

The FY 2016/17 fiscal year water sales include 1.52 MAF of firm sales and 180 TAF of exchange water sold to the San Diego County Water Authority (SDCWA) pursuant to the 2003 Amended and Restated Exchange Agreement (exchange water). Treated sales are estimated 822 TAF, or 48 percent of total sales in FY 2016/17. The FY 2017/18 fiscal year water sales include 1.501 MAF of firm sales and 195 TAF of exchange water. Treated sales are estimated at 826 TAF, or 49 percent of total sales in FY 2017/18. The figure above shows the trend of water sales.

Taxes and Annexation Fees

Revenues from taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the SWP, are estimated to be \$98.3 million in FY 2016/17 and \$100.5 million in FY 2017/18. The ad valorem tax rate is assumed to remain at the current level of .0035 percent of assessed value in both fiscal years; assessed valuations are projected to increase by 2.5 percent each fiscal year.

Fixed Charges

Fixed charges include the Capacity Charge and Readiness-to-Serve Charge. In FY 2016/17, these charges are estimated to generate \$38.3 million and \$144.0 million, respectively. In FY 2017/18, these charges are estimated to generate \$35.2 million and \$137.5 million, respectively. In total this represents a \$16.5 million decrease from the FY 2015/16 to FY 2016/17, and a \$9.6 million decrease from the FY 2016/17 to the FY 2017/18 budget. Fixed charges are decreasing due to the lower levels of PAYGo funded capital.

A proposal will be presented to the Board for consideration of a fixed treatment charge to address fixed cost recovery of treatment costs which are currently only recovered through a volumetric rate.

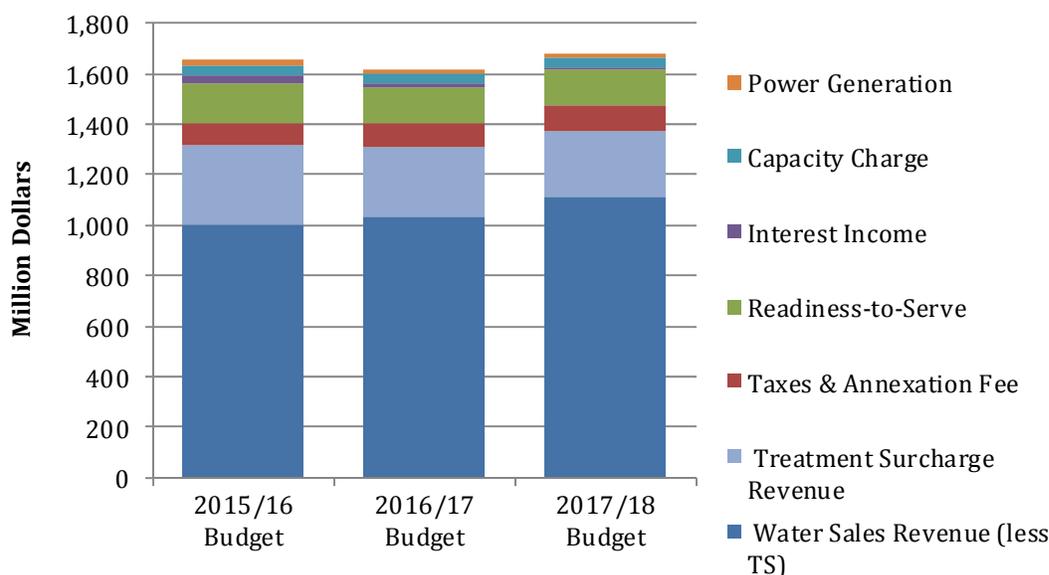
All Other Revenue

Receipts from hydroelectric power sales are estimated to be \$15.3 million for FY 2016/17 and \$21.6 million for FY 2017/18. FY 2016/17 is lower than the FY 2015/16 budgeted amount of \$18.9 million due to lower deliveries through the distribution system and a pipeline outage in Calendar Year 2016 which is impacting the generation at one of the larger plants.

Miscellaneous revenues, including interest income and lease revenues, are estimated to total \$25.6 million and \$24.6 million for FY 2016/17 and FY 2017/18 respectively (including trust accounts and construction funds), primarily due to lower assumed interest rates and lower fund balances to invest.

A summary of operating revenues is shown in the graph below.

Operating Revenues, \$ millions



CAPITAL FUNDING

The FY 2016/17 and FY 2017/18 Capital Investment Plan (CIP) will be funded with bond proceeds and current operating revenues (PAYGo). It is anticipated that Metropolitan will issue \$90 million in new revenue bonds in FY 2016/17 and \$80 million in new revenue bonds in FY 2017/18. Combined with revenue funded capital of \$120.0 million in FY 2016/17 and \$120.0 million in FY 2017/18, Metropolitan will be able to fully fund the CIP.

Please refer to the section on debt financing for additional details on debt funding of capital projects.

Capital Funding Source Descriptions

New Bond Issues

Metropolitan has the ability to issue long-term bonds to fund its capital programs. The proceeds of the bond sales can be used to pay for capital expenses over several years. The repayment of the bonds is generally over 30 years and is paid from water rate revenues.

Revenue Funded Capital

Annual capital expenses that are not paid from debt funding, grants, or loans must be paid from revenues, either from current year revenues or from the R&R fund, if funds exist.

OTHER SOURCES

Due to the SDCWA's litigation challenging Metropolitan's rates, Metropolitan currently holds \$228.2 million in its financial reserves in accordance with the 2003 Amended and Restated Exchange Agreement between Metropolitan and SDCWA (exchange agreement). This amount includes \$188.3 million associated with exchange agreement water deliveries from January 2011 through December 2014, \$35.3 million associated with exchange agreement water deliveries since January 2015, and accumulated interest on both amounts. Amounts held pursuant to the exchange agreement will continue to accumulate while the litigation, including all appeals, is pending based on the quantities of exchange agreement water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. In accordance with the exchange agreement, the amounts held are SDCWA's payments under the exchange agreement that are in dispute and interest earned thereon, which is based on Metropolitan's investment portfolio. The amounts held do not include the statutory prejudgment interest award or statutory post-judgment interest, neither of which the exchange agreement requires to be held.

To provide greater clarity on the amount of the exchange agreement set-aside, Metropolitan proposes to establish a designated fund to hold these amounts. The fund would be separate from Metropolitan's Water Rate Stabilization Fund and Revenue Remainder Fund and would continue to be invested with Metropolitan's short-term investments managed by the Treasurer until such time as the litigation is resolved.

Staff will propose to the Board that Metropolitan make working capital borrowings, in part, to pay for O&M costs and replenish the reserve funds pending a final decision in the litigation.