For additional description of Metropolitan's water sales projections, see "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

The water sales projections used to determine water rates and charges assume an average year hydrology. Actual water sales are likely to vary from projections. As shown in the *Historical Water Sales* chart below, sales can vary significantly from average and demonstrates the degree to which Metropolitan's commitments to meet supplemental demands can impact sales. In years when actual sales exceed projections, the revenues from water sales during the fiscal year will exceed budget, potentially resulting in

an increase in financial reserves. In years when actual sales are less than projections, Metropolitan uses various tools to manage reductions in revenues, such as reducing expenses below budgeted levels, reducing funding of capital from revenues, and drawing on reserves. See “METROPOLITAN REVENUES–Financial Reserve Policy” in this Appendix A. Metropolitan considers actual sales, revenues and expenses, and financial reserve balances in setting rates for future fiscal years.

Projections for fiscal year 2016-17 in the following table reflect actual financial results through December 31, 2016 and revised projections for the balance of the fiscal year. The financial projections for fiscal year 2017-18 reflects the adopted biennial budget that was approved by the Board on April 12, 2016, with revised preliminary water sales projections as of February 2017, but with no adjustments for lower expenses that can accompany lower water sales. Financial projections for fiscal years 2018-19 through 2020-21 are reflected in the ten-year financial forecast provided in the adopted biennial budget. This includes the projected issuance of \$320 million of bonds in fiscal years 2017-18 through 2019-21 to finance the CIP. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES–Water Sales Revenues” and “CAPITAL INVESTMENT PLAN–Capital Investment Plan Financing” in this Appendix A.

Water sales were 1.62 million acre-feet in fiscal year 2015-16. Water sales are projected to be 1.60 million acre-feet in fiscal year 2016-17 and 1.50 million acre-feet for fiscal year 2017-18, and 1.75 million acre-feet for fiscal years 2018-19 through 2020-21. Rates and charges increased by 1.5 percent on January 1, 2015 and January 1, 2016, and by 4.0 percent on January 1, 2017. On April 12, 2016 the Board adopted average increases in rate and charges of 4.0 percent, which will become effective on January 1, 2018. Rates and charges are projected to increase an average of 4.5 percent annually thereafter. Actual rates and charges to be effective in 2019 and thereafter are subject to adoption by Metropolitan’s Board. The projections were prepared by Metropolitan and have not been reviewed by independent certified public accountants or any entity other than Metropolitan. Dollar amounts are rounded.

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**HISTORICAL AND PROJECTED REVENUES AND EXPENSES<sup>(a)</sup>**  
**(Dollars in Millions)**

	Actual				Projected				
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Water Sales <sup>(b)</sup>	\$1,283	\$1,485	\$1,383	\$1,166	\$1,198	\$1,233	\$1,473	\$1,533	\$1,597
Additional Revenue Sources <sup>(c)</sup>	173	182	199	200	191	173	179	184	192
Total Operating Revenues	1,456	1,667	1,582	1,366	1,389	1,405	1,652	1,717	1,789
O&M, CRA Power and Water Transfer Costs <sup>(d)</sup>	(456)	(512)	(697)	(799)	(646)	(631)	(661)	(681)	(695)
Total SWC OMP&R and Power Costs <sup>(e)</sup>	(337)	(342)	(308)	(402)	(365)	(453)	(486)	(532)	(577)
Total Operation and Maintenance	(793)	(854)	(1,005)	(1,201)	(1,011)	(1,084)	(1,147)	(1,212)	(1,272)
Net Operating Revenues	\$ 663	\$ 813	\$ 577	\$ 165	\$ 378	\$ 321	\$ 505	\$ 505	\$ 517
Miscellaneous Revenue <sup>(f)</sup>	23	19	21	24	21	24	24	24	25
Transfer from Reserve Funds <sup>(g)</sup>	--	--	142	222	46	--	--	--	--
Sales of Hydroelectric Power <sup>(h)</sup>	25	15	8	7	13	22	22	23	22
Interest on Investments <sup>(i)</sup>	(2)	19	13	17	3	12	19	19	20
Adjusted Net Operating Revenues <sup>(j)</sup>	709	866	761	435	461	378	569	571	584
Senior Bond Service <sup>(k)</sup>	(298)	(343)	(280)	(309)	(307)	(330)	(328)	(322)	(314)
Subordinate Obligations <sup>(l)</sup>	(1)	(1)	(1)	(1)	(4)	(4)	(6)	(6)	(6)
Funds Available from Operations	\$ 410	\$ 522	\$ 480	\$ 125	\$ 150	\$ 44	\$ 236	\$ 243	\$ 265
Senior Bond Debt Service Coverage <sup>(m)</sup>	2.38	2.52	2.72	1.41	1.50	1.15 <sup>(q)</sup>	1.74	1.77	1.86
Subordinate Lien Debt Service Coverage	--	--	--	--	39.45	11.52 <sup>(q)</sup>	43.57	44.83	48.72
Debt Service Coverage on all Senior and Subordinate Bonds <sup>(n)</sup>	2.37	2.51	2.71	1.40	1.48	1.13 <sup>(q)</sup>	1.71	1.74	1.83
Funds Available from Operations	\$ 410	\$ 522	\$ 480	\$ 125	\$ 150	\$ 44	\$ 236	\$ 243	\$ 265
Other Revenues (Expenses)	(5)	(6)	(7)	(6)	(6)	(6)	(7)	(7)	(7)
Pay-As-You Go Construction <sup>(p)</sup>	(55)	(117)	(210)	(273)	(132)	(120)	(120)	(120)	(120)
Pay-As-You Go Funded from Replacement & Refurbishment Fund Reserves <sup>(p)</sup>	--	--	--	160	--	--	--	--	--
Total SWC Capital Costs Paid from Current Year Operations	(88)	(68)	(46)	(24)	(54)	(65)	(71)	(86)	(103)
Remaining Funds Available from Operations	262	331	217	(18)	(42)	(147)	39	30	35
Fixed Charge Coverage <sup>(o)</sup>	1.83	2.10	2.33	1.30	1.26	0.95 <sup>(q)</sup>	1.41	1.38	1.38
Property Taxes	95	95	104	108	106	101	103	105	107
General Obligation Bonds Debt Service	(40)	(40)	(22)	(22)	(22)	(23)	(19)	(14)	(14)
SWC Capital Costs Paid from Taxes	(55)	(55)	(82)	(86)	(83)	(75)	(82)	(88)	(91)
Net Funds Available from Current Year <sup>(p)</sup>	\$ 262	\$ 331	\$ 217	\$ (18)	\$ (42)	\$ (147)	\$ 39	\$ 30	\$ 35

Source: Metropolitan.

(Footnotes on next page)

(Footnotes to table on prior page)

- (a) Unaudited. Prepared on a modified accrual basis. Projected revenues and expenses in fiscal year 2016-17 are based on preliminary financial results through December 31, 2016, and revised projections for the balance of fiscal year 2016-17. Projections for fiscal year 2017-18 are based on assumptions and estimates used in the adopted biennial budget for fiscal years 2016-17 and 2017-18 and revised for water sales of 1.5 million acre-feet. Projections for fiscal years 2018-19 through 2020-21 are based on assumptions and estimates used in the adopted fiscal years 2016-17 and 2017-18 biennial budget and reflect the projected issuance of additional bonds.
- (b) During the fiscal years ended June 30, 2013 through June 30, 2016, annual water sales (in acre-feet) were 1.86 million, 2.04 million, 1.905 million and 1.62 million, respectively. See “METROPOLITAN REVENUES–Water Sales Revenues,” the table entitled “SUMMARY OF WATER SOLD AND WATER SALES” in this Appendix A. The water sales projections (in acre-feet) are 1.60 million acre-feet for fiscal year 2016-17, 1.50 million acre-feet for fiscal years 2017-18, and 1.75 million acre-feet for fiscal years 2018-19, 2019-20 and 2020-21. Projections reflect Board adopted rate and charge increases of 4.0 percent, effective on January 1, 2017 and January 1, 2018. Rates and charges are projected to increase an average of 4.5 percent per fiscal year thereafter, subject to adoption by Metropolitan’s Board. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”
- (c) Includes receipts from water standby, readiness-to-serve, and capacity charges. The term Operating Revenues excludes *ad valorem* taxes. See “METROPOLITAN REVENUES–Other Charges” in this Appendix A.
- (d) Water Transfer Costs are included in operation and maintenance expenses for purposes of calculating the debt service coverage on all Obligations.
- (e) Includes on- and off-aqueduct power and operation, maintenance, power and replacement costs payable under the State Water Contract. See “METROPOLITAN EXPENSES–State Water Contract Obligations” in this Appendix A.
- (f) May include lease and rental net proceeds, net proceeds from sale of surplus property, reimbursements, and federal interest subsidy payments for Build America Bonds.
- (g) Reflects transfers from the Water Management Fund, the Water Stewardship Fund, and the Water Rate Stabilization Fund, of \$142 million in fiscal year 2014-15, \$222 million in fiscal year 2015-16, and projected transfers of \$46 million in fiscal year 2016-17 to fund a like amount of costs for conservation and supply programs. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”
- (h) Includes CRA power sales.
- (i) Does not include interest applicable to Bond Construction Funds, the Excess Earnings Funds, other trust funds and the Deferred Compensation Trust Fund. Fiscal year 2012-13 included Fair Value Adjustment of \$(13.8) million, as per modified accrual accounting
- (j) Adjusted Net Operating Revenues is the sum of all available revenues that the revenue bond resolutions specify may be considered by Metropolitan in setting rates and issuing additional Senior Revenue Bonds and Senior Parity Obligations and Subordinate Revenue Bonds and Subordinate Parity Obligations.
- (k) Includes debt service on outstanding Senior Revenue Bonds, and additional Senior Revenue Bonds (projected). Assumes issuance of \$80 million annually in additional Senior Revenue Bonds as provided in budget assumptions for the adopted biennial budget for fiscal years 2016-17 and 2017-18 and as projected for fiscal years 2018-19, 2019-20, and 2020-21. For fiscal years 2013-14 and 2014-15, reflects the defeasance of the 2004 Series B Water Revenue Refunding Bonds, payable on July 1, 2014, through a payment of \$33.7 million to an escrow account on May 29, 2014. Fiscal year 2015-16 debt service increased \$7.0 million for debt service paid on June 30, 2016, rather than July 1, 2017 and fiscal year 2016-17 debt service was therefore reduced by \$7.0 million. See “CAPITAL INVESTMENT PLAN–Capital Investment Plan Financing” in this Appendix A.
- (l) Consisting of subordinate lien California Safe Drinking Water Revolving Fund Loan and Subordinate 2016 Series A Bonds.
- (m) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Senior Revenue Bonds and additional Senior Revenue Bonds (projected).
- (n) Adjusted Net Operating Revenues, divided by the sum of debt service on outstanding Senior Revenue Bonds, Senior Parity Obligations, Subordinate Revenue Bonds and Subordinate Parity Obligations, including the subordinate lien California Safe Drinking Water Revolving Fund Loan and projected Revenue Bonds. See “METROPOLITAN EXPENSES–Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations” in this Appendix A.
- (o) Adjusted Net Operating Revenues, divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Revenue Bonds, the subordinate lien California Safe Drinking Water Revolving Fund Loan, Subordinate 2016 Series A Bonds and additional Revenue Bonds (projected).
- (p) For Fiscal Year 2012-13, includes amounts that were transferred prior to June 30, 2013: \$25 million to the Water Transfer Fund, \$25 million to a trust to pre-fund Metropolitan’s unfunded liability for other post-employment benefits, and \$25 million for pay-as-you-go Construction. For Fiscal Year 2013-14, includes amounts transferred prior to June 30, 2014: \$100 million to a trust to pre-fund Metropolitan’s unfunded liability for other post-employment benefits; \$100 million for pay-as-you-go Construction, \$232 million to the Water Management Fund, for water purchases to replenish storage and funding drought response programs. For Fiscal Year 2014-15, includes amounts transferred prior to June 30, 2015: \$160 million to the Water Management Fund, for water conservation programs. For fiscal year 2015-16, Metropolitan used \$264 million for acquiring properties in Riverside and Imperial Counties, funded by \$160 million from the Replacement and Refurbishment Fund Reserves and the balance from unrestricted reserves. This land purchase is reflected as a pay-as-you-go expenditure for fiscal year 2015-16.
- (q) The financial projection for fiscal year 2017-18 reflects the revised preliminary water sales projection of 1.50 million acre-feet and a corresponding reduction in projected water sales revenues. It does not take into account any potential reduction in expenses that may accompany such reduced water sales. As discussed, Metropolitan uses its financial reserves and budgetary tools to manage the financial impact of the variability in revenues due to fluctuations in annual water sales. See also “METROPOLITAN REVENUES–Financial Reserve Policy.”