



METROPOLITAN WATER DISTRICT



# Proposed Biennial Budget

Fiscal Years  
2020/21 and  
2021/22

**Uniquely Metropolitan:  
Maintaining Regional  
Reliability**

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# DISTRICT OVERVIEW

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## District Profile

The Metropolitan Water District of Southern California (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 (the Act)). Metropolitan has 26 member public agencies and its primary purpose is to provide its members with a reliable wholesale water supply service for domestic and municipal uses. To do so, Metropolitan imports water from the Colorado River and Northern California. Metropolitan also helps its member agencies develop increased water conservation, recycling, storage and other local resource programs.

Metropolitan is authorized to develop, store, and distribute water for domestic and municipal purposes and other beneficial uses if excess water is available, and may provide, generate, and deliver electric power within or without the state for the purpose of developing, storing, and distributing water. All powers, privileges and duties vested in or imposed upon Metropolitan are exercised and performed by and through its Board of Directors. Metropolitan is governed by a 38-member Board of Directors representing the 26 member agencies. Metropolitan directors are selected by their respective member agencies and some of those directors also serve on the governing body of their member agency. Board and committee meetings are open to the public and are broadcast on the Internet through Metropolitan's website, [www.mwdh2o.com](http://www.mwdh2o.com). A schedule of Board and committee meetings, as well as current and archived Board materials, is available at the same website.

Metropolitan was established to obtain an allotment of Colorado River water and to construct and operate the 242-mile Colorado River Aqueduct (CRA), which runs from an intake at Lake Havasu on the California-Arizona border, to an endpoint at Metropolitan's Lake Mathews reservoir in Riverside County. Metropolitan owns and operates an extensive portfolio of capital facilities including the CRA, 16 hydroelectric facilities, nine reservoirs, 830 miles of large-scale pipes, and five water treatment plants.

In 1960, Metropolitan, followed by other public agencies, signed a long-term contract with the state Department of Water Resources (DWR) to participate in the State Water Project (SWP). The SWP is the largest state-built, user-financed water supply and transportation project in the country. Its facilities were constructed with several general types of financing, the repayment of which is made by the 29 agencies and districts that participate in the SWP through long-term contracts (the State Water Contractors). The State Water Contractors also pay for the operations, maintenance, power, and replacement (OMP&R) costs of the SWP, as the State Water Contracts are the basis for all SWP construction and ongoing operations and DWR manages and operates the SWP. As the largest of the now 29 contractors, Metropolitan is entitled to slightly less than half of all SWP supplies. Water supplies from the SWP are conveyed to Metropolitan via the SWP's 444-mile California Aqueduct, which was made possible pursuant to Metropolitan's State Water Contract. The SWP serves urban and agricultural agencies from the San Francisco Bay area to Southern California.

To secure additional supplies, Metropolitan also has groundwater banking partnerships and water transfer arrangements within and outside of its service area. Metropolitan also provides financial incentives to its member agencies for local investments in water management projects and programs. An increasing percentage of Southern California's water supply comes from these local resources, including conservation, water recycling and recovered groundwater.

To pay for its costs, the Act authorizes Metropolitan to: levy property taxes within its service area; establish water rates; collect 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 is authorized to establish terms and conditions under which additional areas may be annexed to Metropolitan's service area.

## Mission

The mission of Metropolitan is to provide its 5,200-square-mile service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

## Core Values

Metropolitan's core values include the following:

- Integrity
- Stewardship
- Diversity
- Open Communication
- Leadership
- Teamwork

## Metropolitan Service Area

Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. When Metropolitan began delivering water in 1941, its service area consisted of approximately 625 square miles. Its service area has increased by 4,500 square miles since that time. The expansion was primarily the result of annexation of the service areas of additional member agencies. Metropolitan has historically provided between 40 and 60 percent of the water used annually within its service area.

The area served by Metropolitan represents the most densely populated and heavily industrialized portions of Southern California. Metropolitan estimates that approximately 19 million people lived in Metropolitan's service area in 2019, based on official estimates from the California Department of Finance and on population distribution estimates from the Southern California Association of Governments (SCAG) and the San Diego Association of Governments (SANDAG). Population projections prepared by SCAG in 2012 and SANDAG in 2013, as part of their planning process to update regional transportation and land use plans, show expected population growth of about 18 percent in Metropolitan's service area between 2010 and 2035.

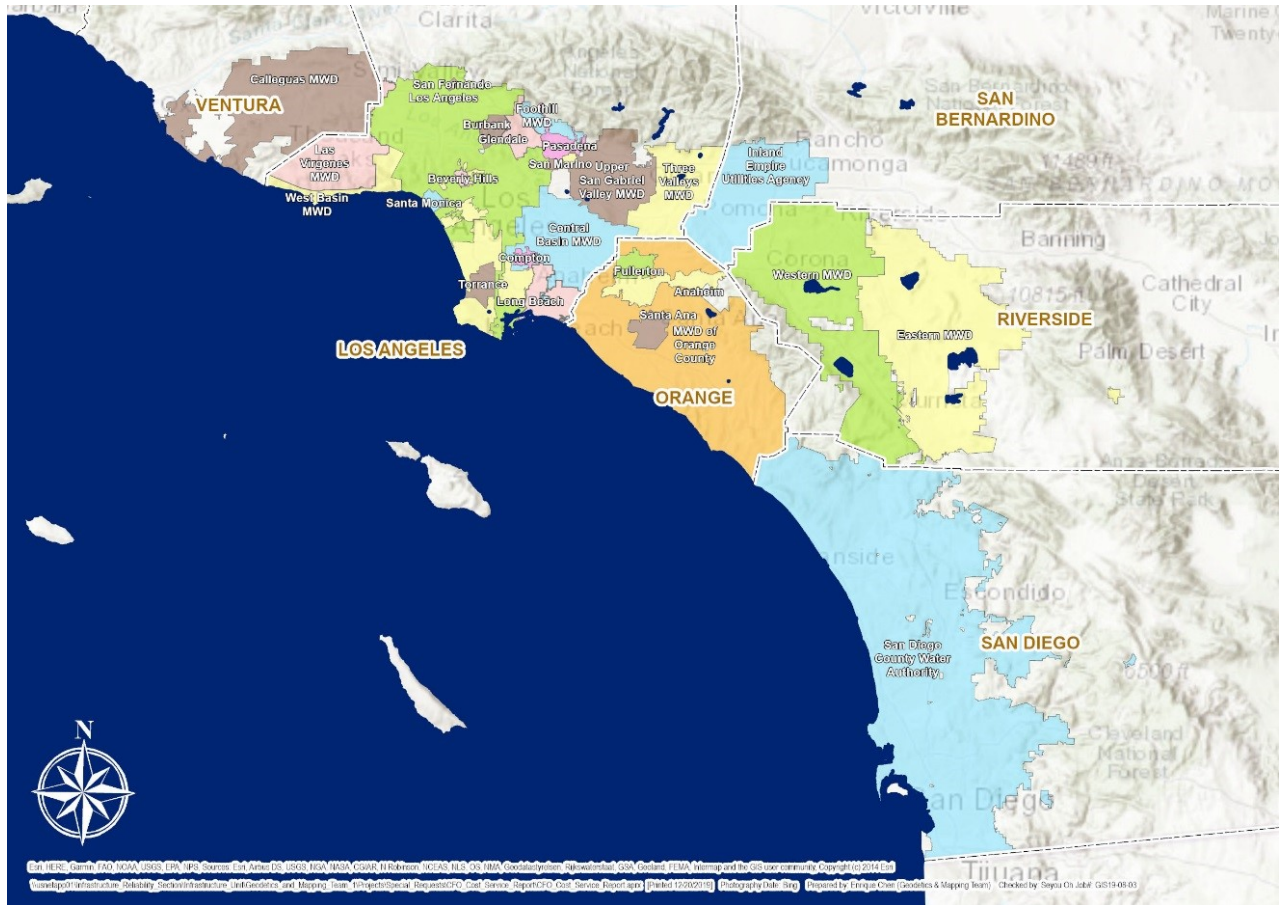
The economy of Metropolitan's service area is exceptionally diverse. In 2018, the economy of the six counties which contain Metropolitan's service area had a gross domestic product larger than all but twelve nations of the world. The Six County Area economy ranked between South Korea (\$1.62 trillion) and Australia (\$1.43 trillion), with an estimated gross domestic product (GDP) of \$1.54 trillion. The Six County Area's gross domestic product in 2018 was larger than all states except California, Texas, and New York.

The climate in Metropolitan's service area ranges from moderate temperatures throughout the year in the coastal areas to hot and dry summers in the inland areas. Annual rainfall in an average year has historically been approximately 13 to 15 inches along the coastal area, up to 20 inches in foothill areas and less than 10 inches inland.



## Service Area Map

The map below shows the area served by Metropolitan. It includes parts of six of the ten counties that comprise Southern California (Six County Area) consisting of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties. Although these counties comprise Metropolitan's service area, Metropolitan's territory does not encompass all of the area within each of the six counties.



## Summary of Recent Trends and Outlook for the Six County Area Economy

The national economy is in the ninth year of economic expansion. GDP growth since the third quarter of 2014 is shown below. GDP growth in the 2nd and 3rd quarters of 2019 declined to near 2%. Reported job growth averaged 189,000 per month in 2017, 204,000 per month in 2018 and 179,000 per month so far in 2019. Recent job growth has resulted in average hourly earnings rising by 3.0% over the 12 months ending October 2019 and the unemployment rate declining to 3.6% in October 2019.

On October 20, 2019, the Federal Reserve Bank lowered the federal funds rate to between 1.5% and 1.75% - the third decline in 2019. At the same time the Federal Reserve Bank signaled no more rate changes are currently planned in the near term. Inflation is now averaging close to 2% on an annual basis and wage gains have risen to about 3% on an annual basis.

The national economy faces potential slowing in the coming years from three factors - the possibility of continuing higher tariffs, a decline in labor force growth from baby boomer retirements, and slowing world economic growth. The UCLA national forecast is shown below with declining GDP and job growth in 2020 and 2021. Congressional Budget Office forecasts GDP growth of 2.1% in 2020, 1.7% for 2021-2024 and 1.8% for 2024-2029.

The Six County Area has regained all the jobs lost during the recession and more. Year-over-year job gains continued into 2019 with year-over-year gains ranging from a high of 2.3% in Riverside-San Bernardino metro area to a low of 0.4% in Ventura County. Job growth for the entire Six County Area for the 12 month ending September 2019 was 139,000 jobs or a gain of 1.5% compared to a 1.9% increase in jobs for the state and 1.5% for the nation for the comparable period. Unemployment rates in the Six County Area have declined sharply between 2010 and September 2019. In September 2019 unemployment rates ranged from a low of 2.4% in Orange County to a high of 4.5% in Los Angeles County.

California and the Six County Area are experiencing growth in both domestic and foreign visitors. Hotel rates and occupancy are increasing in the Six County Area and the same is true for employment in the hotel and amusement park sectors. In 2018 Los Angeles County set tourism records for the fourth year in a row in visitors, 50 million up 3.1% over 2017, according to data from the Los Angeles Tourism and Convention Board. In 2018 passenger travel at Los Angeles International Airport was up 3.5% to 87.5 million trips to set an all-time record. Air passenger travel at the major airports in the Six County Area reached record levels in 2018 and is up 1.9% through August 2019 to 135.3 million trips led by gains at Burbank, Ontario and San Diego airports.

Population growth in the Six County Area since 2000 compared with previous decades. Population growth slowed after 2005 as high housing prices and large job losses contributed to larger levels of out-migration to other areas of California and other states. Population growth averaged 160,000 between 2010 and 2018 according to the California Department of Finance (“DOF”) estimates, and growth slowed in the past three years. The Six County Area had 22.3 million residents in 2018, approximately 56% of the State’s population.

Income, taxable sales and assessed valuation in the Six County Area increased since 2013 along with record levels in foreign trade and film permits. Gains in income, taxable sales and assessed valuation are all outpacing the growth in consumer price indices in the Six County Area all of which are helping local government revenue growth.

Long-term job growth is driven by the Six County Area’s economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by the Center for Continuing Study of the California Economy (“CCSCE”), the Southern California Association of Governments (“SCAG”) and the San Diego Association of Governments (“SANDAG”) report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Tourism and Entertainment and Health Care.

For more demographic and economic information for Metropolitan’s service area or the Six County Area, please refer to the Service Area Economy section, which includes information on:

- Job growth trends
- Construction activity
- Housing trends
- Assessed valuation
- International Trade
- Income & Wages
- Population
- Economic structure and long term prospects

## Strategic Plan Summary

The General Manager submits to the Board of Directors a business plan containing the General Manager's key priorities for the coming year for review and approval.

Three strategic priorities support Metropolitan's mission for fiscal years 2020/21 and 2021/22:

Strategic Priority #1: Resiliency

Strategic Priority #2: Sustainability

Strategic Priority #3: Innovation

For more detail on the GM's strategic priorities, please refer to the General Manager's Transmittal Letter.

The General Counsel, General Auditor and Ethics Officer also submit to the Board of Directors a business plan containing their department's key priorities for the coming year for review and approval.

The groups within the General Manager department submit their business plans to the General Manager annually for review and approval. These business plans include a group mission statement and Objectives and Actions to support the relevant General Manager's strategic priorities.

## Performance Indicators

Metropolitan has developed a series of performance measures that are used to measure and maintain mission-critical processes as well as support internal decision making. These include financial, water quality, human resource, legislative, outreach, etc. measures which are closely aligned with Metropolitan's business plans, key priorities and objectives.

Please see the Operating Expenditures section for Metropolitan's performance measures including fiscal year results and targets.

## Organization Structure

### Member Agencies

The following table lists the 26 member agencies of Metropolitan which include 11 municipal water districts, 14 cities and one county water authority.

Municipal Water Districts	Cities	County Water Authority
Calleguas	Anaheim	San Diego
Central Basin	Beverly Hills	
Eastern	Burbank	
Foothill	Compton	
Inland Empire Utilities Agency	Fullerton	
Upper San Gabriel Valley	Glendale	
Western of Riverside County	Long Beach	
Las Virgenes	Los Angeles	
Orange County	Pasadena	
Three Valleys	San Fernando	
West Basin	San Marino	
	Santa Ana	
	Santa Monica	
	Torrance	

### Board of Directors

Metropolitan is governed by a 38-member Board of Directors. Each member public agency is entitled to have at least one representative on the Board, plus an additional representative for each full five percent of the total assessed valuation of property in Metropolitan’s service area that is within the member public agency. Changes in relative assessed valuation do not terminate any director’s term. In 2019, California Assembly Bill 1220 (Garcia) amended the Act to provide that “A member public agency shall not have fewer than the number of representatives the member public agency had as of January 1, 2019.” Accordingly, the Board may, from time to time, have more than 38 directors.



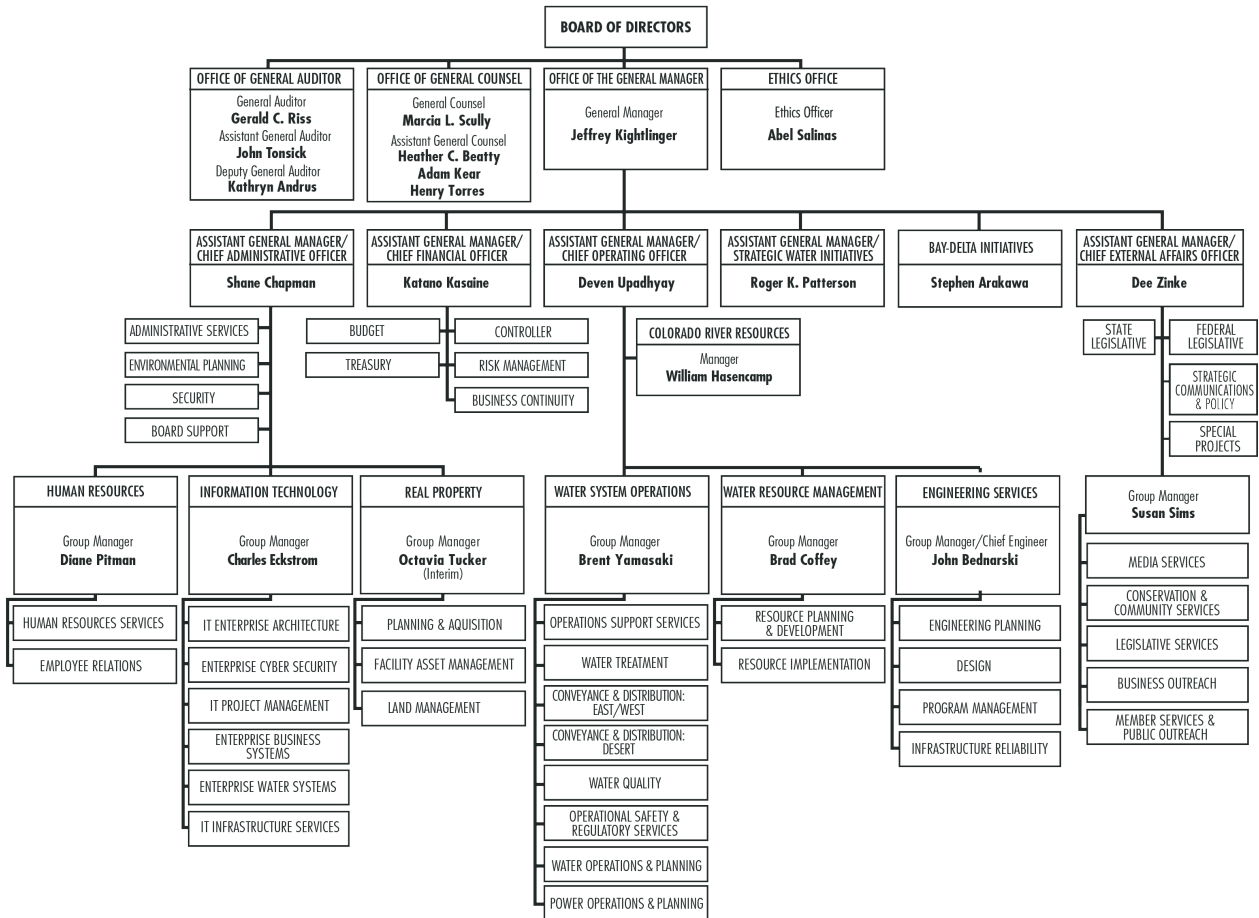
The Board includes business, professional and civic leaders. Directors serve on the Board without compensation from Metropolitan. Voting is based on assessed valuation, with each member agency being entitled to cast one vote for each \$10 million or major fractional part of \$10 million of assessed valuation of property within the member agency, as shown by the assessment records of the county in which the member agency is located. The Board administers its policies through the Metropolitan Water District Administrative Code (the Administrative Code), which the Board adopted in 1977. The Board periodically amends the Administrative Code to reflect new policies or changes in existing policies that occur from time to time.

Metropolitan’s day-to-day management is under the direction of its General Manager, who serves at the pleasure of the Board, as do Metropolitan’s General Counsel, General Auditor, and Ethics Officer.

### Organization Chart

A larger version is provided on the inside back cover of the Biennial Budget document.

## METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA



Updated as of January 22, 2020

## Metropolitan Senior Management

Jeffrey Kightlinger	General Manager
Marcia Scully	General Counsel
Gerald Riss	General Auditor
Abel Salinas	Ethics Officer
Katano Kasaine	Assistant General Manager/Chief Financial Officer
Deven Upadhyay	Assistant General Manager/Chief Operating Officer
Shane Chapman	Assistant General Manager/Chief Administrative Officer
Roger Patterson	Assistant General Manager/Strategic Water Initiatives
Dee Zinke	Assistant General Manager/Chief External Affairs Officer
Rosa Castro	Board Administrator

## Workforce

Metropolitan's budget is for 1,907 regular full-time employees. Most Metropolitan employees are represented by the American Federation of State, County and Municipal Employees (AFSCME), Local 1902; the Management and Professional Employees Association (MAPA), Local 1001; the Supervisors Association; and the Association of Confidential Employees (ACE). The four bargaining units represent approximately 99 percent of Metropolitan's employees. The remaining one percent is unrepresented.

## Offices

Metropolitan's headquarters are located at 700 N. Alameda St., Los Angeles, California 90012. Metropolitan has legislative offices in Sacramento and Washington D.C.



## Financial Organization

### Fund Structure and Descriptions (from Metropolitan's Administrative Code)

To provide for accountability of public moneys in accordance with applicable federal and state law and regulations and Board policies, the following funds active or prospectively active have been established in the Treasury of the District:

- **General Fund** (Fund No. 1001, established 1929).
  - Moneys not specifically allocated or appropriated may be placed in this fund and used for general purposes of the District.
  - Expenditures for reimbursable work and water conservation capital and indirect costs under the contract with Imperial Irrigation District are paid from this fund.
- **Replacement and Refurbishment Fund** (Fund No. 5001, established 1988).
  - Used to finance certain capital program expenditures from current revenues in accordance with Section 5109, subject to the conditions contained in Section 5202(b).
- **State Contract Fund** (Fund No. 5701, established 1960).
  - Used for the payment of capital charges under the State Water Contract, including the capital charges for off-aqueduct power facilities, subject to the conditions contained in Section 5201(d).
- **Special Tax Fund** (Fund No. 5702, established 1951).
  - Annexation fees (cash payments and special tax collections) are deposited in this fund and transferred to the State Contract Fund to pay a portion of State Water Contract capital charges.
- **Water Revenue Fund** (Fund No. 1002, established 1975).
  - Receipts from water sales are deposited in this fund and are transferred to various other funds in accordance with revenue bond covenants and Board resolutions to pay in order of priority:
    1. Operation and maintenance expenditures;
    2. Principal of, premium, if any, and interest on the Prior Lien Waterworks Revenue Bonds and any required deposits into any reserve funds or accounts therefore;
    3. The interest on and bond obligation of Subordinate Lien Water Revenue Bonds and Parity Obligations issued pursuant to Master Resolution 8329 (the Master Resolution) adopted by the Board on July 9, 1991 and any Supplemental Resolutions thereto;
    4. All other payments required for compliance with the Master Resolution, and any Supplemental Resolutions;
    5. Principal of and interest on Commercial Paper Notes and other amounts due a provider of a liquidity facility;

- 6. Deposits into the Water Standby Charge Fund in accordance with resolutions imposing such charges; and
- 7. Any other obligations which are charges, liens, or encumbrances upon or payable from net operating revenues.
  - Moneys remaining at the end of each month, after the foregoing transfers, are transferred to the Revenue Remainder Fund.
- **Operation and Maintenance Fund** (Fund No. 1003, established 1975).
  - Used to pay all operation and maintenance expenditures, including State Water Contract operation, maintenance, power and replacement charges, subject to the conditions contained in Section 5201 (f).
- **Revenue Remainder Fund** (Fund No. 1004, established 1975).
  - Used to maintain working capital and may be used for any lawful purpose by the District, subject to the conditions contained in Section 5202.
- **Water Rate Stabilization Fund** (Fund No. 5501, established 1987).
  - Used to reduce future water revenue requirements or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.
- **Water Treatment Surcharge Stabilization Fund** (Fund No. 5502, established 1988).
  - Used to mitigate required increases in the surcharge for water treatment or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.
- **Revolving Construction Fund** (Fund No. 5003, established 1988).
  - Capital expenditures made from this fund are to be reimbursed from proceeds of security sales to the extent such expenditures are authorized uses of debt proceeds under the Act, subject to the conditions and restrictions contained in Section 5201(g).
- **Employee Deferred Compensation Fund** (Fund No. 6003, established 1976).
  - Compensation deferred by employees under Section 457 of the Internal Revenue Code of 1986, as amended, is deposited in this fund and is withdrawn in accordance with Articles 2 and 3 of Chapter 7 of Division VI of this Administrative Code.
- **Iron Mountain Landfill Closure/Postclosure Maintenance Trust Fund** (Fund No. 6005, established 1990).
  - Used as a trust fund to maintain moneys sufficient to cover the costs of closure and postclosure maintenance of the District's solid waste landfill facility at Iron Mountain, in accordance with regulations of the California Integrated Waste Management Board, and subject to the conditions contained in Section 5201(l).
- **Water Standby Charge Fund** (Fund No. 1005, established 1992).
  - Used to separately hold revenues attributable to water standby charges; amounts deposited in this fund are used exclusively for the purpose for which the water standby charge was authorized.



- **Water Transfer Fund** (Fund No. 1007, established 1995).
  - Used for moneys set aside for the purchase of water through transfers or similar arrangements, and for the costs of filling the Eastside Reservoir Project.
- **Self-Insured Retention Fund** (Fund No. 1008, established 1999).
  - Used to separately hold amounts set aside for emergency repairs and claims against the District as provided in Section 5201(o).
- **Lake Matthews Multi Species Reserve Trust Fund** (Fund 6101, established 1997.)
  - Used as set forth in agreement between Metropolitan and the Riverside County Habitat Conservation Agency for the Multi Species Reserve.
- **Other Funds to be established for bond issues, notes or other obligations of the District**
  - There shall be established in the Treasury of the District such funds and accounts as are required pursuant to bond covenants, tax and non-arbitrage certificates, bond counsel letters of instruction and related documents, to provide for accountability of District funds and compliance with applicable federal and state law and regulations. Such funds and accounts shall be established for each issue of bonds, notes or other obligations of the District as required in the respective bond or note resolution and closing documents.
- **Water Stewardship Fund** (Fund No. 1009 established 2005).
  - Used to collect revenue from the Water Stewardship Rate and to pay costs associated with water recycling, seawater desalination, conservation, brackish water desalination, or other demand management programs. These funds can also be used to fund administrative costs associated with these programs. Funds may be used as directed by the Board, for other lawful purposes, in accordance with Section 5201(p) and Section 5202(d).

## Financial Reporting

Metropolitan prepares its financial reports in conformity with generally accepted accounting principles (GAAP). The Office of the Chief Financial Officer prepares, at the conclusion of each fiscal year, the Comprehensive Annual Financial Report (CAFR) in compliance with principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

## Budgetary and Accounting Basis

The budget is developed and monitored on a modified accrual basis. This means that revenues and expenses are recognized in the period they are earned and incurred regardless of whether cash has been received or disbursed. Differences between the basis of budgeting and the financial statements are minimal. Depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. The modified-accrual basis of accounting provides a better match of revenues and expenses for budgeting and reporting.

## Financial Planning

In conjunction with the development of the Biennial Budget, Metropolitan prepares a ten-year forecast (Ten-Year Financial Forecast). The ten-year forecast supports long range resource, capital investment and operational planning. It includes a forecast of future costs and the revenues necessary to support operations and investments in infrastructure and resources that are derived from the most recent Integrated Resources Plan and other planning processes.

To support Metropolitan's Biennial Budget, Ten-Year Financial Forecast, and financial planning, revenue requirements are evaluated to determine the level of rate adjustments required for the upcoming budget year. To the extent possible, increases in rates are adjusted to avoid large fluctuations.

## Financial, Administrative and Operating Policies

Metropolitan establishes policies and resolutions to comply with the stipulations set forth in the Metropolitan Water District Act and Administrative Code.

The following policies are included in the appendices as a reference:

### Metropolitan Water District Administrative Code:

- §. 4301(a). Cost of Service and Revenue Requirement
- §. 4304. Apportionment of Revenues and Setting of Water Rates
- §. 5101. Investment of Surplus Funds
- §. 5107. Biennial Budget Process
- §. 5109. Capital Funding from Current Revenues
- §. 5114 (a). Reporting Requirements of the Treasurer
- §. 5200. Funds Established
- §. 5201. Restricted Funds
- §. 5202. Fund Parameters
- §. 5203. Indirect Credit of District
- §. 5204. Compliance with Fund Requirements and Bond Indenture Provisions

Metropolitan Water District Act:

- §. 61: Ordinances, Resolutions and Orders
- §. 123: Borrowing, Limitation
- §. 124: Taxes, Levy & Limitation
- §. 124.5: Ad Valorem Tax Limitation
- §. 130: General Powers to Provide Water Service
- §. 133: Fixing of Water Rates
- §. 134: Adequacy of Water Rates; Uniformity of Rates
- §. 134.5: Water Standby or Availability of Service Charge
- §. 239.2: Limitation on Amount of Revenue Bonds

Other:

- Operating policy F-01. Operating, Expensed and Capital Equipment
- Operating policy F-07. Capitalization & Retirement of Plant Assets
- Statement of Investment Policy

§. 61. **Ordinances, Resolutions and Orders** grants the Board authority to make and pass ordinances, resolutions and orders.

§. 123. **Borrowing, Limitation** grants authority to a district to borrow money and incur indebtedness and issue bonds with limitation.

§. 124. **Taxes, Levy & Limitation** grants authority to a district to levy and collect taxes on all property within the district with limitation.

§. 124.5. **Ad Valorem Tax Limitation** sets forth the restrictions of a district in levying ad valorem property tax on taxable property tax within the district.

§. 130. **General Powers to Provide Water Service** sets forth the general powers of a district to provide water services.

§. 133. **Fixing of Water Rates** grants the Board authority to fix water rates.

§. 134. **Adequacy of Water Rates; Uniformity of Rates** sets forth the requirements of the Board in ensuring adequacy and uniformity of water rates.

§. 134.5 **Water Standby or Availability of Service Charge** grants the Board authority to impose a water standby charge or availability of service charge within the district.

§. 239.2. **Limitation on Amount of Revenue Bonds** sets forth limitation on amount of revenue bonds that can be issued.

§. 4301(a). **Cost of Service and Revenue Requirement** sets forth the revenue requirement for fixing rates for water and that such rates and charges shall reflect the costs of the District's major operational functions.

§. 4304. **Apportionment of Revenues and Setting of Water Rates** sets forth the process, requirements and timeline in which the water rates and charges are ultimately adopted by the Board.

§. 5101. **Investment of Surplus Funds** delegates to the Treasurer of the District the authority to invest or to reinvest funds of the District subject to the terms and conditions set forth in Section 5101.

§. 5107. **Biennial Budget Process** sets forth the process, requirements and timeline in which the Biennial Budget must be submitted to and adopted by the Board.

§. 5109. **Capital Funding from Current Revenues** sets forth the requirements for funding capital from current revenues.

§. 5114(a). **Reporting Requirement of the Treasurer** sets forth the requirement of the Treasurer to render a Statement of Investment Policy for the following year, to be considered for approval by the Board.

§. 5200. **Funds Established** sets forth the active or prospectively active funds that have been established in the Treasury of the District.

§. 5201. **Restricted Funds** sets forth the conditions under which cash and securities are held in the various ledger funds.

§. 5202. **Fund Parameters** sets forth the parameters for the minimum cash and securities to be held in the various ledger funds as of June 30 of each year.

§. 5203. **Indirect Credit of District** gives the Chief Executive Officer authority to negotiate with the Department of Water Resources on the basis of using the indirect credit of the District to finance State Revenue Bonds.

§. 5204. **Compliance with Fund Requirements and Bond Indenture Provisions** sets forth the conditions under which the Chief Executive Officer assures annual compliance with minimum fund requirements and with the provisions of the covenants for all outstanding District bond issues during the preceding fiscal year.

**Operating policy F–01. Operating, Expensed and Capital Equipment** governs the purchase, assignment, tracking, maintenance and retirement of operating, expensed and capital equipment.

**Operating Policy F–07. Capitalization & Retirement of Plant Assets** establishes the policies governing the capitalization and retirement of plant assets.

**Statement of Investment Policy.** Per Section 5114 of the Administrative Code, the Treasurer is required to render a Statement of Investment Policy for the following fiscal year for approval by the Board and to obtain the Board's annual delegation of authority to the Treasurer to make investments on behalf of Metropolitan.

## Budget Process

The budget process provides an opportunity to align shorter-term Objectives and Actions in the department and group level business plans to Metropolitan's longer-term Mission, Values, and Strategic Priorities and the needs of our member agencies. Each even numbered year, under the direction of the General Manager, a Biennial Budget is prepared for Metropolitan operations covering the following two fiscal years. The Board does have the opportunity to amend the budget as it sees fit to changing fiscal and climatic changes.

The budget is presented to the Board for consideration and adoption in April in order to align it with the adoption of water rates also approved in April. This permits incorporation of approved O&M budget



expenditures into the Revenue Requirements process, which facilitates the setting of water rates. The Board and member agencies conduct extensive reviews of and provide significant input to the budget over three months from January to April. This year's budget review process included board workshops on February 10, February 25, March 9, March 24, a public hearing on March 10, and several other presentations and caucuses with member agencies, with final approval occurring at the April 14 Board meeting.

The O&M budget is presented in an organizational format and is described in terms of its scope of work, personnel requirements, and allocation by expense category. The budget serves to identify the resource requirements for the actions and tasks each group will engage in to support the General Manager's Business Plan. The overall emphasis, consistent with Metropolitan's mission, has been on providing high quality and reliable water supplies at a fair and competitive price and in an environmental and economically responsible way.

### Balanced Budget

Metropolitan considers the budget to be balanced when the sources of funds equals the uses of funds. That is, budgeted operating revenues, and on occasion the use of water rate stabilization funds, are equal to or greater than budgeted operating expenditures including debt service, and ending fund balances meet minimum policy levels. Rates and charges are set to ensure that revenues are sufficient to recover the total cash needs in a given fiscal year.

### Budget Calendar

Due Date	Activity
June - November	Identification of major maintenance and capital projects and CIP Evaluation Team review of new and continuing projects.
August - November	Budget instructions issued to all groups. Personnel complements are developed including full-time, part-time, temporary, and overtime estimates. Group managers bring proposed budget presentations to senior management.
November	CIP Evaluation Team completes review of project proposals for the CIP. O&M budgets, CIP estimates, and operating equipment budgets are developed. Senior management reviews and makes final recommendations on group budgets.
December	Group budgets are revised as necessary. Proposed budget is finalized and materials and presentations are developed for presentation to the Board of Directors.
January - April	Proposed budget is presented to the Board of Directors and member agency managers. Proposed group and department budgets are presented to the relevant Board committees. Proposed annual budget workshops are conducted with the full Board and budget estimates are revised as necessary.
April	Finance and Insurance Committee recommends action on the Biennial Budget. Board of Directors takes action on adoption of the Biennial Budget.

Starting in the summer, the groups identify needed major maintenance and new capital projects and develop cost estimates. In August, the budget guidelines and a calendar of budget process deadlines are issued to group, assistant group, and section managers by Budget and Financial Planning staff outlining major budget priorities consistent with the General Manager's Business Plan, staffing and operational objectives.

The development phase begins with overall program formulation and identification of individual projects, staffing, and equipment needs. Personnel budgets, including requests for temporary and part-time help, are then prepared and professional services requirements are identified. All requests for personnel, equipment purchases, and projects must be submitted with formal justifications, which address a standard set of questions developed by Budget and Financial Planning staff.

Each organization is required to identify the extent to which its proposed budget supports the General Manager's strategic priorities as outlined in the Business Plan. This information is later used to update the Business Plan in the late spring in an iterative process.

The procedures for preparation of each element of the budget are outlined below.

### Labor and Professional Services Budget

The labor budget consists of regular full-time payroll, overtime, premium pay, and part-time and temporary employees. The professional services budget consists of planned payments to outside consultants for specialized skills. Personnel complements reflect the staffing of on-going work with regular employees rather than temporary employees or consultants. In addition, each group provides detailed information on consultant, overtime, and temporary employee usage. This enables senior management to examine the level and types of resources being committed to the business plan strategic priorities and make appropriate determinations for the allocation of labor resources.

Adjustments to the proposed budget are made following the review by senior management and the General Manager.

### Equipment Budgets

Operating equipment is any equipment, machine, vehicle, tool, or other item that is portable, costs more than \$5,000, and has an anticipated useful life of at least five years. Expensed equipment is similar to operating equipment except that it costs less than \$5,000. All operating equipment is tracked while the tracking of expensed equipment is required for only certain classes of equipment (e.g., workstation/laptop computers, communications equipment, etc.).

The justification for equipment requests includes a description of the item, where it will be used, what it will be used for, and whether or not the item is new or a replacement. If the item is a replacement, the frequency of downtime and cost of repair of the old item versus purchasing a new one must be provided. If the item is required equipment for expanded functions or additional personnel, this must also be explained. A cost/benefit analysis is performed for equipment costing more than \$40,000.

Depending on the nature of the equipment, the requests may be evaluated by several groups. For example, each group manager and the fleet equipment coordinator review vehicle requests.

## Finance Department Responsibilities

### Treasury and Debt Management

- Recommend procedures for revenue collection, payment of approved demands, reporting and other actions associated with the prudent management of Metropolitan's financial resources.
- Provide for the issuance of debt to fund the capital investment plan.

### Controller and Accounting Operations

- Prepare monthly expenditure and revenue reports.
- Prepare periodic reports on the status of expenditures, revenues, investments and actions taken to ensure the financial stability of Metropolitan.
- Prepare and present information on financial trends to facilitate evaluation of Metropolitan's financial position and identify conditions requiring management attention.

## Budget and Financial Planning

- Support the development of the Strategic Plan that includes projections of short range and long range financial needs, and recommend methods for meeting those needs.
- Support the development of annual water rates and charges, Metropolitan’s biennial operating and capital investment plan and ten year forecast.
- Prepare Metropolitan’s proposed biennial operating budget and budget documents.
- Prepare budget performance reports on a monthly, quarterly, semi-annual and annual basis.
- Develop procedures and controls to monitor and assure compliance with the budget.
- Assist departments throughout the year with their budgets and financial issues.
- Prepare financial projections, schedules of rates and charges, tax rate proposals and other financial materials.

## Other Department Responsibilities

### Engineering

- Prepare Metropolitan’s capital investment plan and CIP budget document.

## General Manager Responsibilities

- Review and present to the Board of Directors long range plans, budgets and revisions, schedules of rates and charges, payments of financial demands and other financial transactions, as necessary.
- Prepare annual business plan containing General Manager’s key priorities for the coming year.
- Implement emergency financial procedures within approved limits, when necessary.

## Budgetary Controls

Budget requests are evaluated at several management levels. Managers and staff review budget requests during each phase of the budget process. Each request for a new project, additional personnel, or piece of operating equipment is scrutinized by each group and further reviewed by Budget and Financial Planning staff during the budget process.

All budget submittals are reviewed collectively by the group and section managers. Only those items that are deemed appropriate to support the initiatives of the General Manager’s Business Plan are included in the budget recommendation.

Once the budget is completed, the expenditures for each group are monitored on a monthly basis to ensure that the groups do not exceed the authorized operating budget for the fiscal year or biennial period, unless approved by the General Manager.

## Budget Adjustments

The budget may be amended in the mid-cycle biennial review or when overall expenditures are anticipated to significantly exceed estimates. A report outlining the reasons for increasing the budget appropriation is prepared and submitted to the Board of Directors for consideration. The Board of Directors must approve any increases in the overall budget appropriations.

## Capital Investment Plan (CIP)

The Capital Investment Plan (CIP) communicates the capital priorities of Metropolitan for the next two fiscal years. Within the Ten Year Financial Forecast, the CIP projects have been carefully reviewed, scored and ranked to ensure water reliability and safety while meeting all regulatory requirements.

### Structure

The highest level of the CIP structure is Program. Programs are comprised of one or more Project Groups.

There are 13 capital programs which include:

- System Flexibility/Supply Reliability
- Water Quality/Oxidation Retrofit
- Colorado River Aqueduct (CRA) Reliability
- Treatment Plant Reliability
- Distribution System Reliability
- Dams & Reservoirs Improvements
- Right of Way & Infrastructure Protection
- District Housing & Property Improvements
- Prestressed Concrete Cylinder Pipe (PCCP) Reliability
- Minor Capital Projects
- Cost Efficiency & Productivity
- System Flexibility/Supply Reliability
- Regional Recycled Water Program

Definitions of the 13 capital programs can be found in the Capital Investment Plan Section of this budget book.



## Preparation

The Capital Investment Plan (CIP) is prepared as part of Metropolitan's biennial budget process.

The CIP is updated to provide an overview of the financial, design, and construction status of existing projects on a quarterly basis, as well as proposals for new projects on an annual basis. All projects are reviewed and prioritized on a biennial basis by the CIP Evaluation Team.

When the need for a project is recognized, a justification is prepared which provides information regarding the expected benefits, how the work will be accomplished, the consequences of not approving the project, alternative levels of effort and cost to accomplish the project, a discussion of the impact of the project on future O&M costs, and a cost estimate for the project.

Capital projects include new facilities, betterments, and replacements that cost at least \$50,000 and have an anticipated useful life of at least five years. In the case of information technology capital projects, the cost must exceed \$250,000 and the resulting asset must have an anticipated useful life of at least three years.

The projects that comprise the proposed CIP have been identified from many Metropolitan studies of projected water needs as well as ongoing monitoring and inspections, condition assessments, and focused vulnerability studies. Staff continues to study operational demands of aging facilities and has made recommendations for capital projects that will maintain infrastructure reliability and ensure compliance with all applicable water quality regulations, and building, fire, and safety codes. Staff has also studied business and operations processes and proposed projects that will improve efficiency and provide future cost savings. Additionally, several projects have been identified and prioritized to provide flexibility in system operations to address uncertain supply conditions from the Colorado River and the State Water Project.

Capital projects can be further differentiated into two general categories: major capital and minor capital projects. Major capital projects cost at least \$400,000 and are described in the CIP under their respective Programs. Projects described in the CIP are funded and authorized to proceed under the General Manager's authority unless Board approval is otherwise required in accordance with Metropolitan's Administrative Code. Minor capital projects cost between \$50,000 and \$400,000 and are not individually described in the CIP. Minor capital projects are identified throughout each fiscal year and are funded and implemented under the General Manager's authority.

Additional information on project budgeting can be found in the Capital Investment Plan Section of this budget book.

# BIENNIAL BUDGET SUMMARY

## APPROPRIATIONS

The FY 2020/21 proposed appropriation of \$1,934.1 million is comprised of \$1,385.4 million or 71.6% percent for operations expense, \$298.7 million or 15.4% percent for debt service expense, and \$250.0 million or 12.9% percent for the Capital Investment Plan expenses (CIP). The FY 2021/22 proposed appropriation of \$1,978.5 million is comprised of \$1,421.5 million or 71.8% percent for operations expense, \$307.0 million or 15.5% percent for debt service expense, and \$250.0 million or 12.6% percent for the CIP expenses. The table below provides a comparison of FY 2020/21 and FY 2021/22 and illustrates the total proposed appropriations for the operating, debt service and CIP expenses.

### FY 2020/21 and FY 2021/22 Operating and Capital Appropriations, \$ millions

Proposed Budget	2020/21 Proposed	2021/22 Proposed	Total Biennium
Operating Budget *	\$1,385.4	\$1,421.5	\$2,806.9
Debt Service	298.7	307.0	605.7
CIP **	250.0	250.0	500.0
<b>Grand Total</b>	<b>\$1,934.1</b>	<b>\$1,978.5</b>	<b>\$3,912.6</b>

\* Includes Conservation appropriation of \$43M per year. The annual Conservation expenditures are estimated to be \$25M per year.

\*\* CIP appropriation is \$500M over the biennium. Estimated CIP expenditures are estimated to be \$225M per year.

The Biennial Budget for FY 2020/21 and FY 2021/22 provides funding for Metropolitan’s strategic priorities while meeting most financial policy guidelines, with overall rate increases of 5.0 percent in each year of the Biennial Budget. The overall rate increases of 5.0 percent are consistent with the long term rate projections of 3 to 5 percent, and reflect the current environment of lower water demands as Southern California is coming off of a record wet year and local supplies are robust.

The Biennial Budget is developed and monitored on a modified accrual basis. Revenues and expenses are recognized in the period they are earned and incurred. Depreciation and amortization are not included; payment of debt service is included. The modified–accrual basis of accounting provides a better match of revenues and expenses for budgeting and reporting.

## FUND SUMMARY

The following tables show fund balance, and projected revenues and expenses for Metropolitan for each fiscal year of the Biennial Budget.

### FY 2020/21 Fund Summary, \$ millions

Fiscal Year Ending June 30th, 2021

(\$ in Millions)	All Funds	Operating Funds	Debt Service and Construction Funds	Reserve Funds (1)	Other Funds (2)
<b>Beginning of Year Balance</b>	<b>1,280.0</b>	<b>452.5</b>	<b>205.0</b>	<b>456.5</b>	<b>166.1</b>
<b>USES OF FUNDS</b>					
<b>Expenses</b>					
State Water Contract	640.8	640.8	—	—	—
Supply Programs	68.7	68.7	—	—	—
Colorado River Power	52.2	52.2	—	—	—
Debt Service	298.7	5.7	293.0	—	—
Demand Management (3)	48.5	48.5	—	—	—
Regional Recycled Water Program (planning costs)	15.0	15.0	—	—	—
Departmental O&M	502.6	502.6	—	—	—
Treatment Chemicals, Sludge & Power	31.6	31.6	—	—	—
Other O&M	7.9	7.9	—	—	—
Sub-total Expenses	1,666.1	1,373.1	293.0	—	—
<b>Capital Investment Plan (4)</b>	<b>225.0</b>	<b>30.0</b>	<b>195.0</b>	<b>—</b>	<b>—</b>
<b>Fund Deposits</b>					
R&R and General Fund	135.0	30.0	105.0	—	—
Revenue Bond Construction	9.3	—	9.3	—	—
Interest for Construction & Trust Funds	0.2	—	0.2	—	—
Increase in Required Reserves	41.3	43.6	5.2	(7.5)	—
Sub-total Fund Deposits	185.8	73.6	119.7	(7.5)	—
<b>TOTAL USES OF FUNDS</b>	<b>2,076.9</b>	<b>1,476.7</b>	<b>607.7</b>	<b>(7.5)</b>	<b>—</b>
<b>SOURCES OF FUNDS</b>					
<b>Revenues</b>					
Taxes	139.9	132.7	7.3	—	—
Interest Income	18.0	7.2	3.2	5.8	1.7
Power Sales	20.8	20.8	—	—	—
Fixed Charges (RTS & Capacity Charge)	171.6	171.6	—	—	—
Water Revenue (5)	1,423.6	1,423.6	—	—	—
Miscellaneous Revenue	19.9	19.9	—	—	—
Bond Proceeds	99.3	—	99.3	—	—
Sub-total Revenues	1,893.1	1,775.8	109.8	5.8	1.7
<b>Fund Withdrawals</b>					
R&R and General Fund	135.0	30.0	105.0	—	—
Water Stewardship Fund	22.6	—	—	—	22.6
Decrease in Rate Stabilization Fund	26.2	—	—	26.2	—
Sub-total Fund Withdrawals	183.7	30.0	105.0	26.2	22.6
<b>TOTAL SOURCES OF FUNDS</b>	<b>2,076.9</b>	<b>1,805.8</b>	<b>214.8</b>	<b>32.0</b>	<b>24.3</b>
<b>Inter-Fund Transfers</b>	<b>—</b>	<b>(329.1)</b>	<b>392.9</b>	<b>(39.5)</b>	<b>(24.3)</b>
<b>End of Year Balance</b>	<b>1,282.1</b>	<b>496.1</b>	<b>219.6</b>	<b>422.8</b>	<b>143.5</b>

Totals may not foot due to rounding.

(1) includes Water Rate Stabilization Fund and Revenue Remainder Fund.

(2) includes Water Stewardship, Water Treatment Stabilization and Trust Funds.

(3) includes Conservation estimated expenditure of \$25M. The Conservation appropriation is \$43M.

(4) estimated CIP expenditures are \$225M. The CIP appropriation is \$250M.

(5) includes water sales, exchanges and wheeling

FY 2021/22 Fund Summary, \$ millions

Fiscal Year Ending June 30th, 2022

(\$ in Millions)	All Funds	Operating Funds	Debt Service and Construction Funds	Reserve Funds (1)	Other Funds (2)
<b>Beginning of Year Balance</b>	<b>1,282.1</b>	<b>496.1</b>	<b>219.6</b>	<b>422.8</b>	<b>143.5</b>
<b>USES OF FUNDS</b>					
<b>Expenses</b>					
State Water Contract	654.4	654.4	—	—	—
Supply Programs	61.2	61.2	—	—	—
Colorado River Power	57.6	57.6	—	—	—
Debt Service	307.0	6.1	300.9	—	—
Demand Management (3)	52.5	52.5	—	—	—
Regional Recycled Water Program (planning costs)	15.0	15.0	—	—	—
Departmental O&M	522.9	522.9	—	—	—
Treatment Chemicals, Sludge & Power	32.8	32.8	—	—	—
Other O&M	7.2	7.2	—	—	—
Sub-total Expenses	1,710.4	1,409.5	300.9	—	—
<b>Capital Investment Plan (4)</b>	<b>225.0</b>	<b>30.0</b>	<b>195.0</b>	<b>—</b>	<b>—</b>
<b>Fund Deposits</b>					
R&R and General Fund	135.0	30.0	105.0	—	—
Treatment Surcharge Stabilization Fund	6.7	—	—	—	6.7
Interest for Construction & Trust Funds	0.3	—	0.3	—	—
Increase in Required Reserves	62.5	38.9	9.1	14.5	—
Increase in Rate Stabilization Fund	34.6	—	—	34.6	—
Sub-total Fund Deposits	239.1	68.9	114.4	49.1	6.8
<b>TOTAL USES OF FUNDS</b>	<b>2,174.6</b>	<b>1,508.4</b>	<b>610.3</b>	<b>49.1</b>	<b>6.8</b>
<b>SOURCES OF FUNDS</b>					
<b>Revenues</b>					
Taxes	140.1	131.8	8.2	—	—
Interest Income	18.2	7.8	3.4	6.0	1.1
Power Sales	21.9	21.9	—	—	—
Fixed Charges (RTS & Capacity Charge)	181.9	181.9	—	—	—
Water Revenue (5)	1,491.4	1,491.4	—	—	—
Miscellaneous Revenue	20.5	20.5	—	—	—
Bond Proceeds	89.4	—	89.4	—	—
Sub-total Revenues	1,963.4	1,855.4	101.0	6.0	1.1
<b>Fund Withdrawals</b>					
R&R and General Fund	135.0	30.0	105.0	—	—
Bond Funds for Construction	0.6	—	0.6	—	—
Water Stewardship Fund	75.6	—	—	—	75.6
Sub-total Fund Withdrawals	211.2	30.0	105.6	—	75.6
<b>TOTAL SOURCES OF FUNDS</b>	<b>2,174.6</b>	<b>1,885.4</b>	<b>206.6</b>	<b>6.0</b>	<b>76.7</b>
<b>Inter-Fund Transfers</b>	<b>—</b>	<b>(376.9)</b>	<b>403.6</b>	<b>43.2</b>	<b>(69.9)</b>
<b>End of Year Balance</b>	<b>1,310.0</b>	<b>535.0</b>	<b>228.4</b>	<b>471.9</b>	<b>74.7</b>

Totals may not foot due to rounding.

(1) includes Water Rate Stabilization Fund and Revenue Remainder Fund.

(2) includes Water Stewardship, Water Treatment Stabilization and Trust Funds.

(3) includes Conservation estimated expenditure of \$25M. The Conservation appropriation is \$43M.

(4) estimated CIP expenditures are \$225M. The CIP appropriation is \$250M.

(5) includes water sales, exchanges and wheeling

## SOURCES OF FUNDS

Total Sources of FY 2020/21 and FY 2021/22 Funds, \$ millions

	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget Compared to 2020/21 Proposed	2020/21 Proposed Compared to 2021/22 Proposed
<b>SOURCES OF FUNDS</b>					
Revenues					
Taxes	118.1	139.9	140.1	21.9	0.1
Interest Income	18.1	18.0	18.2	(0.1)	0.2
Power Sales	19.1	20.8	21.9	1.7	1.2
Fixed Charges (RTS & Capacity Charge)	165.8	171.6	181.9	5.9	10.3
Water Revenues (1)	1,528.5	1,423.6	1,491.4	(104.9)	67.8
Miscellaneous Revenue	11.5	19.9	20.5	8.4	0.5
Bond Proceeds and Reimbursements	79.4	99.3	89.4	19.9	(9.9)
<b>Sub-total Revenues</b>	<b>1,940.4</b>	<b>1,893.1</b>	<b>1,963.4</b>	<b>(47.2)</b>	<b>70.2</b>
Fund Withdrawals					
R&R and General Fund	120.0	135.0	135.0	15.0	—
Bond Funds for Construction	0.6	—	0.6	(0.6)	0.6
Water Stewardship Fund	—	22.6	75.6	22.6	53.0
Decrease in Water Rate Stabilization Fund	—	26.2	—	26.2	(26.2)
<b>Sub-total Fund Withdrawals</b>	<b>120.6</b>	<b>183.7</b>	<b>211.2</b>	<b>63.2</b>	<b>27.5</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>2,060.9</b>	<b>2,076.9</b>	<b>2,174.6</b>	<b>15.9</b>	<b>97.7</b>

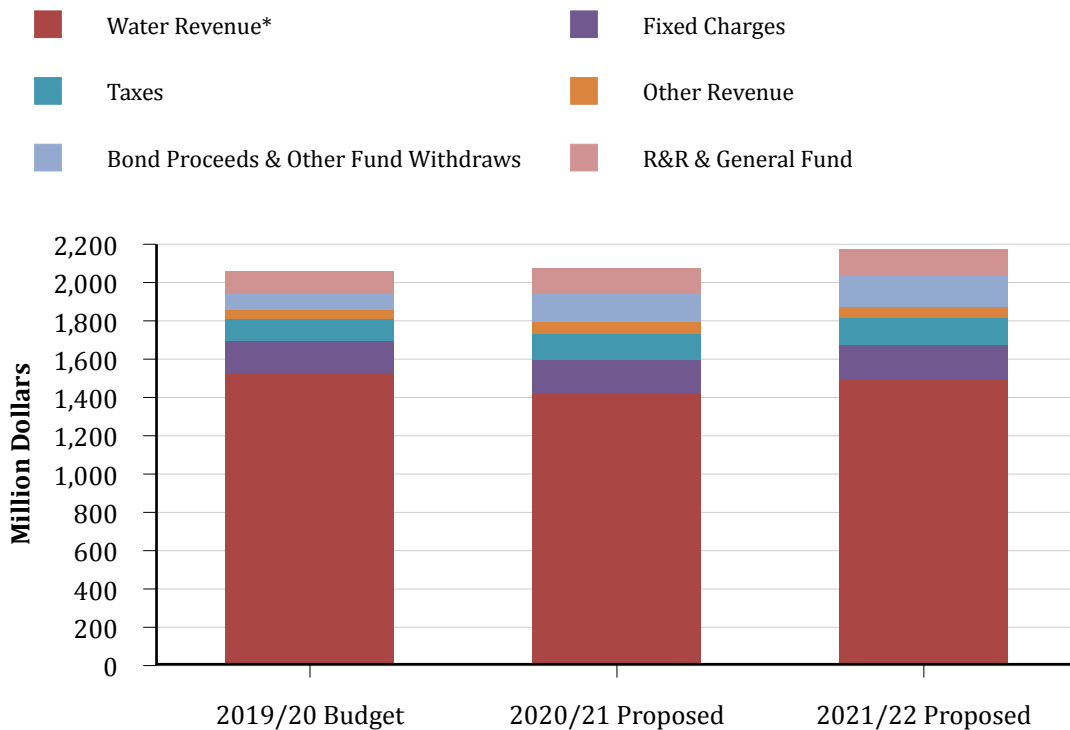
Totals may not foot due to rounding.

(1) includes water sales, exchanges and wheeling

## OPERATING REVENUE

Estimated revenues from water rates, fixed charges (Readiness-To-Serve Charge and Capacity Charge), taxes and annexation fees, and other miscellaneous income (interest income, power recovery, etc.) are projected to be \$1.79 billion for FY 2020/21 and \$1.87 billion for FY 2021/22. For FY 2020/21, this is \$67.3 million less than the FY 2019/20 budget, and for FY 2021/22, this is \$80.2 million more than FY 2020/21. The decrease in revenues for FY 2020/21 is due to lower water transactions in calendar year 2021. For FY 2021/22, the revenue is higher due to higher water rates and charges in calendar year 2021 and calendar year 2022. In addition, the forecast assumes the ad valorem tax rate is maintained at 0.0035 percent of assessed valuations. A description of each revenue source is included in the Glossary of Terms.

Sources of Funds FY 2020/21 and FY 2021/22, \$ millions



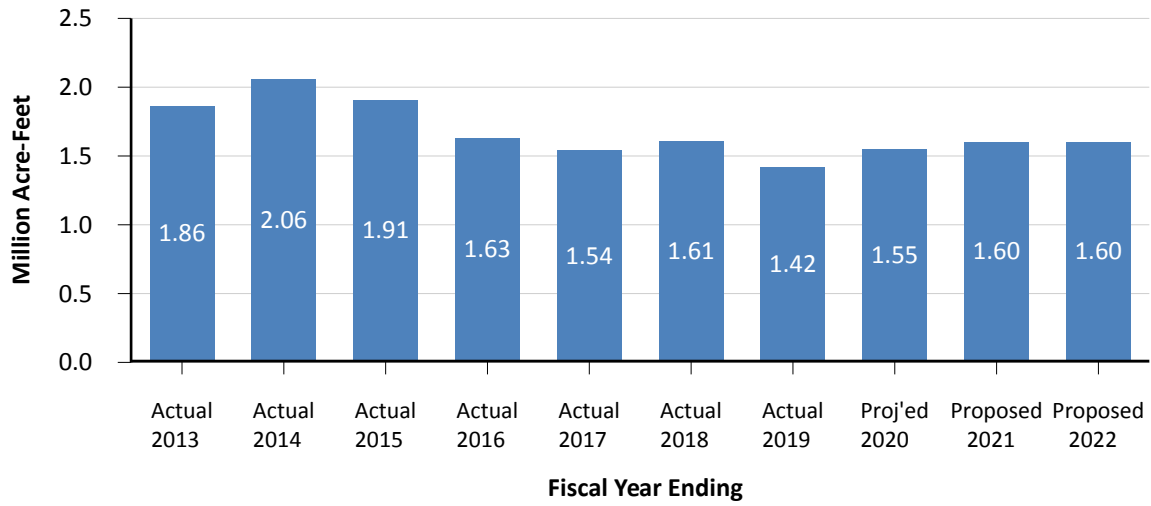
\* includes water sales, exchanges and wheeling

### Water Revenues

Revenues from water transactions are budgeted at \$1,423.6 million in FY 2020/21 and \$1,491.4 million in FY 2021/22. Water rates and charges are proposed to increase by 5.0 percent overall effective January 1, 2021 and 5.0 percent overall effective January 1, 2022. Water transactions for each FY 2020/21 and FY 2021/22 are estimated to be 1.6 million acre-feet (MAF), a decrease of 150 thousand acre-feet (TAF) from the FY 2019/20 budget. Water transactions are forecasted to be lower than the FY 2019/20 budget as southern California is coming off of a record wet year and local supplies are robust. The lower water transactions projection also reflects the expectation that demands will trend lower due to consumer response to the previous drought and continued conservation initiatives.



## Water Transactions Trend, MAF



The FY 2020/21 fiscal year water transactions include 1.32 MAF of full-service sales, of which 800 TAF (or 50 percent) are treated water sales, and 276 TAF of exchange water to the San Diego County Water Authority (SDCWA) pursuant to the 2003 Amended and Restated Exchange Agreement (exchange water). The FY 2021/22 fiscal year water transactions include 1.32 MAF of full-service sales, of which 800 TAF (or 50 percent) are treated water sales, and 281 TAF of exchange water. No wheeling transactions are projected in the biennium period. The figure above shows the trend of water transactions.

## Taxes and Annexation Fees

Revenues from taxes, 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 \$139.9 million in FY 2020/21 and \$140.1 million in FY 2021/22.

The ad valorem tax rate is assumed to remain at the current level of 0.0035 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 2020/21, these charges are estimated to generate \$35.6 million and \$136.0 million, respectively. In FY 2021/22, these charges are estimated to generate \$41.9 million and 140.0 million, respectively. In total this represents a \$5.8 million increase from the FY 2019/20 to FY 2020/21 budget, and a \$10.3 million increase from the FY 2020/21 to the FY 2021/22 budget. Fixed charges are increasing in FY 2020/21 due to higher peak demands on the distribution system. Fixed charges are increasing in FY 2021/22 due to increases in capital financing costs.

## All Other Revenue

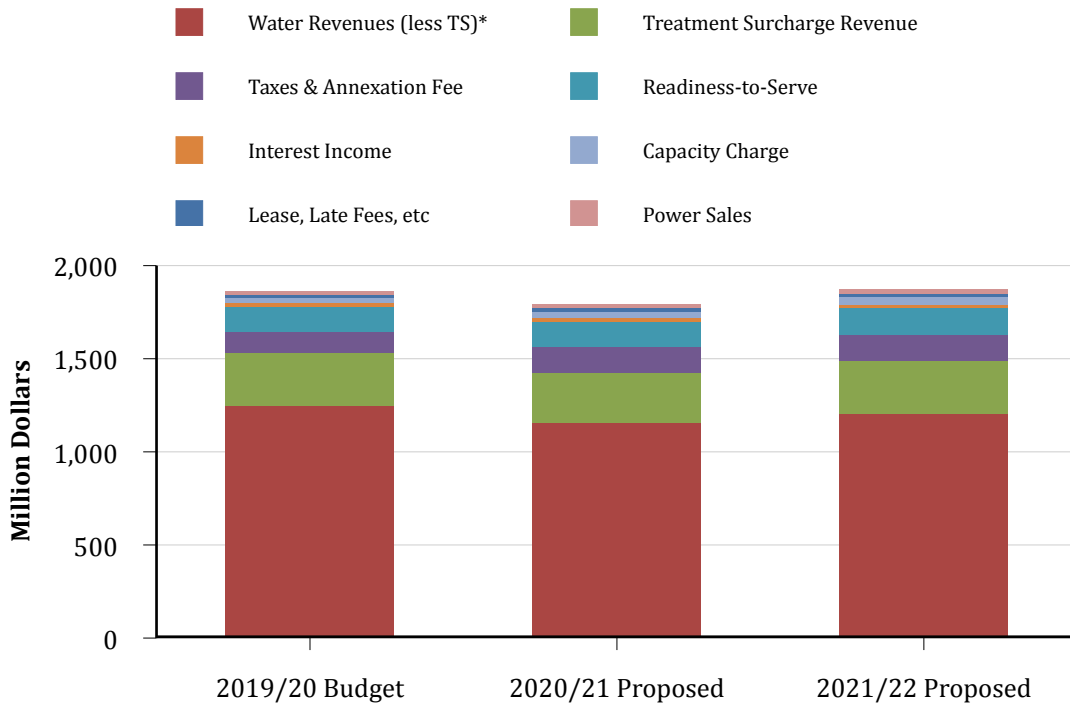
Revenues from hydroelectric and CRA power sales are estimated to be \$20.8 million for FY 2020/21 and \$21.9 million for FY 2021/22. FY 2020/21 is higher than the FY 2019/20 budgeted amount of \$19.1 million due to higher wholesale prices.

Miscellaneous revenues, which includes items such as interest income, lease revenues, and water transactions with non-member agencies, are estimated to total \$37.9 million for FY 2020/21 and \$38.7 million for FY

2021/22 , higher than the FY 2019/20 budgeted amounts of \$29.6 million, mainly due to increased water transactions with non-member agencies.

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

### Operating Revenues, \$ millions



\* includes water sales, exchanges and wheeling

## CAPITAL FUNDING

The FY 2020/21 and FY 2021/22 Capital Investment Plan (CIP) will be funded with bond proceeds and current operating revenues (PAYGO). It is anticipated that Metropolitan will issue new revenue bonds of \$100 million in FY 2020/21 and \$90 million in FY 2021/22 to fund a portion of the CIP. The remaining CIP expenditures will be funded with revenue funded capital of \$135 million in FY 2020/21 and \$135 million in FY 2021/22.

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 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.

## USES OF FUNDS

Total uses of funds are \$2.1 billion for FY 2020/21 and \$2.2 billion for FY 2021/22. The table and graph below show the breakdown of expenditures and other obligations that make up the Uses of Funds.

### Total Uses of FY 2020/21 and FY 2021/22 Funds, \$ millions

	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget Compared to 2020/21 Proposed	2020/21 Proposed Compared to 2021/22 Proposed
<b>USES OF FUNDS</b>					
Expenses					
State Water Contract (1)	589.5	615.8	629.4	26.3	13.6
Supply Programs	54.4	68.7	61.2	14.3	(7.5)
Delta Conveyance planning costs	13.0	25.0	25.0	12.0	—
Regional Recycled Water Program planning costs	—	15.0	15.0	15.0	—
Colorado River Power	52.9	52.2	57.6	(0.7)	5.3
Debt Service	330.9	298.7	307.0	(32.2)	8.3
Demand Management (2)	85.8	48.5	52.5	(37.3)	4.0
Departmental O&M	461.7	502.6	522.9	40.9	20.3
Treatment Chemicals, Sludge & Power	27.7	31.6	32.8	3.9	1.1
Other O&M	7.0	7.9	7.2	0.9	(0.7)
<b>Sub-total Expenses</b>	<b>1,623.0</b>	<b>1,666.1</b>	<b>1,710.4</b>	<b>43.1</b>	<b>44.4</b>
Capital Investment Plan (3)	200.0	225.0	225.0	25.0	—
Fund Deposits					
R&R and General Fund	120.0	135.0	135.0	15.0	—
Revenue Bond Construction	—	9.3	—	9.3	(9.3)
Water Stewardship Fund	4.8	—	—	(4.8)	—
Treatment Surcharge Stabilization Fund	16.5	—	6.7	(16.5)	6.7
Interest for Construction & Trust Funds	0.2	0.2	0.3	—	0.1
Increase in Required Reserves	41.3	41.3	62.5	—	21.2
Increase in Water Rate Stabilization Fund	55.2	—	34.6	(55.2)	34.6
<b>Sub-total Fund Deposits</b>	<b>238.0</b>	<b>185.8</b>	<b>239.1</b>	<b>(52.1)</b>	<b>53.3</b>
<b>TOTAL USES OF FUNDS</b>	<b>2,060.9</b>	<b>2,076.9</b>	<b>2,174.6</b>	<b>15.9</b>	<b>97.7</b>

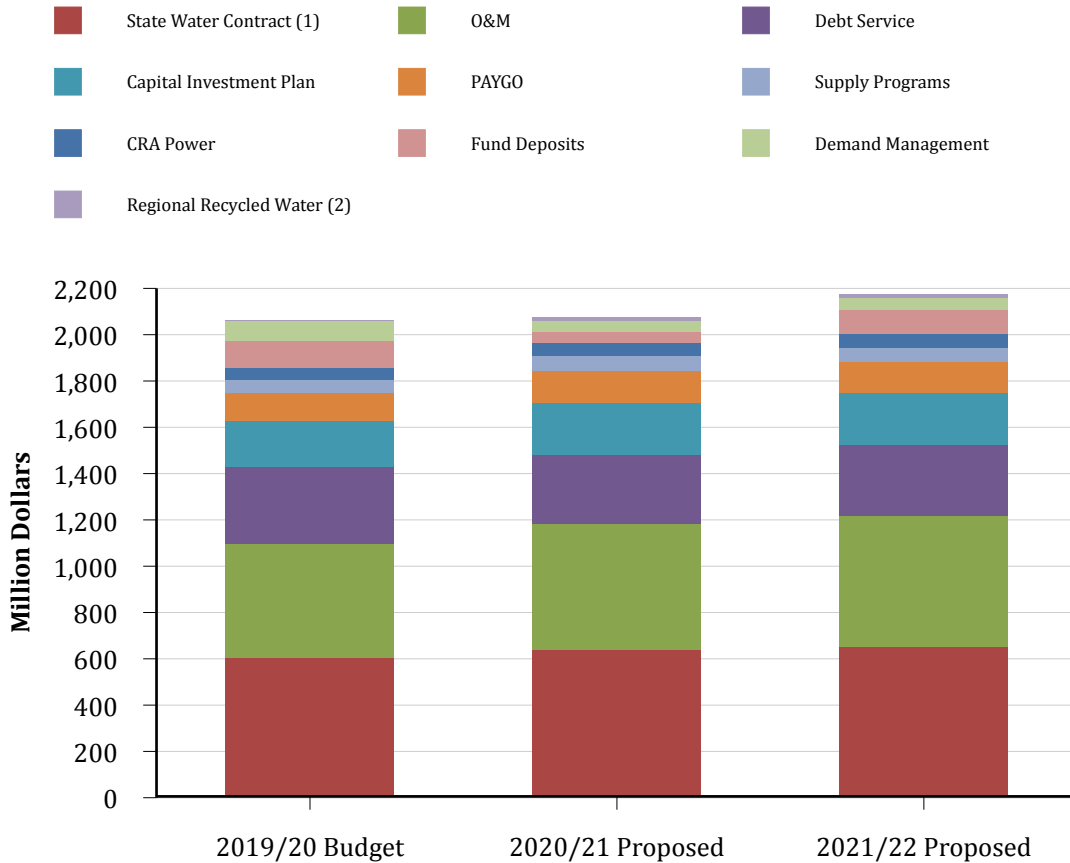
Totals may not foot due to rounding.

(1) without Delta conveyance planning costs

(2) The annual Conservation expenditures are estimated to be \$25M per year. The Conservation appropriation is \$43M per year.

(3) CIP expenditures are estimated to be \$225M per year. The CIP appropriation is \$500M over the biennium.

## Total Uses of FY 2020/21 and FY 2021/22 Funds, \$ millions



(1) includes Delta conveyance planning costs  
 (2) only includes program planning costs

### Colorado River Aqueduct Power

CRA power costs are projected to be \$52.2 million in FY 2020/21 and \$57.6 million in FY 2021/22 based on diversions of approximately 745 TAF in FY 2020/21 and 733 TAF in FY 2021/22. FY 2020/21 is \$0.7 million lower than the FY 2019/20 budget due to lower diversions at Intake. FY 2021/22 is \$5.3 million higher than FY 2020/21 due to a new greenhouse gas charge to be collected by the California Air Resources Board.

Please refer to the section on the CRA for additional details on this expense.

### State Water Project

State Water Contract (SWC) expenditures, not including the Delta conveyance planned contribution described below, are budgeted at \$615.8 million for FY 2020/21 and \$629.4 million in FY 2021/22. This is based on Metropolitan's supplies of 1,063 TAF in FY 2020/21 and 1,059 TAF in FY 2021/22. SWP power costs are expected to be \$211.0 million for FY 2020/21 and \$216.2 million for FY 2021/22. Power costs are higher than FY 2019/20 budget due to higher water deliveries and a projected increase in the California Independent System Operator (ISO) transmission access charge (TAC) by the State Water Contractors.

The forecasted amount for SWP expenditures reflects incorporation of rate management credits into the forecast. Rate management credits result from a provision of the State Water Contract that provides for the

reduction of capital charges based on differences between the Department of Water Resources' collections from the SWP contractors and the actual amounts paid for capital-related charges.

The total State Water Contract expenditure budget of \$640.8 for FY 2020/21 and \$654.4 for FY 2021/22 includes Metropolitan's planned contribution of \$25 million per year for Delta conveyance project planning activities.

Please refer to the section on the SWP for additional details on this expense.

### Regional Recycled Water Program Planning Costs

The FY 2020/21 and FY 2021/22 budget includes funding for planning costs for the potential Regional Recycled Water Program at \$15 million per year for preparation of a programmatic environmental impact report. This is the next step before the Board will be fully informed and ready to make a decision on whether to proceed with further investments in this potential project.

### Demand Management Costs

Demand management includes conservation programs, programs to incentivize the development of local water resources, Future Supply Actions Program, and the Stormwater Pilot Program. Metropolitan provides financial incentives to its member agencies for the development of local projects such as water recycling and groundwater recovery projects through the Local Resource Program (LRP). Metropolitan also provides financial incentives for the development of conservation programs. Demand Management is budgeted at \$48.5 million for FY 2020/21 and \$52.5 million in FY 2021/22.

Please refer to the section on Demand Management for additional details on this expense.

### Supply Programs

Metropolitan's two principal sources of supply draw from two different watersheds. This has allowed Metropolitan to draw more heavily on one source in the event the other is experiencing a drought. To further ensure regional supply reliability, Metropolitan has developed a portfolio of additional supply programs on both watersheds. Total expenditures are budgeted at \$68.7 million for FY 2020/21 and \$61.2 million in FY 2021/22.

Please refer to the section on the Supply Programs for additional details on this expense.

## OPERATIONS AND MAINTENANCE

The FY 2020/21 O&M budget, including operating equipment purchases, is \$542.2 million. This is \$45.8 million, or 9.2% percent, higher than the FY 2019/20 budget of \$496.4 million. The FY 2021/22 O&M budget is \$562.8 million, an increase of \$20.6 million, or 3.8% percent, over the FY 2020/21 budget.

Departmental Budget by Organization (without operating equipment, succession planning labor pool and overhead credit), \$ millions





## Operations and Maintenance Budget by Organization, \$ thousands

Departmental Units	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget vs. 2020/21 Proposed	% Change	2020/21 Proposed vs. 2021/22 Proposed	% Change
Office of the General Manager	\$5,224.1	\$5,550.6	\$5,769.5	\$326.4	6.2%	\$218.9	3.9%
Water System Operations w/o Variable Treatment	217,290.8	232,169.6	243,917.9	14,878.9	6.8%	11,748.3	5.1%
Water Resource Management	25,066.0	24,371.3	25,346.2	(694.7)	(2.8%)	974.9	4.0%
Engineering Services	33,865.0	38,382.5	40,425.6	4,517.5	13.3%	2,043.1	5.3%
Bay Delta Initiatives	10,246.2	10,095.9	9,709.4	(150.3)	(1.5%)	(386.5)	(3.8%)
Office of Chief Administrative Officer	34,281.9	38,057.0	38,653.5	3,775.1	11.0%	596.5	1.6%
Information Technology	43,661.5	47,653.4	49,640.0	3,991.9	9.1%	1,986.6	4.2%
Real Property	28,447.1	30,553.4	29,878.1	2,106.3	7.4%	(675.3)	(2.2%)
Human Resources	12,881.5	14,277.1	14,868.3	1,395.6	10.8%	591.2	4.1%
Chief Financial Officer	25,198.1	27,949.2	28,833.2	2,751.0	10.9%	884.1	3.2%
External Affairs	27,577.0	27,867.1	28,858.3	290.2	1.1%	991.1	3.6%
<b>Subtotal - General Manager's Department</b>	<b>463,739.3</b>	<b>496,927.1</b>	<b>515,900.1</b>	<b>33,187.8</b>	<b>7.2%</b>	<b>18,973.0</b>	<b>3.8%</b>
General Counsel	15,202.3	16,003.0	17,752.3	800.7	5.3%	1,749.3	10.9%
Office of the General Auditor	3,855.0	4,521.7	4,750.2	666.7	17.3%	228.4	5.1%
Ethics Department	1,448.4	1,621.4	1,679.9	173.0	11.9%	58.5	3.6%
Overhead Credit from Construction	(22,554.0)	(23,436.3)	(24,203.5)	(882.3)	3.9%	(767.2)	3.3%
Succession Planning Labor Pool	—	7,000.0	7,000.0	7,000.0	NA	—	NA
<b>Total Departmental Budget</b>	<b>461,691.0</b>	<b>502,636.9</b>	<b>522,878.9</b>	<b>40,946.0</b>	<b>8.9%</b>	<b>20,242.0</b>	<b>4.0%</b>
Operating Equipment	6,955.4	7,878.5	7,153.4	923.1	13.3%	(725.1)	(9.2%)
Variable Treatment	27,713.9	31,639.4	32,770.6	3,925.4	14.2%	1,131.2	3.6%
<b>GRAND TOTAL</b>	<b>\$496,360.3</b>	<b>\$542,154.8</b>	<b>\$562,802.9</b>	<b>\$45,794.5</b>	<b>9.2%</b>	<b>\$20,648.2</b>	<b>3.8%</b>

Totals may not foot due to rounding

The table above depicts the distribution of the departmental O&M by organization without the overhead credit, succession planning labor pool and operating equipment. Including treatment costs, the Water System Operations (WSO) group accounts for 48 percent of the total departmental budget for FY 2020/21 and FY 2021/22. Information Technology is the second largest departmental expenditure area, accounting for 9 percent of the total departmental budget for FY 2020/21 and FY 2021/22. A summary of the O&M budget by organization is shown in the table above. The table below summarizes the O&M budget by expenditure type. A more detailed discussion of significant factors impacting the O&M budget follows.

## FY 2020/21 and FY 2021/22 Operations & Maintenance Annual Budget by Expenditure Type, \$ thousands

	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget vs. 2020/21 Proposed	2020/21 Proposed vs. 2021/22 Proposed
Salaries & Benefits (1)	\$322,637.6	\$354,161.1	\$373,823.0	\$31,523.5	\$19,661.8
Chemicals, Sludge and Power (2)	27,713.9	31,639.4	32,770.6	3,925.4	1,131.2
Outside Services	52,638.1	56,534.4	56,436.7	3,896.3	(97.7)
Materials & Supplies (3)	27,510.2	31,714.9	33,058.7	4,204.7	1,343.7
Other	58,905.1	60,226.4	59,560.6	1,321.4	(665.8)
Operating Equipment	6,955.4	7,878.5	7,153.4	923.1	(725.1)
<b>Total</b>	<b>496,360.3</b>	<b>542,154.8</b>	<b>562,802.9</b>	<b>45,794.5</b>	<b>20,648.2</b>

Totals may not foot due to rounding

(1) includes succession planning labor pool and overhead credit for construction.

(2) costs associated with treatment only.

(3) without chemicals associated with treatment plants.

### FY 2020/21 O&M Budget Highlights

The FY 2020/21 O&M budget includes \$542.2 million for labor and benefits, water treatment chemicals, power, and solids handling, materials and supplies, professional services, and operating equipment purchases. This is \$45.8 million, or 9.2 percent, higher than the FY 2019/20 budget of \$496.4 million.

**Salaries and Benefits:** Labor costs, not including those charged to construction are \$354.2 million. This is \$31.5 million, or 9.8 percent, higher than the FY 2019/20 budget of \$322.6 million. Key increases include negotiated labor increases of \$14.1 million, or 44.8 percent of the increase; a succession planning labor pool of \$7.0 million, or 22.2 percent of the increase; increases in retirement, medical and other benefits of \$5.4 million, or 17.1 percent of the increase; and temporary labor increases of \$2.9 million or 9.0 percent of the increase.

The FY 2020/21 budget includes 1,907 regular full time positions which are flat from the FY 2019/20 budget and 43 district temporary full-time equivalents (FTEs) which are increasing by 20 net positions for a total of 1,950 authorized positions.

Over the biennium a total of 14 district temporary positions will be added to support increased recruitment, enhanced security, land management, and maintenance efforts, enhanced business process and business systems support, and ongoing succession planning efforts. Twenty district temporary positions will be added in the first year of the budget but 6 district temporary positions will be phased out in the second year with the completion of temporary work assignments.

The budget recognizes the importance of sound succession planning and continued training and development of the workforce with a \$7 million succession planning labor pool included in each FY 2020/21 and FY 2021/22 budget for advance recruitment, apprenticeship and internship programs.

**Outside Services:** Outside Services are anticipated to increase by \$3.9 million primarily as a result of enhanced security, land management, and maintenance efforts; a comprehensive rate restructuring study; increased environmental and regulatory compliance and monitoring such as the Surface Mining & Reclamation Act (SMARA); and critical cybersecurity, cloud and IT infrastructure services.

**Materials & Supplies:** Materials & Supplies is increasing by \$4.2 million primarily as a result of software licensing and support, and land management and maintenance efforts. Metropolitan has adopted a Cloud First strategy for business applications. As systems are moved to the cloud, software license costs that were previously captured as capital are now expensed as O&M per accounting requirements. In the long term, moving and hosting business applications in the cloud will prove to be more cost effective, and provide for greater operational flexibility and resiliency.

**Other O&M and Operating Equipment:** Chemicals, solids, and power reflect the cost of the water treatment process and are anticipated to increase by \$3.9 million in FY 2020/21, driven by an increase in treated water deliveries and chemical prices. The FY 2020/21 budget reflects an increase in the contribution by Metropolitan to advance efforts on collaborative science through various State, Federal and other agencies of about \$0.5 million. In addition, the FY 2020/21 budget reflects an increase of about \$0.8 million related to property taxes and the fees paid to the Department of Safety of Dams (DSOD). Operating equipment is higher by \$0.9 million primarily due to the replacement of critical survey equipment and end-of-life IT infrastructure.

### FY 2021/22 O&M Budget Highlights

The FY 2021/22 O&M budget is \$562.8 million, an increase of \$20.6 million, or 3.8 percent, compared to the FY 2020/21 budget. This increase is primarily due to negotiated labor increases and increases in retirement, medical and other benefits. The increase in chemical costs and software licensing and support is offset by a decrease in property maintenance and operating equipment costs.

**Salaries and Benefits:** The FY 2021/22 O&M labor budget is about \$19.7 million or 5.6 percent higher than the FY 2020/21 budget. Negotiated labor increases represent \$15.5 million, or 78.7 percent of the increase. Increases in retirement, medical and other benefits represent \$5.5 million, or 27.7 percent of the increase. The remaining \$1.3 million decrease, or 6.4 percent, is primarily attributable to a reduction in the number of temporary labor positions from the FY 2020/21 budget.

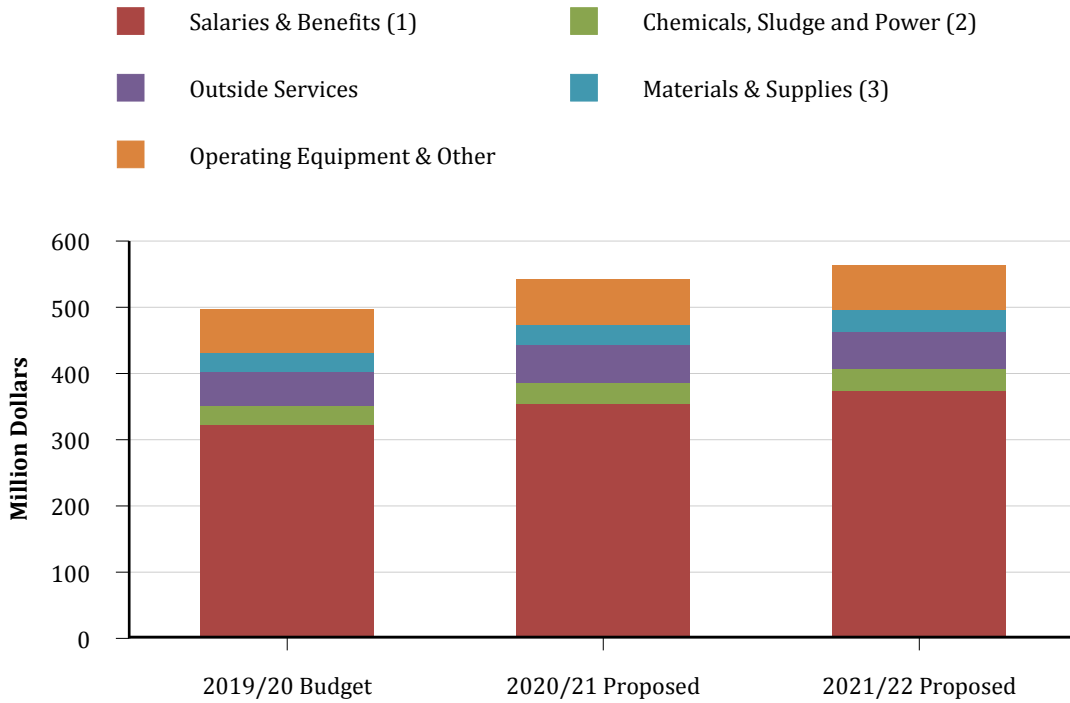
FY 2021/22 regular full time positions are flat with the FY 2020/21 budget but district temporary positions are decreasing by 6 net positions. As a result FY 2021/22 total authorized positions are decreasing from 1,950 to 1,944.

**Outside Services:** Outside Services are anticipated to decrease by \$0.1 million. A reduction in property maintenance costs are being offset by an increase in outside services related to the potential Regional Recycled Water Program (RRWP) and desert infrastructure and communication services.

**Materials & Supplies:** Materials & Supplies is increasing by \$1.3 million primarily as a result of District software licensing and support, and materials and supplies related to the potential Regional Recycled Water Program.

**Other O&M and Operating Equipment:** The cost of chemicals, power, and sludge disposal incurred in the water treatment process is anticipated to increase slightly by \$1.1 million in FY 2021/22 due primarily to inflationary pressures on chemical costs. Other O&M is lower due primarily to the completion of the PC replacement and seismic headquarters relocation projects in FY 2020/21 offset by increases in taxes and permits and desert infrastructure and communication services. Operating equipment is lower by \$0.7 million from FY 2020/21 due primarily to a reduction in IT infrastructure and survey equipment needs.

Departmental Budget by Expenditure Type, \$ millions



(1) includes succession planning labor pool and overhead credit for construction.

(2) costs associated with treatment only.

(3) without chemicals associated with treatment plants.

The figure above summarizes the total departmental O&M budget by expenditure type, of which about 65 percent is for salaries and benefits in both FY 2020/21 and FY 2021/22.

## STAFFING PLAN

Total regular full time positions of 1,907 remain flat over the biennium. Including temporary positions, total authorized positions for FY 2020/21 and FY 2021/22 are 1,950 and 1,944 positions respectively. Total personnel increase by 20 district temporary positions (rounded) in FY 2020/21 and decrease by 6 district temporary positions (rounded) to a total in FY 2021/22.

Over the biennium, positions dedicated to O&M work are expected to increase by one regular full time position with the shift of a position from capital work, and by 14 district temporary positions to support increased recruitment, enhanced security, land management and maintenance efforts, enhanced business process and business systems support, and ongoing succession planning efforts.

The personnel complement is shown in the following tables.

### Regular and Temporary Positions

	2018/19 Budget	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget vs. 2020/21 Proposed	2020/21 Proposed vs. 2021/22 Proposed
Regular Full Time Positions	1,900	1,907	1,907	1,907	—	—
District Temporary Positions	22	23	43	37	20	(6)
<b>Total</b>	<b>1,922</b>	<b>1,930</b>	<b>1,950</b>	<b>1,944</b>	<b>20</b>	<b>(6)</b>

Totals may not foot due to rounding.

\* restated FY 2019/20 to reflect 2 positions subsequently authorized by the board for the General Counsel and Audit departments.

### O&M and Capital Staffing Levels

	2019/20 Budget	2020/21 Proposed	2021/22 Proposed
<b>O&amp;M Positions</b>			
Regular Full Time Positions	1,622	1,622	1,623
District Temporary Positions	21	41	35
<b>Total O&amp;M</b>	<b>1,643</b>	<b>1,663</b>	<b>1,658</b>
<b>Capital Positions</b>			
Regular Full Time Positions	285	285	284
District Temporary Positions	2	2	2
<b>Total Capital</b>	<b>287</b>	<b>287</b>	<b>286</b>
<b>GRAND TOTAL</b>	<b>1,930</b>	<b>1,950</b>	<b>1,944</b>

Totals may not foot due to rounding.

## CAPITAL INVESTMENT PLAN

Estimated expenditures for the Capital Investment Plan (CIP) which includes Minor Capital Projects are \$225.0 million in both FY 2020/21 and FY 2021/22, or \$450 million over the biennium. The proposed budget assumes that CIP expenditures will be 90 percent of planned spending of \$500 million, or \$450 million, over the biennium. CIP expenditures are anticipated to be funded by current operating revenues (i.e., PAYGO) and by issuing new revenue bonds. FY 2020/21 estimated expenditures for CIP are \$25.0 million higher than FY 2019/20 CIP estimated expenditures.

The largest area of expenditures in the FY 2020/21 and FY 2021/22 CIP is Infrastructure Reliability. It is currently anticipated that infrastructure expenditures will continue to grow as more facilities reach the end of their service life and require rehabilitation and refurbishment.

The CIP is discussed in more detail in the CIP supplemental volume.

### Cash Funded Capital

Overall, the CIP is anticipated to be funded 60 percent by current operating revenues (PAYGO). The PAYGO funding for FY 2020/21 and FY 2021/22 is budgeted at \$135.0 million in each fiscal year.

### Debt Funded Capital

Overall, the CIP is anticipated to be funded 40 percent by revenue bond proceeds. New debt issues are planned in FY 2020/21 in the amount of \$100 million, and in FY 2021/22 in the amount of \$90 million. Given construction funds expected to be available at the beginning of the biennial budget period and planned PAYGO amounts, these bond issues should provide sufficient funds to meet CIP expenditures over the two years.

### Debt Service

For FY 2020/21 and FY 2021/22, Metropolitan plans to issue new revenue bond debt as described above. Debt service payments in FY 2020/21 are budgeted at \$298.7 million and \$307.0 million in FY 2021/22.

Please refer to the section on Capital Financing for additional details on this expense.

## FUND BALANCES AND RESERVES

Metropolitan operates as a single enterprise fund for financial statements and budgeting purposes. Through its Administrative Code, Metropolitan identifies a number of accounts, which are referred to as funds, to separately track uses of monies for specific purposes as summarized in the table below.

The FY 2020/21 budget forecasts a \$33.7 million decrease in reserves by June 30, 2021 and includes the Water Rate Stabilization Fund (WRSF) and the Revenue Remainder Fund. In addition, the Treatment Surcharge Stabilization Fund (TSSF) and the Water Stewardship Fund (WSF) are projected to decrease by \$22.6 million.

The FY 2021/22 budget forecasts a \$49.1 million increase in reserves by June 30, 2022 and includes the WRSF and the Revenue Remainder Fund. In addition, the TSSF is projected to increase by \$6.7 and the WSF is projected to decrease by \$75.6 million.

Fund balances are budgeted to be \$1.28 billion at June 30, 2021. Of that total, \$751.2 million is restricted by bond covenants, contracts, or board policy, and 530.8 million is unrestricted. Fund balances are budgeted to be \$1.31 billion at June 30, 2022. Of that total, \$798.9 million is restricted by bond covenants, contracts, or board policy, and 511.1 million is unrestricted.



On June 30, 2021, the minimum and target levels for the reserve funds are estimated to be \$262.0 million and \$642.3 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about \$422.8 million, about \$160.8 million over the minimum level.

On June 30, 2022, the minimum and target levels for the reserve funds are estimated to be \$276.5 million and \$675.0 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about \$471.9 million, about \$195.4 million over the minimum level.

### Projected Fund Balances, \$ millions

	Restricted	Designated	Unrestricted	Total
<b>2020/21 Proposed</b>				
Operating Funds	426.1	—	—	426.1
Debt Service Funds	197.6	—	—	197.6
Construction Funds	17.7	4.4	—	22.1
Reserve Funds (1)	—	—	422.8	422.8
Rate Stabilization Funds (2)	—	103.6	—	103.6
Trust and Other Funds	109.9	—	—	109.9
<b>Total June 30, 2021</b>	<b>751.2</b>	<b>108.0</b>	<b>422.8</b>	<b>1,282.1</b>
<b>2021/22 Proposed</b>				
Operating Funds	465.0	—	—	465.0
Debt Service Funds	206.7	—	—	206.7
Construction Funds	17.3	4.4	—	21.7
Reserve Funds (1)	—	—	471.9	471.9
Rate Stabilization Funds (2)	—	34.7	—	34.7
Trust and Other Funds	109.9	—	—	109.9
<b>Total June 30, 2022</b>	<b>798.9</b>	<b>39.2</b>	<b>471.9</b>	<b>1,310.0</b>

Totals may not foot due to rounding.

(1) includes Water Rate Stabilization Fund and Revenue Remainder Fund.

(2) includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund

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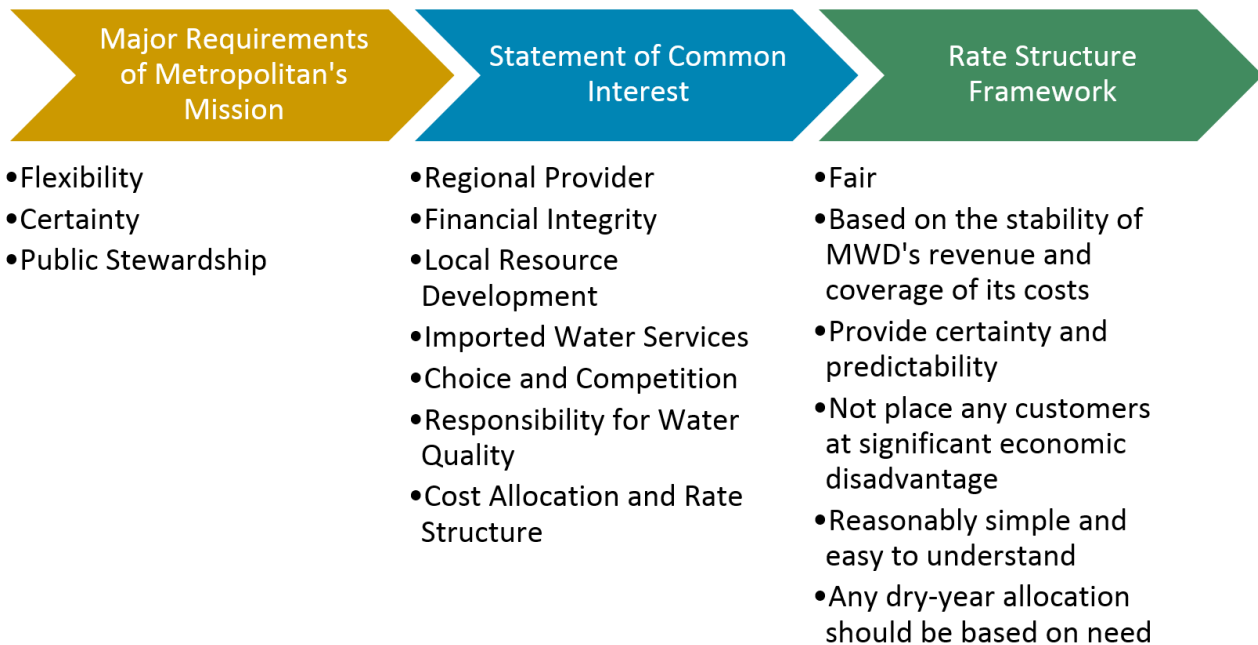
# RATE STRUCTURE OVERVIEW

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## Framework

The Rate Structure Framework evolved through a comprehensive strategic planning process initiated in 1998. As depicted in the following figure, the first step of the process was to identify the “Major Requirements of Metropolitan’s Mission,” which was reflected in the Strategic Plan Policy Principles. The Statement of Common Interests formed the basis of Metropolitan’s strategic plan to address these mission requirements. One of the most important common interests was “Cost Allocation and Rate Structure.” In determining the most appropriate Cost of Service (COS) and rate structure, a set of pricing objectives, or guiding rate principles, was developed. These guiding rate principles defined Metropolitan’s Rate Structure Framework by which various COS and` rate-setting methodologies could be evaluated.

### Development of the Rate Structure Framework



The strategic planning process which established the foundation of the Rate Structure Framework is discussed below.

### Major Requirements of Metropolitan’s Mission

As one of the first steps in the strategic planning process in 1998, the Board developed a list of three mission requirements in its Metropolitan vision statement - flexibility, certainty, and public stewardship:

- **Flexibility.** Metropolitan is aware of the legislative and economic pressures which make flexibility in providing water services for a changing demand and in a competitive water market paramount. Fair compensation for wheeling through Metropolitan’s conveyance systems is an essential element of Southern California’s developing market.
- **Certainty.** The certainty that Metropolitan’s water supply is reliable and that the COS is appropriate is of utmost importance to member agencies and their retailers who are endeavoring to provide not only water, but value to the residents in their service area.
- **Public Stewardship.** As public stewards of much of Southern California’s water supply, Metropolitan and its member agencies are responsible for making certain that the water is provided in a cost-effective and environmentally sound manner.

## Statement of Common Interests

From the strategic planning mission requirements, the Board developed a list of seven areas of common interest that formed the major focus elements of the Metropolitan strategic plan:

- **Regional provider.** This area includes the concerns of protecting regional infrastructure and providing service during drought periods. Regional water must be provided to meet the needs of the member agencies, and water supplies must be equitably allocated during drought periods based on the Water Surplus and Drought Management Plan principles.
- **Financial integrity.** It is a common interest of the members for Metropolitan to assure the financial integrity of the agency in all aspects of its operations.
- **Local resource development.** Metropolitan supports local resources development by working in partnership with its member agencies and by providing member agencies with financial incentives for water conservation and for local projects.
- **Imported water service.** Metropolitan is responsible for providing imported water to meet the committed needs of its member agencies.
- **Choice and competition.** After Metropolitan provides imported water for the member agencies’ committed demands, a member agency can choose the most cost-effective additional water supplies for its customers. These choices include either Metropolitan, local resource development, market transfers, or some combination of these secondary options. Metropolitan and its member agencies can decide how to provide these additional supplies collaboratively while balancing local, imported, and market opportunities with affordability.
- **Responsibility for water quality.** Metropolitan must advocate source water quality and implement in-basin water quality for the imported water it supplies. This is necessary to guarantee compliance with primary drinking water standards and to meet the water quality requirements for water recycling and ground water replenishment.
- **Cost allocation and rate structure.** The framework for a revised rate structure will be established to address allocation of costs, financial commitment, unbundling of services, and fair compensation for services including wheeling, peaking, growth, and others.

## Rate Structure Framework

A major element of common interest was “*Cost Allocation and Rate Structure.*” In addressing this element a set of pricing objectives, or guiding rate principles, had to be developed to evaluate alternative COS and rate setting approaches, or methodologies. As a result, the Board adopted a set of rate principles which was defined as the *Rate Structure Framework*. The Rate Structure Framework provided the principles for the Strategic Planning Steering Committee to develop a preferred rate structure. The Rate Structure Framework includes the following principles:

- The rate structure should be *fair*;
- It should be based on the *stability* of Metropolitan’s revenue and coverage of its costs;
- It should provide certainty and predictability;
- It should not place any customers at *significant economic disadvantage*;
- It should be reasonably *simple and easy to understand*; and
- Any dry-year allocation should be *based on need*.

The 2001 COS and rate structure was adopted by the Board to address the Rate Structure Framework.

## RATE STRUCTURE DESIGN

The elements of the rate structure, and the rates and charges for calendar year 2020, 2021, and 2022 are summarized in Table 14.

Table 14. Rate Elements

Rate Design Elements	Functional Costs Recovered	Type of Charge	2020	2021	2022
Tier 1 Supply Rate	Supply, Drought Storage	Volumetric (\$/af)	\$208	\$246	\$247
Tier 2 Supply Rate	Reflects cost of transfers from north of the Delta	Volumetric (\$/af)	\$295	\$285	\$285
System Access Rate	Conveyance/Distribution (Average Capacity), portion of Regulatory/Emergency Storage	Volumetric (\$/af)	\$346	\$374	\$397
Water Stewardship Rate	Demand Management	Volumetric (\$/af)	\$65	—	—
System Power Rate	Power on CRA and SWP	Volumetric (\$/af)	\$136	\$160	\$170
Treatment Surcharge	Treatment	Volumetric (\$/af)	\$323	\$351	\$369
Capacity Charge	Peak Distribution Capacity, portion of Regulatory Storage	Fixed (\$/cfs)	\$8,800	\$11,200	\$12,500
Readiness-to-Serve Charge	Available Conv. & Dist. Capacity, Emergency Storage	Fixed (\$M)	\$136	\$136	\$144

\*Rates and Charges effective January 1st

## Supply Rates

### Purpose

The rate structure recovers supply costs through a two-tiered price structure. The amount of water a member agency may purchase at the lower Tier 1 Supply Rate, which is water within a member agency's Tier 1 maximum, is established by either a purchase order agreement or calculated as 60% of its Revised Base Firm Demand.

#### *Tier 1 Supply Rate*

The Tier 1 Supply Rate is a volumetric rate charged on Metropolitan's water sales that are within a member agency's Tier 1 maximum. The Tier 1 Supply Rate supports a regional integrated approach through the uniform, postage stamp rate. The Tier 1 Supply Rate is calculated as the amount of the total revenue requirement functionalized as supply divided by the estimated amount of Tier 1 water sales.

#### *Tier 2 Supply Rate*

The Tier 2 Supply Rate is a volumetric rate that reflects Metropolitan's cost of purchasing water transfers north of the Delta. The Tier 2 Supply Rate is charged on Metropolitan water sales that exceed a member agency's Tier 1 maximum. The Tier 2 Supply Rate encourages the member agencies and their customers to maintain existing local supplies and develop cost-effective local supply resources and conservation.

### Implementation

Because the Tier 1 maximum is set at a total member agency level and not at a meter level, all system water delivered will be billed at the Tier 1 Supply Rate. Any water delivered that exceeds the Tier 1 maximum will be billed an additional amount equivalent to the difference between the Tier 2 and Tier 1 Supply Rates.

For member agencies without purchase orders and member agencies with purchase orders that accrue a cumulative Tier 2 obligation at the end of year five of the purchase order, the Tier 2 Supply Rate will be applied in the month where the Tier 1 maximum is surpassed on all applicable deliveries. Otherwise, any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any purchase order commitment obligation.

### Benefits

The use of the two-tiered structure for Supply Rates provides several benefits including (1) efficient resource management, and (2) clear price signals to accommodate a water transfer market.

## System Access Rate (SAR)

### Purpose

The SAR recovers the costs of Conveyance, Distribution, and Storage that is used on an average annual basis through a uniform, volumetric rate. All member agencies pay the SAR for access to conveyance and distribution capacity in the Metropolitan system.

### Implementation

The SAR is charged for each acre-foot of water transported by Metropolitan, regardless of the ownership of the water being transported. All users (member agencies and third-party wheelers) using the Metropolitan system to transport water pay the same SAR for the use of the system conveyance and distribution capacity used to meet average annual demands.

As explained further below, the rate for wheeling service which has included the SAR is inapplicable in calendar years 2021 and 2022.

### Benefits

The SAR benefits include: (1) support of a regional approach; (2) accommodates a water transfer market that does not unfairly advantage one user over another; (3) provides a clear linkage between costs and benefits; and (4) establishes a simple approach to recovering the costs of conveyance and distribution functions.

### Water Stewardship Rate (WSR)

#### Purpose

The WSR provided a dedicated source of funding for Metropolitan's demand management function through a uniform, volumetric rate recovered through the end of calendar year 2020. Metropolitan's demand management operations functions include past and future conservation and local resources projects. Because of the uniform benefits conferred on all system users by investments in conservation and local resources, all users of Metropolitan's conveyance and distribution system paid the WSR except for exchange deliveries to SDCWA in calendar years 2018 through 2020.

#### Implementation

The WSR was charged to each acre-foot of water delivered by Metropolitan through the end of calendar year 2020, regardless of the water being transported, except for the noted exchange deliveries. All system users benefit from avoided system infrastructure costs through conservation and local resources development, and from the system capacity made available by investments in Demand Management Programs like Metropolitan's Conservation Program and Local Resources Program. Therefore, all users paid the WSR through the end of calendar year 2020, except on water delivered to SDCWA pursuant to the exchange agreement in calendar years 2018, 2019, and 2020.

Metropolitan's Board suspended the billing and collection of the WSR for calendar years 2018, 2019, and 2020 on exchange deliveries pending Metropolitan's completion of a cost allocation study of its demand management costs. Having completed the demand management cost allocation process, in December 2019 Metropolitan's Board directed staff: (1) to incorporate the use of the 2019/20 fiscal-year-end balance of the Water Stewardship Fund to fund all demand management costs in the proposed FY 2020/21 and 2021/22 biennial budget; and (2) to not incorporate the WSR, or any other rates or charges to recover demand management costs, with the proposed rates and charges for CYs 2021 and 2022. This decision provided the Board additional time to consider a rate design alternative for recovery of future demand management costs.

Therefore, as a result of this Board decision, the WSR is not incorporated in this COS analysis and Report. The full-service rate will not include the WSR element during the biennial period. Further, because the rate at Metropolitan Administrative Code Section 4405(b) for wheeling service to member agencies for a period of up to one year-as defined in Sections 4119 and 4405(a)-includes the Water Stewardship Rate, the rate for wheeling service at Section 4405(b) is deemed inapplicable during that period. Any wheeling service to any member agency pursuant to Section 4405(a) will be provided at a price for the transaction to be agreed upon by Metropolitan and the member agency (as is already the case for wheeling of over one year to member agencies and wheeling of any duration to third parties).

## System Power Rate (SPR)

### Purpose

The SPR recovers the costs of energy required to pump water to Southern California through the SWP and CRA. The cost of power is recovered through a uniform, volumetric rate.

### Implementation

The SPR is applied to all deliveries of Metropolitan water to member agencies. Under Metropolitan Administrative Code Section 4405(b), member agencies pay for actual cost (not system average) of power needed to move the water for wheeling transactions under Section 4405(a). Therefore, the SPR is not applicable to wheeling arrangements. However, as explained above, the rate for wheeling service at Section 4405(b) is not applicable during the biennial time period. Still, it is anticipated that charges for wheeling by any party will include the actual costs of power needed to move water and not the SPR. For example, a third-party wheeling water through the California Aqueduct would pay the variable power cost associated with using the SWP transportation facilities.

### Benefits

The primary benefit of the SPR is that it clearly identifies Metropolitan's average cost of power.

## Treatment Surcharge

### Purpose

The Treatment Surcharge recovers all of the costs of providing treatment capacity and operations through a uniform, volumetric rate per acre-foot of treated water transactions.

### Implementation

The Treatment Surcharge is charged to all treated water transactions.

### Benefits

There are several benefits provided by the treatment surcharge, including that (1) only treated water users pay for the costs of treatment, and (2) by averaging the costs of providing treated water service over the entire system the regional economies of scale are preserved.

## Capacity Charge

### Purpose

The Capacity Charge recovers the costs incurred to provide peak capacity within the Distribution System. The Capacity Charge also provides a price signal to encourage agencies to reduce peak demands on the Distribution System and to shift demands that occur during the May 1 through September 30 period into the October 1 through April 30 period, resulting in more efficient utilization of Metropolitan's existing infrastructure and deferring capacity expansion costs.

### Implementation

Each member agency will pay the Capacity Charge per cubic feet per second (cfs) based on a three-year trailing peak (maximum) day demand, measured in cfs. Each member agency's peak day is likely to occur on different days; therefore this measure approximates peak week demands on Metropolitan.



## Benefits

The Capacity Charge provides several benefits including (1) increasing the overall efficiency of water use, (2) improving the fair allocation of costs among member agencies based upon the demand imposed by each agency, and (3) providing a source of fixed revenue.

## Readiness–To–Serve Charge (RTS)

### Purpose

The RTS recovers the cost of the portion of system that is available to provide emergency service and available capacity during outages and hydrologic variability.

### Implementation

The RTS is a fixed charge that is allocated among the member agencies based on a ten-fiscal-year rolling average of firm demands. Water transfers and exchanges are included for purposes of calculating the ten-year rolling average. The SDCWA Exchange Water transactions are excluded from the calculation of the ten-year rolling average per the terms of the Amended and Restated Agreement between the Metropolitan Water District of Southern California and the San Diego County Water Authority for the Exchange of Water. The Standby Charge is collected at the request of some member agencies that have elected to use the charge as a direct offset to the member agency's RTS obligation.

### Benefits

The RTS provides two major benefits, which includes (1) a better matching of costs and benefits, and (2) a SAR that recovers only those costs associated with providing average annual service.

## Purchase Order Option

The current rate structure allows member agencies to choose to purchase water from Metropolitan by means of a Purchase Order. Purchase Orders are voluntary agreements that determine the amount of water that a member agency can purchase at the Tier 1 Supply Rate. They allow member agencies to purchase a greater amount of water at the lower Tier 1 Supply Rate than would otherwise be authorized by the Administrative Code. In exchange for the higher Tier 1 Maximum, the member agency commits to purchase a specific amount of water (based on past purchase levels) over the term of the agreement. Such agreements allow member agencies to manage costs and provide Metropolitan with a measure of secure revenue.

In November 2014, the Metropolitan Board approved new Purchase Orders effective January 1, 2015 through December 31, 2024 (the "Purchase Order Term"). Twenty-one of the twenty-six member agencies have Purchase Orders, which commit the member agencies to purchase a minimum amount of supply from Metropolitan (the "Purchase Order Commitment").

The key terms of the Purchase Orders include:

- A ten-year term, effective January 1, 2015 through December 31, 2024;
- A higher Tier 1 limit based on the Base Period Demand, determined by the member agency's choice between (1) the Revised Base Firm Demand, which is the highest fiscal year purchases during the 13-year period of fiscal year 1989/90 through fiscal year 2001/02, or (2) the highest year purchases in the most recent 12-year period of fiscal year 2002/03 through 2013/14. The demand base is unique for each member agency, reflecting the use of Metropolitan's system water over time;

- An overall purchase commitment by the member agency based on the Demand Base period chosen, times ten to reflect the ten-year Purchase Order term. Those agencies choosing the more recent 12-year period may have a higher Tier 1 Maximum and commitment. The commitment is also unique for each member agency.
- The opportunity to reset the Base Period Demand using a five-year rolling average;
- Any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any Purchase Order commitment obligation; and
- An appeals process for agencies with unmet purchase commitments that will allow each acre-foot of unmet commitment to be reduced by the amount of production from a local resource project that commences operation on or after January 1, 2014.

Member agencies that do not have Purchase Orders in effect are subject to Tier 2 Supply Rates for amounts exceeding 60 percent of their base amount (equal to the member agency's highest fiscal year demand between 1989-90 and 2001-02) annually.

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# UNDERSTANDING THE LAYOUT OF THE DEPARTMENTAL BUDGET

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## DEPARTMENTAL/GROUP BUDGET

The Departmental Section provides detailed information about the Operations and Maintenance (O&M) budget of each group and department and consists of the following:

### Mission

Describes, at a high level, the scope of the organization's functions.

### Programs

Describes the organizations roles and responsibilities by program or section and provides a summary organizational chart.

### Goals & Objectives

Summarizes the goals & objectives each organization proposes to accomplish in the upcoming fiscal years.

### O&M Financial Summary

Provides a summary of the organization's O&M budgets. For FY 2018/19 and FY 2019/20, O&M expenditures are identified by expense categories such as salaries and benefits, professional services, and "other" expenditures and incorporate the group objectives.

### Expense Category

<b>Category</b>	<b>Description</b>
<i>Salaries and Benefits</i>	Labor costs and fringe benefits for Metropolitan's regular, district temporary, and agency temporary employees. Total salaries and benefits, direct charges to capital, and O&M salaries are shown.
<i>Professional Services</i>	All costs associated with work performed by outside contractors and consultants.
<i>Operating Equipment</i>	Costs associated with the purchase of capitalized portable equipment, including automobiles, trucks, servers, and other applicable portable equipment.
<i>Other</i>	Cost of purchasing chemicals, materials and supplies, reprographics, travel, telephone, and other necessary items for effective operation of Metropolitan. A breakdown has been provided to itemize those expense categories that are five percent or more of the "other" category.

## O&M Budget by Section

Provides a summary of the organization's O&M budget and personnel count by section or program.

## Personnel Summary

Provides a breakdown for the organization of total personnel involved in O&M and capital work.

## Budget Highlights

Identifies the major factors of the budget variance over the biennium as well as any significant changes by budget year.

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# OFFICE OF THE GENERAL MANAGER

The Office of the General Manager manages and administers all Metropolitan activities except those functions specifically delegated by statutes and Board order to the General Counsel, General Auditor, or Ethics Officer.

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## PROGRAMS

The Office of the General Manager is responsible for the management and administration of Metropolitan's activities including the management of all matters pertaining to the business of the Board and research on actions and policies of the Board by staff for directors, member agencies, and the public.

the Office of the General Manager. It is now a separate group. Also, the Board Support Team is now under the Chief Administrative Officer.

The Board of Directors provides policy and direction as the governing body of the Metropolitan Water District.

The reporting structure of the Office of the General Manager is reflected below. In the prior biennial budget, Bay Delta Initiatives was reflected under



## GOALS AND OBJECTIVES

The following strategic priorities in the General Manager’s Business Plan reflect the funding emphasis in the proposed budget and highlight items that will be the focus of Board and staff attention over the next two years.

### Strategic Priority #1: Resiliency

Resiliency is about making sure our staff, systems, and infrastructure are strong and can return to service quickly in a business interruption. For example, are we prepared for an extended drought, a major earthquake, or other large scale disruption to routine business operations? The focus in this budget is on training, leadership development, and other efforts to support succession planning to strengthen and increase the diversity in the workforce, and on capital spending to build infrastructure reliability and redundancy.

#### Succession Planning

Ultimately, Metropolitan’s continued success and strength depends on a skilled and experienced workforce. The proposed biennial budget supports our succession planning efforts. We must continue to develop, train, mentor, and support staff at all levels. In 2018, roughly 50 percent of the workforce was eligible to retire. We have a successful history of filling about 90 percent of management and leadership positions and 70 percent of advanced journey positions from within the organization. The proposed biennial budget recognizes how important sound succession planning is and accounts for continued training and development of our workforce.

#### Capital Planned Spending

Capital spending includes necessary projects for replacement and refurbishment of aging infrastructure, strengthening of infrastructure to better withstand earthquakes, improvements in the redundancy and integration of systems, and replacement of end-of-life systems. Capital planned spending total \$500 million over the biennial period. Metropolitan’s ability to maintain a high level of service and readiness to the member agencies underpins our resiliency.

### Strategic Priority #2: Sustainability

Sustainability is about charting a long-term course that addresses some of the challenges before us: climate change, aging infrastructure, contaminants of emerging concern, and affordability of water supplies.

#### Integrated Water Resources Plan (IRP) Update

Twenty-five years after the first IRP was adopted, the 2020 IRP Update will frame challenging policy discussions for the Board to deliberate. Fundamentally, the 2020 IRP update will define the role of imported water, local resources, and conservation to meet evolving challenges. For the first time, the IRP will contemplate a future where the region’s demand for imported water may be decreasing.

#### Delta Conveyance

Stabilizing the reliability of existing supply from the State Water Project through a Delta conveyance project must remain a strong policy focus. This continued effort is supported by the proposed biennial budget. The focus over the next two years will be supporting the California Department of Water Resources as it seeks permits for a Delta conveyance project; participating in the Delta Conveyance Design and Construction Authority in its role; and continuing to put forward sound scientific research to help inform and improve Delta management decisions. The proposed budget provides \$50 million to fund Metropolitan’s planned contribution for Delta conveyance project planning activities.

#### Regional Recycled Water Program

The proposed budget includes \$30 million for preparation of a programmatic environmental impact report, which is the next step before the Board will be fully informed and ready to make a decision on if, how, and when to proceed with further investments in this project.

## **Metropolitan Finances**

Determining the right mix of revenues for a sustainable future was also discussed at the Board Retreat in October. There is a great deal of history and policy embedded in the design of the current rate structure, which was last looked at in its entirety starting in 1998. The reasons for changing the rate structure then are different than the reasons that may warrant a review of the rate structure today. The incentives built into the current rate structure may or may not be the most appropriate to accomplish the goals that will flow from the IRP Update. Metropolitan will begin a review of the current rate structure in 2020 with a goal of adopting any changes to the rate structure by the end of 2021.

## **Strategic Priority #3: Innovation**

Innovation is about continuing Metropolitan's long tradition of creatively solving difficult challenges. A recent Water Research Foundation report highlighted Metropolitan as one of the most impactful water utilities in the nation. This is in large part due to our skilled and dedicated staff. As the workforce changes, it is very important that we actively engage new employees by sharing Metropolitan's history of regional cooperation, its diverse, inclusive, and fair culture; discussing the challenges ahead and how we will overcome them; and most importantly, soliciting their innovative ideas about how Metropolitan can continuously improve its operations and business processes.

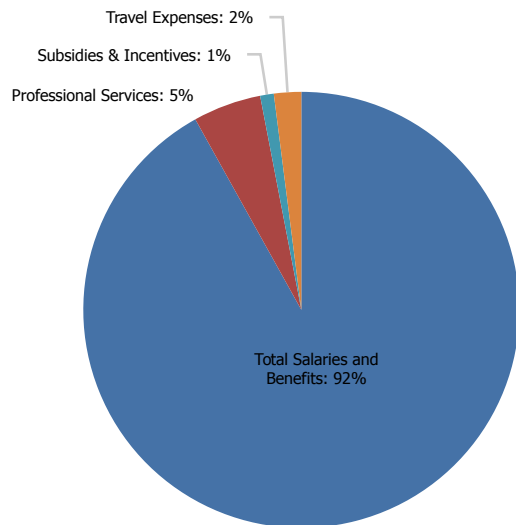


## O&M FINANCIAL SUMMARY

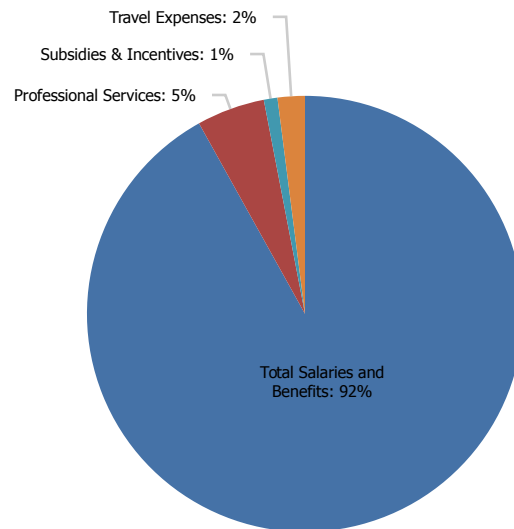
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	4,756,900	4,566,900	5,050,500	483,600	5,269,400	218,900
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>4,756,900</b>	<b>4,566,900</b>	<b>5,050,500</b>	<b>483,600</b>	<b>5,269,400</b>	<b>218,900</b>
% Change		(4.0%)		10.6%		4.3%
Professional Services	288,900	345,000	300,000	(45,000)	300,000	—
Conferences & Meetings	14,000	25,500	26,500	1,000	26,500	—
Materials & Supplies	6,600	16,500	11,000	(5,500)	11,000	—
Subsidies & Incentives	47,400	46,800	50,700	3,900	50,700	—
Travel Expenses	135,400	165,100	101,200	(63,900)	101,200	—
Other Accounts	20,000	58,400	10,700	(47,700)	10,700	—
<b>Total O&amp;M</b>	<b>5,269,200</b>	<b>5,224,200</b>	<b>5,550,600</b>	<b>326,400</b>	<b>5,769,500</b>	<b>218,900</b>
% Change		(0.9%)		6.2%		3.9%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 BUDGET BY EXPENDITURE



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>13</b>	<b>13</b>	<b>13</b>	—	<b>13</b>	—
	O&M	13	13	13	—	13	—
	Capital	—	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	—	<b>—</b>	—
	O&M	—	—	—	—	—	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>13</b>	<b>13</b>	<b>13</b>	—	<b>13</b>	—
	O&M	13	13	13	—	13	—
	Capital	—	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Office of the General Manager’s O&M Biennial Budget is \$5.6 million in FY 2020/21 and \$5.8 million in FY 2021/22 or an increase of 6.2% and an increase of 3.9% respectively from the prior budget years. The main factors affecting these changes:

- Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.
- Non-labor expenses are decreasing by about 24% primarily in the areas of travel and professional services.

The following are the significant changes by budget year.

### FY 2020/21

#### Personnel–related issues

Total personnel count remains flat with the FY 2019/20 budget.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget for professional services is decreasing due to shifting two professional services contracts to other appropriate groups.

#### Other

The budget for travel is decreasing due to trend in less required travel.

### FY 2021/22

#### Personnel–related issues

Total personnel count remains flat with the FY 2020/21 budget.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget for professional services remains flat with the FY 2020/21 budget.

#### Other

The budget for travel and other O&M remains flat with the FY 2020/21 budget.

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# BAY DELTA INITIATIVES

Bay Delta Initiatives advances proposed Delta improvements and the pursuit of the best scientific research to protect and restore fish, wildlife, and the Delta's ecosystem to ensure water supply reliability.

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## PROGRAMS

Bay Delta Initiatives (BDI) is responsible for overseeing efforts to secure a reliable water supply from the State Water Project through environmental and water supply improvements in the Sacramento-San Joaquin River Delta.

BDI's core business aims to develop and pursue near- and long-term solutions that will ensure improved water quality and water supply reliability. Efforts include pursuing and providing leadership for proposed Delta improvements, environmental restoration efforts, on-going federal and state Bay-Delta regulatory permitting, studies

and research activities that promote collaborative science, opportunities to improve Delta conditions utilizing Metropolitan's Delta Islands including monitoring Delta levee's performance to ensure long-term levees integrity.

[Office of the Bay Delta Initiatives Manager](#) provides overall direction in the management of the group's initiatives and core business, implements the group's strategic priorities, oversees the financial management and budgetary processes, and ensures proper administration of its collaborative science efforts.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, BDI will focus on the following key issues:

### Delta Conveyance and EcoRestore

Provide a leadership role in pursuing the state's Proposed Delta Improvements, including the new Delta conveyance and California EcoRestore.

Continue to participate in public negotiations for the Delta conveyance cost allocation and collaborate with key stakeholders in negotiating and establishing the appropriate funding approach.

Collaborate with the Department of Water Resources and other agencies in the preparatory work for Delta conveyance environmental planning.

Continue to stay involved in Delta Conveyance Design and Construction Authority exchange of information and ideas for the consideration of project engineering and design approaches to inform the environmental review process.

Work with various agencies to identify, develop, and implement habitat restoration projects that promote the goals of California EcoRestore such as tidal marsh restoration, setback levee, fish passage improvements, and fish rescue facility.

### Regulatory, Planning, and Legislative Support

Provide policy and technical support for the processes related to State and Federal Endangered Species Act permitting for the State Water Project.

Provide policy and technical support to negotiate Voluntary Agreements with upstream and export water users to secure regulatory Water Quality Control Plan and water rights permitting by the State Water Resources Control Board.

Participate in Delta Stewardship Council processes including attending meetings, reviewing and providing comments on documents, and collaborating with water contractors and others on relevant issues that help protect the interests of Metropolitan.

Provide technical support for outreach efforts and coordination on related initiatives, and support in the review and analysis of Delta-related legislation.

### Science Development

Participate in collaborative science processes through research and studies for the protection of endangered species, management of fish and wildlife species, and the protection and enhancement of ecosystem habitat throughout the Delta for the purpose of securing water supply reliability.

Participate in the Bay-Delta science community by providing input to the Collaborative Science and Adaptive Management Program, including supporting the Collaborative Adaptive Management Team. Provide input in the review of technical work products, workplan development, and discussion of relevant issues that may influence key Delta regulations and policies.

Identify opportunities for collaboration on science related activities including attending and conducting presentations at workshops, symposiums, and conferences to promote efforts that Metropolitan has a vested interest in, and to strengthen the overall Delta science program.

Continue participating in Interagency Ecological Program (IEP) stakeholder meetings to provide updates on on-going studies, develop collaborative partnerships for future studies, and discuss strategies to implement the IEP workplan.

Continue to engage in processes related to independent scientific peer review and present scientific findings to stakeholders. Explore opportunities to publish results of scientific studies supported by Metropolitan in industry recognized publications.

Pursue collaborative partnerships with state and federal water contractors, agencies; associations; and academic institutions to promote scientific research efforts.

Manage updates and improvements related to the web-based scientific application (Bay-Delta Live) to sustain continuous open and transparent sharing of information on the complex and dynamic ecosystem of the Sacramento-San Joaquin Bay Delta for that serve as a tool for meaningful stakeholder discussions and regulatory consideration. Implement scientific research for selected pilot projects using Metropolitan's Delta Islands.

## Delta Islands Management

Collaborate with other parties to manage the Delta Islands properties and explore sustainable land management alternatives that are consistent with the state's co-equal goals of a restored Delta and a reliable water supply for California.

Continue the implementation of required Senate Bill 88 Measurement Regulations compliance actions in the Delta Islands including assessment of varying metering technologies, data collection, and further documentation of field conditions, costs, and device measuring accuracy levels.

Pursue grant funding opportunities that will help the long-term water needs of the state and meet Metropolitan board policies of developing subsidence reversal, sustainable agricultural risks, and advancing ecosystem restoration actions.

## Emergency Preparedness, Planning and Implementation

Collaborate with state and other agencies in promoting efforts that will reduce seismic risks by ensuring levees integrity.

Continue to support work being implemented by the DWR, the U. S. Army Corps of Engineers, and other parties within the Delta for advancements in emergency preparedness including operational coordination, communication, and assessment in response to potential levee breaches in the Delta region.

Closely monitor the status of California Department of Water Resources' program to acquire piles, rocks, enclosures, and other materials to ensure closure of the deepest levee breaches and for a redundant measure to rock closures in emergency conditions.

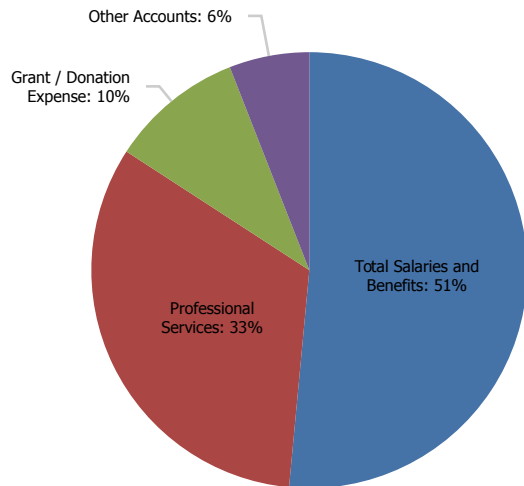
Pursue the Delta Levee Instrumentation and Monitoring Pilot Project to ensure vital assessment of levee performance in the short- and long-term to guide systematic levees safety remediation.

## O&M FINANCIAL SUMMARY

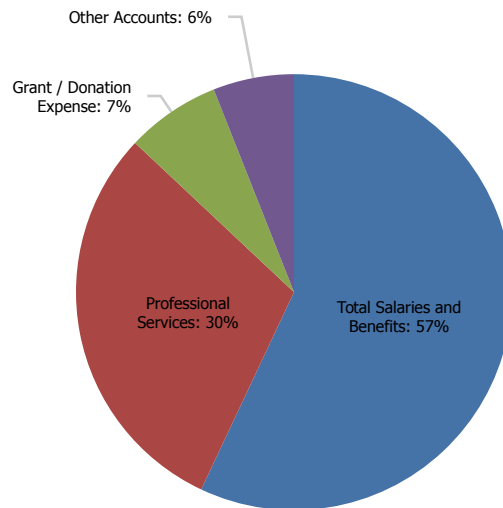
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	4,781,400	4,975,400	5,246,100	270,700	5,542,200	296,100
Direct Charges to Capital	—	(93,100)	(28,900)	64,200	—	28,900
<b>Total Salaries and Benefits</b>	<b>4,781,400</b>	<b>4,882,300</b>	<b>5,217,200</b>	<b>334,900</b>	<b>5,542,200</b>	<b>325,000</b>
% Change		2.1%		6.9%		6.2%
Professional Services	2,648,200	4,525,000	3,317,400	(1,207,600)	2,883,200	(434,200)
Equipment Expensed	5,800	2,000	185,800	183,800	243,300	57,500
Grant / Donation Expense	246,300	525,000	986,900	461,900	714,700	(272,200)
Travel Expenses	219,600	173,300	286,000	112,700	204,300	(81,700)
Other Accounts	70,100	138,600	102,700	(35,900)	121,600	18,900
<b>Total O&amp;M</b>	<b>7,971,400</b>	<b>10,246,200</b>	<b>10,096,000</b>	<b>(150,200)</b>	<b>9,709,300</b>	<b>(386,700)</b>
% Change		28.5%		(1.5%)		(3.8%)
Operating Equipment	9,600	—	—	—	—	—
<b>Total O&amp;M and Operating Equipment</b>	<b>7,981,000</b>	<b>10,246,200</b>	<b>10,096,000</b>	<b>(150,200)</b>	<b>9,709,300</b>	<b>(386,700)</b>
% Change		28.4%		(1.5%)		(3.8%)

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 BUDGET BY EXPENDITURE



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>—</b>	<b>17</b>	<b>—</b>
	O&M	17	17	17	—	17	—
	Capital	—	1	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>(1)</b>	<b>—</b>	<b>—</b>
	O&M	—	1	—	(1)	—	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>17</b>	<b>18</b>	<b>17</b>	<b>(1)</b>	<b>17</b>	<b>—</b>
	O&M	17	18	17	(1)	17	—
	Capital	—	1	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Bay Delta Initiatives' O&M Biennial Budget is \$10.1 million in FY 2020/21 and \$9.7 million in FY 2021/22 or a decrease of 1.5% and a decrease of 3.8% respectively from the prior budget years. The main factors affecting these changes:

- Staffing is decreasing by one district temporary position that was supporting emergency preparedness, planning and implementation related to ensuring the integrity of levees in the Delta. This effort is continuing with internal and consultant resources.
- Professional services reflect a decrease due to the deferral of some pilot and science studies and other near-term efforts. Some studies that may be deferred include paludiculture and regenerative pilot studies, science studies on salmon survival and hydrodynamic modeling, and other near-term efforts.
- Grant expense reflects an increase in funding to continue the advancement of efforts on collaborative science through various state, other agencies, and academic institutions.
- Equipment Expensed shows an increase in funding to allow for purchase of equipment not categorized as operating equipment for use in enhanced levee instrumentation and monitoring research in the Delta.

The following are the significant changes by budget year.

### FY 2020/21

#### Personnel-related issues

Total personnel count decreased by one district temporary position that was terminated in 2019.

Capital labor is budgeted as ten percent of one regular FTE for the Delta Islands regulatory compliance project (Senate Bill 88).

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget reflects required funding for activities related to Bay Delta science, general state and federal coordination, regulatory support, Delta Islands operations, regulatory activities, modeling, emergency preparedness including levee instrumentation and monitoring, and Delta conveyance technical assistance in DWR's environmental planning.

#### Grant Expense



The grant-related expense budget is for Metropolitan's cost share contributions to state, other agencies, and academic institutions that pursue studies that are of interest to Metropolitan.

The increase in grant/donation expenses could also be attributed to a surge in state grant opportunities in recent years that allow agencies to work together and provide cost shares in order to pursue studies that are of interest to all stakeholders. The studies normally run from two to three years.

### Travel Expenses

Increase in budget is intended to cover anticipated costs of round trip coach air fares, lodging, meals and various related costs for staff that are required to travel for business. Other additional travel budget is due to increased cost of lodging in Sacramento where staff normally travels. Also included are costs for staff's out of state travel for training and other trips such as those related to Colorado River activities that are supported by some Bay Delta staff.

### Equipment Expensed

The budget reflects the purchase of various pieces of survey equipment that were not categorized as operating equipment. Use of this equipment will allow for a better understanding of levee performance in the Delta, and along the Middle River Emergency Freshwater pathway, which will guide systematic levee safety remediation.

### Other

The budget is for funding District validated parking for Bay Delta Sacramento staff, subsidies and incentives, materials and supplies, training and conferences, membership and subscriptions, mainly for open-access publication of science-related manuscripts resulting from the various science studies, one vehicle lease, and communication expenses.

## FY 2021/22

### Personnel-related issues

Total personnel count remains flat from the FY 2020/21 budget.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Professional Services

The budget reflects a reduction in funding due to the anticipated completion of some of the efforts that are pursued from the previous year.

### Grant Expense

The budget reflects a reduction of Metropolitan funding for science cost share agreements due to anticipated completion of some efforts that started the previous year.

### Travel Expenses

The budget reflects a decrease in weekly staff travel between Los Angeles and Sacramento due to a potential shift in staff resources.

### Equipment Expensed

The budget reflects purchase of remaining survey equipment that is anticipated to be installed during this fiscal year.

### Other

The budget reflects an increase in funding for open-access publication of science-related manuscripts resulting from the studies that are anticipated to be completed during the year.

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# WATER SYSTEM OPERATIONS

Water System Operations (WSO) reliably treats and delivers high-quality water to Metropolitan's member agencies in an efficient, sustainable, and environmentally responsible manner.

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## PROGRAMS

Water System Operations treats and delivers water from the Colorado River and the State Water Project (SWP) through a raw water conveyance system, five treatment plants, and an extensive treated water distribution network. This flexible system provides reliable deliveries to the member agencies and moves available supplies and storage reserves to meet Metropolitan's mission. Water quality remains paramount and all functions focus on surpassing drinking water standards in a safe and economical way.

WSO accomplishes its mission through the following programs or sections:

**Office of the Group Manager** provides day-to-day operational management as well as strategic and organizational leadership, directing all initiatives and core business efforts of WSO. The office also provides support functions such as budgeting and administration, and coordinates and engages in regulatory and legislative activities. Additionally, a new unit has been added to provide oversight for the group on capital and operational project delivery, asset management, and member agency service connection requests.

**Operations Support Services** provides a diverse range of support to Metropolitan's core operational reliability functions and, on a reimbursable basis, to public entities such as DWR and member agencies. The Manufacturing Services unit performs fabrication, machining, coating, valve and pump refurbishment, underwater maintenance, and crane safety and certification. Construction Services unit performs general construction, large equipment transportation, equipment installation, and emergency response. The Power & Equipment Reliability unit provides maintenance services which include: predictive, preventive, and

corrective maintenance analysis for critical equipment, including all treatment plants, pumping plants, hydroelectric power plants, pressure control structures, high voltage equipment, and heating, ventilation, and air conditioning (HVAC) systems. The Fleet Services unit acquires and maintains vehicles, construction equipment, aircraft, and emergency generators.

**Water Treatment** operates and maintains five water treatment plants with a combined capacity of over 2.3 billion gallons per day. The section oversees treatment processes to ensure high-quality water is reliably produced that complies with drinking water regulations. All five treatment plants are staffed and operated 24 hours a day, seven days a week to meet about half of Metropolitan's annual deliveries. All five of the treatment plants (Jensen, Mills, Skinner, Weymouth and Diemer) have been retrofitted to use ozone as the primary disinfectant.

**Water Conveyance and Distribution** meets delivery requirements of member agencies by moving water throughout Metropolitan's 5,200 square mile service area and performing a wide range of operations and maintenance activities to ensure system reliability. This work encompasses the Colorado River Aqueduct (CRA) system and its five pumping plants as well as the distribution system of about 830 miles of pipelines, approximately 350 service connections to member agencies, 16 hydroelectric plants, and 9 storage and regulatory reservoirs that help Metropolitan meet peak flow periods and provide dry year and emergency supply reliability. These functions are separated into two sections: one for the desert region, and one for the eastern and western regions of the service area.

**Water Quality** ensures that Metropolitan provides safe and aesthetically pleasing water through the following activities: conducting chemical and biological analyses; optimizing existing treatment processes; testing new technologies to assure compliance with current and future regulations; and providing technical expertise, laboratory services, and troubleshooting of water quality issues for Metropolitan and its member agencies. Water Quality also works to preserve and improve source water quality through rigorous watershed surveys and advocate for measures to reduce the risk of point and non-point source pollution. The section is also advancing water reuse opportunities through operations and testing at the Regional Recycled Water Advanced Purification Center.

**Water Operations and Planning** plans and implements the movement and use of water resources. These plans incorporate infrastructure and supply limitations, agency demands, changing water quality requirements, and storage program economics. Operational scenarios that encompass a broad range of potential supplies and demands are developed and refined on a weekly basis throughout the year. This process prepares WSO for a wide variety of possible outcomes as the year develops while maintaining reliable deliveries and balancing management of water storage reserves at reasonable cost.

In addition, the section programs and maintains Metropolitan's automated control system, known as the Supervisory Control and Data Acquisition (SCADA) system.

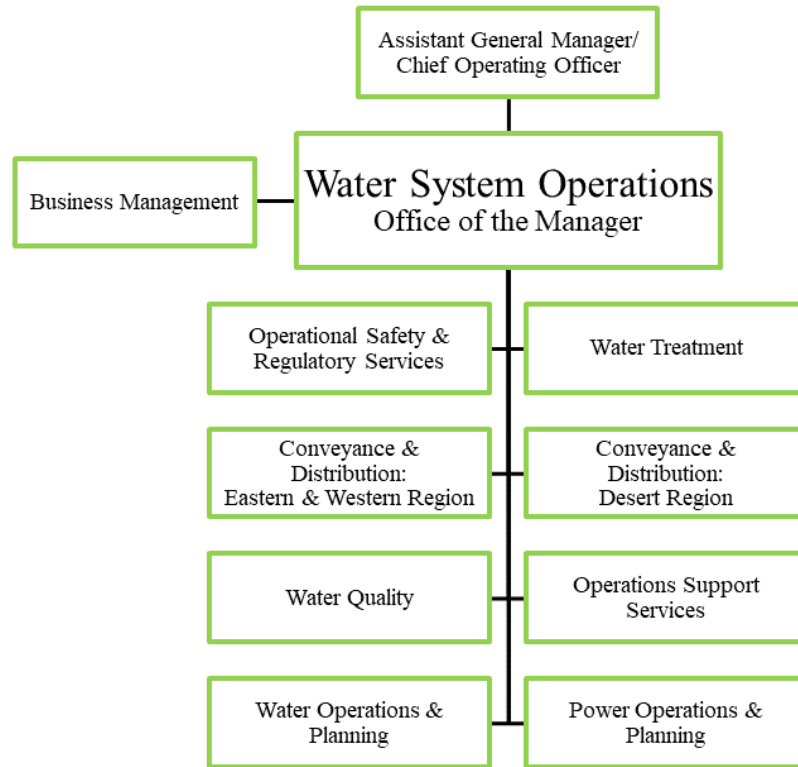
**Operational Safety and Regulatory Services** is responsible for ensuring a safe working environment for employees through programs and training, ensuring business operations are

conducted in an environmentally responsible way, and complying with all regulatory and occupational health and safety rules and requirements. The section integrates environmental, health and safety practices into Metropolitan's operations and culture with the goal of achieving a safe work place and eliminating regulatory incidents.

In addition, the section manages technical skills training for maintenance craft employees and sponsors an accredited apprenticeship program which is a cornerstone of WSO's proactive succession planning efforts. This is done by training industrial mechanics and electricians over a four-year period of classroom and hands-on instruction.

**Power Operations and Planning** plans, acquires and accounts for the energy required to operate the CRA. This activity includes energy transactions with electric utilities and marketers. The section also negotiates and manages the contracts and energy accounting of renewable energy credits and greenhouse gas allowances for 16 small hydroelectric power plants and the CRA.

In addition, the section is responsible for most wholesale energy activities including evaluation of proposed energy-related regulations and legislation; analysis of state and regional transmission plans and impacts to the CRA transmission system; and reporting on compliance with regional and national electric reliability standards. Finally, the section works closely with energy staff at DWR on energy and transmission issues for the SWP.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, WSO will focus on the following key issues:

### System Reliability

Manage and maintain the water system to ensure operational reliability for all reasonably expected demands.

Develop and distribute the annual operating plan and manage water storage to provide the greatest delivery flexibility and cost effectiveness. Build on strategies such as employing operational flexibility to mitigate future drought condition impacts on water availability.

Plan, schedule, and execute the Annual Shutdown Plan to ensure reliable operation of the water delivery system, including a strategy to manage longer shutdowns to support the refurbishment of prestressed concrete cylinder pipelines.

Maintain eight-pump flow readiness on the CRA and manage storage accounts to capture all available Colorado River supplies in concert with water supplies from other sources.

With member agency and regional partners, develop new water supplies to supplement the core SWP and Colorado River supplies including groundwater recovery, ocean desalination, and potable reuse.

Support the Regional Recycled Water Program by achieving regulatory acceptance for the process design. Conduct demonstration testing and perform optimization studies.

Support the Colorado River Aqueduct Main Pump Reliability Program, including detailed inspections of pumps, components and support systems.

Participate with the California Department of Water Resources (DWR) on value-engineering efforts to ensure cost-effective rehabilitation of SWP conveyance, pumping, and generation facilities.

Fully utilize the manufacturing shops in La Verne to maintain Metropolitan's infrastructure reliability and support projects for DWR and the member agencies.

Partner with Engineering Services and Information Technology groups to develop and implement a comprehensive Asset Management Plan.

Partner with other groups to develop and implement an Energy Sustainability Plan that will define strategies to increase operational flexibility, and reduce energy costs and greenhouse gas emissions.

Continue the multi-year upgrade of the SCADA system to maintain and improve the ability to remotely operate the conveyance, distribution, and treatment systems.

Conduct emergency response exercises involving internal operational groups, member agencies, and other emergency response agencies.

### Workforce Development & Succession Planning

Conduct an annual Management Academy program to improve internal recruitment pool for entry-level supervisors.

Recruit and begin training a new apprentice class each year for the mechanical and electrical trades.

Provide continuing education classes for licensed water treatment and distribution operators that are tailored to Metropolitan's procedures and facilities.

### Water Quality, Environmental Protection, and Safety

Meet or surpass all drinking water standards and ensure delivery of aesthetically pleasing water.

Engage in the regulatory process to ensure full consideration of technical and economic feasibility for drinking water and environmental regulations.

Engage watershed stakeholders and regulators to ensure effective control of source water contaminants such as uranium, perchlorate, chromium, nutrients, and cyanotoxins.

Provide safety and regulatory services to ensure safe work practices and adhere to environmental and workplace health and safety regulations.

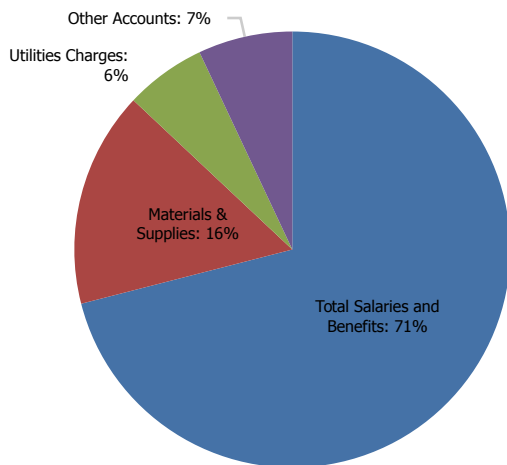
Increase monitoring of quagga mussels in the west and east branches of the State Water Project and prepare quagga mussel control plans.

## O&M FINANCIAL SUMMARY

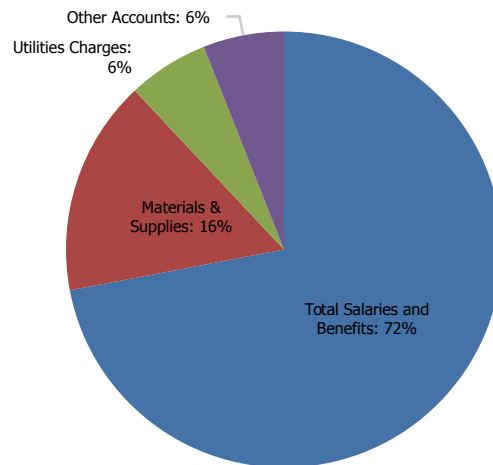
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	175,976,400	182,670,300	195,967,300	13,297,000	206,886,800	10,919,500
Direct Charges to Capital	(10,410,900)	(7,650,200)	(8,452,300)	(802,100)	(8,951,300)	(499,000)
<b>Total Salaries and Benefits</b>	<b>165,565,500</b>	<b>175,020,100</b>	<b>187,515,000</b>	<b>12,494,900</b>	<b>197,935,500</b>	<b>10,420,500</b>
% Change		5.7%		7.1%		5.6%
Professional Services	710,200	1,493,200	1,431,700	(61,500)	2,056,500	624,800
Materials & Supplies	40,392,500	38,288,000	42,691,300	4,403,300	44,231,400	1,540,100
Outside Services - Non Professional / Mainte	6,872,200	6,736,500	7,141,500	405,000	7,187,600	46,100
Utilities Charges	13,538,300	14,868,200	16,335,400	1,467,200	16,650,500	315,100
Other Accounts	10,903,600	8,598,700	8,694,100	95,400	8,627,000	(67,100)
<b>Total O&amp;M</b>	<b>237,982,300</b>	<b>245,004,700</b>	<b>263,809,000</b>	<b>18,804,300</b>	<b>276,688,500</b>	<b>12,879,500</b>
% Change		3.0%		7.7%		4.9%
Operating Equipment	4,618,800	6,000,000	5,997,700	(2,300)	6,000,000	2,300
<b>Total O&amp;M and Operating Equipment</b>	<b>242,601,100</b>	<b>251,004,700</b>	<b>269,806,700</b>	<b>18,802,000</b>	<b>282,688,500</b>	<b>12,881,800</b>
% Change		3.5%		7.5%		4.8%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE

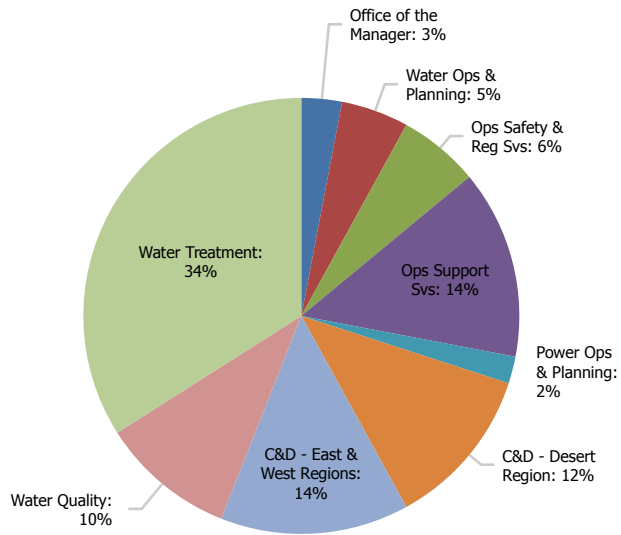


FY 2021/22 Budget by Expenditure

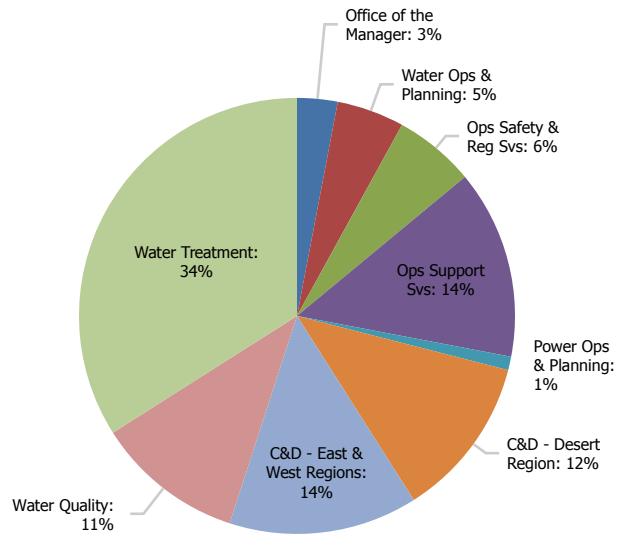


# O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Office of the Manager	5,893,000	7,211,800	1,318,900	7,505,900	294,100	52	21	21
Water Operations and Planning	12,133,400	12,459,100	325,700	13,003,600	544,500	42	40	40
Operational Safety and Regulatory Services	14,827,300	15,669,900	842,600	16,414,100	744,200	55	51	51
Operations Support Services	35,900,000	37,473,900	1,574,000	39,100,800	1,626,900	120	150	150
Power Operations and Planning	3,397,800	4,037,500	639,700	4,107,800	70,300	12	12	12
C&D Section - Desert Region	28,093,800	31,160,200	3,066,400	32,961,200	1,801,100	—	134	134
C&D Section - Eastern & Western Regions	36,392,400	37,371,500	979,100	39,145,100	1,773,500	264	133	133
Water Quality	25,430,900	27,525,600	2,094,700	29,256,600	1,731,000	96	104	102
Water Treatment	82,936,200	90,899,500	7,963,300	95,193,400	4,293,900	277	267	267
<b>Total O&amp;M</b>	<b>245,004,700</b>	<b>263,809,000</b>	<b>18,804,300</b>	<b>276,688,500</b>	<b>12,879,500</b>	<b>918</b>	<b>912</b>	<b>910</b>

Totals may not foot due to rounding.



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>863</b>	<b>940</b>	<b>940</b>	<b>—</b>	<b>940</b>	<b>—</b>
	O&M	817	898	894	(3)	894	—
	Capital	46	43	46	3	46	—
<b>Temporary</b>	<b>Total</b>	<b>24</b>	<b>21</b>	<b>18</b>	<b>(3)</b>	<b>16</b>	<b>(2)</b>
	O&M	23	21	18	(3)	16	(2)
	Capital	1	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>886</b>	<b>961</b>	<b>958</b>	<b>(4)</b>	<b>956</b>	<b>(2)</b>
	O&M	839	918	912	(7)	910	(2)
	Capital	47	43	46	3	46	—

Totals may not foot due to rounding

## BUDGET HIGHLIGHTS

WSO's O&M and Operating Equipment Biennial Budget is \$269.8 million in FY 2020/21 and \$282.7 million in FY 2021/22 or an increase of 7.5% and an increase of 4.8%, respectively from the prior year budgets. The main factors affecting these changes:

- A combination of increased treated water flows, significant increases in chemical commodity prices, and higher chemical dosages needed to treat State Water Project supplies raised the expected chemical costs for water treatment.
- An increase in materials and supplies needed for the repair and maintenance of aging equipment, as well as building and construction materials needed for patrol road maintenance associated with annual storm damage.
- An increase in hazardous waste disposal costs expensed to O&M as a result of increased vendor fees.
- An increase in chemical costs and contract laboratory services to support the Regional Recycled Water Program.
- These increases are offset in part by a reduction in Laboratory Supplies.

The following are the significant changes by budget year.

### FY 2020/21

#### Personnel-Related issues

The number of regular positions remained flat from the FY 2019/20 budget, while temporary labor needs are anticipated to decrease due to the filling of vacant regular positions. Organizational changes were made to better support business objectives, including addressing aging infrastructure and major rehabilitation programs, increased regulatory and compliance requirements, new strategic initiatives as well as supporting WSO's Apprenticeship program.

A unit has been added to oversee capital and operational project delivery for the group asset management initiatives and the service connection program. The Conveyance & Distribution Section has been restructured to provide for a dedicated section manager over Desert facilities and staff.

Organizational changes were made in the Water Quality Section to prepare for new regulations addressing laboratory standards, and for development of potable reuse initiatives through

operations and testing at the Regional Recycled Water Advanced Purification Center.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Materials and Supplies

The budget reflects inflationary pressure anticipated on chemicals and other materials and supplies.

### Non-Professional Services

The budget reflects inflationary increases in labor and fuel costs for services provided in this category such as janitorial, pest control, and inspection services.

In addition, costs for compliance-related contract services increased for environmental and safety equipment, as well as energy regulatory compliance activities for power operations.

### Utilities Charges

The budget reflects an increase in waste disposal costs from facility R&R projects and an increase in expected electrical rates.

### Other

A switch to high capacity circuits resulted in a reduction in Communications Expenses by reducing the amount and types of communications lines needed for both data and phone traffic.

## FY 2021/22

### Personnel–Related issues

Regular personnel count for both O&M and capital work remains flat from the FY 2020/21 budget, while temporary labor needs continue to decrease due to the anticipated filling of vacant regular positions.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Professional Services

The budget reflects an increase in contract laboratory services for demonstration testing and monitoring at the Regional Recycled Water Advanced Purification Center.

In addition, consultant services are required to support the Asset Management program.

### Materials & Supplies

The budget reflects inflationary pressures anticipated on chemicals, fuel pricing and other materials and supplies.

### Non-Professional Services

The budget reflects inflationary increases in labor and fuel costs for services provided in this category such as janitorial, pest control, and inspection services.

In addition, costs for compliance-related contract services increased for environmental and safety equipment.

### Utilities Charges

The budget reflects an increase in waste disposal costs from facility R&R projects and an increase in expected electrical rates.

### Operating Equipment – FY 2020/21 and FY 2021/22

The operating equipment budget is maintained to replace aging fleet and heavy equipment.

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# WATER RESOURCE MANAGEMENT

Water Resource Management (WRM) plans, secures, and manages water resources to provide its member agencies with a reliable, cost-effective, and drought and climate-resilient water supply.

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## PROGRAMS

Water Resource Management manages imported water supplies; advances water-use efficiency; provides supply and demand forecasts foundational for long-term resource planning; and develops and implements timely resource programs and projects.

In addition, Water Resource Management assists member agencies in optimizing local resources to benefit the entire Metropolitan service area, and ensures Metropolitan receives a fair return on contractual investments in local and imported resources.

Water Resource Management accomplishes its mission through the following programs or sections:

**Office of the Manager** directs the group's efforts in planning, securing, and managing Metropolitan's water resources; monitors and tracks the group's business plan, financial and budgetary initiatives; and provides administrative and business process support.

**Resource Planning & Development** is responsible for providing an integrated water supply and demand forecast that will meet the needs of member agencies and reflect their

long-range planning efforts for local supplies, which sets the foundation for Metropolitan's resource mix and local supplies needed to meet demands. This section also supports the development of resource programs, projects, and infrastructure to meet projected resource targets; administers the planning process; defines strategies for meeting service area water needs, including the Integrated Water Resources Plan (IRP) and Water Surplus and Drought Management (WSDM) plan; and develops resource options, such as groundwater conjunctive use, regional recycling, stormwater and seawater desalination; as well as alternatives for short-range planning and implementation through joint action with Water System Operations.

**Resource Implementation** develops and administers water resource programs and contracts, and pursues application of new technologies and innovations. These activities focus on the Colorado River, State Water Project, water transfers, water recycling, groundwater recovery, and water conservation for the region. The Resource Implementation Section also monitors and responds to regulatory, legislative, and operational activities that may influence Metropolitan's water rights and benefits related to the quality, reliability and cost of water.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, WRM will focus on the following key issues:

### Colorado River

Complete the Colorado River Sustainability Study in preparation for negotiations of Colorado River system operations.

Protect Colorado River resources, Metropolitan's Colorado River rights, and optimize the use of available Colorado River water.

Support participation in the Colorado River Salinity Control Forum and facilitate salinity management projects and other actions that protect and improve source water quality.

Partner with other Colorado River water delivery contractors to develop new Metropolitan supplies, including interstate and international water supply programs.

Administer Imperial Irrigation District (IID), Palo Verde Irrigation District (PVID), and proposed Bard Irrigation District agricultural conservation programs.

Work with representatives of the International Boundary and Water Commission and United States Bureau of Reclamation (USBR) to continue implementation of Minute 323 and coordinate emergency deliveries for Tijuana.

Administer contracts with Colorado River entities to make full use of Metropolitan's supplies developed from Colorado River resources. Manage intentionally created surplus supplies to ensure maximum benefit to Metropolitan.

Develop strategies and tools for managing agricultural land holdings in the Palo Verde Valley.

### Groundwater Storage Program

Continue management of nine approved conjunctive use programs to store water for dry-year yield.

Continue facilitation of dialogue among agencies in groundwater management, recycled water production, and stormwater and flood management to enhance groundwater basin recharge.

## Legislative Review

Continue to review and provide comments and inform member agencies on proposed state and federal legislation on water resources issues related to Metropolitan's mission and WRM functions.

## Regional Resources and Water Conservation

Implement Long-Term Water Conservation Plan and new Local Resource Plan (LRP) initiatives to meet state mandated urban water use reduction targets and increase local resource and production. Pursue grant funding to supplement implementation of regional water conservation program initiatives.

Participate in local, state, and national activities leading to expanded use of recycled water and increased water-use efficiency.

Administer agreements that provide incentives for conservation, recycled water, recovered groundwater production, and support development of local resource development projects.

Conduct and fund research to advance local supply development and conservation program effectiveness.

Administer the Future Supply Actions Funding program to remove barriers to local supply production.

Implement stormwater pilot programs with the member agencies to evaluate Metropolitan's participation in stormwater projects.

Develop programs to improve water conservation in disadvantaged communities.

## Seawater Desalination

Continue to support member agency development efforts and actively participate in CalDesal regulatory and legislative initiatives.

## State Water Project

Coordinate implementation of SWP contract amendments including the SWP contract extension, water management amendment and proposed Delta conveyance facility amendment. These

contract amendments will ensure a long-term supply, and effective water management tools to manage the supply and reliability into the future.

Ensure accurate billings and influence sound financial decisions by DWR, including effective DWR energy management practices with regard to renewable energy, emissions reductions, transmission strategies, and energy acquisitions.

Continue to identify and resolve disputed charges related to annual SWP billings.

Protect SWP water, power, and financial positions under the Oroville Federal Energy Regulatory Commission (FERC) relicensing process as well as associated litigation and upcoming FERC relicensing and several DWR facilities in Southern California.

Coordinate and influence decisions for major facility rehabilitations and SWP capital projects to ensure cost-effective and reliable water supply, energy generation, and use.

Promote water quality monitoring and forecasting activities through the Municipal Water Quality Investigations program and raise awareness of potential water quality impacts from operational decisions.

## Water Supply and System Planning

Complete the 2020 IRP and Urban Water Management Plan reflecting Metropolitan's long-term water resources strategy and complete the annual reports on Metropolitan's achievements in conservation, recycling, and groundwater recharge.

Complete the annual forecast of Metropolitan demands to support revenue requirements and budget process.

Use the 2020 IRP forecasts to develop a comprehensive analysis of Metropolitan's distribution system. Identify potential spatial constraints and system improvements to reliably deliver water to member agencies during peak demands, drought, and emergency conditions.

Update emergency storage objective for in-basin protection from earthquake or other outage using revised demand forecast from IRP.

Continue to pursue development of the full-scale Regional Recycled Water Program to increase water reuse and enhance opportunities for groundwater recharge within Metropolitan’s service area.

Upgrade and enhance planning tools, such as computer models for demand forecasting, resource program evaluation, and distribution system.

Participate in state water/energy nexus processes and data access initiatives.

Continue to collaborate with various agencies and stakeholders in statewide and regional water resource planning efforts, such as the California Water Plan Updates and the Integrated Regional Water Management Plans.

Continue work with the Water Utility Climate Alliance to perform case studies on climate data applications to water resources planning.

## Water Transfers, Exchanges, and Storage Programs

Continue to manage existing water transfer, exchange, and storage programs along the California Aqueduct and Colorado River Aqueduct.

Continue to evaluate the need for additional reliability by either developing new programs or modifying existing programs. Pursue additional water transfers, exchanges, and storage programs as needed.

Work with other State Water Contractors on a long-term water transfer permitting process.

## Workforce Development & Succession Planning

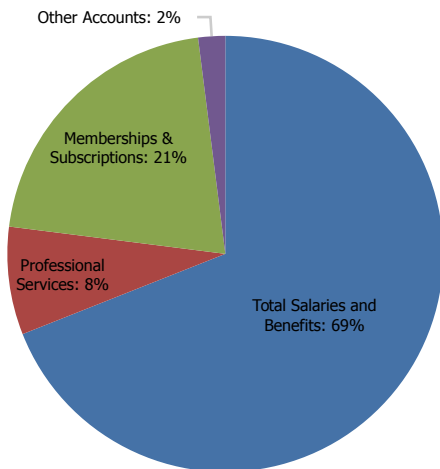
Continue to develop staff expertise in critical areas to prepare for employee retirements or departures.

## O&M FINANCIAL SUMMARY

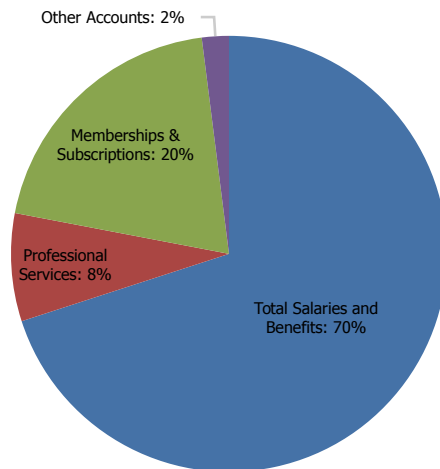
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	14,578,100	16,651,600	16,871,200	219,600	17,823,700	952,500
Direct Charges to Capital	(8,000)	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>14,570,100</b>	<b>16,651,600</b>	<b>16,871,200</b>	<b>219,600</b>	<b>17,823,700</b>	<b>952,500</b>
% Change		14.3%		1.3%		5.6%
Professional Services	1,555,300	1,986,500	2,003,500	17,000	2,012,500	9,000
Memberships & Subscriptions	4,247,700	5,844,900	5,042,600	(802,300)	5,069,600	27,000
Other Accounts	552,600	583,000	454,000	(129,000)	440,400	(13,600)
<b>Total O&amp;M</b>	<b>20,925,700</b>	<b>25,066,000</b>	<b>24,371,300</b>	<b>(694,700)</b>	<b>25,346,200</b>	<b>974,900</b>
% Change		19.8%		(2.8%)		4.0%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE

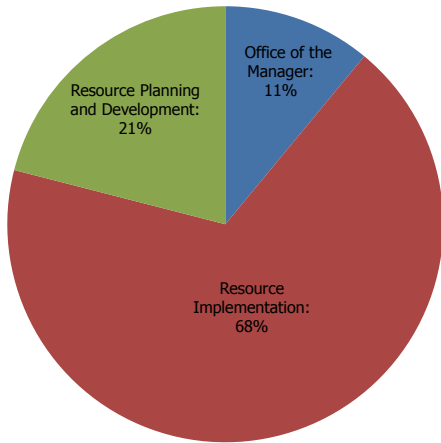


FY 2021/22 Budget by Expenditure

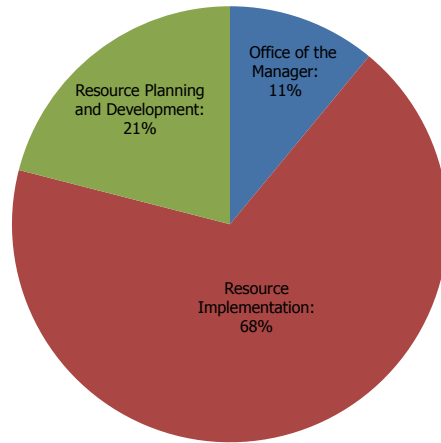


## O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Office of the Manager	2,978,700	2,720,700	(258,000)	2,818,400	97,700	13	12	12
Resource Implementation	17,530,300	16,562,500	(967,800)	17,202,600	640,100	40	41	41
Resource Planning and Development	4,556,900	5,088,100	531,200	5,325,200	237,100	16	18	18
<b>Total O&amp;M</b>	<b>25,066,000</b>	<b>24,371,300</b>	<b>(694,700)</b>	<b>25,346,200</b>	<b>974,900</b>	<b>69</b>	<b>70</b>	<b>70</b>

Note - Totals may not foot due to rounding.

## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>59</b>	<b>68</b>	<b>68</b>	<b>—</b>	<b>68</b>	<b>—</b>
	O&M	59	68	68	—	68	—
	Capital	—	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>(1)</b>
	O&M	2	1	2	1	2	(1)
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>61</b>	<b>69</b>	<b>70</b>	<b>1</b>	<b>70</b>	<b>(1)</b>
	O&M	61	69	70	1	70	(1)
	Capital	—	—	—	—	—	—

Totals may not foot due to rounding.



## BUDGET HIGHLIGHTS

WRM's Biennial Budget is \$24.4 million in FY 2020/21 and \$25.3 million in FY 2021/22 or a decrease of 2.8% and an increase of 4.0%, respectively from the prior budget years. WRM's budget is increasing by only 1.1% over the biennium. The main factors affecting these changes:

- The increase in salaries and benefits are being offset to a large degree by a reduction in memberships and subscriptions due to the dissolution of two water committees, and the shift of the Innovation Conservation Program costs to the non-departmental Demand Management budget.
- The Conservation Program, Local Resources Program, Future Supply Actions and Supply Programs budgets are captured in the non-departmental section of the budget. WRM is responsible for the management, development and administration of these programs.

The following are the significant changes by budget year:

### FY 2020/21

#### Personnel–Related Issues

Personnel count remains flat. However, due to ongoing succession planning, eleven positions have been reclassified: two management positions reclassified to non-management intermediate levels, and nine additional positions recruited at a lower level. In addition, one district temporary position is included for transforming paper records to digital libraries and improving records management.

Salaries and benefits reflect negotiated labor increases and merit increases for qualified employees. These increases are offset by vacancies filled at lower level job classifications.

#### Professional Services

The budget reflects an increase in support for the IRP, including forecasts of residential water use, legislation impacts on conservation, and incorporating climate change. The budget also reflects an increase for updating the Colorado River Basin Demand and Hydrology for the Colorado River Sustainability Plan analysis.

#### Memberships and Subscriptions

The budget is decreasing as the result of the dissolution of the State Water Project Contractors Authority (SWPCA) and State & Federal Water Contractors Authority (SWFCA) organizations. Projects and funding will be

managed within the State Water Contractors association. The budget includes a new membership for the California Water Data Consortium.

#### Other

The budget includes an increase in advertising and printing for the Urban Water Management Plan, as well as expensed equipment for new employees. These increases are offset by the costs related to the Innovation Conservation Program being moved to the Demand Management budget (non-departmental).

### FY 2021/22

#### Personnel–Related Issues

Total temporary personnel count decreases from the FY 2020/21 budget, due to one District Temporary position that will be utilized for only a portion of FY 2021/22 in order to complete the digital records project.

Salaries and benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

Budget reflects slight increase for continued IRP related activities.

## Memberships and Subscriptions

The budget reflects an inflationary increase for Municipal Water Quality Investigations and Six Agency dues. The State Water Contractors membership dues will stay flat.

## Other

The budget reflects an increase in materials and supplies for software, as well as training and seminars for new climate related conferences. These increases are offset by a decrease in printing costs related to the Urban Water Management Plan.

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# ENGINEERING SERVICES

Engineering Services provides innovative solutions that exceed our partner's expectations as the public-sector's leader for water engineering.

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## PROGRAMS

Engineering Services performs project management, design, construction management, infrastructure condition assessments, facility planning, manages Metropolitan's Capital Investment Plan (CIP), and provides on-going operations and maintenance support to other stakeholders and partners within the organization.

Engineering Services accomplishes its mission through the following programs or services to our strategic partners:

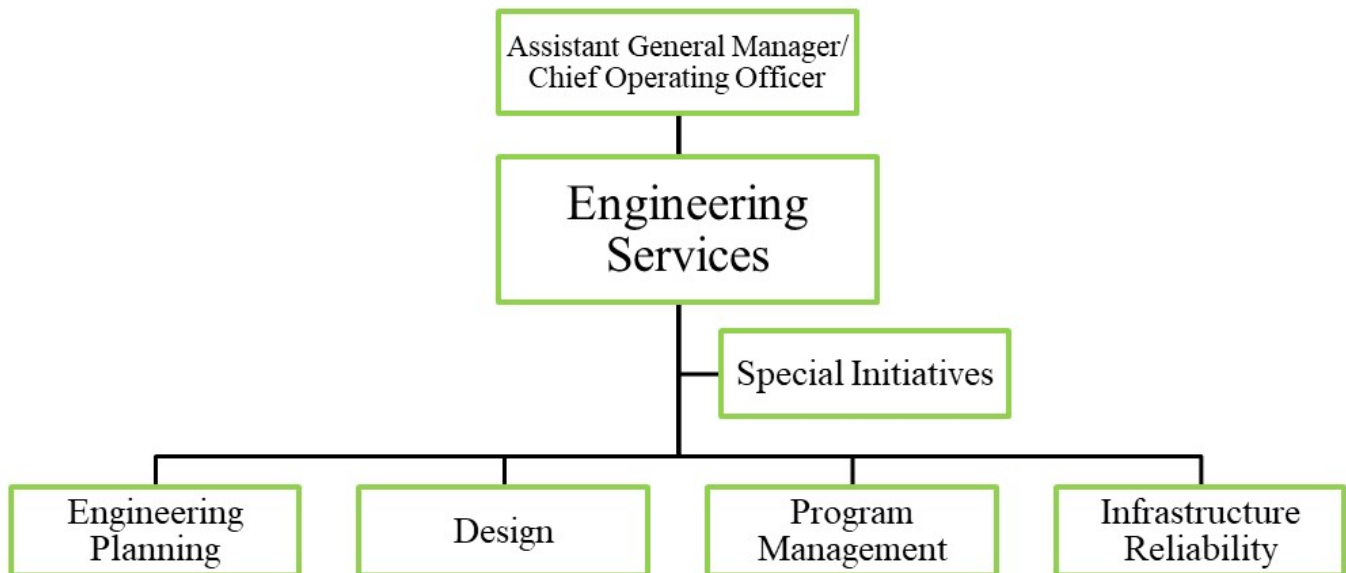
**Office of the Group Manager** oversees the management of the Engineering Services group by providing strategic leadership on engineering initiatives and core business efforts, to ensure the continued reliability and quality of water deliveries. The office also provides technical support for special initiatives including the Delta conveyance, Dam Safety, and Metropolitan's Regional Recycled Water Program.

**Engineering Planning** is responsible for the functions of facility planning, hydraulic analysis, hydraulic modeling, protection of Metropolitan's substructures, construction contract administration, technical control and oversight of engineering standards, capital project support, business process management and budgeting, and management of Metropolitan's CIP.

**Design** is responsible for the preparation of technical assessments, conceptual and preliminary designs for new facilities and for rehabilitation of existing facilities, final design drawings and specifications for construction, and technical support during the construction, commissioning, and operation of facilities.

**Program Management** is responsible for the overall delivery of both capital and O&M projects for treatment plants, distribution, conveyance and storage systems; and serves as Metropolitan's Owner's Engineer.

**Infrastructure Reliability** is responsible for the management of construction contracts, field inspection, and factory fabrication inspection; and surveying and mapping, right-of-way, and corrosion and materials engineering.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, Engineering Services will focus on the following key issues:

### Delta Conveyance

Support the on-going activities of the Design and Construction Authority Joint Powers Authority by providing as-needed project management and technical support for the initial work activities related to the Delta conveyance facilities.

### Special Initiatives

Provide program management and leadership for development of Metropolitan’s Regional Recycled Water Program in the form of program planning, budgeting and collaboration with internal and external program participants and stakeholders, and provide technical support to the operations of the advanced water treatment demonstration plant.

Continue to support opportunities to collaborate with other agencies to enhance local water supplies.

### Dam Safety

Ensure the safe and reliable operation of Metropolitan’s dams and reservoirs through periodic dam inspections and extensive surveillance, comprehensive evaluations of existing dams and appurtenant structures using current design standards, thorough review and inspection of major repair work, and careful planning and coordination of emergency action plans with local agencies. New dam safety initiatives include upgrading instrumentation and use of technology to obtain and present instrumentation results in real-time.

## Infrastructure Reliability

Manage and complete board–authorized projects within the CIP to ensure the reliable delivery of water to Metropolitan’s member agencies.

Provide engineering and technical services to support the operation and maintenance of Metropolitan’s water conveyance, delivery, treatment, and support facilities.

Protect public safety, minimize future costs of infrastructure maintenance and repairs, and avoid unplanned outages by monitoring Metropolitan’s facilities and right-of-way, performing essential technical assessments, and implementing modern asset management methods.

## CIP Management

Execute capital projects to enhance seismic resiliency of key Metropolitan facilities, rehabilitate aging infrastructure, and maintain system flexibility. High priority programs that will continue during the biennium include the PCCP Rehabilitation and CRA Rehabilitation.

Partner with Water System Operations and other stakeholders to prioritize capital projects to address Metropolitan’s short–term needs and long–term objectives, and optimize utilization of internal and external resources.

Continue to identify and implement improvements in project delivery.

## Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation

Continue pipe procurement, valve procurement, and construction to rehabilitate the remaining PCCP portions of the Second Lower Feeder. Continue preliminary design to rehabilitate the Allen-McColloch Pipeline, Calabasas Feeder, Rialto Pipeline, and Sepulveda Feeder.

## CRA Rehabilitation

Continue investigations to rehabilitate the CRA main pumps and construction to rehabilitate pump house cranes and discharge line isolation joints. Complete design to upgrade potable water, industrial water and wastewater lines and replace transformers at each of the five CRA pumping plants.

## Employee Development

Lead workforce development and succession planning activities to optimally develop and maintain technical expertise and skills needed in the future to ensure infrastructure reliability, meet regulations, respond to emergencies, and support Metropolitan initiatives.

## Partnership and Collaboration

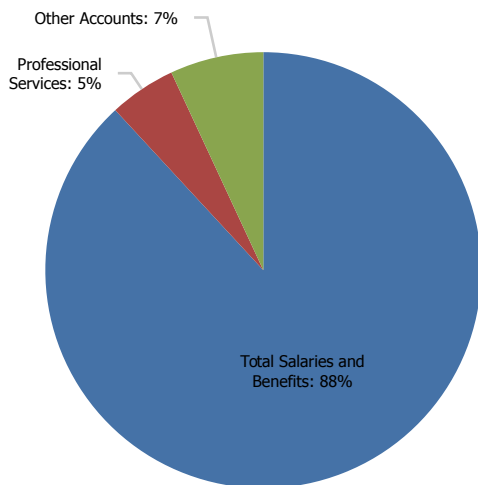
Lead communication and new initiatives to enhance partnership and collaboration between ESG and WSO, and further improve the quality and timeliness of deliverables.

## O&M FINANCIAL SUMMARY

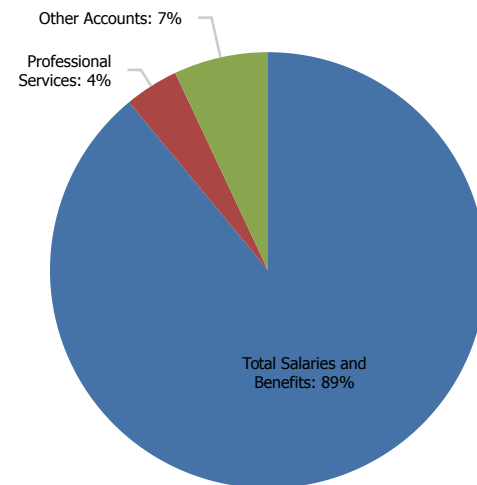
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	70,900,300	81,444,400	84,147,100	2,702,700	89,110,600	4,963,500
<i>Direct Charges to Capital</i>	<i>(42,497,700)</i>	<i>(51,301,500)</i>	<i>(50,070,500)</i>	<i>1,231,000</i>	<i>(53,066,600)</i>	<i>(2,996,100)</i>
<b>Total Salaries and Benefits</b>	<b>28,402,600</b>	<b>30,142,900</b>	<b>34,076,600</b>	<b>3,933,700</b>	<b>36,044,000</b>	<b>1,967,400</b>
% Change		6.1%		13.1%		5.8%
Professional Services	1,368,700	1,552,800	1,773,500	220,700	1,749,000	(24,500)
Materials & Supplies	574,200	734,200	741,700	7,500	754,700	13,000
Memberships & Subscriptions	224,300	237,000	237,000	—	237,500	500
Taxes & Permits	522,200	484,000	870,000	386,000	957,000	87,000
Travel Expenses	138,100	172,100	172,100	—	172,100	—
Other Accounts	681,300	542,000	511,600	(30,400)	511,300	(300)
<b>Total O&amp;M</b>	<b>31,911,400</b>	<b>33,865,000</b>	<b>38,382,500</b>	<b>4,517,500</b>	<b>40,425,600</b>	<b>2,043,100</b>
% Change		6.1%		13.3%		5.3%
Operating Equipment	837,200	174,800	720,800	546,000	569,800	(151,000)
<b>Total O&amp;M and Operating Equipment</b>	<b>32,748,600</b>	<b>34,039,800</b>	<b>39,103,300</b>	<b>5,063,500</b>	<b>40,995,400</b>	<b>1,892,100</b>
% Change		3.9%		14.9%		4.8%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE

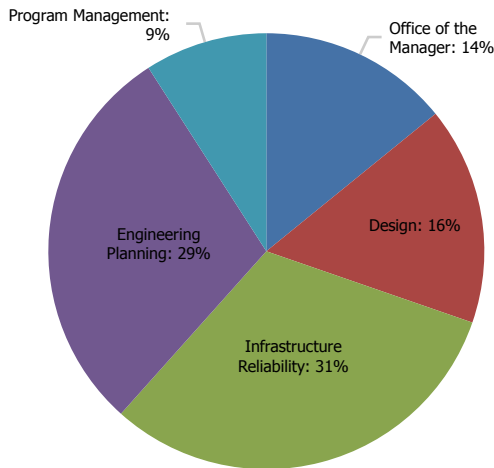


FY 2021/22 BUDGET BY EXPENDITURE

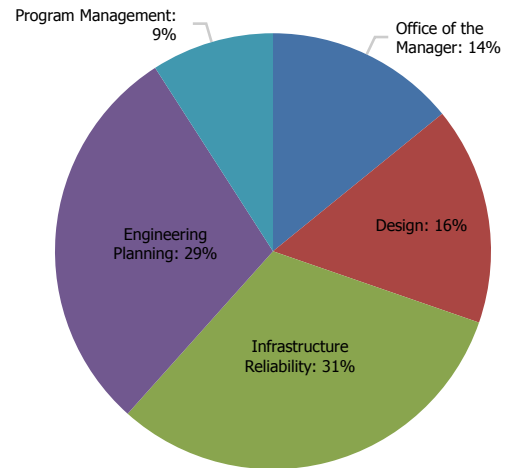


## O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Office of the Manager	4,204,600	5,549,900	1,345,300	5,817,700	267,800	2	12	12
Design	4,817,400	6,131,900	1,314,500	6,486,800	354,800	16	20	20
Infrastructure Reliability	11,873,700	11,946,100	72,400	12,634,900	688,700	58	51	51
Engineering Planning	10,346,100	11,150,600	804,500	11,707,100	556,500	41	42	42
Program Management	2,623,100	3,603,900	980,800	3,779,200	175,300	10	13	13
<b>Total O&amp;M</b>	<b>33,865,000</b>	<b>38,382,500</b>	<b>4,517,500</b>	<b>40,425,600</b>	<b>2,043,100</b>	<b>127</b>	<b>139</b>	<b>139</b>

Note - Totals may not foot due to rounding.

## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>320</b>	<b>355</b>	<b>355</b>	<b>—</b>	<b>355</b>	<b>—</b>
	O&M	131	127	139	12	139	—
	Capital	189	228	217	(12)	217	—
<b>Temporary</b>	<b>Total</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
	O&M	1	—	—	—	—	—
	Capital	1	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>321</b>	<b>355</b>	<b>355</b>	<b>—</b>	<b>355</b>	<b>—</b>
	O&M	131	127	139	12	139	—
	Capital	190	228	217	(12)	217	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

Engineering Services' O&M and Operating Equipment Biennial Budget is \$39.1 million in FY 2020/21 and \$41.0 million in FY 2021/22 or an increase of 14.9% and an increase of 4.8%, respectively from the prior year budgets. These increases are primarily due to the following factors:

- Salaries and benefits reflect negotiated increases and additional increases due to Engineering Services' new organizational structure which includes additional management positions from the prior budget cycle, support to WSO in the form of additional field engineers, and the need for staff training budgets.
- Professional services reflects specialized technical support for the new project controls and reporting system (PCRS).
- Materials and supplies reflect an increase in software maintenance fees.
- Taxes and permits reflect an increase in the annual dam safety fees paid to the state Division of Safety of Dams (DSOD).

The following are the significant changes by budget year:

### FY 2020/21

#### Personnel-Related Issues

Total personnel levels remain flat at 355 individuals which is consistent with the previous fiscal year. However, the O&M and capital staffing complement differs from the FY 2019/20 budget. This change is primarily due to increased support for Engineering Services' new organizational structure, plant and field engineers' support to WSO, and additional training budgets for staff, thereby resulting in a shift of staff from capital work to O&M in FY 2020/21.

Planned capital spending for FY 2020/21 will remain steady with a district-wide capital budget estimated to be approximately \$250 million (see details in CIP Appendix). Planned spending reflects project budgets and schedules to meet Metropolitan's overall biennial budgetary goals. High priority projects that will continue during the fiscal year include the Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation Program; the Colorado River Aqueduct (CRA) Reliability Program; the Distribution System Reliability Program; and the Right of Way and Infrastructure Protection Program.

#### Salaries & Benefits

Salaries and benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget primarily reflects an increase for specialized technical expertise to support the PCRS.

#### Materials and Supplies

The budget reflects an increase in software maintenance costs (e.g., PCRS, ProjectWise).

#### Taxes & Permits

The budget reflects an increase in annual dam safety fees paid to the state DSOD.

#### Other

Other non-labor budget reflects a decrease in rents and leases of copier machines which will now be centralized and funded under the Administrative Services Section of the Office of the Chief Administrative Officer.



## FY 2021/22

### Personnel-related issues

Total personnel count remains flat at 355 individuals from FY 2020/21.

Planned capital spending for FY 2021/22 will remain steady with a district-wide capital budget estimated to be approximately \$250 million (see details in CIP Appendix).

### Salaries & Benefits

Salaries and benefits reflect negotiated labor increases and merit increases for qualified employees.

### Professional Services

The budget reflects a decrease in level of support for energy sustainability.

### Materials and Supplies

The budget reflects an increase in software maintenance fees (e.g., PCRS, ProjectWise).

### Taxes & Permits

The budget reflects anticipated increases in annual dam safety fees paid to the state DSOD.

### Operating Equipment – FY 2020/21 and FY 2021/22

The operating equipment budget reflects an increase in FY 2020/21 from the prior budget year primarily due to the replacement of aging vehicles, 3D survey scanner, and other survey equipment. In FY 2021/22, the budget reflects ongoing replacement of vehicles and survey equipment.

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# OFFICE OF CHIEF ADMINISTRATIVE OFFICER

The Office of the Chief Administrative Officer (CAO) provides outstanding value to its customers for a wide range of administrative, environmental planning and security management services

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## PROGRAMS

Office of the Chief Administrative Officer accomplishes its mission through the following programs or sections:

**Administrative Services** provides a range of critical services including contracting, inventory management, warehousing, reprographics, technical writing, records management, EForms management, Enterprise Content Management, and administration of Metropolitan's Rideshare Program.

**Environmental Planning (EPS)** provides expertise for environmentally responsible decision-making and compliance with environmental laws and regulations. EPS ensures Metropolitan activities comply with the California Environmental

Quality Act (CEQA); obtains permits or approvals from federal and state environmental regulatory agencies for Metropolitan activities; and participates in management of Metropolitan reserves and coordination with other non-Metropolitan reserve planning efforts.

**Security Management** provides cost-effective and innovative protection of Metropolitan's employees, patrons, infrastructure and equipment.

**Board Support** provides administrative support to the Board and the Office of the Chair; coordinates Metropolitan's board document management system; and coordinates travel for the Board.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/2022, the Office of the Chief Administrative Officer will focus on the following key issues:

### Support Proposed Delta Improvements

Provide environmental and technical services to support long-term Delta solutions to improve water supply reliability and water quality, and protect and enhance Delta ecosystem and associated species.

Provide technical and regulatory support for Metropolitan's Delta Island holdings.

### Support Development of Water Supplies and Management of Water Reserves

Provide planning, California Environmental Quality Act/National Environmental Policy Act (CEQA/NEPA), and regulatory support for development of new water supplies, including continued planning support for the proposed Regional Recycled Water Program (RRWP).

Prepare CEQA/NEPA and environmental permitting documentation for supplemental water supplies and water conservation measures, including support of Local Resources Programs with member agencies.

Provide strategic environmental compliance input and services to obtain supplemental supplies of water through transfers, banking and innovative crop and land management practices.

### Climate Action Planning

Complete preparation of Climate Action Plan (CAP) and associated CEQA documentation to mitigate the significant effects of greenhouse gas (GHG) emissions from Metropolitan projects. Develop and implement GHG monitoring and reporting tools and establish a monitoring schedule. Continue collaboration with internal Metropolitan groups to implement GHG reduction strategies and verify reductions realized. Provide annual Board updates on progress towards meeting CAP goals. Continue to identify and evaluate new GHG reduction strategies for future updates to ensure Metropolitan is meeting its GHG reduction goal.

### Regulatory Compliance

Provide timely and professional planning services and CEQA and regulatory support for all capital and O&M projects in an environmentally responsible manner.

Prepare reclamation plans and associated CEQA documentation, coordinate annual inspections, and prepare annual reports for Metropolitan's operations in compliance with the provisions of the Surface Mining and Reclamation Act (SMARA).

Provide increased monitoring support for Desert O&M activities in response to increased regulatory oversight, additional O&M workload to support aging infrastructure, urgent repairs, and longer species monitoring periods resulting from changing climatic conditions.

Support continued restoration and monitoring of populations and habitat of the unarmored threespine stickleback fish in compliance with Metropolitan-sponsored legislation (AB 2488) and long-term Endangered Species Act permits for the inspection and maintenance of the Foothill Feeder.

Provide federal and state legislative review and identify bills and regulations that should be supported or opposed based on Metropolitan's legislative priorities and policy principles.

### Reserve Management

Manage Metropolitan's four large-scale multi-species reserves and participate in several other regional conservation and multi-species reserve programs. Management of these reserves is required to satisfy regulatory requirements for the continued delivery of imported water and the construction and operation of major O&M and capital projects.

Serve as Metropolitan's representative on the Southwestern Riverside County Multi-Species Reserve Management Committee, administer a reserve management agreement with Riverside County Parks (Parks), and actively manage reserve lands to ensure compliance with state and federal permits and multi-agency cooperative management agreements, including the Memorandum of Intent

between Metropolitan, Parks, and other members of the Diamond Valley Lake Ad Hoc Committee.

Facilitate collaboration among Metropolitan, Parks, and the Southwestern Riverside County Multi-Species Reserve Management Committee towards implementation of the Trails Plan and construction of multi-use connecting trails between Diamond Valley Lake and Lake Skinner and between the Reserve and the County's Regional Trail System.

Serve as Metropolitan's representative on the Reserve Management Committee for the Lake Mathews Multiple Species Reserve, administer a reserve management agreement with Riverside County Habitat Conservation Agency, and actively manage Lake Mathews reserve lands to ensure compliance with state and federal permits.

Represent Metropolitan on the Lower Colorado River Multi-Species Conservation Program and the Orange County Natural Communities Coalition as voting members of the respective governance committees.

Work collaboratively with Real Property, Engineering Services, and reserve management to facilitate field coordination among stakeholders on issues within the reserves and surrounding areas.

### Innovative Solutions

Increase efficiency in procurement practices by streamlining acquisition processes. Enhance customer experience and satisfaction by upgrading warehouse ordering platform and expanding online training modules to further the customer's knowledge in key areas such as requisition processing and agreement administration.

Review administrative functions to promote higher levels of productivity, standardization, and to improve efficiency in key areas such as grant management and document management.

Continue implementation of the Information Governance / Enterprise Content Management (ECM) solution to improve existing storage, access, retrieval and control of physical and electronic records in line with fiscal, legal, and regulatory requirements.

Utilize Metropolitan's EForm Management program to improve business processes, increase

productivity and enhance overall user experience by incorporating mobile technology and adopting innovative and efficient business practices.

Continue to enhance board document management through modernized technology and continued training of District staff on policies and procedures of Board matters.

### Sustainability Efforts

Continue the quarterly 'Our Legacy' E-Newsletter series to raise employee awareness on sustainability issues and encourage positive eco-friendly "green" behavior.

Continue efforts to grow and ensure Metropolitan's Rideshare Program remains beneficial for employees and compliant with South Coast Air Quality Management District's regulatory requirements.

Explore opportunities to expand the Electric Vehicle Charging program.

### Succession Planning and Employee Development

Continue to implement an organization-wide cross-training program to promote organizational adaptability, institutional knowledge, experience, and expertise.

Continue mentoring of entry-level staff and continue the utilization of Metropolitan's student internship program to provide college students hands on work experience while giving Metropolitan access to future candidates.

### Security Management

Implement a Security Strategic plan that is aligned with District goals and objectives and provides for an incremental and phased approach for obtaining resources, including staff, equipment and technology.

Publish specifications for security infrastructure, based on regulatory requirements and industry best practices.

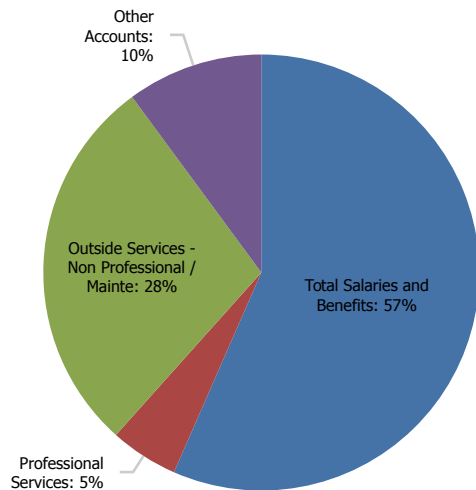
Formalize conceptual approval on capital project plans and specifications to ensure security opportunities and considerations are incorporated.

## O&M FINANCIAL SUMMARY

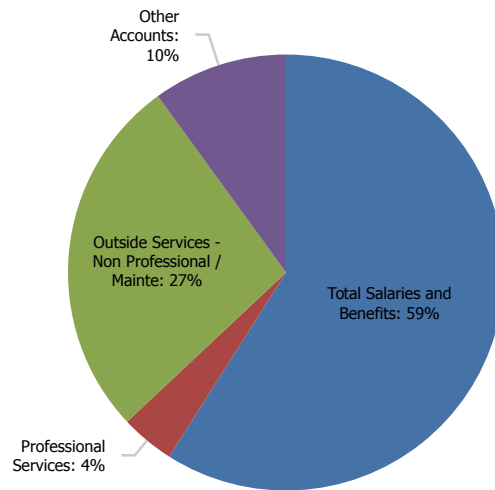
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	19,169,300	21,560,500	23,485,200	1,924,700	24,686,900	1,201,700
Direct Charges to Capital	(1,396,200)	(1,863,100)	(2,020,600)	(157,500)	(2,013,500)	7,100
<b>Total Salaries and Benefits</b>	<b>17,773,100</b>	<b>19,697,400</b>	<b>21,464,600</b>	<b>1,767,200</b>	<b>22,673,400</b>	<b>1,208,800</b>
% Change		10.8%		9.0%		5.6%
Professional Services	1,374,900	923,900	1,924,000	1,000,100	1,574,000	(350,000)
Outside Services - Non Professional / Mainte	8,706,600	10,233,600	10,791,500	557,900	10,515,500	(276,000)
Rent & Leases	426,400	660,600	1,111,600	451,000	1,118,500	6,900
Subsidies & Incentives	693,600	1,029,800	841,900	(187,900)	843,600	1,700
Other Accounts	2,181,000	1,736,600	1,923,400	186,800	1,928,500	5,100
<b>Total O&amp;M</b>	<b>31,155,600</b>	<b>34,281,900</b>	<b>38,057,000</b>	<b>3,775,100</b>	<b>38,653,500</b>	<b>596,500</b>
% Change		10.0%		11.0%		1.6%
Operating Equipment	246,700	—	124,900	124,900	34,600	(90,300)
<b>Total O&amp;M and Operating Equipment</b>	<b>31,402,300</b>	<b>34,281,900</b>	<b>38,181,900</b>	<b>3,900,000</b>	<b>38,688,100</b>	<b>506,200</b>
% Change		9.2%		11.4%		1.3%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE

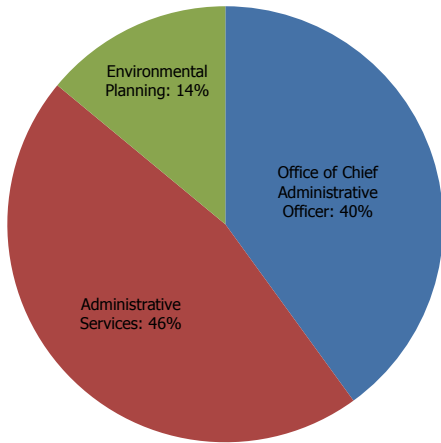


FY 2021/22 BUDGET BY EXPENDITURE

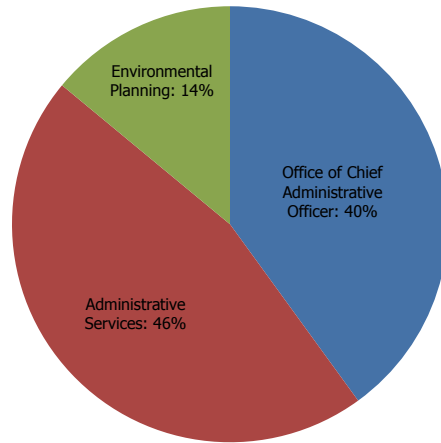


## O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Office of Chief Administrative Officer	12,915,300	15,074,200	2,158,900	15,312,500	238,400	14	16	16
Administrative Services	16,497,500	17,639,400	1,142,000	17,917,400	277,900	77	78	77
Environmental Planning	4,869,100	5,343,400	474,300	5,423,600	80,200	18	14	14
<b>Total O&amp;M</b>	<b>34,281,900</b>	<b>38,057,000</b>	<b>3,775,100</b>	<b>38,653,500</b>	<b>596,500</b>	<b>108</b>	<b>108</b>	<b>107</b>

Totals may not foot due to rounding.

## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>98</b>	<b>113</b>	<b>114</b>	<b>1</b>	<b>114</b>	<b>—</b>
	O&M	92	108	106	(2)	106	—
	Capital	5	5	8	3	8	—
<b>Temporary</b>	<b>Total</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>(2)</b>
	O&M	1	—	2	2	1	(2)
	Capital	1	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>99</b>	<b>113</b>	<b>116</b>	<b>3</b>	<b>115</b>	<b>(2)</b>
	O&M	93	108	108	—	107	(2)
	Capital	6	5	8	3	8	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Office of the CAO's O&M and Operating Equipment Biennial Budget is \$38.2 million in FY 2020/21 and \$38.7 million in FY 2021/22 or an increase of 11.4% and an increase of 1.3% respectively from the prior budget years. The changes are due primarily to the following factors:

- The development and implementation of Metropolitan's Security Strategic Management Plan requires additional labor and non-labor resources in order to meet vulnerability assessment recommendations.
- Costs are increasing for more stringent and specialized environmental regulatory oversight services for O&M projects throughout Metropolitan's service area.
- A consultant study to determine user needs and establish technical and performance requirements for a new contracts management system.

The following are the significant changes by budget year:

### FY 2020/21

#### Personnel-Related issues

Total personnel count increased by 1 regular full time position and 3 district temporary positions from the FY 2019/20 budget. The increase in labor is necessary in order to provide for additional security management services and temporary labor to support the backfile-conversion of the Enterprise Content Management project.

The budget also reflects an increase in capital labor necessary for environmental planning and permitting.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget reflects an increased need for specialized technical expertise related to environmental planning for the Surface Mining and Reclamation Act, Climate Action Planning, Desert/CRA environmental monitoring, and the restoration and monitoring associated with the Foothill Feeder shutdown. The budget also includes funding to determine the technical requirements necessary for a new contracts management system.

#### Non-Professional Services

The budget increase from FY 2019/20 is associated with increased security staffing and coverage, as well as an increase in certified security services.

#### Rents and Leases

The budget increase reflects centralization of costs associated with District-wide reprographics copiers to the Administrative Services Section. Commensurate cost reductions have taken place across Metropolitan to account for this centralization.

#### Subsidies and Incentives

The budget decrease from FY 2019/20 reflects the current employee usage rate for Metropolitan's Rideshare program.

#### Other

The budget increase reflects the need for additional environmental permitting for California Department of Fish and Wildlife, as well as travel and conferences for the Board.



## FY 2021/22

### Personnel–Related issues

Total personnel count decreased by two district temporary positions from the FY 2021/22 budget, reflecting completion of the backfile-conversion of the Enterprise Content Management project.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Professional Services

The budget decrease is due to completion of the study for the replacement of a contract management system and reduced environmental monitoring during the Foothill Feeder Dewatering/Shutdown project related to the Unarmored Threespine Stickleback fish.

### Non-Professional Services

The budget decrease is due to the completion of one-time costs associated with the rebid and transition of Metropolitan's storage contract in the prior period.

### Operating Equipment - FY 2020/21 and FY 2021/22

The operating equipment budget reflects the need for the replacement of a forklift in Metropolitan's warehouse. Additionally, an increase in service demand necessitates the purchase of specialized reprographics equipment.

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# INFORMATION TECHNOLOGY

Information Technology provides innovation and outstanding value to its customers for a wide range of technical services and enterprise business solutions.

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## PROGRAMS

Information Technology provides innovation and value to its customers for a wide range of technical services and enterprise business solutions. The group collaboratively works with customers to deliver information technology options, services, and solutions in the areas of enterprise and business applications, Engineering Services and Water System Operations applications, data analytics, mobile/wireless computing, telecommunications, network services, cybersecurity, project management and personal computing.

**Office of Group Manager** oversees the management of the Information Technology (IT) group by providing strategic leadership on initiatives and capital investments to improve operational efficiencies, enhance reliability & cybersecurity capabilities, and deliver innovative options and solutions.

**Cybersecurity** focuses on security standards and policies to enhance Metropolitan's cybersecurity posture and to ensure protection against evolving and increasing cyber threats.

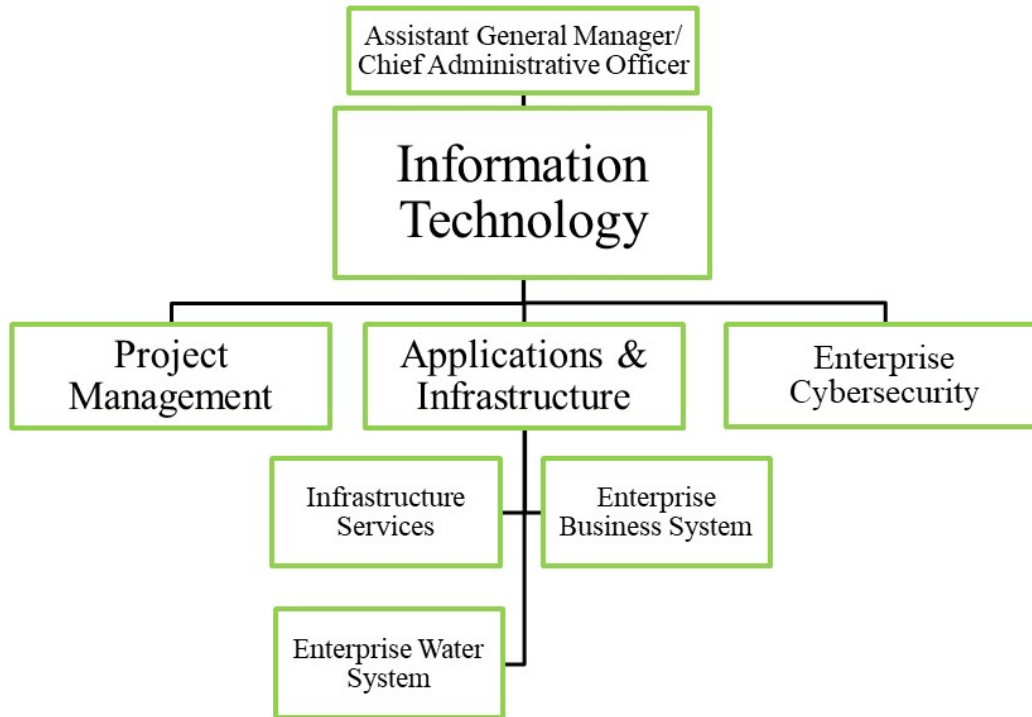
**Project Management Office** is responsible for the overall governance and project management of the IT program and project portfolio.

**Office of IT Section Manager** manages and supports IT business and service areas related to IT infrastructure, enterprise business and water systems.

**IT Infrastructure** monitors, manages, and maintains Metropolitan's enterprise-wide infrastructure services related to telecommunications, networks, servers, data center operations, and related client services.

**Enterprise Business Systems** develops and supports enterprise and business software applications and business intelligence systems.

**Enterprise Water Systems** provides services, solutions, and systems that support business functions in Engineering Services and Water Systems Operations.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, IT will focus on the following key areas in support of the General Manager’s strategic priorities:

- Cloud First Technology
- Data Center Modernization
- Cybersecurity Operations Center
- IT Capital Investment Plan
  - SCADA Control System
  - Replace end-of-life systems
  - IT Infrastructure Upgrades

### Business Technology & Process Enhancement

Beginning with FY 2018/19, the IT group began establishing the foundation to support Metropolitan’s move toward the cloud. The implementation of cloud solutions will enhance productivity, streamline business processes, and mitigate costs for the organization.

During the FY 2020/21 and FY 2021/22 biennium, IT will continue to implement projects in support of Metropolitan’s strategic initiatives, including continued migration to mobile technology and strengthening Metropolitan’s cybersecurity

capabilities by deploying new and emerging technologies and implementing enhanced security countermeasures. In addition, the planned technology upgrades will provide greater visibility and consolidation of IT costs and performance.

### Information Systems Upgrades and Projects

IT continues to improve partnerships with other business areas to enhance the capabilities of systems that achieve Metropolitan’s operational goals and objectives. The following key projects include IT deliverables that add value to the group’s business customers:

#### Office of the COO

The Water Systems Control Master Plan provided a road map to fully coordinate and further protect the operational and business investments of Metropolitan’s SCADA systems. The master plan defined a multi-phased approach for replacing/upgrading the control system critical to Metropolitan’s operations, water delivery, water quality, and infrastructure monitoring. The first

phase of this project has been initiated and the RFQ was published to select viable technology platforms.

Continue to upgrade the control and electrical protection systems at the Wadsworth Pumping Plant to ensure continued reliability of the facility.

AMR System RTUs and Radio Modem Upgrade - Project phases include the upgrade of the Automatic Meter Reader (AMR) system, implementation of radio modems, and replacement of the Remote Terminal Units (RTUs) in support of updating obsolete equipment.

Flow Scheduler Project includes the development of a software tool that will streamline member agency flow change requests and enhance the process of Metropolitan operators logging flow demand data.

Maximo Mobile Computing Upgrade aims to replace existing mobile devices, used in Water Systems Operations, with mobile technology. This effort will enhance access to business information and vastly increase the functionality of the existing equipment.

As part of the infrastructure reliability objective, the Asset Monitoring and Management System project seeks to develop a common framework to manage condition monitoring across Metropolitan's operations.

The Laboratory Instrumentation Data Interface Project will upgrade end-of-life equipment at Metropolitan's Water Quality Laboratory at Weymouth Treatment Plant. This effort will also facilitate integrated data acquisition and automation to streamline operations within the laboratory framework.

Fuel Management System Upgrade seeks to upgrade the system that enables management controls over fuel inventories, dispensing, and security to ensure operability, vendor support, and system reliability at Metropolitan facilities as a continuation of the refurbishment initiative.

### **Office of the CAO**

As part of the Data Center Modernization Project, the scope includes assessment, design, and planning for the modernization and upgrade of

Metropolitan's data center(s) to meet current and future needs while enhancing our resiliency and redundancy capabilities.

The Cybersecurity Project will assess and remediate potential vulnerabilities and evolving cyber threats with an emphasis on implementing a security operations center (SOC) at Metropolitan.

Board Room Technology Upgrade - This project will upgrade audio, video and information technology-related equipment in the main board room and all committee rooms at Metropolitan's headquarters building.

Continue to partner with Administrative Services on the Enterprise Content Management (ECM) project for the implementation of an ECM application and for the optimization of digital assets on Metropolitan's network storage devices. Once fully implemented, the ECM system will provide a framework for collaboration, automation, and enhancements of core business processes.

Continue deployment of upgrades to improve the reliability, performance, and capacity of Metropolitan's wireless network infrastructure comprising microwave radio wide-area networks (WANs) and wireless access point local-area networks (LANs).

### **Office of the CFO**

The Budget System Replacement Project will replace Metropolitan's budgeting system to support the development of capital and O&M budgets and Board deliverables. The current budget system has reached end-of-life and cannot be upgraded.

The Water Information Systems (WINS) upgrade will include much needed enhancement features to Metropolitan's water billing system to allow for automation and increased mobile functionality.

The Data Warehouse Project will develop data marts modeling for business areas providing integrated reporting through Extraction/Transformation/Loading (ETL) procedures and common dimensions. The Enterprise Data Warehouse will contain both business and operational data and will be designed to combine these various data types to meet operational needs and support decision making.

The Payroll/Timekeeping project seeks to upgrade and enhance PeopleSoft payroll and replace the current timekeeping software with a package that integrates with the payroll system and provides for ease-of-use interface for customers.

### **External Affairs, Legal, and Risk Management**

Metropolitan's public-facing website, [mwdh2o.com](http://mwdh2o.com), is being redesigned to stay current with the latest technology, mobile compatibility, and greater functionality and features.

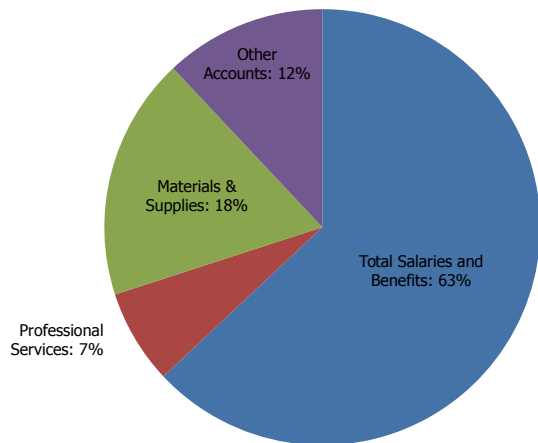
The Incident Reporting System Project will upgrade the current end-of-life incident tracking and reporting tool used for compliance tracking by Risk Management, Workers Compensation, Safety and Regulatory Services, and WSO.

## O&M FINANCIAL SUMMARY

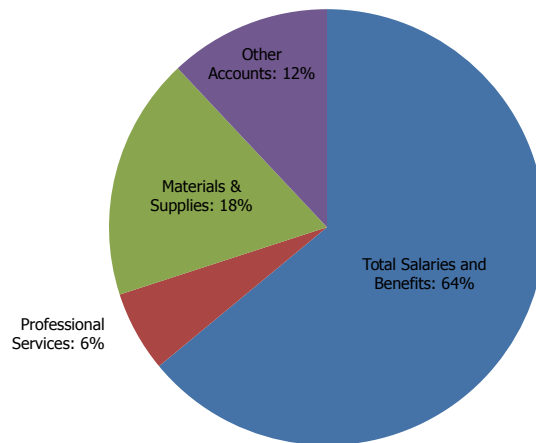
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	28,587,300	30,801,300	31,686,900	885,600	33,340,600	1,653,700
<i>Direct Charges to Capital</i>	<i>(1,871,300)</i>	<i>(1,392,100)</i>	<i>(1,465,500)</i>	<i>(73,400)</i>	<i>(1,491,000)</i>	<i>(25,500)</i>
<b>Total Salaries and Benefits</b>	<b>26,716,000</b>	<b>29,409,200</b>	<b>30,221,400</b>	<b>812,200</b>	<b>31,849,600</b>	<b>1,628,200</b>
% Change		10.1%		2.8%		5.4%
Professional Services	527,200	1,849,000	3,212,800	1,363,800	2,864,100	(348,700)
Communication Expenses	1,807,800	1,609,500	1,932,900	323,400	2,060,400	127,500
Equipment Expensed	184,000	2,306,600	1,302,500	(1,004,100)	495,000	(807,500)
Materials & Supplies	5,836,000	6,423,700	8,395,200	1,971,500	9,117,200	722,000
Outside Services - Non Professional / Mainte	93,800	202,800	734,100	531,300	1,080,300	346,200
Repairs & Maintenance - Outside Services	833,000	1,442,500	1,343,300	(99,200)	1,643,700	300,400
Other Accounts	272,300	418,300	511,300	93,000	529,800	18,500
<b>Total O&amp;M</b>	<b>36,270,100</b>	<b>43,661,600</b>	<b>47,653,500</b>	<b>3,991,900</b>	<b>49,640,100</b>	<b>1,986,600</b>
% Change		20.4%		9.1%		4.2%
Operating Equipment	751,000	748,400	935,500	187,100	528,100	(407,400)
<b>Total O&amp;M and Operating Equipment</b>	<b>37,021,100</b>	<b>44,410,000</b>	<b>48,589,000</b>	<b>4,179,000</b>	<b>50,168,200</b>	<b>1,579,200</b>
% Change		20.0%		9.4%		3.3%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 BUDGET BY EXPENDITURE



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>120</b>	<b>134</b>	<b>130</b>	<b>(4)</b>	<b>130</b>	<b>—</b>
	O&M	113	127	123	(4)	123	—
	Capital	7	7	7	—	7	—
<b>Temporary</b>	<b>Total</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>—</b>
	O&M	4	—	2	2	2	—
	Capital	1	2	—	(2)	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>125</b>	<b>136</b>	<b>132</b>	<b>(4)</b>	<b>132</b>	<b>—</b>
	O&M	117	127	125	(2)	125	—
	Capital	7	9	7	(2)	7	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Information Technology O&M biennial budget supports the need for Metropolitan to remain resilient, sustainable and innovative. This budget includes critical end-of-life upgrades of PCs, software upgrades, risk mitigation (cybersecurity), infrastructure replacement and refurbishment (data center relocation and modernization), transition to cloud-based computing and innovative technologies to support business process improvements.

Information Technology’s biennial O&M and Operating Equipment budget is \$48.6 million in FY 2020/21 and \$50.2 million in FY 2021/22 or an increase of 9.4% and an increase of 3.3% respectively from the prior budget years. The changes are due primarily to the following key factors:

- Salaries and Benefits reflect negotiated labor increases and the reduction of four positions in FY 2020/21.
- The PC Replacement Project will continue with the phased approach at replacing aging PCs and related equipment in FY 2020/21. The equipment expense category will reduce from \$1.3 million to \$0.49 million in FY 2021/22 as IT transitions to an “on-going” refresh of PCs beginning in FY 2021/22.
- As part of the Headquarters Improvement Program, IT will be responsible for coordinating the move of IT equipment (e.g., PCs, telephones, and networking) during the temporary relocation of staff.
- New services within this biennial budget include costs associated with datacenter modernization to mitigate risk to Metropolitan while providing greater redundancy and resiliency capabilities.
- As part of the Cloud First strategy, this biennial budget includes new cloud services and consulting to facilitate the transforming of IT services to the cloud environment.

The following are significant changes by budget year:

## FY 2020/21

### Personnel–Related matters

Total personnel count decreased from 134 to 130 FTEs for the FY 2020/21 budget, reflecting the reduction of four positions.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Professional Services

The budget reflects IT support for the PC replacement project, HQ relocation, on-call services for application enhancements, transition to cloud-based computing and other strategic IT priorities.

### Communication Expenses

The budget reflects increases in communication expenses including co-location (for redundancy and resiliency), cloud-based connections (Oracle FastConnect & Microsoft Azure ExpressRoute), new circuits for field locations and increased capacity (bandwidth) to support Metropolitan's operational needs.

### Equipment Expensed

The budget decrease from FY 2019/20 reflects the decrease in planned procurement of PC hardware for the PC Replacement Project.

### Materials and Supplies

The budget reflects increased levels of software licensing/support agreements as a result of three primary areas:

- Cloud computing
- Critical cybersecurity enhancements
- New Capex to Opex for software purchases, subscriptions and maintenance

## Telecommunication

The budget reflects increases in telecommunication expenses including co-location (for redundancy and resiliency), cloud-based connections (Oracle FastConnect & Microsoft Azure ExpressRoute), new circuits for field locations and increased capacity (bandwidth) to support Metropolitan operational needs.

### Repairs and Maintenance

No significant change in repairs and maintenance for FY 2020/21.

### Equipment Expensed

Equipment expenses include procurement of PC hardware for the PC replacement project.

## FY 2021/22

### Personnel–Related issues

Total regular personnel for O&M remained at 130 FTEs reflecting the reduction of four Business Analyst positions in prior FY2020/21. Salaries and Benefits reflect negotiated labor increases.

### Professional Services

No significant budget change in professional services for FY 2021/22. Key budgetary within this category include reduction in professional services as the PC Replacement Project reaches substantial completion, which is off-set by increases in remote data-center cost (primary & secondary).

### Communication Expenses

The budget increase in communication expenses includes inflationary factors and new circuits to support Metropolitan operational needs.

### Equipment Expensed

The budget reduction in equipment expensed is primarily attributed to completion of the PC Replacement project.



## Materials and Supplies

The budget reflects inflationary increases for software licensing/support agreements, continued transformation to cloud computing and new capex to opex expenses associated with deployment of capital projects.

## Non-Professional Services

The budget increase includes planned expenses for primary and secondary datacenters as part of Metropolitan's datacenter modernization initiative.

## Repairs and Maintenance

Increases to the budget for repairs and maintenance are attributed to hardware equipment (servers) coming off warranty and going on extended support agreements.

## Operating Equipment - FY 2020/21 and FY 2021/22

The operating equipment budget reflects the critical replacement of IT equipment that has reached end-of-life, including network equipment, audio/video systems for conference rooms, hardware (servers and storage devices) and replacement of service vehicles used to maintain IT systems located throughout Metropolitan's service area.

The operating equipment budget increase in FY 2020/21 is primarily attributed to the replacement of end-of-life networking equipment that is critical to Metropolitan's wide-area-network communication that services the entire Los Angeles basin area.

The operating equipment budget decrease in FY 2021/22 is a result of fewer IT equipment replacements.

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# HUMAN RESOURCES

Human Resources (HR) strategically, and cost effectively, recruits, retains, motivates, rewards, and develops Metropolitan's employees.

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## PROGRAMS

The focus of Human Resources is to work closely with management to foster effective management; prepare to meet future workforce challenges; partner with customers on solutions; and provide excellent HR services that ensure compliance to numerous HR laws, regulations, and responsibilities.

The Human Resources Group partners with others across the organization to provide custom services and solutions that address current and future gaps in skills, knowledge, and abilities.

HR services include employee and labor relations, recruitment and selection, equal employment opportunity (EEO), HR Strategic Partnering, HR Information Systems, benefits, retirement, leave administration, classification and compensation administration, medical screening, workers' compensation, training, organizational development, workforce and career development, and HR business support services.

HR accomplishes its mission through the following programs or sections:

**Office of Human Resource Group Manager** provides strategic leadership and direction for Metropolitan's Human Resources functions. Organizations reporting directly to the Office of the Human Resource Group Manager include Employee Relations and Human Resources Services.

The office also has responsibility for diversity, inclusion, and investigating internal complaints of unlawful discrimination. EEO investigations entail staff meeting with complainants, interviewing witnesses, and issuing findings as to whether allegations of unlawful discrimination can be substantiated. This work is critical in

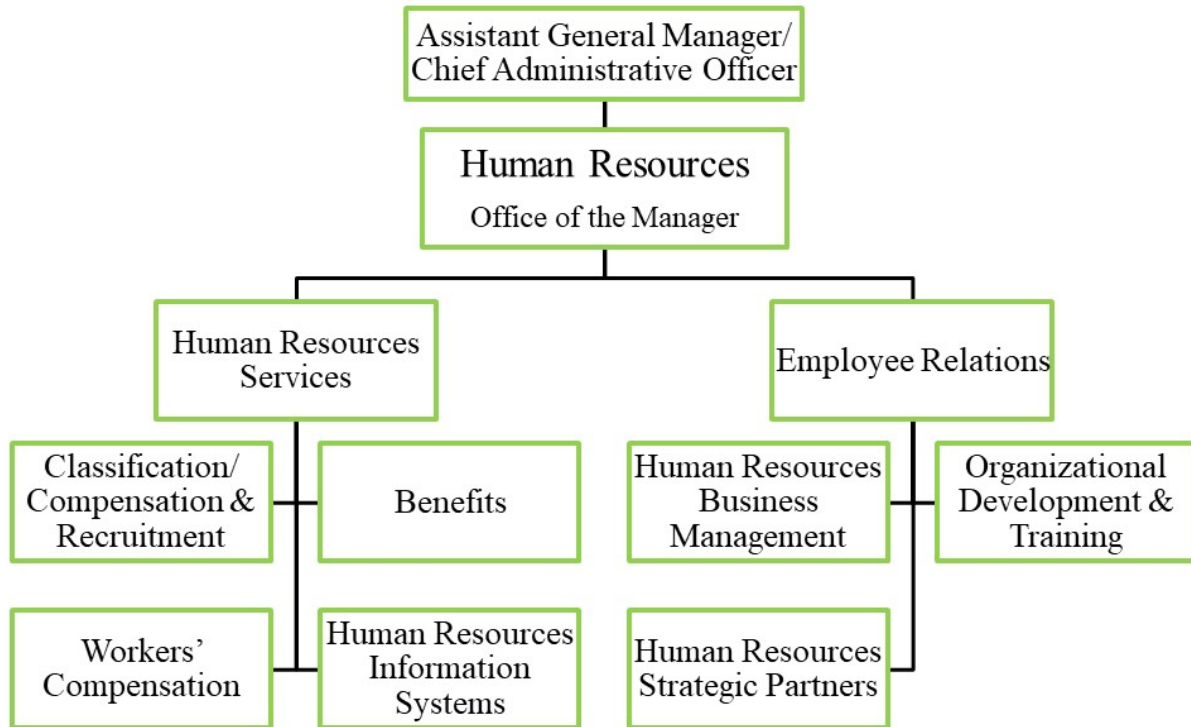
ensuring that Metropolitan maintains a workplace free of discrimination and harassment. Diversity and inclusion includes partnering with Employee Resource Groups and external affinity groups to outreach to future applicants.

**Employee Relations** is responsible for fostering harmonious labor relations between Metropolitan and its four certified bargaining units, and plays a key role in contract negotiations. The staff also serves as a resource to managers and supervisors on such matters as grievances, disciplinary actions, and workplace conflicts. The section also provides ongoing training to managers on all facets of employer-employee relations.

HR has designated HR Strategic Partners to serve as single points of contact for managers, providing HR support in several areas, including Employee Relations, recruitment, training, succession planning, and strategic development.

**Human Resources Services** is responsible for the strategic design and implementation of Metropolitan's compensation, benefits, recruitment. The section leads and participates in continuous process improvement and cost optimization studies for all plans. Responsibilities include job analysis, market assessments, recruitment, active employee and retiree benefit program administration, partnering with management on new initiatives, compliance, Workers Compensation, medical screening and implementing new programs and agreements.

Finally, staff under Human Resources Information Systems administer Metropolitan's MyHR system, and serve as a critical liaison between HR and the Information Technology Group.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, HR will focus on the following key issues that support the General Manager's objective of Employee Development and additional HR priorities:

### Ensure Effective People Management

Strong people management skills are essential to meeting Metropolitan's future challenges and successes. HR will ensure that the role of management is defined and that current managers have the tools and training needed to provide effective management.

A formal, multi-tiered Management and Leadership Development program will help managers better understand their roles and responsibilities as they progress through management.

Learning opportunities will be provided to employees to prepare for future management positions from the entry-level manager all the way to the executive level.

Ongoing events, workshops and forums will provide opportunities to deliver consistent expectations and tools for management, including motivating and valuing employee contributions.

### Strengthen Partnerships with HR Customers

Effective people solutions require that HR partners with its customers, including management, unions, employees, retirees and others. HR must understand the customer's business needs and then build working relationships that develop effective solutions to people-related challenges. This working partnership will minimize misdirected efforts, speed decision-making, reduce rework and, ultimately, produce a better workplace at a reduced cost.

Strengthened HR/customer partnerships and communications will identify areas for improvement in HR products, services, support and messaging.

Ensure that Risk Management, Employee Relations, EEO and the Legal Department coordinate to effectively defend against litigation of liability claims and to cost-effectively resolve claims.

## Prepare to Meet Challenges of Future Workforce Changes

On average, about 100 employees per year are retiring and this trend is expected to continue over the next several years. As experienced and knowledgeable employees retire, HR will continue to support and expand upon on-going succession planning efforts underway.

Efforts will include a focus on learning, development, knowledge capture, cross-training opportunities, and building pipelines for future vacancies.

HR will develop new strategies, support existing efforts and ensure Metropolitan remains competitive when compared to other organizations.

HR will support career development activity undertaken by employees to enhance knowledge, skills, and abilities for future work and promotional opportunities, including support of internship and mentoring initiatives.

## Provide Excellent Human Resources Services

HR provides a wide range of services and support from pre-hire to retirement, impacting almost every aspect of the organization. To make the maximum contribution, all HR functions must serve as trusted advisors that speak with one voice, listen well and provide consistent guidance on people-related matters.

HR's recent reorganization is designed to improve customer service, provide stronger support to employees, and is aimed at developing the next generation of leaders through training, Management Academy, and recruitment.

HR will continue to simplify policies, processes, and procedures to reduce the costs of HR administration by utilizing technology, reducing redundancies and implementing new approaches to existing services.

HR will develop standard reports to enhance management access to employee data and assist with decision-making.

HR will administer a full-range of benefit services for health, leave, deferred compensation and retirement programs.

HR will continue to review the recruitment process and procedures to improve quality of hire and time-to-fill.

## Ensure Compliance with Laws and Regulations

HR manages compliance to four MOUs and the Administrative Code, and addresses many sensitive and confidential personnel issues.

HR will continue to monitor a wide array of changing legal and regulatory requirements while adapting HR processes and systems to conform to these changing requirements.

HR will ensure Metropolitan meets Equal Employment Opportunity requirements and numerous Federal, State, and Local laws and regulations and Public Sector codes and rulings.

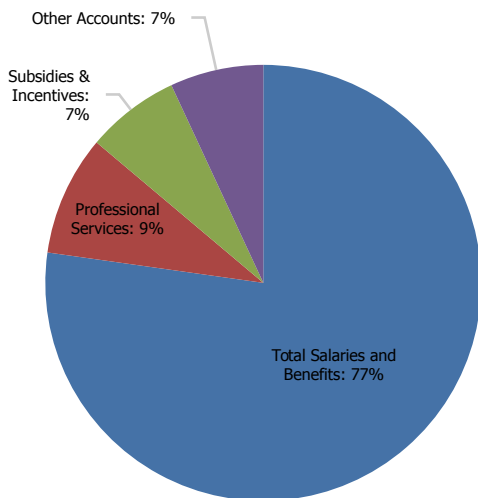
HR will maintain fiduciary responsibilities in the management of financial and retirement programs and comply with the Affordable Care Act and with all privacy and data security requirements.

## O&M FINANCIAL SUMMARY

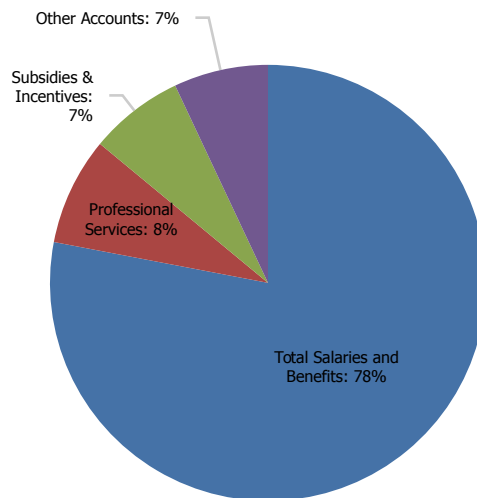
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	9,843,600	9,973,600	11,066,200	1,092,600	11,629,400	563,200
Direct Charges to Capital	(98,100)	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>9,745,500</b>	<b>9,973,600</b>	<b>11,066,200</b>	<b>1,092,600</b>	<b>11,629,400</b>	<b>563,200</b>
% Change		2.3%		11.0%		5.1%
Professional Services	1,232,600	1,126,700	1,221,200	94,500	1,242,700	21,500
Advertising	208,000	140,000	225,000	85,000	230,000	5,000
Outside Services - Non Professional / Mainte	200,900	231,500	240,300	8,800	240,300	—
Subsidies & Incentives	912,400	961,500	974,800	13,300	974,800	—
Training & Seminars Costs	208,300	177,700	146,100	(31,600)	146,300	200
Other Accounts	314,500	270,500	403,500	133,000	404,800	1,300
<b>Total O&amp;M</b>	<b>12,822,200</b>	<b>12,881,500</b>	<b>14,277,100</b>	<b>1,395,600</b>	<b>14,868,300</b>	<b>591,200</b>
% Change		0.5%		10.8%		4.1%

Note - Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE

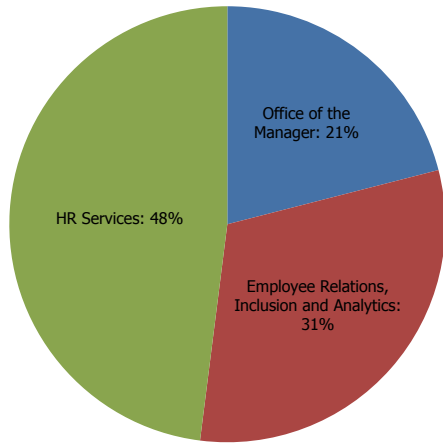


FY 2021/22 BUDGET BY EXPENDITURE

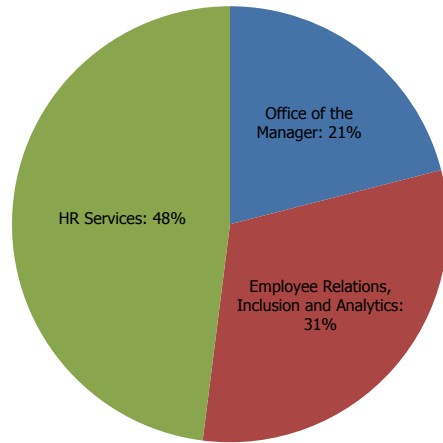


## O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Office of the Manager	3,488,700	2,967,400	(521,300)	3,121,200	153,800	7	8	8
Employee Relations, Inclusion and Analytics	3,254,700	4,410,800	1,156,100	4,567,600	156,900	11	11	11
HR Services	6,138,100	6,898,900	760,800	7,179,400	280,500	24	28	28
<b>Total O&amp;M</b>	<b>12,881,500</b>	<b>14,277,100</b>	<b>1,395,600</b>	<b>14,868,300</b>	<b>591,200</b>	<b>42</b>	<b>47</b>	<b>47</b>

Totals may not foot due to rounding.

## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
		<b>Regular</b>	<b>Total</b>	39	42	42	—
	O&M	38	42	42	—	42	—
	Capital	1	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	7	—	5	5	5	—
	O&M	7	—	5	5	5	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>45</b>	<b>42</b>	<b>47</b>	<b>5</b>	<b>47</b>	<b>—</b>
	O&M	45	42	47	5	47	—
	Capital	1	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

HR's Biennial Budget is \$14.3 million in FY 2020/21 and \$14.9 million in FY 2021/22 or an increase of 10.8% and an increase of 4.1% respectively from the prior budget years. The changes are due primarily to the following factors:

- Professional services increase in both years due to increased organizational and employee development training and programs, and increased recruitment activities. Additionally, there were increases to Metropolitan's Workers' Compensation third-party contract.
- Rents and Leases increase due to the Union Station Headquarters Improvement Project.

The following are the significant changes by budget year:

### FY 2020/21

#### Personnel–Related issues

Personnel count increased by five District Temporary positions from the FY 2019/20 budget in order to accommodate increased recruitment and classification workload, HRIS administration, as well as succession planning for future vacancies.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget reflects increases as a result of bargaining unit negotiations. The budget also reflects increases in Recruitment, Organizational and Employee Training Programs, as well as an increase to the Workers' Compensation agreement.

#### Advertising

The budget reflects an increase as a result of an increase in recruitment activity.

#### Other

The budget reflects a net increase in Software Licensing & Support, Rents & Leases, and Equipment Expensed.

### FY 2021/22

#### Personnel–Related issues

Personnel count remains flat from FY 2020/21.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget reflects increases in Recruitment, Organizational and Employee Training Programs, as well as an increase to the Workers' Compensation agreement.



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# REAL PROPERTY

Real Property applies strategic approaches to the acquisition, management and protection of Metropolitan's real property assets, and seeks to effectively optimize revenues and control land management costs.

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## PROGRAMS

The Real Property group accomplishes its mission through the following programs or organizations:

**Office of the Group Manager** includes Business Management, Planning & Acquisition, Property Management, and Asset Management. The Group Manager directs the group's efforts in planning acquiring, and managing Metropolitan's real property assets; is responsible for the development of real property policies and strategies to centralize Metropolitan's land activities to ensure properties are maintained, secured, and protected for present and future needs.

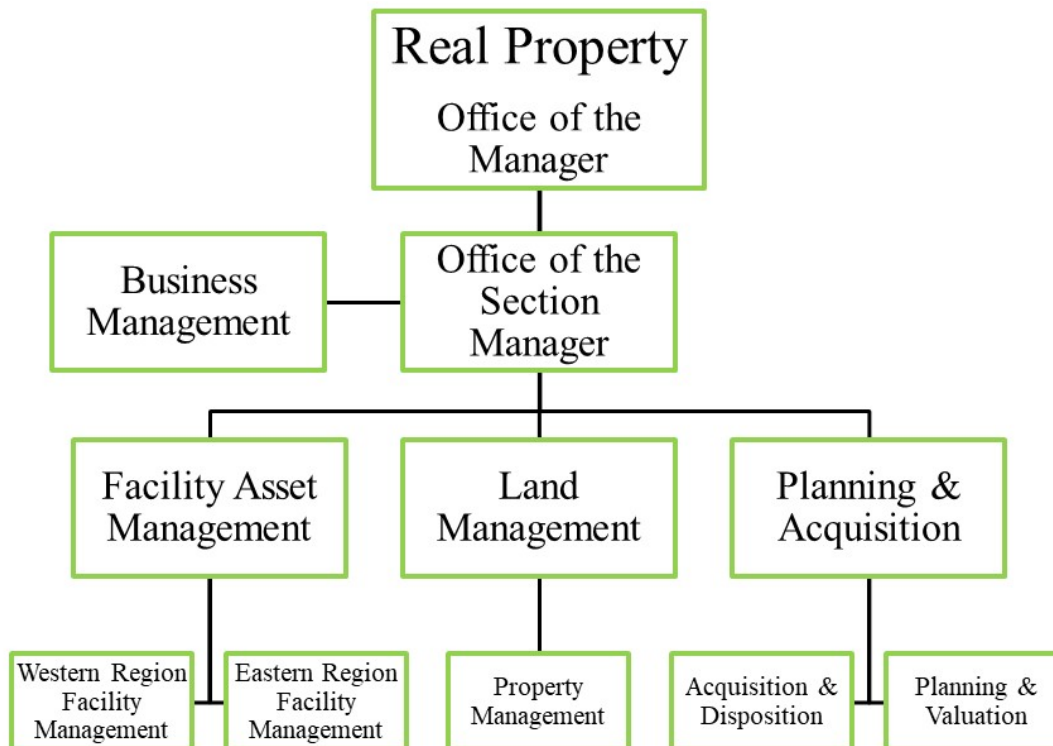
**Business Management** monitors and tracks the group's business plan, financial and budgetary initiatives; and provides administrative and business process support. In addition, the Team handles property tax payments, lease payments, provides contract support, and board letter and report coordination.

**Planning & Acquisition** is responsible for right of way planning and acquisition of real property and

real property rights for future conveyance and distribution programs and existing infrastructure rehabilitation programs. The unit is also responsible for the disposition of surplus properties.

**Property Management** is responsible for managing Metropolitan's real property assets, processing requests for secondary uses of real property and identification of properties that are excess to Metropolitan's needs. In addition, the Unit is responsible for the protection of Metropolitan's real property including site inspections, trespass and encroachment resolution.

**Asset Management** is responsible for management of Metropolitan's headquarters facility, the DVL Visitor Center and provides management and maintenance of employee housing.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, Real Property will focus on the following key issues:

### Centralized Management of Metropolitan's Real Property Assets

Continue with a centralized management approach of Metropolitan's real property assets to ensure properties are regularly maintained, secured and protected for present and future needs.

Continue and complete the managerial reorganization of employee housing to the Real Property Group.

Implement and test a staffing plan, a maintenance/replacement schedule and cost estimates for the property management of approximately 100 desert housing units.

Continue to budget, administer, and provide property and facility management services for the leased office space in Sacramento, Washington DC, and San Diego.

Continue facility management direction and logistical support throughout the Union Station

Headquarters Improvement Project.

### Real Property Asset Protection & Stewardship

Monitor legislation regarding eminent domain, relocation assistance, and public agency real estate acquisition and appraisal practices.

Provide timely and suitable responses to property adjacent projects, land developments, and environmental proceedings.

Complete property management and right-of-way operating policies to reflect contemporary best practices.

Implement a new web-enabled right of way software and property management solution to improve processes to monitor financial compliance with terms and conditions of licensing and leasing agreements such as invoicing, insurance coverage, and accounts receivable.

Develop a staffing and implementation plan to detect and address right-of-way encroachments

upon Metropolitan properties with a collaborative cross-functional approach to prioritize and remediate the highest risk conditions.

Complete annual reviews to identify properties that are excess to Metropolitan's needs, and bring information to the Board for action to declare those properties surplus.

Coordinate a monthly cross-functional Property Review Council to review land-use requests by public and private entities to ensure Metropolitan's rights-of-way, facilities, environmental reserves and water quality are protected.

Complete annual site inspections of conveyed property to identify and correct any conditions in conflict with terms and conditions of the conveyance agreements.

File possessory tax reports and tax payments to appropriate counties on time.

### Bay Delta Properties

Complete and start implementation of a specific comprehensive Land Management Plan to optimize use and best land owner management practices.

Maximize utilization of the 20,000 acres of agricultural lands and revenue-leases purchased in the Delta to offset costs of land ownership.

Ensure Water Reclamation District assessments, local property taxes and coalition fees are paid on time.

Provide support to the Delta conveyance and habitat rehabilitation efforts.

### Palo Verde Valley Properties

Complete and start implementation of a specific comprehensive Land Management Plan to optimize use and best land owner management practices.

Manage Metropolitan's 29,000 acres of agricultural lands and revenue-leases to encourage a vibrant farming economy, water conservation, and to offset costs of land ownership.

Ensure Palo Verde Irrigation District water tolls, local property taxes, and coalition fees are paid by

the farmers and lease-holders on time.

### Diamond Valley Lake Recreation and Management

Identify infrastructure improvements as part of the Diamond Valley Lake Recreation capital appropriation. These projects will enhance recreational opportunities and promote economic self-sustainability.

Explore marina and other recreational opportunities to expand lease revenues, and collaborate with the stakeholders of the DVL Recreation Area Memorandum of Intent.

Identify additional DVL land considered excess to Metropolitan's needs, and bring to the Board for action to declare those properties surplus.

### Right of Way Planning, Acquisition & Disposition

Provide right-of-way planning and acquisition of real property and real property rights, including appraisal and relocation services, for future conveyance and distribution programs and infrastructure rehabilitation programs. These include the Regional Recycled Water Program, Right of Way & Infrastructure Protection Program and the Prestressed Concrete Cylinder Pipeline Rehabilitation Program.

Other projects include the CRA Reversionary Interest that is tied to the 1932 Act, which supports water supply reliability. Lastly, services include disposition of surplus properties.

### Facility & Energy Management

Continue to optimize the cost of maintaining Metropolitan's headquarters building and DVL Visitor's Center while supporting Metropolitan's sustainability initiatives established by the Building Owners and Managers Association and EPA's voluntary ENERGY STAR program.

Execute a multi-year strategic approach to manage critical rehabilitation projects at Metropolitan's Headquarters as the equipment, components, and furnishings reach the end of their useful life cycle.

Complete an architectural plan and begin implementation to paint, carpet, and replace

cubicle/modular furniture on all floors of the Headquarters facility.

Continue to manage employee relocations during the construction phase of the Union Station Headquarters Improvement Project.

Complete a multi-year plan, implemented in the prior budget cycle, to replace asphalt and pavement at DVL recreation areas and roads.

### Workforce Development & Succession Planning

Expand knowledge, skills, and abilities of staff through training, succession planning, and educational workshops.

Engage with local universities and professional societies to promote Metropolitan employment opportunities.

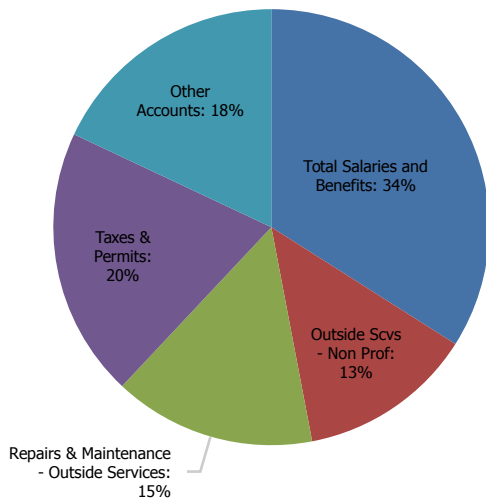
Collaborate with public agencies to identify areas where consistent real property best practices can be applied.

## O&M FINANCIAL SUMMARY

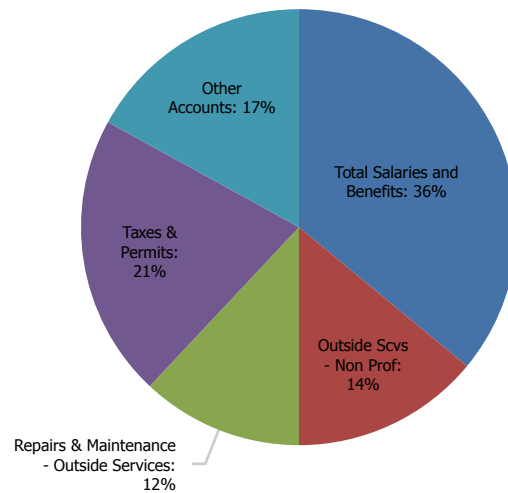
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	8,964,000	10,403,200	12,262,100	1,858,900	12,742,300	480,200
<i>Direct Charges to Capital</i>	<i>(490,300)</i>	<i>(117,900)</i>	<i>(1,813,100)</i>	<i>(1,695,200)</i>	<i>(1,939,000)</i>	<i>(125,900)</i>
<b>Total Salaries and Benefits</b>	<b>8,473,700</b>	<b>10,285,300</b>	<b>10,449,000</b>	<b>163,700</b>	<b>10,803,300</b>	<b>354,300</b>
% Change		21.4%		1.6%		3.4%
Professional Services	509,600	934,600	1,190,600	256,000	1,161,600	(29,000)
Outside Services - Non Professional / Mainte	3,047,900	4,782,100	3,919,100	(863,000)	4,149,200	230,100
Rent & Leases	1,025,100	950,900	1,120,900	170,000	1,138,900	18,000
Repairs & Maintenance - Outside Services	901,000	3,311,200	4,607,500	1,296,300	3,492,000	(1,115,500)
Taxes & Permits	4,984,100	5,796,000	6,175,600	379,600	6,346,700	171,100
Utilities Charges	1,291,500	1,464,800	1,473,500	8,700	1,548,800	75,300
Other Accounts	1,079,900	922,200	1,617,200	695,000	1,237,700	(379,500)
<b>Total O&amp;M</b>	<b>21,312,800</b>	<b>28,447,100</b>	<b>30,553,400</b>	<b>2,106,300</b>	<b>29,878,200</b>	<b>(675,200)</b>
% Change		33.5%		7.4%		(2.2%)
Operating Equipment	227,700	—	99,600	99,600	21,000	(78,600)
<b>Total O&amp;M and Operating Equipment</b>	<b>21,540,500</b>	<b>28,447,100</b>	<b>30,653,000</b>	<b>2,205,900</b>	<b>29,899,200</b>	<b>(753,800)</b>
% Change		32.1%		7.8%		(2.5%)

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 Budget by Expenditure



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>41</b>	<b>51</b>	<b>50</b>	<b>(1)</b>	<b>50</b>	<b>—</b>
	O&M	39	50	43	(8)	43	—
	Capital	2	1	8	7	8	—
<b>Temporary</b>	<b>Total</b>	<b>3</b>	<b>1</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>(2)</b>
	O&M	3	1	7	6	5	(2)
	Capital	1	—	2	2	2	—
<b>Total Personnel</b>	<b>Total</b>	<b>44</b>	<b>52</b>	<b>59</b>	<b>7</b>	<b>57</b>	<b>(2)</b>
	O&M	41	51	49	(2)	47	(2)
	Capital	3	1	10	9	10	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

Real Property's O&M and Operating Equipment Biennial Budget is \$30.7 million in FY 2020/21 and \$29.9 million in FY 2021/22 or an increase of 7.8% and a decrease of 2.5%, respectively from the prior budget years. The main factors affecting these changes:

- Expanded responsibilities for the group, including the management, maintenance and construction of Employee District Housing throughout the service area.
- Large maintenance and repair projects at Metropolitan's USHQ Facility, DVL Visitor Center and Recreation Area, and property structures in the Bay Delta and Palo Verde Valley.
- Significant efforts related to encroachment remediation, appraisal and marketing of surplus properties, and office relocation services during the Union Station Headquarters Improvement Project.

The following are the significant changes by budget year:

### FY 2020/21

#### Personnel-Related Issues

Total personnel count is decreasing by one regular full time position and increasing by eight district temporary positions from the FY 2019/20 budget. The increase in district temporary labor is necessary to support critical district housing projects, management of Bay Delta and Palo Verde property structures, land protection projects, and the encroachment remediation projects.

Capital labor allocation reflects a significant increase in FY 2020/21 in order to support such projects as the Employee Village Enhancements in the desert, Union Station Headquarters Improvement Project, USHQ Fire Alarm Replacement, support to Engineering for the

Prestressed Concrete Cylinder Pipeline Rehabilitation, Right of Way and Infrastructure Protection, and the Enterprise Content Management projects.

Salaries and benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

The budget reflects an increase in professional consulting services anticipated for the implementation of a new property management database, as well as examination of the impacts and opportunities associated with the Release of Federal Reversionary Lands Act of June 18, 1932 (47 Stat. 324, chapter 270). In addition,

consultants will be retained to complete a regenerative agricultural study in the Palo Verde Valley with California State University at Chico.

### Non-Professional Services

The budget reflects a significant decrease from the FY 2019/20 budget which included a large portion of the costs for the temporary relocation of personnel and cubicle-workstations during the Union Station Headquarters Improvement Project.

### Repairs and Maintenance - Outside Services

The budget reflects increased costs for repairs and maintenance at Headquarters, DVL Recreation and Visitors Center, Employee District Housing, and property structures in the Bay Delta and Palo Verde Valley.

### Taxes & Permits

The budget reflects increases to annual property tax payments, as well as a one-time assessment from the Bay Delta Island Reclamation Districts for demolition of occupied and unoccupied structures in the Bay Delta.

### Other

The budget reflects an increase due to one-time Expensed Equipment purchases for replacement of seating in the Board, replacement of chairs and tables in the committee rooms, cafeteria equipment and equipment for the USHQ Wellness Center.

## FY 2021/22

### Personnel-Related Issues

Total personnel count is decreasing by two district temporary positions from the FY 2020/21 budget. This decrease reflects the completion of temporary work assignments.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Non-Professional Services

The budget reflects an increase due to contract price escalations, including contracts for janitorial and building engineering services.

### Repairs and Maintenance - Outside Services

The budget reflects a reduction from FY 2020/21 due to the completion of one-time repairs, reduction in the movers necessary for the Union Station Headquarters Improvement Project, and completion of a three-year paving project at the DVL recreation facilities and Visitor's Center.

### Other

The budget reflects a decrease due to one-time furniture purchases for Board and Committee rooms in the FY 2020/21.

### Operating Equipment - FY 2020/21 and FY 2021/22

The operating equipment budget reflects an increase in FY 2020/21 due to the replacement of commercial equipment in the USHQ Wellness Center that has reached end-of-life, a CAD plotter, and a vehicle (truck) for an ongoing California Fish & Wildlife Service contract at DVL.



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# OFFICE OF CHIEF FINANCIAL OFFICER

The Office of the Chief Financial Officer (CFO) provides innovative, proactive, and strategic financial direction in support of the mission of Metropolitan, the Board of Directors, management, and employees.

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## PROGRAMS

The Office of the Chief Financial Officer is responsible for maintaining Metropolitan's strong financial position and high credit ratings and helping to achieve equitable water rates and charges that generate sufficient revenues.

In addition, the Office of the CFO assists in the efficient management of Metropolitan's financial resources, and ensures that adequate financial controls are in place to accurately record financial transactions, communicate financial results, and protect Metropolitan's assets.

The Office of the CFO accomplishes its mission through the following programs or sections:

**Chief Financial Officer** is responsible for the overall administration of finance and accounting functions for Metropolitan including debt and investment management; financial planning and analysis including rate setting and budgeting; accounting and control including financial reporting, payroll, accounts payable, accounts receivable; and risk management and business continuity.

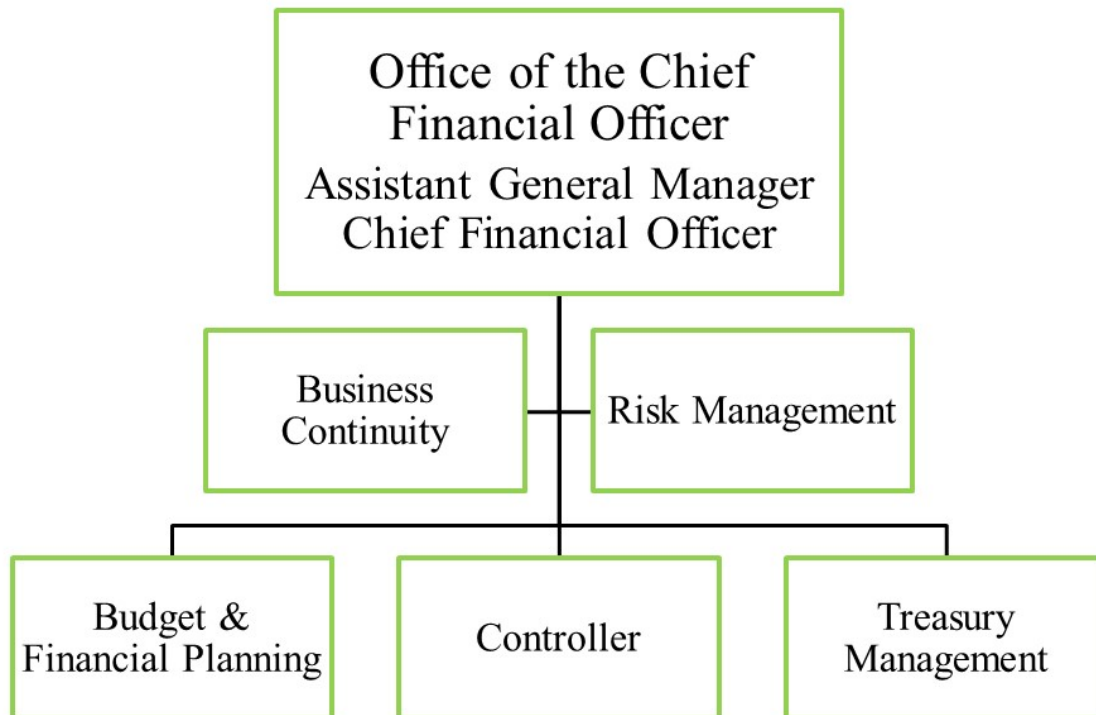
**Business Continuity Management Program** ensures that Metropolitan productively identifies potential business impacts and implements recovery strategies to continue critical operations in the event of an emergency or other business disruption. This is accomplished by conducting Business Impact Analyses and developing business continuity plans along with a life cycle of ongoing plan maintenance, testing, training and awareness. In addition, emergency communications are spearheaded using the MetAlert mass notification system.

**Risk Management** reports directly to the Chief Financial Officer section, is responsible for managing all aspects of Metropolitan's casualty insurance and risk management programs to minimize exposure to loss; access risk and recommend strategies to minimize or transfer contract risk on all Metropolitan and agreements, and procure excess and specialty insurance policies to supplement the self-insured property and liability claims program.

**Budget and Financial Planning** is responsible for Metropolitan's Biennial Budget, revenue requirements, and rates and charges recommendations; cost monitoring and analysis; short and long term financial analysis; planning and financial modeling; the water standby charge program; and the annual tax levy and annexation fee calculations.

**Controller** is responsible for maintaining internal controls that safeguard Metropolitan's assets, as well as recording and maintaining its official accounting records via the billing, accounts payable, payroll, and financial reporting functions.

**Treasury/Debt Management** is responsible for Metropolitan's investment and treasury obligations including receipt, safekeeping, and disbursement of Metropolitan's funds; preparation of security sales documents; and all commercial banking activities, including receipts and payment processing, such as wires, checks, and automatic deposits; and administration of debt obligations including all issuance of bonds, and investor and bond rating agency relations.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, the Office of the CFO will focus on the following key issues:

### Cost of Service and Budget

Complete the biennial cost-of-service analysis for rates and charges. Complete and implement the Biennial Budget.

### Financial Forecasts and Analysis

Provide an updated Ten-Year Financial Forecast in the Biennial Budget.

Continue to provide the Board with various analyses to manage financial performance for long-term rate stability, given the future potential implementation of the Delta conveyance and the Regional Recycled Water Program.

Analyze the funding of financial initiatives as identified.

### Annexation/Tax Levy

Complete the annual annexation calculation and tax levy assessment.

### Rates and Charges

Manage and effectively administer rates and charges to recover costs consistent with Board policy and objectives. Complete a comprehensive rate restructuring study.

### Financial Reporting/Internal Controls

Continue to record and report the financial activities of Metropolitan in a timely and transparent manner to the Board and member agencies.

Continue to ensure that internal controls are in place to provide assurance that assets are safeguarded and financial information is fairly stated.

Continue to improve communications of financial information to the Board, member agencies, management, and the financial community.

Continue to improve communications of financial information to the Board, member agencies, management, and the financial community.

## Capital Financing

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.

Work with Metropolitan's underwriting team, financial advisors, and swap advisors to identify financing opportunities to prudently manage the overall cost of financing Metropolitan's capital investment program.

Manage investor relations to ensure clear communications, accuracy of information, and integrity.

Continue to manage debt service to mitigate the volatility of debt service payments over time and reduce debt service costs through re-financings and the prudent use of interest rate swaps, in accordance with Metropolitan's interest rate swap policy.

Maintain relationships with the financial community and bond rating agencies to maintain Metropolitan's high credit ratings and access to various aspects of the financial markets to maximize financial flexibility.

## Investment

Prudently invest Metropolitan's funds with the objective of safety of principal, liquidity, and yield.

Manage the short term portfolio to provide the necessary liquidity to fund in excess of \$3.0 billion over the biennium in expenditures for Operations and Maintenance, debt service, and construction projects.

Measure the performance of the short-term portfolio, and manage the portfolio to meet or exceed the short-term benchmark consistent within established investment codes and policy.

Manage outside portfolio managers to ensure compliance with Metropolitan's investment policy, and to monitor investment activity performance.

## Risk Management

Continue to effectively manage Metropolitan's casualty insurance and risk management programs to minimize exposure to loss.

## Business Continuity

Continue to refine the Business Continuity Plan template and Fusion system to capture better information and produce actionable and easy to follow recovery plans.

Collaborate with the business users to perform annual plan updates and approvals using Fusion software.

Conduct biannual application recovery exercises will be with the business users to ensure accessibility, data integrity, and functionality of critical applications and data as indicated in the Business Impact Analysis (BIA). Information Technology is enhancing the disaster recovery infrastructure at the Lake Mathews backup data center that will provide a robust and safe test environment for the business users.

Conduct tabletop exercises for Metropolitan's business continuity plan to validate recovery strategies and identify areas in need of updating.

Test emergency communications using MetAlert (the MIR3 mass notification system) on a regular frequency to all employees as well as the Board to ensure effective communications in the event normal methods are impacted.

## Workforce Development & Succession Planning

Continue to examine and consider the challenges associated with succession planning and future staffing requirements in light of the composition and age of the workforce.

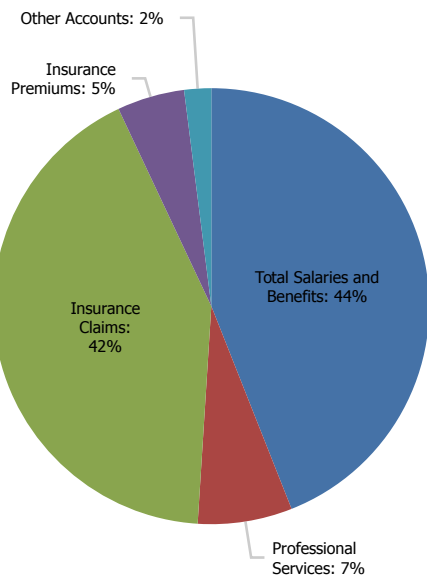
Work with each section within the Office of the CFO to establish staff back-up responsibilities for various work processes.

## O&M FINANCIAL SUMMARY

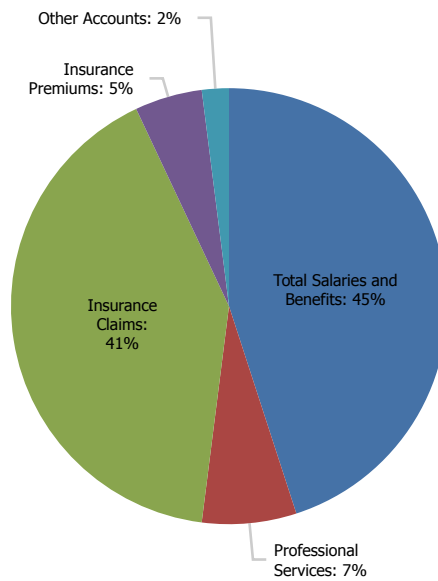
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	7,892,500	10,763,100	12,858,800	2,095,700	13,104,600	245,800
Direct Charges to Capital	(61,200)	—	(626,800)	(626,800)	(203,000)	423,800
<b>Total Salaries and Benefits</b>	<b>7,831,300</b>	<b>10,763,100</b>	<b>12,232,000</b>	<b>1,468,900</b>	<b>12,901,600</b>	<b>669,600</b>
% Change		37.4%		13.6%		5.5%
Professional Services	1,298,300	1,076,600	2,084,900	1,008,300	2,061,100	(23,800)
Insurance Claims	714,100	11,547,600	11,733,000	185,400	11,920,000	187,000
Insurance Premiums	1,283,800	1,300,000	1,450,000	150,000	1,500,000	50,000
Other Accounts	320,800	510,900	449,300	(61,600)	450,600	1,300
<b>Total O&amp;M</b>	<b>11,448,300</b>	<b>25,198,200</b>	<b>27,949,200</b>	<b>2,751,000</b>	<b>28,833,300</b>	<b>884,100</b>
% Change		120.1%		10.9%		3.2%

Totals may not foot due to rounding.

### FY 2020/21 BUDGET BY EXPENDITURE

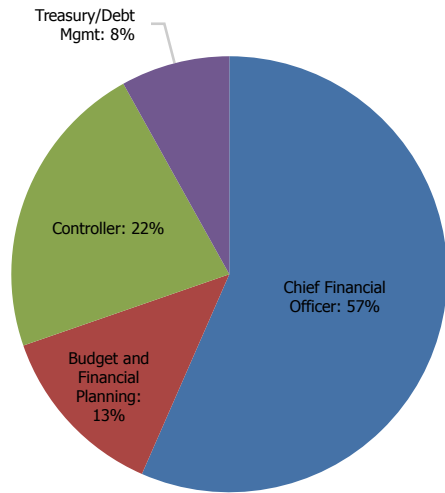


### FY 2021/22 Budget by Expenditure

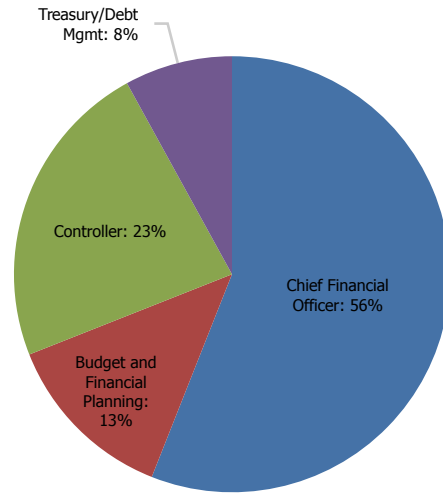


## O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Chief Financial Officer	14,847,600	15,710,600	863,000	16,064,200	353,600	6	8	8
Budget and Financial Planning	2,822,600	3,661,700	839,100	3,716,800	55,100	10	11	11
Controller	5,487,800	6,265,200	777,400	6,682,000	416,800	28	31	31
Treasury/Debt Mgmt	2,040,100	2,311,700	271,600	2,370,300	58,600	5	5	5
<b>Total O&amp;M</b>	<b>25,198,100</b>	<b>27,949,200</b>	<b>2,751,000</b>	<b>28,833,200</b>	<b>884,100</b>	<b>49</b>	<b>55</b>	<b>55</b>

Totals may not foot due to rounding.

## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>46</b>	<b>49</b>	<b>51</b>	<b>2</b>	<b>51</b>	<b>—</b>
	O&M	46	49	51	2	51	—
	Capital	—	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>2</b>	<b>—</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>—</b>
	O&M	2	—	4	4	4	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>48</b>	<b>49</b>	<b>55</b>	<b>6</b>	<b>55</b>	<b>—</b>
	O&M	48	49	55	6	55	—
	Capital	—	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Office of the CFO's O&M Biennial Budget is \$27.9 million in FY 2020/21 and \$28.8 million in FY 2021/22 or an increase of 10.9% and an increase of 3.2% respectively from the prior budget years.

The change is primarily due to the following factors:

- Staffing was increased in the Rates & Charges unit to manage the development of the critical biennial rate setting and cost of service processes including the ten year financial forecast, and also to support the Payroll process and accurate and timely reporting of compensation to CalPERS.
- Temporary labor increase to support increased reporting workload due to new government accounting and reporting standards as well as reporting for Delta Conveyance Authority (DCA), Delta Conveyance Finance Authority (DCFA), Six Agency Committee, Colorado River Board and other agencies; accurate payroll processing and reporting to CalPERS; and critical business systems such as water billing, payroll and budget.
- The increase in professional services is primarily due to a new rate restructuring study to be undertaken over the biennium. The other increases are for investment management services, and critical audits or studies related to internal controls, bond accounting, Government Accounting Standards (GASB) implementation, and critical business systems.

The following are the significant changes by budget year.

### FY 2020/21

#### Personnel–Related issues

Total personnel count is increasing by 2 regular full time positions and 4 district temporary positions from the FY 2019/20 budget.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

#### Professional Services

Accounting for the realignment of some of the budget from memberships and subscriptions to professional services, the budget for professional is increasing by about \$800K. Over 60% of this increase is related to a new rate restructuring study to be undertaken over the biennium. The remaining increase is for investment management services to support Metropolitan's \$600 million investment portfolio, and for critical audits and studies related to accounting, reporting and business systems.

#### Insurance Premiums

The insurance premiums budget is increasing as a result of the expected overall pool exposure to catastrophic losses such as wild fire risk liability, US economic and political uncertainties, global instability and new and increased exposures due in part to climate change.

#### Insurance Claims

Third party liability claims budget is increasing based on projected losses from the actuarial report.

## FY 2021/22

### Personnel–Related issues

Total personnel count remains flat from the FY 2020/21 budget.

Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Professional Services

The professional services budget is decreasing primarily as the result of the completion of the rate restructuring study before the end of the year.

### Insurance Premiums

The insurance premiums budget is increasing as a result of the expected overall pool exposure to catastrophic losses.

### Insurance Claims

Third party liability claims budget is increasing based on projected losses from the actuarial report.



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# EXTERNAL AFFAIRS

External Affairs builds awareness and support for Metropolitan's mission and programs by directing media and stakeholder communications, public outreach and education projects, legislative activities, business outreach and innovation programs, and member agency support services.

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## PROGRAMS

External Affairs is responsible for advancing Metropolitan's policy objectives and communicating with large and diverse audiences on behalf of the district. A strong portfolio of communication tools, public outreach and sponsorship programs, education, legislative and innovation activities is used to build positive working relationships and increase awareness of Metropolitan's programs and initiatives with the public, news media, legislators, regulators, educators, community groups, businesses, labor organizations, Metropolitan's public member agencies and other stakeholders.

Staff at the Union Station headquarters office and regional representatives give voice to Metropolitan's policy priorities and projects throughout Southern California. External Affairs also manages strategic activities and regional outreach in Metropolitan's offices in Sacramento, Washington, D.C. and San Diego.

**Office of Group Manager** directs the activities of Business Outreach, Conservation and Community Services, Legislative Services, Media Services and the Member Services and Public Outreach sections, and the Business Management team. The Group Manager provides strategic leadership to communicate policy objectives and program initiatives in coordination with the board, executive management and other groups within the organization.

**Business Outreach Team** actively encourages the participation of small, locally-owned, women-owned, minority-owned, disabled veteran-owned and economically disadvantaged business enterprises, and facilitates business in the solicitation and procurement of construction

contracts, professional services agreements, equipment and other materials and supplies. Through participation and collaboration with companies, entrepreneurs, innovation hubs and other agencies, the Business Outreach section enhances involvement in new technologies and positions Metropolitan as an international leader in water innovation.

**Legislative Services** promotes and protects the interests of Metropolitan and its member agencies before executive, legislative, and regulatory agencies of the state and federal governments. The section advances Metropolitan's policy objectives and board-adopted legislative priorities with legislators and other water policymakers, and supports an effective and growing outreach program with member agencies and stakeholders to mobilize and sustain support for Metropolitan's key initiatives.

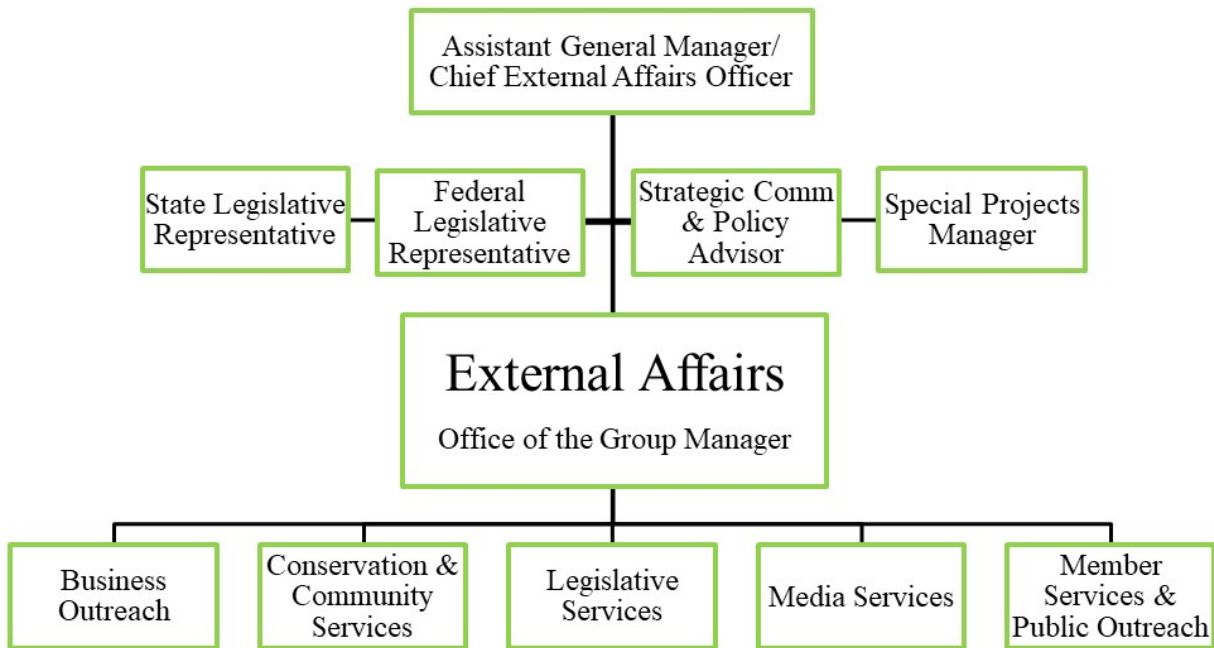
**Conservation and Community Services** advances public awareness of Metropolitan and important water and conservation issues through advertising, education and community outreach. The section promotes and helps market conservation programs and activities, and manages Metropolitan's sponsorships for education and research programs, water forums, events and community partnerships.

The Education Unit supports standards-based water education curriculum and works with educational associations, institutions and teachers to provide water education resources for elementary and secondary schools, colleges and universities. The unit hosts the annual Solar Cup competition.

**Member Services and Public Outreach** provides support services to Metropolitan’s member agencies and manages outreach efforts for Metropolitan’s facility operations, construction activities and other water resource initiatives. The section works with and supports local government, business, agriculture and community organizations, and directs research efforts to support Metropolitan programs. This section recently partnered with the Sanitation Districts of Los Angeles County on the construction of the Regional Recycled Water Advanced Purification Center, which is now operational at the Joint Water Pollution Control Plant in Carson. Staff conducts site tours of the new 500- gallon-per-day facility.

The Inspection Trip Team conducts board-sponsored field inspections of Metropolitan and related facilities to educate and inform business and community leaders with firsthand knowledge of Metropolitan’s operations.

**Media Services** develops, coordinates and communicates messages, information and achievements to support Metropolitan’s key objectives and programs. The section is responsible for media inquiries, press releases and conferences, informational resources including fact sheets, talking points, brochures and opinion pieces and videos, and managing Metropolitan’s websites, e-newsletters, blogs and a growing presence on social media platforms and digital platforms.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, External Affairs will focus on the following key issues and objectives:

### Communications and Outreach Efforts

Expand and continue to improve the use of strategic, impactful and creative communication plans and programs to inform the public, businesses, environmental and other stakeholder groups about Metropolitan's initiatives and leadership to ensure safe, reliable and sustainable water supplies now and into the future.

Update content and informational resources on the newly redesigned [mwdh2o.com](http://mwdh2o.com) website, manage development of redesigned microsites as needed to improve the functionality, content management, security and end-user experience.

Develop in-house management of social media outreach and marketing activities, search engine optimization and marketing functions to meet business and outreach goals.

Strengthen the capacity of sponsorship and partnership programs, including the Community Partnering Program, legislative sponsorships and memberships, and business outreach sponsorships, to enhance information-sharing on water issues and stewardship and relationships with non-governmental organizations, business groups, local elected officials, community organizations and other stakeholder groups throughout Southern California.

Engage in research and related activities that provide accurate and timely information on public opinions, consumer attitudes and awareness to inform future outreach activities with member agencies, stakeholders and the public.

### Water Supply Reliability, Conservation and Sustainability

Develop and implement an effective and well-managed multimedia, multilingual advertising and outreach campaign to increase public awareness of water supply conditions, Metropolitan and member agency rebate programs, and support for long-term conservation strategies.

Provide communication support for Metropolitan programs, planning activities and projects that ensure water supply reliability, including existing water operations, imported supplies from the Colorado River and State Water Project, the Integrated Resource Plan and local resource programs that diversify the region's water portfolio, conservation actions and innovative water technologies.

Increase awareness of Metropolitan's long-standing efforts to promote environmental stewardship through actions and investments for projects, programs, research and collaborative activities that promote the use of native plants, protect and enhance habitat and ecosystems, watersheds, and water quality.

Promote public awareness of climate change impacts on water supply conditions and reliability using a range of community and outreach tools to support Metropolitan's current and future initiatives, including the Climate Action Plan.

### Bay-Delta and Local Supply Initiatives

Provide information and secure support of stakeholders, the public and legislators for Metropolitan's positions on policies that promote water supply reliability and an environmentally sustainable Bay-Delta. This includes programs and policies related to Delta conveyance, EcoRestore and Metropolitan-owned properties and science investments in the Delta.

Ensure strong coordination and consistent messaging with state and federal agencies, State Water Contractors, JPA participating agencies, and member agencies on activities related to Delta conveyance.

Provide communication and community outreach to increase public awareness of and support for new and proposed projects to advance local supply development, including the Regional Recycled Water Advanced Purification Center.

## Legislative Policy Objectives

Work with the board, member agencies and executive management to secure support for and/or sponsorship of federal and state legislation and regulatory policies that advance Metropolitan's policy objectives, including strategic water quality and supply initiatives, conservation, Delta solutions, regional water resources projects, and sustainable water and energy management.

Conduct briefings, presentations and tours for elected officials and government leaders, and community-based environmental and business organizations to increase understanding of key water infrastructure systems and investments and key legislative and regulatory policies.

## Board and Member Agency Support

Facilitate ongoing communication and coordination between Metropolitan and its member agencies through regular meetings with general managers, legislative and education coordinators, and public information officers.

Effectively manage the inspection trip program in coordination with the Board to educate the public, business and community leaders, elected officials, news media, members of the public about Metropolitan and encourage a dialogue about the state's water supply and infrastructure, environmental issues and climate change impacts, agriculture and urban water interface and future challenges.

Provide primary support to the Board's Communications and Legislation Committee, the Agriculture and Industry Relations Committee, and the ad hoc Facilities Naming Committee, ensuring that committee presentations, board letters and associated activities provide timely, accurate and relevant information on programs, trends and activities to help inform board actions and ensure transparency.

## Business Outreach

Maintain an effective Business Outreach program for regional small businesses and veterans to ensure broad participation while achieving board-adopted goals of 25 percent or better for contracting dollars to small business and 3 percent to disabled veteran-owned enterprises.

Partner with member agencies in hosting "Connect 2 Met/Connect 2 Vet" and other business opportunity forums to educate local businesses on how to conduct business with public agencies and their purchasing departments.

Provide leadership and collaborate with member agencies, other public agencies and innovation programs to identify, develop and promote emerging water technologies.

## Educational Programs

Update and expand distribution of Metropolitan's K-12 water education materials in the areas of science, math, language arts and social studies.

In coordination with member agencies and the educational community, explore opportunities to expand educational services through the use of new technologies to reach more students, teachers and classrooms, including underserved and culturally diverse populations.

Support and manage Metropolitan's unique educational programs, including water education grants and sponsorship opportunities, the annual Solar Cup competition, and the annual Student Art Contest.

## Emergency Management and Crisis Communication

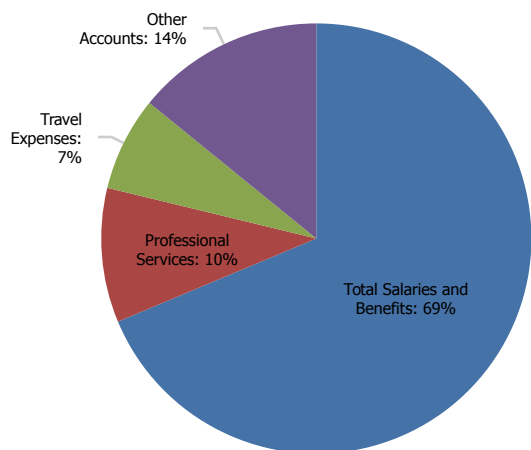
Support Metropolitan's emergency preparedness with a responsive crisis communications plan, well-trained staff, and the use of social media and other communications technologies to provide essential services during times of emergency and in response to disasters.

## O&M FINANCIAL SUMMARY

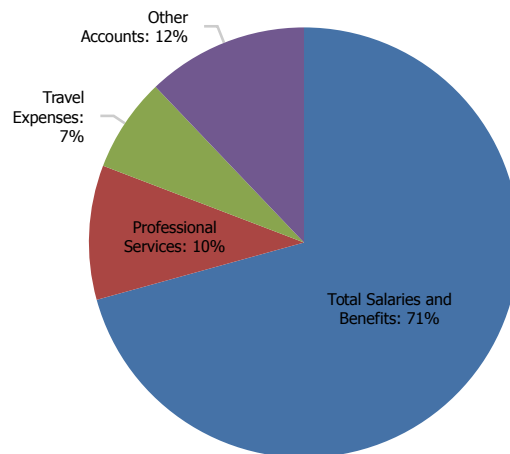
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	16,868,800	17,907,700	18,994,100	1,086,400	20,100,600	1,106,500
Direct Charges to Capital	(164,800)	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>16,704,000</b>	<b>17,907,700</b>	<b>18,994,100</b>	<b>1,086,400</b>	<b>20,100,600</b>	<b>1,106,500</b>
% Change		7.2%		6.1%		5.8%
Professional Services	2,314,900	2,944,300	2,824,500	(119,800)	2,825,800	1,300
Advertising	423,000	1,320,800	610,000	(710,800)	610,000	—
Community Outreach Activities	329,000	400,000	400,000	—	400,000	—
Materials & Supplies	320,200	275,700	319,200	43,500	317,000	(2,200)
Memberships & Subscriptions	484,400	577,100	704,900	127,800	703,400	(1,500)
Outside Services - Non Professional / Mainte	960,500	1,055,200	806,000	(249,200)	685,400	(120,600)
Sponsorships	563,700	659,300	655,500	(3,800)	664,000	8,500
Travel Expenses	1,475,500	1,831,400	1,966,500	135,100	1,966,500	—
Other Accounts	486,900	605,400	586,400	(19,000)	585,700	(700)
<b>Total O&amp;M</b>	<b>24,062,100</b>	<b>27,576,900</b>	<b>27,867,100</b>	<b>290,200</b>	<b>28,858,400</b>	<b>991,300</b>
% Change		—		—		—
Operating Equipment	30,400	32,300	—	(32,300)	—	—
<b>Total O&amp;M and Operating Equipment</b>	<b>24,092,500</b>	<b>27,609,200</b>	<b>27,867,100</b>	<b>257,900</b>	<b>28,858,400</b>	<b>991,300</b>
% Change		14.6%		0.9%		3.6%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE

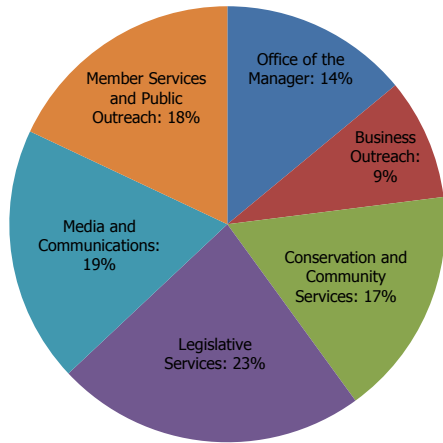


FY 2021/22 BUDGET BY EXPENDITURE

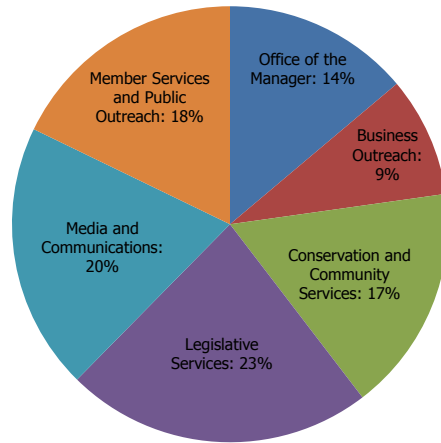


## O&M BUDGET BY SECTION

FY 2020/21 BUDGET BY SECTION



FY 2021/22 BUDGET BY SECTION



	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21	Personnel Budget		
						19/20	20/21	21/22
Office of the Manager	3,314,800	3,926,300	611,500	4,094,600	168,300	9	10	10
Business Outreach	2,421,400	2,383,600	(37,700)	2,502,100	118,500	7	7	7
Conservation and Community Services	5,275,400	4,870,500	(404,800)	4,929,500	59,000	11	11	11
Legislative Services	6,351,900	6,369,400	17,500	6,590,800	221,400	14	13	13
Media and Communications	5,689,500	5,382,700	(306,800)	5,649,700	267,000	19	20	20
Member Services and Public Outreach	4,524,200	4,934,700	410,500	5,091,600	156,900	10	11	11
<b>Total O&amp;M</b>	<b>27,577,000</b>	<b>27,867,100</b>	<b>290,200</b>	<b>28,858,300</b>	<b>991,100</b>	<b>70</b>	<b>72</b>	<b>72</b>

Totals may not foot due to rounding.

## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>69</b>	<b>70</b>	<b>72</b>	<b>2</b>	<b>72</b>	<b>—</b>
	O&M	68	70	72	2	72	—
	Capital	1	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
	O&M	1	—	—	—	—	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>70</b>	<b>70</b>	<b>72</b>	<b>2</b>	<b>72</b>	<b>—</b>
	O&M	70	70	72	2	72	—
	Capital	1	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

External Affairs' O&M and Operating Equipment Biennial Budget is \$27.9 million in FY 2020/21 and \$28.9 million in FY 2021/22 or an increase of 0.9% and an increase of 3.6%, respectively from the prior budget years, due to increased costs for salaries and benefits.

In an effort to achieve budget savings for non-labor activities, the plan incorporates new efficiencies for communication and outreach activities while maintaining strong support for Metropolitan's program, business and strategic priorities.

- **Advertising:** In FY 2018/19, the board authorized \$14.7 million for a three-year multi-media multilingual advertisement campaign to fully engage Southern Californians in making conservation a way of life. The campaign was funded, developed and implemented in coordination with WRM. It leveraged research, new messaging and creative concepts, and optimization to target consumers and more effectively reach disadvantaged communities. In FY 2020/21, spending for the advertising consultant contract will be reduced from the planned \$3 million to \$1.5 million, and the use of in-house resources for video services, design, social media marketing and member agency partnerships will be expanded to continue a successful outreach and marketing effort to promote rebates, native plants and water use efficiency.
- **Projects and Community Outreach:** External Affairs will continue to provide a full range of communications and public outreach support for capital projects and other major initiatives to promote water supply reliability and sustainability. These include a Delta conveyance project, the Regional Recycled Water Advanced Purification Center, the Integrated Resources Plan, climate change and refurbishment of existing infrastructure such as Colorado River, Second Lower Feeder, and other rehabilitation projects.
- **Online Strategic Initiatives:** A redesign of the mwdh2o.com website and project-specific microsites is scheduled for completion during FY 2020/21. This is being managed in collaboration with IT, and funding is administered by CIP. Recognizing the growing value of social media to communicate with broad and diverse audiences, new efforts will use Metropolitan's social media platforms to convey day-to-day activities and messaging on projects, initiatives and actions in a compelling and engaging format.
- **Board Outreach Support:** Resources are provided to support outreach activities by the Chairwoman and Metropolitan's Board, including inspection trips, communication activities, participation at conferences and community events, media training, coordination with member agencies for education, communication and legislative services, and logistical support.

The following are the significant changes by budget year:

### FY 2020/21

#### Personnel-Related Issues

The budget for Salary and Benefits reflect negotiated labor increases and merit increases for qualified employees that will be offset by anticipated vacancies from retirements in the biennial period. In FY 2018/19, one position was reassigned to the Delta Conveyance Authority and was subsequently backfilled. Additionally, one position was transferred out of External Affairs to Administrative Services. In FY 2019/20, one additional regular position was added to provide

support for capital projects outreach and communications as part of succession planning in the Member Services and Public Outreach Section.

#### Other

The FY 2020/21 and FY 2021/22, budgets reflect reductions from the FY 2018/19 and FY 2019/20 budgets in the advertising, professional services and non-professional services accounts, as a result of the website redesign being reallocated to the capital budget. These changes have been carefully evaluated to ensure External Affairs will have the resources to carry out its core mission and objectives in these areas effectively and efficiently.



The budget maintains funding levels to support Board and General Manager initiatives and priorities for website and electronic media enhancements, community outreach efforts, and research-related professional and non-professional services. The budget also directs funding within the External Affairs budget for new research and related activities that provide accurate and timely information on public opinions and awareness to help inform future outreach activities; business outreach, new technology-based education projects, enhanced legislative support in the region and stakeholder outreach.

### Operating Equipment

The budget reflects no operating equipment requests for FY 2020/21.

## FY 2021/22

### Personnel-related Issues

Total personnel count remains flat with the FY 2020/21 budget. Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.

### Operating Equipment

The budget reflects no operating equipment requests for FY 2021/22.

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# GENERAL COUNSEL DEPARTMENT

The Legal Department provides a full range of legal services in a professional, timely, cost-effective, and creative manner.

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## GOALS AND OBJECTIVES

The role of the Office of the General Counsel is to support the priorities established by the Board of Directors and the General Manager. The goal of the Legal Department is to provide a full range of legal services in a professional, timely, cost-effective and creative manner that minimizes risk to Metropolitan.

## PROGRAMS

The General Counsel is the chief legal spokesperson for Metropolitan and the Board of Directors and oversees the Legal Department's administrative functions.

The General Counsel represents Metropolitan in litigation and other proceedings to which Metropolitan is a party; provides legal advice to the Board, its committees, and to Metropolitan's staff; drafts, reviews, and negotiates contracts, documents, and other agreements; consults with representatives of other public and private entities on matters of mutual concern; monitors and analyzes pending and enacted legislations and, when appropriate, drafts legislative recommendations.

The Office of the General Counsel provides legal services to the Board, its committees, and to Metropolitan staff in the following areas:

- Represents Metropolitan's interests relating to water supply matters, including Bay Delta resources, Colorado River supplies, the State Water Contract (SWC) and the State Water Project (SWP) groundwater and water transfer issues, California Environmental Quality Act (CEQA), Endangered Species Act and other environmental issues, energy issues, water delivery and treatment, and worker safety.
- Represents Metropolitan's interests with regard to claims and litigation by or against Metropolitan.
- Provides legal advice with respect to the acquisition, management, and disposal of Metropolitan property and the administration of annexations, and provides legal assistance in Metropolitan's procurement and construction contract programs.
- Provides legal advice with respect to Metropolitan's financial activities, including Metropolitan's rates and charges, taxation, disclosure and bond issuance, legality of investments, and fiscal administration.
- Provides legal advice and assistance related to labor and personnel matters.
- Reviews, analyzes, and monitors pending state and federal legislation and drafts legislative recommendations.

In FY 2020/21 and FY 2021/22, the Office of the General Counsel will focus on the following key issues:

### Water Supply Reliability

Pursue a comprehensive legal strategy that proactively addresses legal issues associated with the operation of the SWP and the related permits and environmental matters while vigorously asserting and defending Metropolitan's interest in litigation and administrative proceedings regarding the SWP.

Provide legal advice in support of the development and implementation of the anticipated Department of Water Resources (DWR) proposal to improve the Delta conveyance facilities including the associated environmental documentation, implementing agreements and litigation in a manner supportive of Metropolitan's goals and objectives.

Provide legal advice regarding permitting, implementation and financing, of any proposed improvements to the Delta conveyance facilities including agreements with DWR and other state water contractors.

Provide legal advice and support relative to the continuing litigation relating to the Delta Stewardship Council, Oroville litigation and other matters impacting Metropolitan. Provide legal advice and support for proposed water transfers and exchanges and development of local resources, desalination and conservation projects and programs. Provide legal support for capital projects required to upgrade, repair and provide additional flexibility in the operation of Metropolitan's distribution system.

Provide legal advice and support for update and implementation of Metropolitan's Integrated Water Resources Plan Update and Urban Water Management Plan, including development of the Long-Term Conservation Plan.

Provide legal advice and support in connection with the proposed extension and amendment of the SWC and preparation of supporting environmental documents under CEQA and any separate amendment of the SWC relating to the development and operation of new or additional conveyance facilities.

Continue to defend and enforce the terms of the Quantification Settlement Agreement and related agreements among the participating agencies and other agencies with Colorado River contracts.

Assist in developing, negotiating and documenting new water conservation and augmentation projects and implement the Drought Contingency Plan (DCP). Defend Metropolitan in litigation challenging the DCP.

Provide legal support for Metropolitan's efforts to protect and make optimal use of its Colorado River rights and related water transfer, storage, and exchange programs. Provide legal support for initiatives to identify and obtain new water supplies on the Colorado River, and to protect existing Colorado River water supplies against erosion by unlawful or unreasonable uses.

### Finance

Provide legal advice regarding adoption of rates and charges. Continue to defend Metropolitan against challenges to its rate structure.

Provide legal advice and assist with amendments to existing bond resolutions and the development of a subordinate lien bond resolution.

### Operations

Negotiate and prepare service connection agreements for new or modified member agency connections. Provide legal assistance on regulatory and real estate issues, including CEQA issues, arising from service connection requests.

### District Governance

Continue to provide timely advice to the Board and committees on governance and legal compliance matters.

Serve as the point of contact and coordinate Metropolitan responses to Public Records Act requests.

### Corporate Resources/District Infrastructure

Provide legal support for capital investment projects and repair and replacement plans, including professional services and procurement contracts.

Provide legal support for environmental analysis under CEQA of Metropolitan’s projects and other discretionary actions, in addition to analyzing potential environmental impacts of other agencies’ projects on Metropolitan properties and facilities.

### Workforce/Human Resources

Provide proactive counsel, assistance and advice on workforce issues. Continue to defend Metropolitan in EEO and PERB matters, as well as grievance and disciplinary matters. Assist with investigations or engage third party investigators.

Represent Metropolitan in claims and litigation.

### Real Property

Assist Real Property group in the negotiation and documentation of real property acquisitions and the surplusing of real property. Negotiate and provide legal support for the lease and licensing of Metropolitan property. Provide legal support for the grant and acceptance of easements and entry permits.

Represent Metropolitan in real property disputes including landlord tenant issues, condemnation and inverse condemnation issues and other matters.

### Technology

Collaborate with Business Technology Group, External Affairs, and Human Resources on Information Governance Policies and the implementation of new technologies and protocols. Assist in educating the staff and Board in matters relating to technology and special media.

### Energy Costs and Management

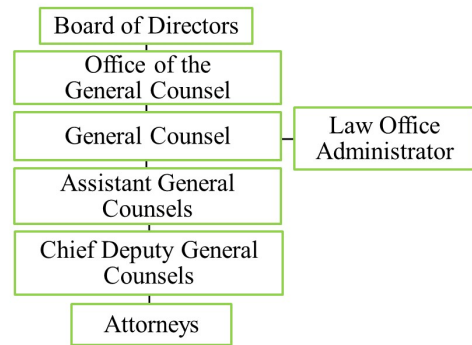
Assist with implementation of the Energy Management Plan, including providing advice on wholesale energy transactions, renewable energy projects and energy-related contracts and legislation.

Provide legal support to ensure that SWP energy needs are met in a cost-effective and sustainable manner.

## Legal Department Administration

Continue to aggressively manage outside counsel costs, while obtaining effective representation to protect Metropolitan’s interests. Provide on-going training opportunities and develop and implement succession planning.

### OFFICE OF THE GENERAL COUNSEL ORGANIZATION CHART

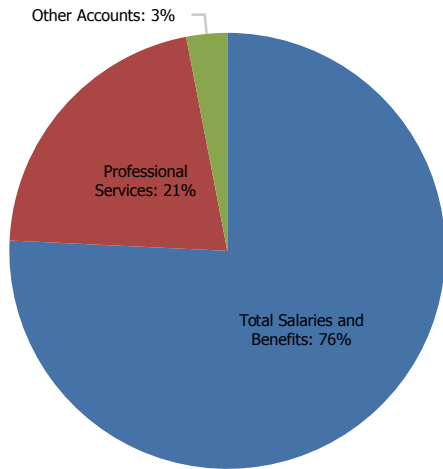


## O&M FINANCIAL SUMMARY

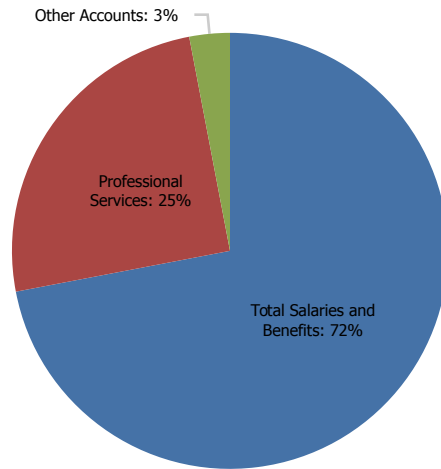
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	10,357,800	11,308,300	12,071,000	762,700	12,775,300	704,300
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>10,357,800</b>	<b>11,308,300</b>	<b>12,071,000</b>	<b>762,700</b>	<b>12,775,300</b>	<b>704,300</b>
% Change		9.2%		6.7%		5.8%
Professional Services	1,644,200	3,460,000	3,398,000	(62,000)	4,443,000	1,045,000
Materials & Supplies	25,400	55,000	170,000	115,000	170,000	—
Memberships & Subscriptions	111,000	110,000	110,000	—	110,000	—
Outside Services - Non Professional / Mainte	30,800	35,000	35,000	—	35,000	—
Subsidies & Incentives	55,100	55,000	55,000	—	55,000	—
Travel Expenses	59,100	120,000	120,000	—	120,000	—
Other Accounts	55,700	59,000	44,000	(15,000)	44,000	—
<b>Total O&amp;M</b>	<b>12,339,100</b>	<b>15,202,300</b>	<b>16,003,000</b>	<b>800,700</b>	<b>17,752,300</b>	<b>1,749,300</b>
% Change		23.2%		5.3%		10.9%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 BUDGET BY EXPENDITURE



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>36</b>	<b>37</b>	<b>37</b>	<b>—</b>	<b>37</b>	<b>—</b>
	O&M	36	37	37	—	37	—
	Capital	—	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>—</b>
	O&M	1	2	2	—	2	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>37</b>	<b>39</b>	<b>39</b>	<b>—</b>	<b>39</b>	<b>—</b>
	O&M	37	39	39	—	39	—
	Capital	—	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Office of the General Counsel’s Biennial Budget is \$16.0 million in FY 2020/21 and \$17.8 million in FY 2021/22 or an increase of 5.3% and an increase of 10.9% respectively from the prior budget years. The increase is primarily due to the following factors:

- Professional services costs increase reflects anticipated expenses for Bay Delta legal costs, water quality litigation, employment litigation and water rates litigation.
- Salaries and Benefits costs reflect negotiated labor increases and merit increases for qualified employees.

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# GENERAL AUDITOR DEPARTMENT

The Audit Department provides independent, professional, and objective assurance and consulting services designed to add value to and improve Metropolitan's operations.

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## PROGRAMS

The Audit Department helps the organization accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

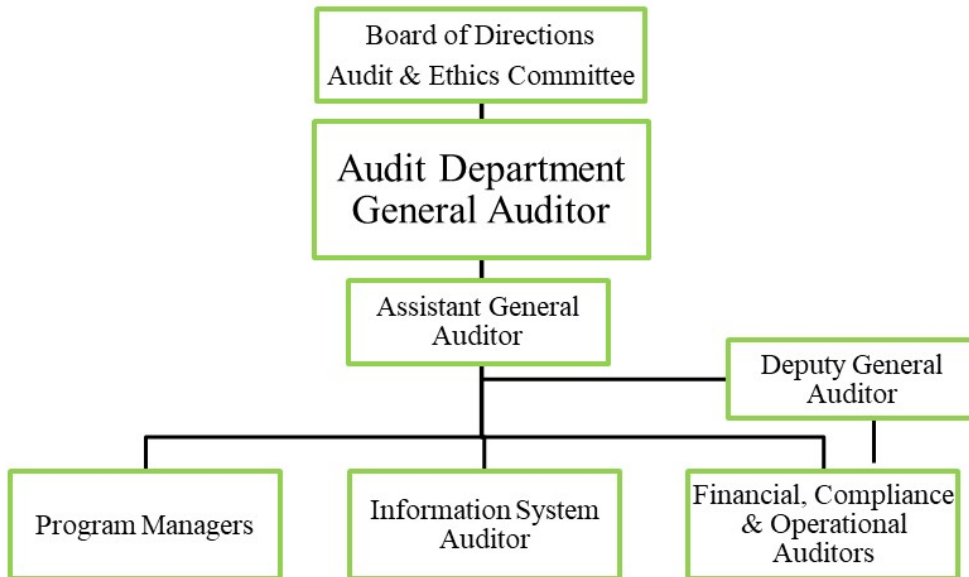
The scope of work of the Audit Department is to determine whether Metropolitan's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified, managed, and monitored.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.

- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently and protected adequately.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for strengthening internal controls, improving efficiency, and protecting the organization's image may be identified during audits. These opportunities will be communicated to the appropriate level of management.





## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, the Audit Department will focus on the following key issues:

### Risk Analysis, Risk Mitigation and Internal Controls

Provide risk perspective and auditing advice and counsel to the Board and management in operational and financial activities.

Publish risk-focused audit reports designed to clearly communicate the General Auditor's opinion regarding the internal control structure, significant control issues, and recommendations to mitigate noted risk.

Improve the completion time for audits and evaluate the adequacy and timeliness of management's responses to, and corrective actions taken on, all significant control issues noted in audit reports.

Emphasize test work of significant projects.

### Workforce Development

Encourage training opportunities for Audit Department staff to enhance competencies in risk assessment and broaden knowledge of Metropolitan operations. Utilize this knowledge in fine-tuning the Annual Audit Risk Assessment and Audit Plan.

### Management and Leadership

Efficiently manage the department's budget for maximum effectiveness of state budgetary objectives.

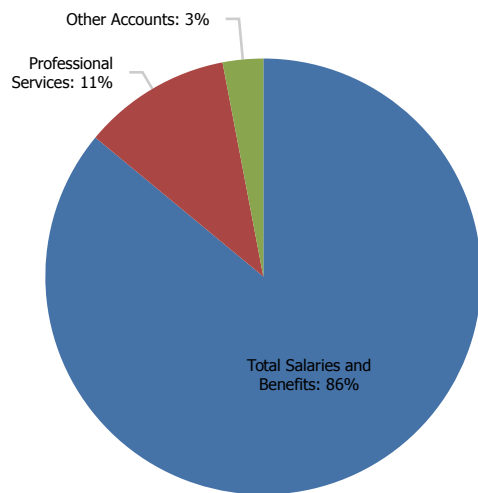
Uphold the mission, roles, and responsibilities of the Audit Department.

## O&M FINANCIAL SUMMARY

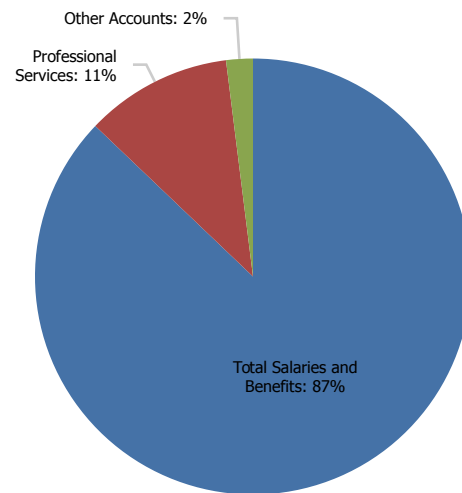
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	2,816,800	3,283,500	3,908,200	624,700	4,159,700	251,500
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>2,816,800</b>	<b>3,283,500</b>	<b>3,908,200</b>	<b>624,700</b>	<b>4,159,700</b>	<b>251,500</b>
% Change		16.6%		19.0%		6.4%
Professional Services	417,400	500,000	500,000	—	500,000	—
Materials & Supplies	16,900	16,000	58,000	42,000	35,000	(23,000)
Memberships & Subscriptions	3,900	5,500	5,500	—	5,500	—
Subsidies & Incentives	17,700	15,000	17,000	2,000	17,000	—
Training & Seminars Costs	6,400	17,000	17,000	—	17,000	—
Travel Expenses	3,200	5,000	5,000	—	5,000	—
Other Accounts	21,700	13,000	11,000	(2,000)	11,000	—
<b>Total O&amp;M</b>	<b>3,304,000</b>	<b>3,855,000</b>	<b>4,521,700</b>	<b>666,700</b>	<b>4,750,200</b>	<b>228,500</b>
% Change		16.7%		17.3%		5.1%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 BUDGET BY EXPENDITURE



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	<b>10</b>	<b>13</b>	<b>13</b>	<b>—</b>	<b>13</b>	<b>—</b>
	O&M	10	13	13	—	13	—
	Capital	—	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
	O&M	—	—	—	—	—	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	<b>10</b>	<b>13</b>	<b>13</b>	<b>—</b>	<b>13</b>	<b>—</b>
	O&M	10	13	13	—	13	—
	Capital	—	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Audit Department’s Biennial Budget is \$4.5 million in FY 2020/21 and \$4.8 million in FY 2021/22 or an increase of 17.3% and an increase of 5.1% respectively from the prior budget years. The main factors affecting these changes:

- Increases to Salaries and Benefits reflect negotiated labor increases, merit increases for qualified employees, and succession planning.
- The increase to the budget for Materials and Supplies reflects an upgrade of Audit software.

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# ETHICS OFFICE

The Ethics Office promotes an ethical culture at Metropolitan by administering and advising Metropolitan's ethics policies and reviewing potential ethics violations.

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## PROGRAMS

Metropolitan's Ethics Office was established by special legislation enacted in 2000. In doing so, it was with a conviction that a strong ethical culture is the foundation of good governance. Moreover, it was based on the belief that an ethical culture is created through a robust ethics program that sets clear expectations for conducting business within the organization and with external parties.

An ethical culture is based on the following: effective board oversight, strong tone-at-the-top, senior management involvement, organization-wide commitment, a customized code of conduct, ethics training, communications, and ongoing monitoring system. It also involves the administration of financial disclosure reports, an anonymous incident reporting system, timely investigation of reported incidents, publication of summary investigation findings, and, where appropriate, referrals to Department managers for consistent disciplinary action.

These processes promote transparency and accountability, allowing the public insight into how the District conducts its business and holding District officials accountable for meeting internal and state ethics standards. The Ethics Office accomplishes its mission through the following programs and services, each of which is critical to achieving the ultimate goal of internal ethics and compliance - maintaining an ethics-centered culture:

**Ethics Compliance** The Ethics Office services as the filing officer for state-mandated financial interest disclosure reports for Directors and employees. These filings are required for individuals who make or participate in making decisions in their official capacity that could affect their personal financial interests. To date, all

Directors and over 700 employees have been identified as mandatory filers.

The Ethics Office also maintains and updates Metropolitan's conflict of interest code, designating employee reporting positions and disclosure categories. These requirements are tailored to the unique responsibilities of each designated position and are reviewed on a periodic basis for compliance with evolving standards.

**Advice and Education** The Ethics Office advises employees, directors, and contractors on Metropolitan's ethic policies and standards. These include the areas of conflicts of interest and proper use of authority. Advice and education are provided through consultations, training programs, and reference materials. The Ethics Office addresses requests for advice and training and recommends consultations where appropriate.

The Ethics Office also facilitates state-mandated AB1234 and sexual harassment training for Directors and provides orientations for new Directors and employees about Metropolitan's internal ethic provisions.

### **Policy Analysis and Program Development**

The Ethics Office proposes ethic rules and modifications to existing rules, performs risk assessment, and analyzes investigation procedure to maintain best practices in the field.

**Investigation** Investigations are undertaken both to promote accountability and to identify systematic changes needed in order to avoid further missteps. Performing comprehensive investigations, including investigation planning, gathering of evidence, document review, witness

interviews, comparative analysis of facts, drafting of reports, and organization and indexing of evidence.

The Ethics Officer reviews the investigation findings, determines whether ethics violations occurred, and makes recommendations to executive management.



## GOALS AND OBJECTIVES

In FY 2020/21 and FY 2021/22, the Ethics Office will focus on the following key issues and initiatives:

### Ethics Consultation

Provide ethics risk perspective and advisory services to directors, officers, and employees needing input on ethics-related issues. In specific requests for assistance, provide thorough analysis and prompt responses. Continue to review board agendas and prepare memorandum for directors to help identify potential sources of conflicts of interest in matters coming before them. Review conflict of interest disclosures from potential contractors for the professional services contracting unit and make recommendations for resolving potential conflicts. Perform outreach to Group Managers to proactively engage in the program and project process to help maintain ethics-centered decision-making.

### Policy Development

Continue to assess the scope and content of Metropolitan’s ethics policies and provisions. Develop new ideas for improvements and work to achieve consensus among stakeholders.

Follow developments in legislation and Fair Political Practices Commission proceedings to identify emerging issues that may affect the Metropolitan community.

The Ethics Office performs objective and comprehensive investigations of ethics complaints, which entails investigation planning, gathering evidence, document review, witness interviews, comparative analysis of facts, drafting of reports, and organization and indexing of evidence. The Ethics Officer reviews the investigation findings, determines whether ethics violations occurred, and makes recommendations to executive management.

## Investigations

Evaluate opportunities to streamline the investigation process. These efforts include establishing reasonable guidelines to ensure that inquiries proceed in an efficient and responsible manner. Improve the effectiveness and timeliness of communication to interested parties on the progress of investigations. Define accountability standards for investigations that address the need to discontinue or close inquiries when substantiating evidence cannot be obtained within a reasonable time period. Survey best practices in the field and recommend improvements to Investigation Guidelines.

## Education and Outreach

Design accessible and understandable ethics education programs focused on needs of different work groups. Increase the number of in-person presentations.

Update employee orientation materials, website content, and online training program and create new fact sheets and pamphlets on the most common ethics topics facing Metropolitan.

## Workforce Development

Encourage training opportunities for Ethics Department staff to enhance competencies in governmental ethics and to broaden knowledge of Metropolitan operations. Utilize this knowledge in fine-tuning Ethics consultation, policy development and outreach efforts.

## Management and Leadership

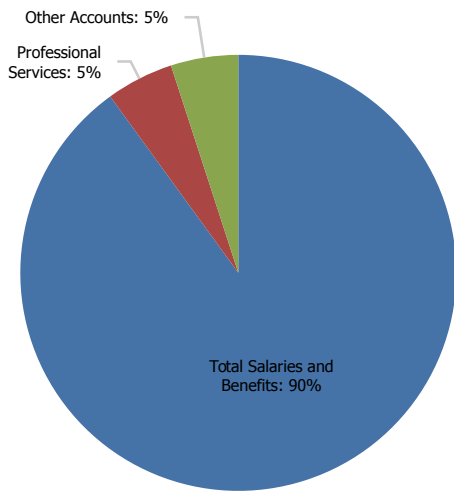
Efficiently manage the Ethics Office's budget for maximum effectiveness. Uphold the missions, roles, and responsibilities of the Ethics Office.

## O&M FINANCIAL SUMMARY

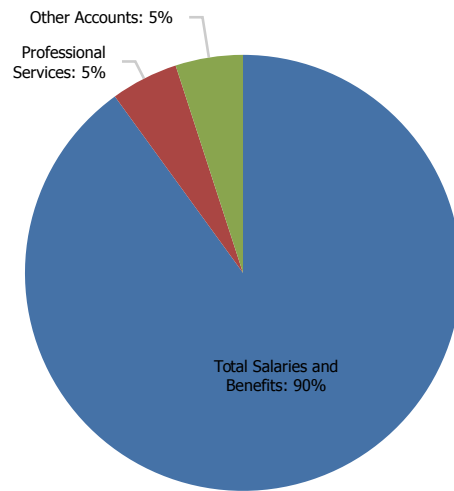
	2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Total Salaries and Benefits	1,018,700	1,299,700	1,460,400	160,700	1,518,900	58,500
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
<b>Total Salaries and Benefits</b>	<b>1,018,700</b>	<b>1,299,700</b>	<b>1,460,400</b>	<b>160,700</b>	<b>1,518,900</b>	<b>58,500</b>
% Change		27.6%		12.4%		4.0%
Professional Services	17,100	85,000	85,000	—	85,000	—
Materials & Supplies	10,500	1,500	26,500	25,000	26,500	—
Outside Services - Non Professional / Mainte	—	16,700	17,000	300	17,000	—
Subsidies & Incentives	1,100	13,000	13,000	—	13,000	—
Training & Seminars Costs	3,200	6,000	6,000	—	6,000	—
Travel Expenses	2,900	6,000	6,000	—	6,000	—
Other Accounts	25,300	20,500	7,500	(13,000)	7,500	—
<b>Total O&amp;M</b>	<b>1,078,800</b>	<b>1,448,400</b>	<b>1,621,400</b>	<b>173,000</b>	<b>1,679,900</b>	<b>58,500</b>
% Change		34.3%		11.9%		3.6%

Totals may not foot due to rounding.

FY 2020/21 BUDGET BY EXPENDITURE



FY 2021/22 BUDGET BY EXPENDITURE



## PERSONNEL SUMMARY

		2018/19 Actual	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
<b>Regular</b>	<b>Total</b>	4	5	5	—	5	—
	O&M	4	5	5	—	5	—
	Capital	—	—	—	—	—	—
<b>Temporary</b>	<b>Total</b>	—	—	—	—	—	—
	O&M	—	—	—	—	—	—
	Capital	—	—	—	—	—	—
<b>Total Personnel</b>	<b>Total</b>	4	5	5	—	5	—
	O&M	4	5	5	—	5	—
	Capital	—	—	—	—	—	—

Totals may not foot due to rounding.

## BUDGET HIGHLIGHTS

The Ethics Office’s Biennial Budget is \$1.6 million in FY 2020/21 and \$1.7 million in FY 2021/22 or an increase of 11.9% and an increase of 3.6% respectively from the prior budget years. The increase is due primarily to the following:

- Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.
- Professional Services and non-labor budgets remain flat over the biennium.



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## STAFFING SUMMARY

Group/Department	2018/19 Actual	2019/20 Budget	2020/21 Budget	2021/22 Budget
<b>Regular Employees</b>				
Office of the General Manager	13	13	13	13
Water System Operations	862	940	940	940
Water Resource Management	59	68	68	68
Engineering Services	320	355	355	355
Bay Delta Initiatives	17	17	17	17
Office of the Chief Administrative Officer	98	113	114	114
Information Technology	120	134	130	130
Human Resources	39	42	42	42
Real Property	41	51	50	50
Office of the Chief Financial Officer	46	49	51	51
External Affairs	69	70	72	72
<b>Subtotal - General Manager's Department</b>	<b>1,684</b>	<b>1,852</b>	<b>1,852</b>	<b>1,852</b>
Office of Ethics	4	5	5	5
Office of the General Auditor	10	13	13	13
Office of the General Counsel	35	37	37	37
<b>Total - Departmental Regular Employees</b>	<b>1,734</b>	<b>1,907</b>	<b>1,907</b>	<b>1,907</b>
<b>Temporary Employees</b>				
District Temporary	47	23	43	37
<b>Total Authorized Positions</b>	<b>—</b>	<b>1,930</b>	<b>1,950</b>	<b>1,944</b>

Totals may not foot due to rounding.

## OPERATING EQUIPMENT SUMMARY

Classification	2020/21 Quantity	2020/21 Amount	2021/22 Quantity	2021/22 Amount
Audio Visual	10	152,132	8	144,706
Automobiles	15	569,323	8	250,809
Boats	—	—	1	98,550
Communication Equipment	7	191,625	—	—
Construction/Shop/Maint Equip	25	794,198	34	1,025,000
CPU's, Laptops & Servers	24	662,939	20	503,700
Drafting Equipment	1	6,680	—	—
Equipment Accessories	1	8,541	—	—
Heavy Equipment	8	1,223,567	9	1,565,990
Lab Equipment	8	1,040,779	5	1,022,107
Monitoring Equipment	13	294,173	10	230,000
Office Equipment	2	18,341	—	—
Other Equipment	24	610,745	11	284,253
Printers	3	89,757	1	34,623
Pumps	4	101,287	—	—
Survey Equipment	12	390,376	4	132,766
Trucks	22	1,703,067	34	1,830,926
Utility Vehicles	1	20,953	1	30,003
<b>Grand Total</b>	<b>180</b>	<b>7,878,483</b>	<b>146</b>	<b>7,153,433</b>

Totals may not foot due to rounding.

# STATE WATER PROJECT

## OVERVIEW

Metropolitan participates in the State Water Project (SWP), which is managed and operated by the California Department of Water Resources (DWR) and is an integral part of Metropolitan's conveyance system. The SWP 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 SWP 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.

The SWP consists of a complex system of dams, reservoirs, power plants, pumping plants, canals and aqueducts to deliver water. SWP water consists of water from rainfall and snowmelt runoff that is captured and stored in SWP conservation facilities and then delivered through SWP transportation facilities to water agencies and districts located throughout the Upper Feather River, Bay Area, Central Valley, Central Coast, and Southern California. Metropolitan receives water from the SWP through the California Aqueduct, which is 444 miles long, and at four delivery points near the northern and eastern boundaries of Metropolitan's service area. The budgeted costs for the SWP are as follows:

### SWC Cost Summary, \$ millions<sup>1</sup>

	2018/19 Actuals	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Delta Water Charge: Capital	\$38.8	\$38.7	\$57.5	\$18.8	\$59.7	\$2.3
Delta Water Charge: OMP&R	88.4	96.2	92.4	(3.8)	92.4	0.0
Transportation Capital	138.2	125.3	136.8	11.5	148.3	11.4
Transportation OMP&R	120.0	195.4	179.8	(15.6)	182.9	3.1
Power, Variable	127.5	172.4	205.2	32.8	212.7	7.5
Power, OAPF	3.6	2.4	5.8	3.4	3.5	(2.3)
Credits	(34.2)	(41.0)	(61.8)	(20.8)	(70.1)	(8.4)
CA Water Fix/ Delta Conveyance	—	13.0	25.0	12.0	25.0	0.0
<b>SWC Total</b>	<b>\$482.3</b>	<b>\$602.5</b>	<b>\$640.8</b>	<b>\$38.3</b>	<b>\$654.4</b>	<b>\$13.6</b>
SWC Dues	\$3.3	\$4.7	\$3.9	(\$0.9)	\$3.9	\$0.0
Acre–feet delivered	945,646	906,675	1,063,240	156,565	1,059,490	(3,750)

<sup>1</sup> Does not include Departmental costs reflected elsewhere in this Budget.

Annually, the DWR reviews and redetermines the water supply aspects of the SWP as required by the SWC, and the financial aspects attributable to the water supply function of the SWP.<sup>1</sup> This results in the annual Statement

of Charges to the Contractors for each calendar year. The information that supports the Statement of Charges is published by the DWR as Appendix B to the appropriate Bulletin 132 (i.e., the Statement of Charges for Calendar Year 2020 is supported by Appendix B to Bulletin 132-19). DWR does not charge rates for water service. It does not develop a revenue requirement and then develop rates based on projected billing determinants for a calendar year. Rather, DWR apportions its costs to the Contractors based on their proportionate share of estimated supply costs (Delta Water Charge) and transportation costs (Transportation Charge). All State Water Contractors are obligated to pay all costs incurred by DWR to operate the SWP for water supply delivery, as part of their contractual participation in the project. Therefore, DWR reconciles actual costs for each year and either collects more funds from the Contractors if actual costs exceeded estimated costs, or provides a credit/refund if actual costs were lower than estimated costs.

Metropolitan's budgeted SWP costs are based on the 2020 Statement of Charges and supporting Appendix B. Power costs are estimated by Metropolitan assuming a 50 percent allocation and use of the Central Valley storage programs.

## STATE WATER CONTRACT

All water supply-related capital expenditures and operations, maintenance, power and replacement (OMP&R) costs associated with the SWP conservation and transportation facilities are paid for by the 29 State Water Contractors. Through Calendar Year 2018, Metropolitan has paid about 60 percent of the total payments to DWR by all Contractors. Metropolitan's financial records show that total accumulated amounts paid under the SWC are \$13.2 billion through fiscal year 2018/19. Metropolitan's SWC was originally a 75-year contract through December 31, 2035. Although the SWC had been amended for other provisions before, the term of the contract was extended and approved in December 2018. Among other amendments, the Contractors and DWR agreed to an extension to December 31, 2085. The Contract Extension Amendment has been challenged in court. However, the amendments have not yet been implemented.

The State Water Contractors have long-term contracts with DWR for participation in the SWP, through which they receive delivery of SWP water and use of the SWP transportation facilities. Metropolitan signed the first State Water Contract (SWC) on November 4, 1960, and received its first delivery of SWP water in 1972. Metropolitan has a contractual right to a proportionate share of the project water that DWR determines is available for allocation to the Contractors. This determination is made each year based on existing supplies in storage, forecasted hydrology, and other factors. Available project water is then allocated to the Contractors in proportion to the amounts set forth in Table A of their SWCs (Table A Allocation). Under its SWC, Metropolitan is entitled to roughly 46% of the annual Table A Allocation.

Since inception, the SWC provided Contractors the ability to use the SWP to convey non-SWP water under certain circumstances. Specifically, Article 18(c)(2) of the original SWC addresses situations where there is a shortage in the supply of water made available under the contract and states "[T]he District, at its option, shall have the right to use any of the project transportation facilities which by reason of such permanent shortage in the supply of project water to be made available to the District are not required for delivery of project water to the District, to transport water procured by it from any other source: [p]rovided, [t]hat such use shall be within the limits of the capacities provided in the project transportation facilities for service to the District under this contract ....". However, Article 18(c)(2) only applied in the event a permanent shortage was declared by DWR and it was unclear on how costs would be charged for using SWP facilities to transport nonproject water. In 1994, the Contractors and DWR negotiated the Monterey Amendment to the SWC, including Article 55, which made explicit that the Contractors' rights to use the portion of the SWP conveyance system necessary to deliver

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<sup>1</sup> The term "supply" is used to distinguish between other functions of the SWP such as recreation and flood control. The term is not used to distinguish between the conservation (supply) and transportation (conveyance) functions of the SWP under the State Water Contracts for participation in the SWP.

water to them (their "reaches") also includes the right to convey non-SWP water at no additional cost as long as

capacity exists. Power for the conveyance of non-SWP water is charged at the SWP melded power rate. The Monterey Amendments also expanded the ability to carryover SWP water in SWP storage facilities, allowed Contractors to store water in groundwater storage facilities outside a Contractor's service area for later use, and permitted certain Contractors to borrow water from terminal reservoirs. These amendments, approved by Metropolitan's Board in 1995, offered the means for individual Contractors to increase supply reliability through water transfers and storage outside their service areas.

The charges to the Contractors include a SWP supply charge (Delta Water Charge) and a SWP transportation charge (Transportation Charge). The Delta Water Charge recovers both Capital and OMP&R costs for those facilities that conserve and create the actual water supply of the SWP. The Delta Water Charge is based on Contractors' cumulative Table A Allocations, and is paid regardless of whether Contractors receive any Table A Allocations in a given year.

The Transportation Charge recovers the costs associated with the various aqueduct reaches that deliver project water to the Contractors. The Capital and fixed OMPR portions of the SWP Transportation Charge recover costs from the Contractors based on their proportionate use of facilities. Unlike the Delta Water Charge, which is uniform for a unit of Table A water, the allocation of these portions of the Transportation Charge will vary based on the aqueduct segments needed to deliver water to a specific Contractor. The further a Contractor is from the Delta and the greater its capacity in the transportation facilities, the greater its allocation of the Capital and fixed OMPR Transportation Charges. The capacity of the SWP to deliver water decreases with distance from the Banks Pumping Plant, located in the Sacramento-San Joaquin Delta, as water is delivered to Contractors through the South Bay Aqueduct and the Coastal Branch Aqueduct, and to turnouts in the San Joaquin Valley and Southern California. Payment of the Transportation Charge entitles Contractors to the right to use their capacity in the SWP facilities for transportation of SWP or non-SWP water, on a space available basis, under the SWC. A Contractor that participates in the repayment of a particular reach, or segment of the SWP, has already paid the costs of using that reach for the conveyance of water supplies through the Transportation Charge.

In addition to the charges for water supply and transportation facilities discussed above, DWR also charges for the power needed to deliver project water throughout the system. Two charges recover these power costs: the variable OMPR portion of the Transportation Charge (Variable Charge) and the Off Aqueduct Power Facilities (OAPF) charge. Because the SWC are cost recovery contracts, DWR invoices Contractors on an estimated basis for any calendar year, and then provides credits in later years once cost true-ups are finished.

The Variable Charge includes the annually estimated cost of purchased power including capacity and energy, cost of SWP power generation facilities, program costs to offset annual fish losses at the Banks Pumping Plant, purchased transmission services, and credits for sales of ancillary services and excess SWP system power sales. The Variable Charge is calculated on the basis of the energy required to pump an acre-foot of water to its take-out point multiplied by the system energy rate, less energy from the recovery generation plants. The system energy rate is a system-wide average rate calculated as the net cost of energy--total costs less revenues--divided by the net energy required to pump all water. That rate is applied to each acre-foot of water delivered to SWP customer based on the power required to pump the water to designated delivery points on the system. DWR can adjust the system energy rate as the calendar year progresses in order to reflect actual costs.

The OAPF charge recovers the debt service and environmental remediation costs of power generation facilities not on the aqueduct, namely Reid Gardner Unit 4 and debt service associated with the South Geysers and Bottle Rock geothermal plants. The OAPF rate is calculated as the total annual estimated costs divided by the total energy required to pump all water. Recovery energy is not considered in this calculation. Each contractor's charge is the OAPF rate times the energy required to pump the contractor's water order.

The SWP uses low-cost hydroelectric and recovery generation resources, but they only provide about 50 percent of the SWP energy needs in an average water year. The SWP relies on the wholesale market and contractual resources with exposure to market price volatility for as much as 30 to 35 percent of its needs, using other contractual resources to fill in the difference.

The SWP energy required to move water to Metropolitan is related to the transportation on the East Branch through Devil Canyon and on the West Branch through Castaic.

**Cost of SWP Power for Metropolitan Terminal Delivery Points, \$ per Acre-Foot**

	<b>CY 2015 DWR</b>	<b>CY 2016 DWR</b>	<b>CY 2017 DWR</b>	<b>CY 2018 DWR</b>	<b>CY 2019 Estimated</b>	<b>CY 2020 Estimated</b>	<b>CY 2021 Estimated</b>
East Branch	\$241.17	\$186.21	\$160.55	\$174.90	\$160.33	\$199.67	\$207.44
West Branch	\$226.58	\$175.85	\$170.57	\$162.42	\$155.10	\$213.79	\$221.11

The SWP energy costs are impacted by two factors. First, the annual hydrology, secondly the energy policies of the state of California. The SWP has invested heavily in hydroelectric power generation facilities. The unit cost of operating the power facilities declines as the amount of available water increases. The SWP is acquiring renewable resources, primarily solar to date, to meet its obligation to reduce greenhouse gas emissions. The SWP energy costs are also impacted by the increasing cost of using the California Independent System Operator’s (CAISO) grid to deliver power from its generating sources and the wholesale power market to its pumping loads. The SWP does not own high voltage transmission facilities and must use the CAISO grid to move power; the SWP is the largest payer of the CAISO transmission access rates. Finally, the SWP has an obligation to acquire and surrender emissions allowances for the generating facilities the SWP owns, primarily the Lodi Energy Center.

**BUDGET HIGHLIGHTS**

The budget for the SWP is increasing in FY 2020/21 compared to the FY 2019/20 budget due to substantial capital related expenditures for Oroville Spillway repair and California Aqueduct improvements. Power costs are projected to be higher due to higher water deliveries and a projected increase in the CAISO transmission access charge (TAC) by the State Water Contractors. FY 2021/22 projects an increase in Transportation Capital and O&M related costs.

The Biennial Budget includes Metropolitan’s planned contribution of \$25 million per year for Delta conveyance project planning activities, which contributes to the increase in SWP expenditures in FY 2020/21. This contribution follows Board policy that staff work with the State to find solutions to improve Delta conveyance. The focus over the next two years will be supporting the California Department of Water Resources as it seeks permits for a Delta conveyance project; participating in the Delta Conveyance Design and Construction Authority; and continuing to put forward sound scientific research to help inform and improve Delta management decisions. If staff determines that Metropolitan’s appropriate contribution toward planning activities should exceed the budgeted amount, the General Manager will request authorization from the Board for additional funding. Additionally, at a later date staff will recommend that the Board separately consider Metropolitan’s participation in a new Delta conveyance project, after project planning has progressed further.

# COLORADO RIVER AQUEDUCT

## OVERVIEW

Metropolitan was established to obtain an allotment of Colorado River water, and its first mission was to construct and operate the Colorado River Aqueduct (CRA). The CRA consists of 5 pumping plants, 305 miles of high voltage power lines, 1 electric switching station, 4 regulating reservoirs, and 242 miles of aqueducts, siphons, canals, conduits and pipelines terminating at Lake Mathews in Riverside County. Metropolitan first delivered CRA water in 1941 to its member agencies.

Metropolitan owns, operates, and manages the CRA. Metropolitan is responsible for operating, maintaining, rehabilitating, and repairing the CRA, and is responsible for obtaining and scheduling energy resources adequate to power pumps at the CRA's five pumping stations.

Under its contracts with the federal government, Metropolitan has a fourth priority to 550,000 acre-feet per year of Colorado River water, less certain use by higher priority holders and Indian tribes. Metropolitan also holds a fifth priority for an additional 662,000 acre-feet per year that exceeds California's 4.4 million acre-foot per year basic apportionment, 38,000 acre-feet under the sixth priority during the term of the Colorado River Water Delivery Agreement, and another 180,000 acre-feet per year when surplus flows are available. Metropolitan can obtain water under the fourth, fifth, and sixth priorities from:

- Water unused by the California holders of priorities 1 through 3;
- Water saved by extraordinary conservation programs, crop rotation, and water supply program; or,
- When the U.S. Secretary of the Interior makes available:
  - o Surplus water, Intentionally Created Surplus water, and/or
  - o Water apportioned to, but unused by, Arizona and Nevada.

### CRA Cost Summary, \$ millions

	2018/19 Actuals	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
CRA Power <sup>1</sup>	\$39.3	\$52.9	\$52.2	(\$0.7)	\$57.6	\$5.4
CRA Dues <sup>2</sup>	\$0.7	\$0.7	\$0.8	\$0.1	\$0.8	—
Acre-feet	798,103	915,550	745,173	(170,377)	732,790	(12,383)

<sup>1</sup>Does not include Departmental costs reflected elsewhere in this Budget

<sup>2</sup>Six Agency and Colorado River Authority of California

Budgeted CRA Power costs represent expenditures for the Hoover and Parker contracts and market power purchases to support budgeted CRA water deliveries.



## CRA COSTS FOR TRANSPORTATION AND SUPPLY

Metropolitan incurs capital and operations and maintenance expenditures to support the CRA activities. The direct costs of the CRA activities include labor, materials and supplies, outside services to provide repair and maintenance, and professional services. The CRA activities benefit from Water System Operations support services and management supervision, as well as Administrative and General activities of Metropolitan. Metropolitan finances past, current and future capital improvements on the CRA, and capitalizes those improvements as assets. The costs of Metropolitan’s capital financing activities are apportioned to service functions, such as the CRA.

The costs of the CRA supply portfolio developed by Metropolitan are paid by Metropolitan. The CRA supply portfolio is supported by Water Resource Management labor, materials and supplies. The CRA supply portfolio activities benefit from Water Resource Management support services and management supervision, as well as Administrative and General activities of Metropolitan. Metropolitan finances past, current and future capital improvements associated with the CRA supply portfolio capital assets and has capitalized these investments as Participation Rights.

Accordingly, the CRA costs for transportation and supply are reflected in the Departmental and General District Requirements budgets.

## CRA COST FOR POWER

Metropolitan currently has three basic sources of power available to meet CRA energy requirements: Hoover Power, Parker Power, and wholesale purchases from entities in the Western United States. Each source is obtained at different unit prices.

### Cost of CRA Power Sources, \$ per Megawatt-hour (MWh)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Hoover <sup>1</sup>	\$15.84	\$15.36	\$17.86	\$18.46	\$18.33
Parker <sup>1</sup>	\$13.55	\$12.58	\$15.40	\$14.38	\$17.67
SP15, off-peak <sup>2</sup>	\$33.15	\$24.97	\$26.48	\$28.27	\$38.52
SP15, on-peak <sup>3</sup>	\$40.68	\$30.13	\$33.46	\$38.84	\$49.97

<sup>1</sup>Information from Annual Reports for years 2015, 2016, 2017, 2018, and 2019

<sup>2</sup>SP15, off-peak price, is used to determine Metropolitan’s off-peak energy costs.

<sup>3</sup>SP15, on-peak, is used to determine the market value of Metropolitan’s sales of excess energy, if any. SP15 on-peak is also used to determine the pumping costs associated with pumping non-Metropolitan water through the CRA system, unless otherwise provided by contract.

Metropolitan’s current basic resource mix is cost effective but is not sufficient to pump Metropolitan’s Colorado River water supplies in all years. For that reason, Metropolitan is required to purchase supplemental power to transport Colorado River water supplies in some years. As a result, Metropolitan requires that any party seeking to transport non-Metropolitan water through its Colorado River Aqueduct to purchase, or arrange for Metropolitan to purchase, the power supplies required to pump that water.

Supplemental power can be purchased and transmitted to Metropolitan to pump non-Metropolitan water through the CRA. The market rate for electric energy prices is regularly tracked and published for various regions in California. Metropolitan uses the CAISO Open Access Same-time Information System (OASIS) Day-Ahead Locational Marginal Price as reflective of the supplemental power costs for electric energy used for its pumping plants on the CRA. The regional index applicable to energy sold for use on the CRA is designated as “South-of-Path 15”, or SP15, and is reflective of Southern California market energy prices.

South-of-Path 15 On-Peak Energy Prices, \$/MWh

	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
January	\$35.70	\$30.14	\$36.22	\$37.09	\$42.56
February	\$31.88	\$24.47	\$28.52	\$36.84	\$72.73
March	\$30.73	\$19.61	\$23.97	\$32.39	\$35.98
April	\$29.03	\$18.92	\$26.71	\$27.69	\$24.83
May	\$28.11	\$23.06	\$32.08	\$24.12	\$20.25
June	\$37.01	\$33.41	\$38.14	\$31.45	\$24.81
July	\$39.27	\$39.03	\$41.49	\$101.04	\$35.24
August	\$39.02	\$38.57	\$54.96	\$85.22	\$36.39
September	\$38.00	\$35.55	\$43.18	\$38.32	\$40.35
October	\$35.55	\$35.45	\$47.86	\$41.09	\$35.71
November	\$30.22	\$30.67	\$44.82	\$55.50	\$37.44
December	\$29.83	\$36.40	\$44.21	\$57.26	\$37.80

MWh = megawatt-hour, or 1,000 kilowatt-hours

## BUDGET HIGHLIGHTS

The budget for the CRA power is decreasing in FY 2020/21 compared to FY 2019/20 due to lower diversions at Intake. In FY 2021/22, costs are higher due to a new greenhouse gas charge to be collected by the California Air Resources Board.

# SUPPLY PROGRAMS

## OVERVIEW

Metropolitan’s principal sources of water supplies are the State Water Project (SWP) and the Colorado River. Metropolitan receives water delivered from the SWP under State Water Contract (SWC) provisions, including contracted supplies, use of carryover storage in San Luis Reservoir, and surplus supplies. Metropolitan also holds rights to a basic apportionment of Colorado River water and has priority rights to an additional amount from the Colorado River depending on availability of surplus supplies. The Supply Programs supplement these SWP and Colorado River supplies. The budgeted costs for the Supply Programs are as follows:

### Supply Programs Cost Summary, \$ millions

	2018/19 Actuals	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
IID/MWD Conservation	\$12.3	\$9.5	\$13.8	\$4.3	\$13.2	(\$0.6)
In Basin	1.1	1.6	6.3	4.7	1.6	(4.6)
Other CRA	7.9	9.3	14.2	4.9	14.6	0.4
PVID Program	7.3	6.2	8.1	1.9	5.4	(2.7)
SWP Programs	(1.6)	27.8	26.4	(1.4)	26.4	—
<b>Total Supply Programs<sup>1</sup></b>	<b>\$27.1</b>	<b>\$54.4</b>	<b>\$68.7</b>	<b>\$14.3</b>	<b>\$61.2</b>	<b>(\$7.5)</b>

<sup>1</sup> Does not include Departmental costs reflected elsewhere in this Budget.

Budgeted Supply Programs costs represent opportunities and actions associated with a 50 percent SWP allocation and diversions on the CRA of 733 to 745 thousand acre–feet (TAF). On the SWP, Supply Program expenses support maximizing storage capabilities of the Central Valley storage programs, utilizing transfer and exchange programs recently executed, and bringing the balance into the region. On the CRA, the expenses support the Palo Verde Irrigation District land fallowing program and the Imperial Irrigation District/ Metropolitan Conservation Program, as well as other programs to conserve and develop supplies.

## SUPPLY PROGRAMS DEVELOPED ALONG THE STATE WATER PROJECT

Since adoption of the 1996 Integrated Resources Plan (1996 IRP) and subsequent updates, Metropolitan has developed and actively managed a portfolio of supplies to convey through the California Aqueduct, as shown in Figure 10. The geographical locations of the projects are indicated by the green dots; Metropolitan’s service area is designated by the yellow highlighted area. Metropolitan submits delivery schedules to DWR for these supplies, and alters these schedules throughout the year based on changes in the availability of SWP and Colorado River water. The portfolio of supplies that Metropolitan has developed to be conveyed through the SWP since adoption of the Monterey Amendments and the 1996 IRP extend from north of the Delta to Southern California.

Since the Monterey Amendments, Metropolitan has secured one-year water transfer supplies through Metropolitan-only purchases, buyer coalition-purchases, and Governor Drought Water Banks. The most recent years that Metropolitan secured these one-year transactions were 2008 through 2010, and 2015. Metropolitan opted not to pursue these transactions in 2012 through 2014 or 2018. Most of the sellers were Sacramento Valley water users who are not Contractors. Other Contractors obtained one-year water transfers during this time frame as well. There were no single-year transfer programs in 2011, 2016-2017, or 2019 because of favorable water supply conditions and lack of capacity to move transfer supplies through the Delta.

In addition to the above one-year water transfers, Metropolitan purchases long-term water transfer supplies through the Yuba Accord. The Yuba Accord has provided water to enhance SWP and CVP water supply reliability by offsetting Delta export reductions and providing dry year water supplies for participating SWP and CVP contractors. This water is Yuba River water developed by Yuba County Water Agency (YCWA) making reservoir releases or by YCWA's member units substituting groundwater for their surface water supplies; it is not SWP water.

**Figure 10: California Aqueduct Portfolio of Supplies**

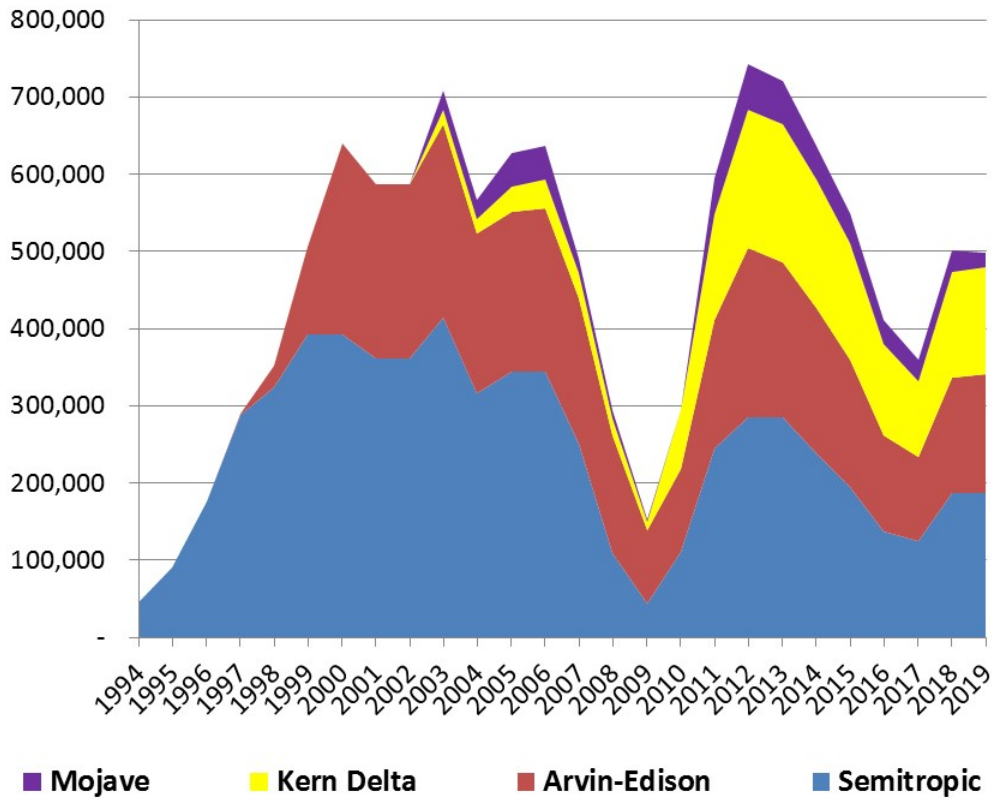


In addition to one-year transfers, and the Yuba Accord water, Metropolitan has developed groundwater storage agreements that allow Metropolitan to store available supplies in the Central Valley for return later. Metropolitan enters into point of delivery agreements with DWR to deliver water supplies from the SWP facilities to these storage programs. Metropolitan enters into introduction of local supplies agreements to return these water supplies to the SWP system for delivery to Metropolitan's service area. Metropolitan's storage activities are shown in Figure 11. The figure shows how the programs function to store supplies during surplus conditions and return supplies during a drought. The storage programs have demonstrated that they can provide a significant amount of water when needed.

## SWP Groundwater Storage Programs year–end balance, acre–feet

- Arvin-Edison Storage Program: under the agreement, Arvin-Edison Water Storage District stores water on behalf of Metropolitan. Up to 350,000 acre-feet can be stored; Arvin-Edison is obligated to return up to 75,000 acre-feet of stored water in any year to Metropolitan, upon request. The water is returned by direct groundwater pump-in and exchange of SWP supplies. A 2017 State Water Resources Control Board (SWRCB) regulation setting a Maximum Contaminant Level (MCL) for trichloropropane (TCP) has temporarily suspended use of this program due to the levels detected in the program groundwater wells.
- Semitropic Storage Program: under the agreement, Metropolitan stores water in the groundwater basin underlying land within the Semitropic Water Storage District. The maximum storage capacity is 350,000 acre-feet. Currently, the minimum annual yield to Metropolitan is 38,200 acre-feet, and the maximum annual yield is 229,700 acre-feet depending on the available unused capacity and the SWP allocation. The water is returned by direct groundwater pump-in and exchange of SWP supplies.
- Kern Delta Storage Program: under the agreement, Kern Delta Water District provides groundwater banking and exchange transfer to allow Metropolitan to store up to 250,000 acre-feet of SWP water in wet years and take up to 50,000 acre-feet annually during droughts. The water is returned by direct groundwater pump-in or by exchange of surface water supplies.
- Mojave Storage Program: under the agreement, Mojave Water Agency provides groundwater banking and exchange transfers to allow Metropolitan to store up to 390,000 acre-feet for later return. The agreement allows Metropolitan to annually withdraw Mojave Water Agency’s SWP contractual amounts, after accounting for local needs. The Mojave storage program returns water only by exchange of surface water supplies.
- Antelope Valley-East Kern (AVEK) Storage Program: under the storage agreement, Metropolitan, at its discretion, would return half of the exchange water to AVEK at the Banks pumping plant. Under the Storage Program, Metropolitan, at its discretion, could store up to 30,000 acre-feet of its SWP Table A amount or other supplies in the Antelope Valley Groundwater Basin in an account designated for Metropolitan. The water is returned by exchange of SWP supplies or direct groundwater pump-in.
- Antelope Valley-East Kern (AVEK) High Desert Water Bank Program: under this agreement, AVEK provides storage for up to 70,000 acre-feet per year of its unused SWP Table A amount to Metropolitan or other supplies for later return. The maximum storage capacity for Metropolitan supplies would be 280,000 acre-feet. The program is designed to return up to 70,000 acre-feet per year by direct pump-in to the East Branch of the California Aqueduct. Water can also be returned by exchange of SWP supplies when available.

**Figure 11: SWP Groundwater Storage Programs, acre-feet**



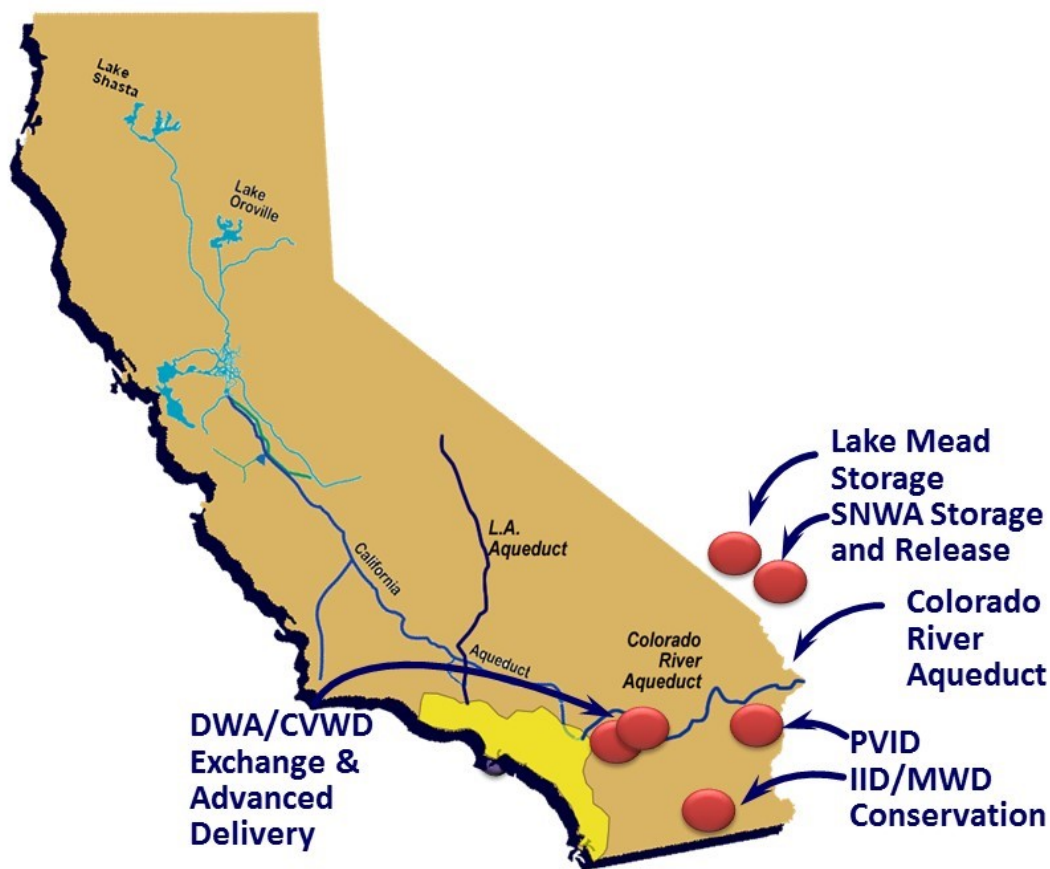
Metropolitan has developed exchanges and transfers with other Contractors to enhance supply flexibility. Some of these agencies have extensive groundwater supplies and are willing to exchange their SWP supplies.

- San Gabriel Valley Water District:** under this agreement, Metropolitan delivers treated water to a San Gabriel Valley Water District (SGVMWD) sub-agency in exchange for twice as much untreated SWP supplies delivered into the Main San Gabriel groundwater basin. The groundwater basin supplies water to both Metropolitan and SGVMWD sub-agencies. Each year Metropolitan purchases 5,000 acre-feet minus the unbalanced exchange amount. By mutual agreement Metropolitan may purchase more than the 5,000 acre-feet per year should SGVMWD have additional supplies available. This program has the potential to increase Metropolitan’s reliability by providing 115,000 acre-feet through 2035.
- Desert Water Agency/Coachella Valley Water District Advance Delivery Program:** under this program, Metropolitan delivers Colorado River water to the Desert Water Agency (DWA) and Coachella Valley Water District (CVWD) in advance of the exchange for their SWP Contract Table A allocations. In addition to their Table A supplies, the agencies can take delivery of SWP supplies available under Article 21 and the Turn-back Pool Program, and non-SWP supplies separately acquired by each agency. These non-SWP supplies have included Yuba Accord water, drought water bank water, and San Joaquin Valley water. By delivering enough water in advance to cover Metropolitan’s exchange obligations, Metropolitan is able to receive DWA and CVWD’s available SWP supplies in years in which Metropolitan’s supplies are insufficient without having to deliver an equivalent amount of Colorado River water. In December 2019, the exchange agreements were amended to provide more flexibility and operational certainty for the parties involved. Additionally, under the amended agreement, Coachella and Desert in wet years pay a portion of Metropolitan’s water storage management costs, up to a combined total of \$4 million per year.

## SUPPLY PROGRAMS DEVELOPED ALONG THE COLORADO RIVER AQUEDUCT

Since adoption of the 1996 IRP and subsequent updates, Metropolitan has developed and actively manages a portfolio of supplies to convey through the CRA. Metropolitan determines the delivery schedule of those resources throughout the year based on changes in the availability of SWP and of Colorado River water. Figure 12 shows the geographic location of the portfolio of additional CRA supplies, designated by the red dots, which Metropolitan has developed for diversion into the CRA since adoption of the 1996 IRP. These resources extend from Lake Mead to Southern California and provide supply to Metropolitan’s service area, which is shown in the yellow highlighted area.

**Figure 12: Colorado River Aqueduct Portfolio of Supplies**



- Imperial Irrigation District/Metropolitan Conservation Program:** Under a 1988 Conservation Agreement, Metropolitan has funded water efficiency improvements within the Imperial Irrigation District’s (IID) service area in return for the right to divert the water conserved by those investments. Metropolitan provided funding for IID to construct and operate a number of conservation projects that have conserved up to 109,460 acre-feet of water per year that is then available to Metropolitan. Execution of the Quantification Settlement Agreement (QSA) and related agreements resulted in changes in the availability of water under the program. As a result of a 2014 IID-Metropolitan letter agreement, the amount of water conserved by IID has been quantified at 105,000 acre-feet per year beginning in 2016. Metropolitan is guaranteed at least 85,000 acre-



feet per year, with the remainder of the conserved water being made available to the Coachella Valley Water District (CVWD), if needed under the 1989 Approval Agreement as amended.

- Palo Verde Land Management, Crop Rotation, and Water Supply Program: Under this program, participating landowners in the PVID's valley service area are paid to reduce water use by not irrigating a portion of their land. A maximum of 35 percent of the participating lands within the Palo Verde Valley can be fallowed in any given year. This program saves up to 133,000 acre-feet of water in certain years, and a minimum of 33,000 acre-feet per year. The term of the program is 35 years. Fallowing began in 2005. In March 2009, Metropolitan and PVID entered into a supplemental emergency fallowing program within PVID that provided for the fallowing of additional acreage in 2009 and 2010. Since 2005, over 1.3 million acre-feet total of Colorado River water has been conserved. The volume of water that becomes available to Metropolitan is governed by the QSA and the Colorado River Water Delivery Agreement. Under these agreements:
  - Metropolitan must reduce its consumptive use of Colorado River water by that volume of consumptive use by PVID and holders of Priority 2 that is greater than 420,000 acre-feet in a calendar year, or
  - Metropolitan may increase its consumptive use of Colorado River water by that volume of consumptive use by PVID and holders of Priority 2 that is less than 420,000 acre-feet in a calendar year.

In both cases, each acre-foot of reduced consumptive use by PVID is an additional acre-foot that becomes available to Metropolitan.

- Southern Nevada Water Authority and Metropolitan Storage and Interstate Release Agreement: Under this 2004 agreement and a related Operational Agreement, the Southern Nevada Water Authority (SNWA) may offer a portion of its Colorado River water supplies to Metropolitan when there is space available in the CRA to receive the water. SNWA may call for return of the water in a future year, in which Metropolitan would reduce its Colorado River water order to return this water. In 2009, 2012, and 2015, Metropolitan, the Colorado River Commission of Nevada, and SNWA amended the related Operational Agreement dealing with volumes of water that may be stored or called at various times. The agreements can be terminated upon 90 days' notice following the return of the water stored by Metropolitan.
- Lower Colorado Water Supply Project: This project develops additional water supplies by pumping groundwater into the All-American Canal for delivery to IID. An equal volume of Colorado River water is then made available for other water users along the river. Under a contract among Metropolitan, the City of Needles, and the United States Bureau of Reclamation, Metropolitan receives any excess unused water developed by the project. Metropolitan makes payments to a trust fund to develop a replacement project or to desalt the groundwater should the groundwater become too saline for discharge into the All-American Canal.
- Lake Mead Storage Program: In December 2007, Metropolitan entered into agreements to set forth the guidelines under which Intentionally Created Surplus (ICS) water is developed, stored in, and delivered from Lake Mead. The amount of water stored in Lake Mead must be created through extraordinary conservation, system efficiency, or tributary conservation methods. ICS is available for delivery in a subsequent year, with Extraordinary Conservation ICS subject to a one-time deduction to benefit the river system and annual evaporation losses. Extraordinary conservation methods used by Metropolitan to date are water saved by fallowing in the Palo Verde Valley, projects implemented with IID in its service area, the Lower Colorado Water Supply Project, All American and Coachella Canal water received under the San Luis Rey Indian Water Rights Settlement Agreement prior to the settlement parties receiving the water, and groundwater desalination. "System Efficiency ICS" can be created through the development and funding of system efficiency projects that save water that would otherwise be lost from the Colorado River. Metropolitan has participated in two projects to create System Efficiency ICS, and two projects to create ICS by conservation in Mexico:
  - Yuma Desalting Pilot Project: Metropolitan contributed funds toward the 2010-2011 pilot run of the Yuma Desalting Plant in exchange for a portion of the desalinated water produced by the project. The Yuma Desalting Plant treated brackish agricultural drainage that flows into Mexico to the Ciénega de Santa Clara



at the terminus of the Colorado River but does not count as deliveries to Mexico under the Mexican Water Treaty. Metropolitan's portion of the desalinated water was 24,397 acre-feet and this water was stored in Lake Mead. Metropolitan can take delivery of up to the entire amount in any single year.

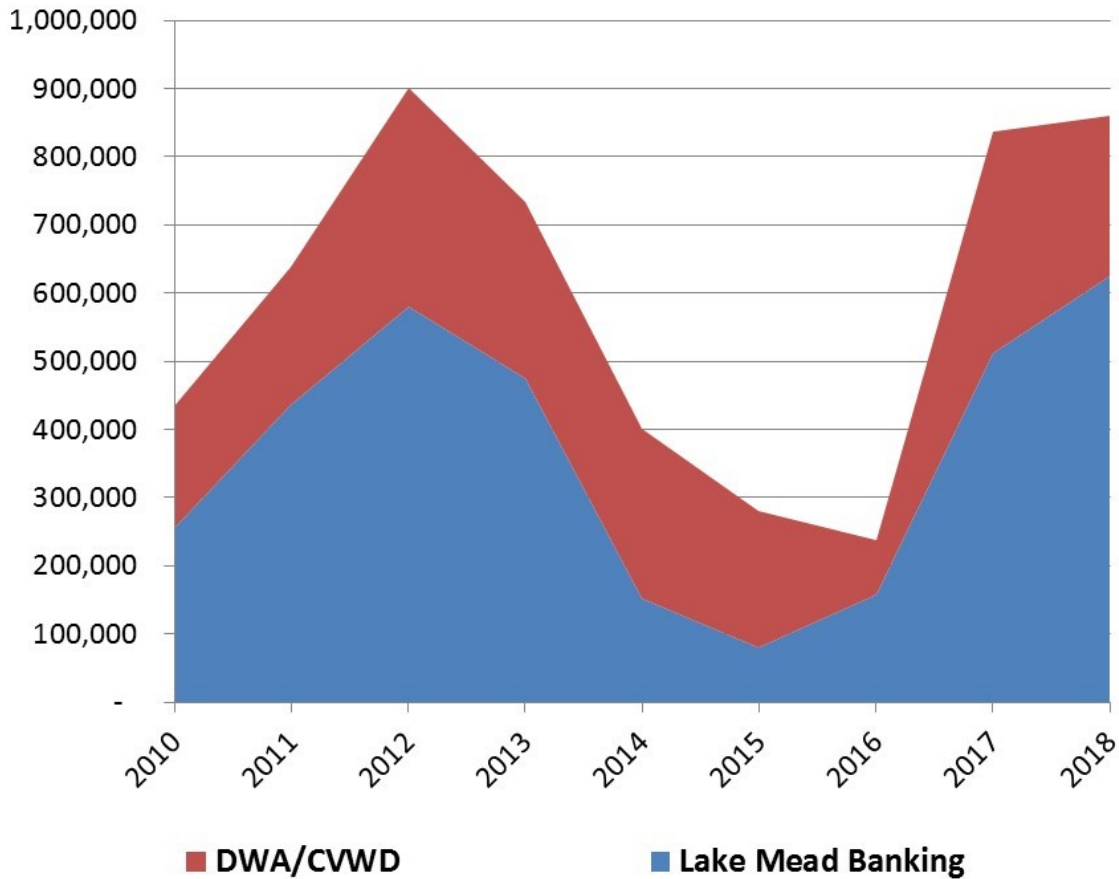
- Drop 2 (Warren H. Brock) Reservoir: Metropolitan contributed funds toward the Bureau of Reclamation's construction of an 8,000 acre-foot off-stream regulating reservoir near Drop 2 of the All-American Canal in Imperial County. This reservoir conserves about 70,000 acre-feet of water per year by capturing and storing otherwise non-storable flow. In return for its funding, Metropolitan received 100,000 acre-feet of water that was stored in Lake Mead, and has the ability to take delivery of up to 25,000 acre-feet of water in any single year. Besides the additional water supply, the new reservoir adds to the flexibility of Colorado River operations.
- In November 2012, Metropolitan executed agreements in support of a program to augment Metropolitan's Colorado River supply between 2013 and 2017 through an international pilot project in Mexico. Metropolitan's total share of costs will be \$5 million for 47,500 acre-feet of project supplies. The costs will be paid between 2015 and 2017, and the conserved water was credited to Metropolitan's intentionally-created surplus water account. In December 2013, Metropolitan and IID executed an agreement under which IID will pay half of Metropolitan's program costs, or \$2.5 million, in return for half of the project supplies, 23,750 acre-feet.
- In September 2017, Metropolitan executed agreements in support and continuation of a program to augment Metropolitan's Colorado River supply through international pilot projects in Mexico. Under the new set of agreements, Metropolitan's total share of costs are expected to be \$3.75 million for 27,275 acre-feet of project supplies. The costs will be paid in three parts, 2020, 2023, and 2026.
- In May 2019, Upper and Lower Basin Drought Contingency Plans (DCP) were executed and became effective. The Lower Basin DCP Agreement requires California, Arizona, and Nevada to store defined volumes of water in Lake Mead at specified lake levels. Pursuant to intrastate implementation agreements, Metropolitan will be responsible for 93 percent of California's DCP Contributions under the Lower Basin DCP. Implementation of the Lower Basin DCP enhances Metropolitan's ability to store water in Lake Mead and to ensure that water in storage can be delivered at a later date. The Lower Basin DCP increases the total volume of water the California may store in Lake Mead by 200,000 acre-feet, which Metropolitan will have the right to use. The Lower Basin DCP will be effective through 2026.
- Desert Water Agency/Coachella Valley Water District/Metropolitan Water Exchange and Advance Delivery Programs: Under these programs, Metropolitan delivers Colorado River water to the DWA and CVWD, in exchange for future deliveries by DWA and CVWD of an equal volume of their SWP supplies. By delivering enough water in advance to cover Metropolitan's exchange obligations, Metropolitan is able to receive DWA and CVWD's available SWP supplies in years in which Metropolitan's supplies are insufficient to deliver an equivalent amount of Colorado River water. In December 2019, the exchange agreements were amended to provide more flexibility and operational certainty for the parties involved. Additionally, under the amended agreement, Coachella and Desert in wet years pay a portion of Metropolitan's water storage management costs, up to a combined total of \$4 million per year<sup>1</sup>.

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<sup>1</sup> DWA has a SWP Table A contract right of 55,750 acre-feet per year and CVWD has a SWP Table A contract right of 138,350 acre-feet per year, for a total of 194,100 acre-feet per year. In addition to their Table A supplies, DWA and CVWD, subject to Metropolitan's written consent may by exchange take delivery of SWP supplies available under Article 21 of their SWP Contracts, the Turn-back Pool Program, and non-SWP supplies they may acquire and convey through SWP facilities. Under the Metropolitan-CVWD Delivery and Exchange Agreement for 35,000 Acre-feet, up to 35,000 acre-feet of Metropolitan's SWP Table A supply can be requested annually by CVWD for delivery by exchange.

Figure 13 shows the year-end balance in Metropolitan’s Colorado River storage programs. The combined capacity of the Lake Mead Storage program and the DWA/CVWD advance delivery program is 2,300,000 acre-feet, plus the amount of water in storage in Lake Mead as a result of the Drop 2 Reservoir and Yuma Desalting Plant system efficiency projects.

**Figure 13: Colorado River Storage Programs, acre-feet**



In addition to the supply programs developed by Metropolitan, Metropolitan entered into an exchange agreement with the San Diego County Water Authority (SDCWA). On April 29, 1998, SDCWA and IID executed an agreement (the “IID-SDCWA Transfer Agreement”) for SDCWA’s purchase from IID of Colorado River water that is conserved within IID. An amendment to the IID-SDCWA Transfer Agreement, executed as one of the QSA related agreements, set the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an 18 year period, then stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities currently exist to deliver water directly from IID to SDCWA. Accordingly, in 1998, SDCWA entered into an exchange agreement with Metropolitan, pursuant to which SDCWA would have made available to Metropolitan at Lake Havasu on the Colorado River the conserved IID Colorado River water acquired by SDCWA from IID. Metropolitan would have delivered to SDCWA an equal volume of water from Metropolitan’s supplies. The 1998 SDCWA-Metropolitan Exchange Agreement was conditioned upon the State Legislature’s appropriation of \$235 million to Metropolitan for lining the earthen All-American and Coachella Valley Canals to conserve water that would otherwise seep into the soil. Upon completion of the canal lining, Metropolitan had the rights to the estimated 77,700 acre-feet per year of conserved water for 110 years (Canal Lining Water).

In 2003, SDCWA and Metropolitan amended their exchange agreement, pursuant to which Metropolitan assigned the rights to the Canal Lining Water for 110 years and the \$235 million in state funding to SDCWA in exchange for SDCWA's agreement to pay for deliveries of Metropolitan water exchanged for the Canal Lining Water and IID transfer water based on the conveyance rates charged to Metropolitan's member agencies.

## BUDGET HIGHLIGHTS

The budget for the Supply Programs increases over the budget period compared to FY 2019/20, primarily due to inflation and changing program utilization. This reflects the assumption of a 50 percent allocation on the SWP and approximately 733 to 745 TAF deliveries on the CRA.

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# DEMAND MANAGEMENT

## OVERVIEW

Demand Management costs are Metropolitan’s expenditures for funding local water resource development programs, water conservation programs and all the Future Supply Actions Program. These demand management programs incentivize the development of local water supplies, the conservation of water to reduce the reliance on imported water, and funding of programs focused on removing barriers to the development of local water supplies. These programs are implemented after the service connection between Metropolitan and its member agencies and, as such, do not add any water to the quantity Metropolitan obtains from other sources or to Metropolitan’s own supply. Rather, the effect of these downstream programs is to produce a local supply of water for the local agencies.

Demand management is an integral function of Metropolitan’s services to its member agencies. It is not a service provided to Metropolitan’s member agencies. Instead, it is a function undertaken to provide full-service water and wheeling service to Metropolitan’s member agencies. By undertaking demand management, Metropolitan avoids and defers the need to provide more water or wheeling service to its agencies, and accordingly, also avoids and defers additional costs associated with providing that additional water or wheeling service.

The budgeted costs for Demand Management are as follows:

### Demand Management Cost Summary<sup>1</sup>, \$ millions

	2018/19 Actuals	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Conservation Program <sup>2</sup>	\$16.6	\$43.0	\$43.0	—	\$43.0	—
Local Resources Program	\$30.9	\$40.8	\$19.3	(\$21.6)	\$20.3	\$1.1
Future Supply Actions / Stormwater Pilot	\$0.9	\$2.0	\$4.3	2.3	7.1	2.9

<sup>1</sup> Does not include Departmental costs reflected elsewhere in this Budget.

<sup>2</sup> Appropriated, annual Conservation expenditures are estimated to be \$25M per year.

Budgeted Demand Management costs reflect the financial commitment for the Conservation Program, conservation messaging, and maintaining the financial incentives for existing contracts under the Local Resources Program.

In addition to Metropolitan’s own objectives, Metropolitan also pursues local water resource development because it has uniquely been directed to do so by the state Legislature. In 1999, then Governor Davis signed Senate Bill (SB) 60 (Hayden) into law. SB 60 amended the Metropolitan Water District Act to direct Metropolitan to increase conservation and local resource development. No other water utility in California, public or private, has been specifically identified by the state Legislature and directed to pursue water conservation and local water resource development.

Metropolitan’s Demand Management programs also support the region’s compliance with the requirements of AB 1668 and SB 606. These bills build on Governor Brown’s efforts to make water conservation a way of life in California and create a new foundation for long-term improvements in water conservation and drought

planning. They establish guidelines for efficient water use and a framework for the implementation and oversight of the new standards, which must be in place by 2022. The two bills strengthen the state's water resiliency in the face of future droughts with provisions that include:

- Establishing water use objectives and long-term standards for efficient water use that apply to urban retail water suppliers; comprised of indoor residential water use, outdoor residential water use, commercial, industrial and institutional (CII) irrigation with dedicated meters, water loss, and other unique local uses.
- Providing incentives for water suppliers to recycle water.
- Identifying small water suppliers and rural communities that may be at risk of drought and water shortage vulnerability and provide recommendations for drought planning.
- Requiring both urban and agricultural water suppliers to set annual water budgets and prepare for drought.

Metropolitan coordinates closely with its member agencies to achieve these provisions both at a retail agency level in compliance with legislative requirements and as a region.

Demand Management costs also support the Strategic Plan Policy Principles approved by Metropolitan's Board on December 14, 1999. These principles embody the Board's vision that Metropolitan is a regional provider of wholesale water services. In this capacity, Metropolitan is the steward of regional infrastructure and the regional planner responsible for coordinated drought management and the collaborative development of additional supply reliability and necessary capacity expansion. Through these regional services, Metropolitan ensures a baseline level of reliability and quality for service in its service area.

## SB 60 DIRECTED METROPOLITAN TO EXPAND DEMAND MANAGEMENT PROGRAMS

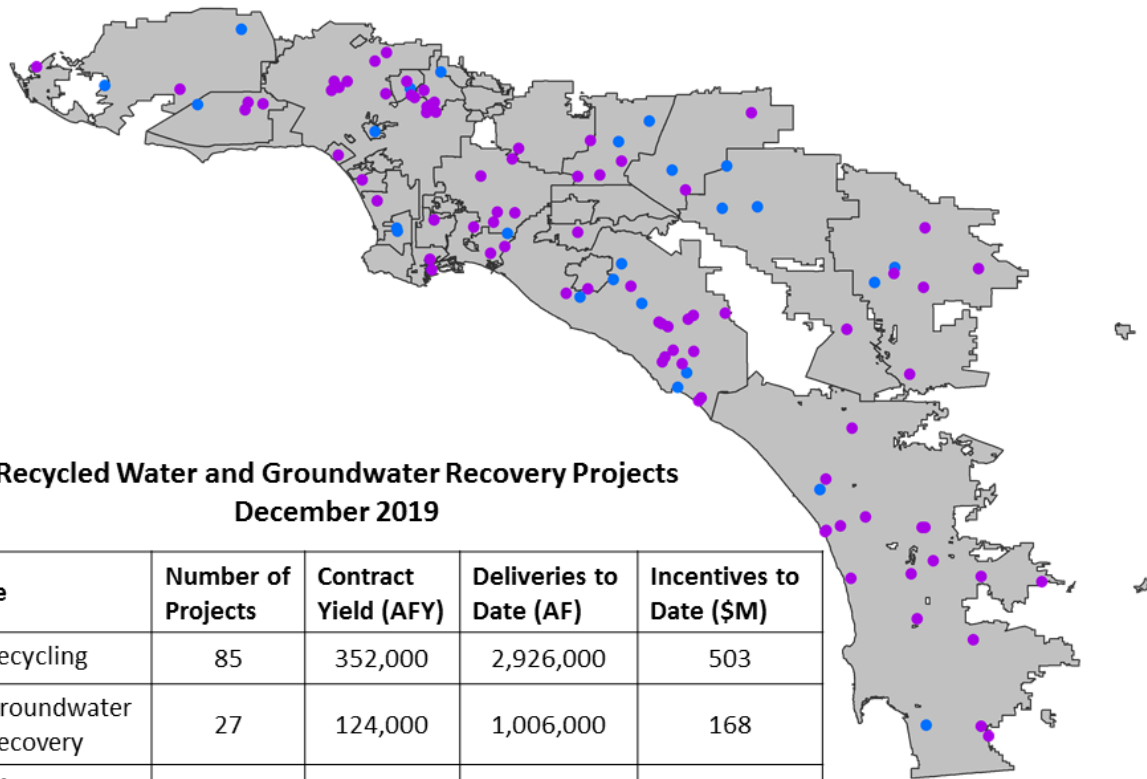
In September 1999, Governor Gray Davis signed SB 60 (Hayden) into law. SB 60 amended the Metropolitan Water District Act to direct Metropolitan to increase "sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures." SB 60 also requires Metropolitan to hold an annual public hearing to review its urban water management plan for adequacy in achieving an increased emphasis on cost-effective conservation and local water resource development, and to invite knowledgeable persons from the water conservation and sustainability fields to these hearings. Finally, Metropolitan is required to annually prepare and submit to the Legislature a report on its progress in achieving the goals of SB 60. SB 60 specifically indicated that no reimbursement was required by legislation because Metropolitan, as a local agency, has the authority to levy service charges, fees or assessments sufficient to pay for the program or level of service mandated by SB 60. No other water utility in California, public or private, has been specifically identified by the state Legislature and directed to pursue water conservation and local water resource development.

In FY 2018/19 alone, Metropolitan's service area achieved 1.6 million acre-feet of water savings from conservation, recycled water and groundwater recovery programs. The 1.6 million acre-feet of water savings from water management activities in fiscal year 2018/19 exceeded actual water transactions in the same period of 1.42 million acre-feet. These savings derived from programs for which Metropolitan paid incentives, as well as code-based conservation achieved through legislation, building and plumbing codes and ordinances, and reduced consumption resulting from changes in water pricing. Cumulatively, since 1982 Metropolitan has invested more than \$1.4 billion and Metropolitan's service area has achieved 6.9 million acre-feet of water savings.

Metropolitan’s Conservation Program provides incentives to residents and businesses for use of water-efficient products and qualified water-saving activities. Rebates have been provided to residential customers for turf removal and purchasing of high-efficiency clothes washers and toilets. Rebates are also provided to businesses and institutions for water-saving devices. In fiscal year 2018/19, the Conservation Program achieved 1.0 million acre-feet of saved water through new and existing conservation initiatives funded with incentives and maintained through plumbing codes. Cumulatively, through fiscal year 2018/19 the Conservation Program has achieved over 3.0 million acre-feet of water savings.

Metropolitan provides financial incentives through its Local Resources Program for the development and use of recycled water and recovered groundwater. The Local Resources Program consists of 85 recycling projects and 27 groundwater recovery projects located throughout Metropolitan’s service area. Under the program, there are a total of 112 projects in Operation. Since inception in 1982 through FY 2018/19, Metropolitan has provided about \$497 million in incentives to produce about 2.9 million acre-feet of recycled water and approximately \$164 million to recover 991,000 acre-feet of degraded groundwater for municipal use.

### Local Resources Program Projects



**Recycled Water and Groundwater Recovery Projects  
December 2019**

Type	Number of Projects	Contract Yield (AFY)	Deliveries to Date (AF)	Incentives to Date (\$M)
● Recycling	85	352,000	2,926,000	503
● Groundwater Recovery	27	124,000	1,006,000	168
<b>Total</b>	<b>112</b>	<b>476,000</b>	<b>3,932,000</b>	<b>661</b>

## BUDGET HIGHLIGHTS

The budget for the Demand Management costs is decreasing when comparing the Biennial Budget to FY 2019/20, due primarily to reduced expenditures for local resources programs as a result of the termination of some existing contracts. Historically, conservation activity peaks during years of shortfalls and diminishes

during periods of wet years. The Demand Management is budgeted at \$48.5 million for FY 2020/21 and \$52.5 million in FY 2021/22.

The demand management budget is being funded this biennial period by the fiscal-year-end 2019/20 balance of the Water Stewardship Fund and the collection of the Water Stewardship Rate through the end of calendar year 2020. In April 2018, the Board directed staff to undertake a study to determine the most appropriate allocation of demand management costs. The Board also suspended the billing and collection of the Water Stewardship Rate from deliveries to SDCWA pursuant to the exchange agreement in 2018-2020. Staff undertook the cost allocation study with the help of two consultants. In December 2019, staff presented the recommendations for rate design alternatives to recover demand management costs. The Board did not select a rate design alternative and instead, directed staff to incorporate the 2019/20 fiscal-year-end balance of the Water Stewardship Fund to fund demand management costs for the next biennial period. The Water Stewardship Rate will also be collected through end of calendar year 2020, also providing funds for the Water Stewardship Fund. If the demand management program requires additional funding during the biennium budget period, the need for additional funding will be brought back to the Board.



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# DEVELOPMENTS

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## OVERVIEW

As of September 30, 2019, the northern Sierra precipitation was 136 percent of the 50-year average for the time of year. For the water year ended September 30, 2019, northern Sierra snow water content measured 163 percent of the 30-year seasonal peak average. On December 2, 2019, the DWR notified State Water Contractors that its initial calendar year 2020 allocation estimate of State Water Project water is 10 percent of contracted amounts, or 191,150 acre-feet for Metropolitan. (An acre-foot is the amount of water that will cover one acre to a depth of one foot and equals approximately 325,851 gallons, which represents the needs of three average families in and around the home for one year within Metropolitan's service area.) Changes to the 2020 allocation may occur and are dependent on the developing hydrologic conditions.

The Upper Colorado River Basin peak snowpack accumulation measured 133 percent of the 30-year seasonal peak average for the water year ended September 30, 2019. On October 11, 2019, the total system storage in the Colorado River Basin was 53 percent of capacity, an increase of six percent or 3.64 million acre-feet for the water year ended September 30, 2019. As of such date, the projected base supply of Colorado River water in calendar year 2020 was estimated to be 983,436 acre-feet.

Metropolitan's storage capacity, which includes reservoirs, conjunctive use and other groundwater storage programs within Metropolitan's service area and groundwater and surface storage accounts delivered through the SWP or CRA, is approximately 6.1 million acre-feet. In 2019, approximately 626,000 acre-feet of total stored water in Metropolitan's reservoirs and other storage resources was designated as emergency storage that was reserved for use in the event of supply interruptions from earthquakes or similar emergencies, as well as extended drought. Metropolitan replenishes its storage accounts when available imported supplies exceed demands. Effective storage management is dependent on having sufficient years of excess supplies to store water so that it can be used during times of shortage. Metropolitan forecasts that, with anticipated supply reductions from the SWP due to pumping restrictions, it will need to draw down on storage in about seven of ten years and will be able to replenish storage in about three years out of ten. As a result of increased SWP supplies and reduced demands from 2016 to 2019, Metropolitan's storage as of January 1, 2019 is estimated to be 2.98 million acre-feet. Due to the relatively higher SWP allocation in 2019 and improving conditions on the Colorado River, Metropolitan expects January 1, 2020 storage to be approximately 4.0 million acre-feet. As a result of a collaborative process between Metropolitan and its member agencies to evaluate Metropolitan's Emergency Storage Objective, by January 1, 2020 the total emergency storage in Metropolitan's reservoirs and other storage resources will be increased from 626,000 acre-feet to 750,000 acre-feet.

## Delta Conveyance

In 2015, the State and federal lead agencies proposed an alternative implementation strategy and new alternatives to the BDCP to provide for the protection of water supplies conveyed through the Bay-Delta and the restoration of the ecosystem of the Bay-Delta, termed "California WaterFix" and "California EcoRestore," respectively. In this alternative approach, DWR and the Bureau of Reclamation would implement planned water conveyance improvements (California WaterFix) as a stand-alone project with the required habitat restoration limited to that directly related to construction mitigation. The associated costs of such mitigation would be underwritten by the public water agencies participating in the conveyance project. Ecosystem improvements and habitat restoration more generally (California EcoRestore) would be undertaken under a more phased approach than previously contemplated by the BDCP and would not be linked with the conveyance project or permits. As part of California EcoRestore, which was initiated in 2015, the State is pursuing more than 30,000 acres of Delta habitat restoration. Work on a number of EcoRestore projects is ongoing. Among other things,

EcoRestore is expected to implement restoration projects required by the biological opinions issued in 2008 and 2009 to which the SWP is subject. EcoRestore is estimated to cost \$300 million in the first four years, and includes amounts being paid by the State Water Contractors, including Metropolitan, for the costs of habitat restoration required to mitigate State and federal water project impacts pursuant to the biological opinions.

In July 2017, DWR certified a final EIR and approved the California WaterFix as an improvement to the SWP. On February 12, 2019, then recently elected Governor Gavin Newsom presented at the State of the State address a conceptual proposal supporting a single-tunnel configuration for new Bay-Delta conveyance instead of the two-tunnel California WaterFix. Subsequently, on April 29, 2019, Governor Newsom issued an executive order directing identified State agencies to develop a comprehensive statewide strategy to build a climate-resilient water system. Among other things, the Governor's executive order directed the State agencies to inventory and assess the current planning for modernizing conveyance through the Bay-Delta with a new single tunnel project. Following the Governor's executive order, in May 2019, DWR withdrew approval of the California WaterFix project and decertified the EIR. In August 2019, DWR terminated the last permit associated with the project.

DWR is pursuing a new environmental review and planning process for a single tunnel project to modernize the State Water Project's Bay-Delta conveyance. The formal environmental review process is expected to begin with a Notice of Preparation under CEQA anticipated to be issued by DWR in the late 2019 timeframe. Planning, environmental review and conceptual design work by DWR for a proposed single tunnel project is expected to take approximately 18 to 36 months. A single tunnel project to be proposed under the new planning effort and environmental review process to be undertaken by DWR may be designed and configured differently than previously analyzed single tunnel alternatives. Information regarding the Delta conveyance project is located on Metropolitan's website at <http://www.mwdh2o.com/DocSvcsPubs/DeltaConveyance/index.html>.

## Regional Recycled Water Program

In 2015, Metropolitan executed an agreement with the Sanitation Districts of Los Angeles County ("LACSD") to implement a demonstration project and to establish a framework of terms and conditions of a regional recycled water program (the "RRWP"). The objectives of the RRWP are to enable the potential reuse of up to 150 million gallons per day ("mgd") of treated effluent from LACSD's Joint Water Pollution Control Plant ("JWPCP"). Purified water from a new advanced treatment facility could be delivered through pipelines to the region's groundwater basins, industrial facilities, and two of Metropolitan's treatment plants. Construction of a 0.5 mgd advanced water treatment demonstration plant was approved in 2017 and was completed in August 2019. Testing and operation of the plant to confirm treatment costs and provide the basis for regulatory approval of the proposed treatment process and technical recommendations concerning design, operation, and optimization of the full-scale RRWP will be completed in 2020. The RRWP will have the flexibility to be expanded in the future to implement Direct Potable Reuse ("DPR") through raw water augmentation at the two Metropolitan treatment plants. The State Water Resources Control Board Division of Drinking Water is in the process of developing a framework for the regulation of DPR in California, and the current anticipated date for promulgation is 2023. Information regarding the RRWP is located on Metropolitan's website at <http://www.mwdh2o.com/DocSvcsPubs/rrwp/index.html#home>.

# CAPITAL FINANCING

## OVERVIEW

Capital financing costs are Metropolitan’s expenditures for revenue bond debt service, General Obligation bond debt service, debt administration costs, and the funding of capital expenditures from current operating revenues, or Pay-As-You-Go (PAYGO).

The budgeted costs for capital financing are as follows:

### Capital Financing Cost Summary, \$ millions

	2018/19 Actuals	2019/20 Budget	2020/21 Proposed	Change from 2019/20	2021/22 Proposed	Change from 2020/21
Debt Service, net of BABs Reimbursement	\$280.9	\$309.6	\$285.8	(\$23.9)	\$292.7	\$6.9
GO Bond Debt Service	13.5	14.3	7.3	(7.1)	8.2	1.0
SRF Loan	—	—	—	—	—	—
Debt Administration	5.7	6.9	5.7	(1.3)	6.1	0.4
PAYGO	128.1	120.0	135.0	15.0	135.0	—
<b>Total<sup>1</sup></b>	<b>\$428.2</b>	<b>\$450.9</b>	<b>\$433.7</b>	<b>(\$17.2)</b>	<b>\$442.0</b>	<b>\$8.3</b>

<sup>1</sup> Does not include Departmental costs reflected elsewhere in this Budget.

Budgeted amounts for Capital Financing represent the expenditures for existing and future debt service, anticipated debt administration costs to support the debt portfolio, and PAYGO amounts to support the Capital Investment Plan. Metropolitan generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. Revenue supported debt can be authorized by Metropolitan’s Board of Directors.

## CAPITAL INVESTMENT PLAN

The Capital Investment Plan (CIP) expenditures for FY 2020/21 and FY 2021/22 which includes Minor Capital Projects are estimated to be \$225.0 million in each fiscal year. They are proposed to be funded by current operating revenues (PAYGO) and revenue bond proceeds. The FY 2020/21 CIP expenditures are \$25 million higher than the FY 2019/20 budget, as are the FY 2021/22 CIP expenditures. The largest areas of expenditures in the Biennial Budget are infrastructure refurbishment and replacement and infrastructure upgrades.

The CIP planned spending as developed by Engineering Services and presented in the Capital Expenditures section of the budget is estimated to be \$500 million over the biennium. The budget assumes that 90% of planned engineering spending or \$225 million in each fiscal year will occur as recent changes in the capital appropriation process streamlined capital appropriations, expediting capital project expenditures.

PAYGO Percentage of Funding, \$ millions

	<b>2019/20 Budget</b>	<b>2020/21 Proposed</b>	<b>2021/22 Proposed</b>
Capital Investment Plan expenses <sup>1</sup>	\$200.0	\$225.0	\$225.0
Project Funding:			
New Bond Issues	80.0	90.0	90.0
Prior Bond Funds/Construction Fund	—	—	—
Grants and Loans Funds	—	—	—
Operating Revenues (PAYGO)	120.0	135.0	135.0
PAYGO Percentage of Funding	60.0%	60.0%	60.0%

<sup>1</sup> CIP appropriation is \$500M over the biennium. Estimated CIP expenditures are estimated to be \$225M per year.

In FY 2020/21 and FY 2021/22, the percentage of capital that is funded by operating revenues is set at 60% consistent with the FY 2018/19 and FY 2019/20 ten-year forecast for this time period. The projected percentage of capital funded from operating revenues will range from 60 percent to 70 percent over the ten years of the long-range forecast.

## OUTSTANDING DEBT

Metropolitan has total debt outstanding of \$4.0 billion as of December 31, 2019. Metropolitan’s debt issues are summarized below and discussed in detail thereafter.

Outstanding Debt, \$'s, as of December 31, 2019

Issue	Debt Outstanding
1993 Series A, Water Revenue Refunding Bonds	12,225,000
2000 Authorization, Series B-3, Water Revenue Bonds (1)	88,800,000
2010 Authorization, Series A, Water Revenue Bonds (2)	250,000,000
2010 Series B, Water Revenue Refunding Bonds	56,005,000
2011 Series B, Water Revenue Refunding Bonds	1,345,000
2011 Series C, Water Revenue Refunding Bonds	118,800,000
2012 Series A, Water Revenue Refunding Bonds	181,180,000
2012 Series C, Water Revenue Refunding Bonds	19,835,000
2012 Series F, Water Revenue Refunding Bonds	48,885,000
2012 Series G, Water Revenue Refunding Bonds	111,890,000
2013 Series D, Special Variable Rate Water Revenue Refunding Bonds (1)	87,445,000
2014 Series A, Water Revenue Refunding Bonds	37,870,000
2014 Series C-2, Water Revenue Refunding Bonds	14,020,000
2014 Series C-3, Water Revenue Refunding Bonds	2,810,000
2014 Series D, Special Variable Rate Water Revenue Refunding Bonds (1)	38,465,000
2014 Series E, Water Revenue Refunding Bonds	86,060,000
2014 Series G-5, Water Revenue Refunding Bonds	6,205,000
2015 Authorization, Series A, Water Revenue Bonds	204,120,000
2015 Series A-1, Special Variable Rate Water Revenue Refunding Bonds (1)	94,450,000
2015 Series A-2, Special Variable Rate Water Revenue Refunding Bonds (1)	94,450,000
2016 Series A, Water Revenue Refunding Bonds	239,455,000
2016 Authorization, Series A, Subordinate Water Revenue Bonds (Taxable) (1)	175,000,000
2016 Series B-1, Special Variable Rate Water Revenue Refunding Bonds (1)	51,835,000
2016 Series B-2, Special Variable Rate Water Revenue Refunding Bonds (1)	51,835,000
2017 Series A, Authorization Water Revenue Bonds (1)	80,000,000
2017 Series A, Subordinate Water Revenue Refunding Bonds	238,015,000
2017 Series B, Subordinate Water Revenue Refunding Bonds	178,220,000
2017 Series C, Subordinate Water Revenue Bonds (1)	80,000,000
2017 Series D, Subordinate Water Revenue Refunding Bonds (1)	95,630,000
2017 Series E, Subordinate Water Revenue Refunding Bonds (1)	95,625,000
2018 Series A, Subordinate Water Revenue Refunding Bonds	94,675,000
2018 Series A-1, Special Variable Rate Water Revenue Refunding Bonds (1)	104,935,000
2018 Series A-2, Special Variable Rate Water Revenue Refunding Bonds (1)	104,935,000
2018 Series B, Subordinate Water Revenue Bonds	64,345,000
2018 Series B, Water Revenue Refunding Bonds	137,485,000
2019 Series A, Water Revenue Refunding Bonds	218,090,000
2019 Series A, Subordinate Water Revenue Refunding Bonds	241,530,000
<b>Total Revenue Bonds</b>	<b>3,806,470,000</b>
2010 Series A, WaterWorks General Obligation Refunding Bonds	18,735,000
2014 Series A, WaterWorks General Obligation Refunding Bonds	12,560,000
2015 Series A, WaterWorks General Obligation Refunding Bonds	16,755,000
<b>Total General Obligation Bonds</b>	<b>48,050,000</b>
Subordinate Short-Term Revenue Refunding Certificates, Series 2019 A (Taxable)	46,800,000
2019 Short-Term Revolving Credit Facility Notes (1)	100,000,000
Total Revolving Note Program	146,800,000
<b>Total Debt:</b>	<b>4,001,320,000</b>

(1) Outstanding variable rate obligation.

(2) Designated as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009.

## DEBT SERVICE

Debt Service payments in FY 2020/21 are budgeted at \$298.7 million and includes \$7.3 million in General Obligation bond debt service, \$285.8 million in revenue bond debt service, and \$5.7 million for debt administration costs.

Debt Service payments in FY 2021/22 are budgeted at \$307.0 million and include \$8.2 million in General Obligation bond debt service, \$292.7 million in revenue bond debt service, and \$6.1 million for debt administration costs. Total debt service costs in FY 2021/22 are expected to be \$8.3 million greater than the FY 2020/21 payments. Interest payments on synthetic fixed rate debt were calculated at their associated swap rates. Interest rates on variable rate debt were calculated at 1.70 percent for FY 2020/21 and FY 2021/22.

Outstanding variable rate debt on December 31, 2019 was approximately \$1,390.2 million, including bonds bearing interest in the Index Mode, special variable rate bonds initially designated as self-liquidity bonds, variable rate demand obligations, and revolving note programs. Of the \$1,390.2 million, \$493.6 million are treated by Metropolitan as fixed rate debt by virtue of interest rate swap agreements. The remaining \$896.6 million of variable rate obligations represent approximately 22.7 percent of total outstanding water revenue bonds and revolving notes.

Going forward, Metropolitan will finance a portion of its construction program through issuance of fixed-rate debt. Metropolitan intends to issue approximately \$90 million of new debt in FY 2020/21 and FY 2021/22, respectively.

## DEBT RATINGS

Credit risk is the risk that a financial loss will be incurred if a counterparty to a transaction does not fulfill its financial obligations in a timely manner. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Strong credit ratings provide tangible benefits to ratepayers in the form of reduced debt service cost. A strong credit rating provides better access to capital markets, lower interest rates and better terms on debt, and access to a greater variety of debt products. Prudent financial management policies have resulted in Metropolitan's senior lien bond ratings of AAA from Standard & Poor's, Aa1 from Moody's, and AA+ from Fitch.

## DEBT POLICY AND COVERAGE

Metropolitan is subject to limitations on additional revenue bonds. Resolution 8329 (the "Master Revenue Bond Resolution"), adopted by Metropolitan's Board in 1991 and subsequently supplemented and amended, provides for the issuance of Metropolitan's revenue bonds. The Master Revenue Bond Resolution limits the issuance of additional obligations payable from Net Operating Revenues, among other things, through the requirement that Metropolitan must meet an Additional Bonds Test, as defined in the Master Revenue Bond Resolution. Metropolitan's Master Subordinate Bond Resolution, Resolution 9199, adopted by the Board in March 2016, and subsequently supplemented and amended, also incorporates limitations on additional revenue bonds.

The Metropolitan Act also provides two additional limitations on indebtedness. The Act provides for a limit on general obligation bonds, water revenue bonds and other indebtedness at 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of December 31, 2019, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.0 billion represented approximately 0.13 percent of the FY 2019/20 taxable assessed valuation of \$3,092 billion. The second limitation under the Act specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of the bonds equals at least 100 percent of the aggregate amount of revenue bonds outstanding following the issuance of the bonds. The net position of Metropolitan at June 30, 2019 was \$6.8 billion. The aggregate amount of revenue bonds outstanding as of December 31, 2019 was \$3.8 billion.

Metropolitan has also established its own policy regarding debt management. The purpose is to maintain a balance between current funding sources and debt financing to retain Metropolitan's financing flexibility. Flexibility allows Metropolitan to use a variety of revenue or debt-financing alternatives, including issuing low-cost variable rate and other revenue supported obligations.

Metropolitan's debt management policy is to:

- Maintain an annual senior/subordinate lien revenue bond debt coverage ratio of at least 2.0 times coverage;
- Maintain an annual fixed charge coverage ratio of at least 1.2 times coverage;
- Limit debt-funded capital to no more than 40 percent of the total capital program over the ten-year planning period; and
- Limit variable rate debt such that the net interest cost increase due to interest rate changes is no more than \$5 million, and limit the maximum amount of variable rate bonds to 40 percent of outstanding revenue bond debt (excluding variable rate bonds associated with interest rate swap agreements).

In order to comply with the debt management policy, Metropolitan has taken the following measures:

### Revenue Bond Debt Coverage Ratio

This policy ensures that Metropolitan has sufficient annual operating revenues to pay its operating expenses and meet its debt service obligations on its revenue bonds and other senior debt. The revenue bond debt coverage ratio is defined as Metropolitan's net operating revenue (current year's operating revenue less the current year's operating expenses) divided by the current year's senior/subordinated lien debt service on all revenue bonds and other senior debt. The target is 2.0 times. In FY 2020/21 and FY 2021/22, the projected debt coverage ratio is 1.5 and 1.6 times, respectively.

### Fixed Charge Coverage Ratio

In addition to revenue bond debt service coverage, Metropolitan also measures total coverage of all fixed obligations after payment of operating expenditures. This additional measure is used to account for Metropolitan's recurring capital costs for the State Water Contract, which are funded after debt service on revenue bonds and other parity obligations. Rating agencies expect that a financially sound utility consistently demonstrate an ability to fund all recurring costs, whether they are operating expenditures, debt service payments or other contractual payments. Metropolitan's fixed charge coverage ratio target is 1.2 times. In FY 2020/21 and FY 2021/22, the projected fixed charge coverage ratio is 1.5 and 1.6, respectively. These levels help maintain favorable credit ratings and access to the capital markets at low cost.

## BUDGET HIGHLIGHTS

The FY 2020/21 and FY 2021/22 Capital Financing budget is decreasing from the FY 2019/20 budget due to lower debt service expenditures overall. Debt service costs decrease by \$24 million over the biennium compared to the FY 2019/20 budget primarily as a result of favorable refundings. Lower overall Capital Financing costs provide increased financial flexibility and resiliency.



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# GLOSSARY OF TERMS

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**20 x 2020** — 2009 Water Conservation Act goal of twenty percent reduction in per capita regional water use by 2020.

**ACE** — Association of Confidential Employees; an employee bargaining unit at Metropolitan.

**Accrual** — An accounting method that records revenues when earned and expenses when incurred regardless of the timing of when the cash is actually paid or received.

**Acre-Foot** — A unit of measure equivalent to 325,851.4 gallons of water and weighs approximately 62.4 pounds, which meets the needs of two average families in and around the home for one year.

**ACWA** — Association of California Water Agencies.

**AFSCME** — American Federation of State, County, and Municipal Employees, Local 1902.

**Appropriation** — Money set aside for a specific purpose. The designation of the use to which a fund of money is to be applied.

**Bay Delta** — An environmentally sensitive area of the Sacramento/San Joaquin River Delta through and from which water flows to reach portions of California from the San Francisco Bay Area to San Diego. Moving water across the delta during the high-demand summer months is becoming more difficult as additional water is set aside to mitigate for environmental impacts.

**Budget** — A report of all anticipated expenditures and required reserves and the source of moneys to be used to meet such expenditures and provide such reserves.

**Budgeted Position** — A staff position approved by the Board of Directors for the fiscal year.

**California WaterFix (CA WaterFix)** — California WaterFix is a comprehensive science-based solution proposed by the state to modernize critical water delivery infrastructure of the State Water Project. The California WaterFix proposes construction of new water intakes in the north Delta and two 40-foot diameter tunnels under the Delta terminating at a forebay in the South Delta. This would fulfill the requirement of the 2009 Delta Reform Act to contribute toward meeting the coequal goals of providing a more reliable water supply for California and protecting, restoring and enhancing the Delta ecosystem. In May 2019, the Department of Water Resources (DWR) withdrew approval of the California WaterFix project.

**Capital Investment Plan (CIP)** — Metropolitan's CIP is designed to refurbish existing facilities needed to ensure a reliable distribution system, expand treatment facilities to meet current and future water quality regulations, and expand storage and conveyance facilities to meet current and future storage requirements.

**Capital Project** — A project that results in a new asset (e.g., a facility, betterment, replacement, equipment, etc.) that has a total cost of at least \$50,000 and a useful life of at least five years. Computer software can be capitalized if it costs \$250,000 or more and has a useful life of at least three years.

**The California Environmental Quality Act (CEQA)** — A statute that requires state and local agencies to identify the significant environmental impacts of their actions, and to avoid or mitigate those impacts, if feasible.



**Colorado River Aqueduct (CRA)** — The 242-mile-long water conveyance system built by Metropolitan to carry water from the Colorado River to its Southern California service area.

**Conservation Program** — A program where Metropolitan provides financial assistance for the development of conservation programs at the local level (e.g. energy efficient washing machines, low flush toilets, etc.).

**CUWCC** — California Urban Water Conservation Council, a non-profit 501c3 formed as a partnership of water suppliers, environmental groups, and others interested in conserving California's greatest natural resource, water.

**Debt Service** — The annual cost of repaying outstanding debt.

**Delta Conveyance** — The Department of Water Resources (DWR) is pursuing a new environmental review and planning process for a single tunnel project to modernize the State Water Project's Bay-Delta conveyance. The formal environmental review process is expected to begin with a Notice of Preparation under CEQA anticipated to be issued by DWR in the late 2019 timeframe. Planning, environmental review and conceptual design work by DWR for a proposed single tunnel project is expected to take approximately 18 to 36 months. A single tunnel project to be proposed under the new planning effort and environmental review process to be undertaken by DWR may be designed and configured differently than previously analyzed single tunnel alternatives. Information regarding the Delta conveyance project is located on Metropolitan's website at <http://www.mwdh2o.com/DocSvcPubs/DeltaConveyance/index.html>.

**Department of Water Resources (DWR)** — A department within the California Resources Agency which is responsible for the state's management and regulation of water usage.

**Distribution System** — Refers to the network of pipelines and canals used for the conveyance of water from Metropolitan's terminal reservoirs to member agency service connections.

**DVL** — Diamond Valley Lake. A reservoir built by Metropolitan with a capacity of 800,000 AF.

**EIR** — Environmental Impact Report.

**EMS** — Energy Management System.

**Endangered Species Act (ESA)** — An act of the federal government enacted in 1973 that provides for the conservation of species that are endangered or threatened and the conservation of the ecosystems on which they depend. A species is considered endangered if it is in danger of extinction throughout all or a significant portion of its range. A species is considered threatened if it is likely to become an endangered species within the foreseeable future.

**Enterprise Fund** — To account for operations that are financed and operated where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Ethics Program** — State law (SB 60) mandates that Metropolitan maintain a program to address and seek to avoid potential ethical abuses relating to business relationships, solicitation and/or receipt of campaign contributions, and public notice and approval procedures for contracts of \$50K or more. This program includes on-going training for board members and employees regarding ethics in the workplace.

**FERC** — Federal Energy Regulatory Commission.

**Fund** — A self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of

carrying on specific activities or attaining certain objective in accordance with special regulations, restrictions, or limitations.

**Fund Balance** — Created from excess revenues over expenditures. This can be a combination of collections/ revenues being higher than budget and actual expenditures being lower than budget.

**IID/Metropolitan Conservation Agreement** — Water conservation agreement with the Imperial Irrigation District (IID) that allows for the development of certain water conservation capital structures by Metropolitan in the Imperial Valley. Metropolitan, in turn, gets the quantity of water conserved during the term of this agreement, four years during construction, and 35 years after completion. It encompasses both the operating and maintenance, in direct, and capital cost of developing and implementing the program. This agreement is renewable.

**IRWMP** — Integrated Regional Water Management Plan.

**Integrated Resources Plan (IRP)** — An open and participatory planning process that takes a broad view of all water resource options available to the region and searches for the right combination of investments to achieve water supply objectives in a cost-conscious and environmentally responsible manner.

**Local Resources Program (LRP)** — A program in which Metropolitan provides financial assistance to its member agencies for the development of local groundwater recycling and groundwater recovery projects.

**MAPA** — Management and Professional Employees Association, Local 1001.

**Member Agency** — Refers to any of the 26 cities or public water agencies that comprise the Metropolitan Water District and whose representatives constitute the Board of Directors of Metropolitan.

**MAF (million acre-feet)** — A unit measure of water.

**Minute 319** — Agreement that amends the 1944 Treaty between Mexico and the United States by establishing new rules in sharing Colorado River water and provides immediate plans to address current challenges. Parties to the agreement include Metropolitan Water District of Southern California, Southern Nevada Water Authority, Central Arizona Water Conservation District. Minute 319 allows Mexico to store water in Lake Mead as Intentionally Created Mexican Apportionment for future delivery and environmental flows. Stored water will be exchanged among the parties to the agreement.

**MWDOC** — Municipal Water District of Orange County; one of 26 member agencies that comprise Metropolitan.

**MOU (Memorandum of Understanding)** — Legal agreements entered into between Metropolitan and any of the four employee bargaining units that dictate terms and conditions of employment.

**Operating Equipment** — Any portable equipment costing \$5,000 or more and having a useful life of five years or more.

**Operations Maintenance Power & Recovery (OMP&R)** — A component of the State Water Contract that is billed to the contracting agencies to maintain the system.

**OPEB** — Other Post Employment Benefits.

**ORP** — Oxidation Retrofit Program.

**Ozone** — It is an unstable form of oxygen composed of three-atom molecules that break down readily to normal oxygen and nascent oxygen. The latter is a powerful oxidizing agent and has germicidal action. Ozone is usually produced with on-site generators by passing high-voltage electricity through dry atmospheric air or pure

oxygen between stationary electrodes. This process converts a small percentage of the oxygen in the air into ozone. It is usually injected into the water to be treated in a highly baffled mixing chamber.

**PAYGO** — The practice of funding construction expenditures from current operating revenues in lieu of using debt proceeds.

**PVID** — Palo Verde Irrigation District.

**Palo Verde Land Management and Water Supply Program** — Calls for the development of a flexible water supply of between 25,000 and 111,000 acre-feet per year for 35 years through a land management and crop rotation program to be implemented by participating farmers in the Palo Verde Valley. The maximum water supply that could be developed would be about 3.63 million acre-feet during the 35-year term while the minimum water supply required to be developed would be 1.76 million acre-feet.

**Performance Measure** — An indicator of progress toward completing an initiative, achieving a goal, or implementing a strategy. Performance measures are quantifiable and tracked over time. Measures can indicate problem areas that need attention or be a guide for continual performance improvement through specific initiatives and actions.

**PCCP** — Pre-stressed Concrete Cylinder Pipe.

**Power Recovery** — Energy generated from the operation of sixteen Metropolitan-owned hydroelectric generating facilities. The term "recovery" derives from the capture of potentially wasted electrical energy from Metropolitan's water distribution system.

**Quagga Mussel** — A destructive non-native species of mussel from the Ukraine region that could clog pipes and water line.

**Quantification Settlement Agreement (QSA)** - The Quantification Settlement Agreement (QSA) and related agreements, executed by Coachella Valley Water District (CVWD), Imperial Irrigation District (IID), Metropolitan, and other parties in October 2003, establishes Colorado River water use limits for IID and CVWD, and provides for specific acquisitions of conserved water and water supply and delivery arrangements for up to 110 years. The QSA and related agreements provide a framework for Metropolitan to enter into other cooperative Colorado River supply programs and set aside several disputes among California's Colorado River water agencies.

**Regional Recycled Water Program (RRWP)** — The first phase was the construction of an advanced water treatment demonstration facility that takes treated wastewater and purifies it through various advanced treatment technologies to produce a safe, high-quality water source; the project was a partnership between Metropolitan and the Sanitation Districts of Los Angeles County and was completed in August 2019. Testing and operation of the plant to confirm treatment costs and provide the basis for regulatory approval of the proposed treatment process and technical recommendations concerning design, operation, and optimization of the full-scale RRWP will be completed in 2020. The RRWP will have the flexibility to be expanded in the future to implement Direct Potable Reuse ("DPR") through raw water augmentation at the two Metropolitan treatment plants. The State Water Resources Control Board Division of Drinking Water is in the process of developing a framework for the regulation of DPR in California, and the current anticipated date for promulgation is 2023. Information regarding the RRWP is located on Metropolitan's website at <http://www.mwdh2o.com/DocSvcPubs/rrwp/index.html#home>

**Replacement and Refurbishment (R&R)** — Capital projects that invest in Metropolitan's aging infrastructure by restoring them to optimal operating status.

**Reserves** — Funds set aside to comply with bond covenants, working capital policy, or other board policies as part of a prudent financial strategy.

**Revenue Remainder Fund** — See Financial Policies for description.

**SCADA** — Supervisory Control and Data Acquisition; automated systems that are used to monitor, operate, and control Metropolitan's water conveyance, treatment, and distribution systems.

**SDCWA** — San Diego County Water Authority; one of 26 member agencies that make up Metropolitan.

**Senate Bill 60 (SB 60)** — This bill requires Metropolitan to place increased emphasis on sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures and, commencing February 1, 2001, to prepare and submit to the Legislature a prescribed annual report relating to water conservation.

**State Water Contract (SWC)** — State Water Contracts are the basis for all SWP construction and ongoing operations. As the largest of the now 29 contractors, Metropolitan is entitled to slightly less than half of all SWP supplies. Water supplies from the SWP are conveyed to Metropolitan via the SWP's 444-mile California Aqueduct, which was made possible pursuant to Metropolitan's State Water Contract.

**State Water Project (SWP)** — The SWP is the largest state-built, user-financed water supply and transportation project in the country. The SWP serves urban and agricultural agencies from the San Francisco Bay area to Southern California. Its facilities were constructed with several general types of financing, the repayment of which is made by the 29 agencies and districts that participate in the SWP through long-term contracts (the State Water Contractors). The State Water Contractors also pay for the operations, maintenance, power, and replacement costs of the SWP.

**System Overview Study** — An analysis of Metropolitan's current delivery and treatment capacities versus projected needs during the planning horizon. The System Overview Study, coupled with the Integrated Area Study, analyzes various portfolios of projects that could be used to meet future demand and then develops a potential CIP. Finally, the System Overview Study analyzes the potential impact to rates from the proposed facilities.

**TAF (thousand acre-feet)** — A unit of measure of water.

**Total Dissolved Solids (TDS)** — Refers to the total organic carbon concentration in water. Measurement of TDS removal is used as a surrogate for disinfection by-product precursor removal.

**Treatment Plants** — Facilities used by Metropolitan for the treatment of water to remove contaminants or total dissolved solids thus ensuring that such water is potable before it is distributed to member agencies.

**U.S. Department of the Interior, Bureau of Reclamation (USBR)** — Largest wholesaler of water and second largest supplier of hydroelectric power in the American West. Promotes water conservation, recycling, and reuse.

**Vacancy Factor** — A calculated reduction to the O&M labor budget that attempts to account for vacancies that occur within organizations throughout the year. Budgeted labor dollars assume that budgeted positions will be filled for the entire fiscal year (2,080 hours). However, positions routinely become vacant throughout Metropolitan for part of the year as staff transfer to other positions or leave employment in the company and time elapses during the recruitment period to refill the vacated positions.

**WRSF** — Water Rate Stabilization Fund. See Financial Policies for description.

**WRM** — Water Resource Management (group); an organization within Metropolitan that focuses on water resource planning and management, including conservation.

**WSF** — Water Stewardship Fund. See Financial Policies for description.

**Water Supply Allocation Plan (WSAP)** — This plan is intended to be implemented during periods of regional water shortages to promote conservation of scarce water supplies. The WSAP was created to approach limiting supplies in a manner that is regionally fair and minimizes impacts by establishing accurate and fair baselines for each of Metropolitan's 26 member agencies.

**Water Supply Programs** — Water transfer and storage programs that supplement Colorado River and State Water Project supplies.

**Water Surplus Drought Management Plan (WSDM Plan)** — This plan directs Metropolitan's resource operations to help attain the region's reliability goal. The WSDM Plan recognizes the interdependence of surplus and shortage actions and is a coordinated plan that utilizes all available resources to maximize supply reliability. The overall objective is to ensure that shortage allocation of Metropolitan's imported water supplies is minimized.

**Working Capital** — A measure of both a company's efficiency and its short-term financial health. The working capital ratio is calculated as:  $\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$ .

**WSO** — Water System Operations (group); an organization within Metropolitan responsible for operating and maintaining Metropolitan's water conveyance, treatment, and distribution system and its appurtenant systems.

# METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

