

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING
A READINESS-TO-SERVE CHARGE EFFECTIVE JANUARY 1, 2015**

WHEREAS, at its meeting on October 16, 2001, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”) approved a rate structure proposal described in Board Letter 9-6 dated October 16, 2001, including a readiness-to-serve charge; and

WHEREAS, providing firm revenue sources is a goal of such rate structure; and

WHEREAS, the amount of revenue to be raised by the readiness-to-serve charge shall be as determined by the Board and allocation of the readiness-to-serve charge among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the readiness-to-serve charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose such readiness-to-serve charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act (the “Act”), and as an availability of service charge pursuant to Section 134.5 of the Act; and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan’s operating expenses and provide for payment of other costs, including payment of the interest and principal of Metropolitan’s non-tax funded bonded debt; and

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, as amended and supplemented, proceeds of the readiness-to-serve charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan’s outstanding revenue bonds and revenue bonds to be issued pursuant to Resolution 8329; and

WHEREAS, under authority of Section 134.5 of the Act, a readiness-to-serve charge imposed as an availability of service charge may be collected from the member public agencies within Metropolitan, or may be imposed as a standby charge against individual parcels within Metropolitan’s service area; and

WHEREAS, under such authority, the water standby charge may be imposed on each acre of land or each parcel of land less than an acre within Metropolitan to which water is made available for any purpose by Metropolitan, whether the water is actually used or not; and

WHEREAS, certain member public agencies of Metropolitan have opted in prior fiscal years to provide collection of all or a portion of their readiness-to-serve charge obligation through a Metropolitan water standby charge imposed on parcels within those member agencies; and

WHEREAS, Metropolitan is willing to comply with the requests of member public agencies opting to have Metropolitan continue to levy water standby charges within their respective territories, on the terms and subject to the conditions contained herein; and

WHEREAS, on February 10, 2014, the theGeneral Manager presented to the Finance and Insurance Committee of Metropolitan's Board his proposed biennial budget for fiscal years 2014/15 and 2015/16, determination of total revenues and of revenues to be derived from water sales and firm revenue sources required during the fiscal years 2014/15 and 2015/16, and detailed reports for each fiscal year describing each of the proposed rates and charges and the supporting cost of service process, dated April 2014, that (i) describe the rate structure process and design, (ii) identify revenue requirements; (iii) show the costs of major service functions that Metropolitan provides to its member agencies, (iv) classify these service functions costs based on the use of and benefit from the Metropolitan system to create a logical nexus between the costs and the revenues required from each of the rates and charges, and (v) set forth the rates and charges necessary to defray such costs; and

WHEREAS, the Finance and Insurance Committee of the Board conducted a public hearing on its proposed rates and charges for 2015 and 2016at its regular meeting on March 10, 2014, at which interested parties were given the opportunity to present their views regarding the proposed rates and charges; and

WHEREAS, notice of the public hearing on the proposed rates and charges was published prior to the hearing in various newspapers of general circulation within Metropolitan's service area; and

WHEREAS, based on the feedback received from board workshops held on February 10, 2014, andMarch 10, 2014, and at the February 25, 2014 meeting of the Finance and Insurance Committee,the General Manager presented three alternative recommendations for rates and charges on April 8, 2014;and

WHEREAS, updated cost of service reports, dated April 2014,for the three options included in the General Manager's recommendations for rates and charges were presented to the Board; and

WHEREAS, on April 8, 2014, the Board considered the three alternativerecommendations for rates and charges,approvedthe biennial budget for fiscal years 2014/15 and 2015/16 and adopted recommended water rates and charges for 2015 and 2016; and

WHEREAS, the readiness-to-serve charge applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report dated April 2014 (the "Engineer's Report"); and

WHEREAS, the Engineer's Report reflects the range of costs provided in the updated cost of service reports; and

WHEREAS, each of the meetings of the Board were conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which quorums were present and acting throughout;

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

Section 1. That the Board of Directors of Metropolitan hereby fixes and adopts a readiness-to-serve charge for the period from January 1, 2015 through December 31, 2015.

Section 2. That said readiness-to-serve charge shall be in an amount sufficient to provide for payment of debt service and other appropriately allocated costs, for capital expenditures for infrastructure projects needed to provide standby service, and peak conveyance service needs.

Section 3. That such readiness-to-serve charge for January 1, 2015 through and including December 31, 2015 shall be the water rate as specified in Section 5 for the rate option selected by the Board, which shall be charged on a historic basis for each acre-foot of water, excluding water used for purposes of replenishing local storage and agriculture as defined by the Administrative Code, included in Metropolitan's average water deliveries to its member agencies for the applicable ten-year period identified in Section 5 below. The aggregate readiness-to-serve charge for the period from January 1, 2015 through and including December 31, 2015 shall be as specified in Section 5 for the rate option selected by the Board.

Section 4. That in the alternative, and without duplication, the readiness-to-serve charge shall be an availability of service charge pursuant to Section 134.5 of the Act.

Section 5. That the readiness-to-serve charge for January 1, 2015 through December 31, 2015 shall be allocated among the member public agencies in proportion to the average of deliveries through Metropolitan's system (in acre-feet) to each member public agency during the ten-year period ending June 30, 2013. Metropolitan sales of reclaimed water under the Local Projects Program, groundwater under the Groundwater Recovery Program, and deliveries under the Replenishment and Interim Agricultural Water Service Programs are not included in the readiness-to-serve charge water sales calculation. The allocation of the readiness-to-serve charge among member agencies is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

The amount of the readiness-to-serve charge to be imposed on each member public agency effective January 1, 2015, is as follows:

Table 1

Option 1: Calendar Year 2015 Readiness-To-Serve Charge

Water rate \$91.14/acre-foot			
Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre-Feet) FY2003/04 - FY2012/13	RTS Share	12 months @ \$158 million per year (1/15- 12/15)
Anaheim	22,572	1.30%	\$ 2,057,081
Beverly Hills	11,524	0.66%	1,050,245
Burbank	12,642	0.73%	1,152,126
Calleguas MWD	109,981	6.34%	10,023,254
Central Basin MWD	56,302	3.25%	5,131,143
Compton	2,538	0.15%	231,331
Eastern MWD	97,935	5.65%	8,925,454
Foothill MWD	10,373	0.60%	945,347
Fullerton	10,147	0.59%	924,732
Glendale	20,503	1.18%	1,868,566
Inland Empire Utilities Agency	60,010	3.46%	5,469,040
Las Virgenes MWD	22,797	1.31%	2,077,605
Long Beach	34,315	1.98%	3,127,321
Los Angeles	289,350	16.69%	26,370,304
Municipal Water District of Orange County	222,281	12.82%	20,257,825
Pasadena	21,669	1.25%	1,974,794
San Diego County Water Authority	393,731	22.71%	35,883,186
San Fernando	138	0.01%	12,559
San Marino	1,002	0.06%	91,300
Santa Ana	13,509	0.78%	1,231,150
Santa Monica	11,001	0.63%	1,002,553
Three Valleys MWD	68,167	3.93%	6,212,474
Torrance	18,845	1.09%	1,717,453
Upper San Gabriel Valley MWD	17,081	0.99%	1,556,716
West Basin MWD	131,114	7.56%	11,949,272
Western MWD	74,144	4.28%	6,757,168
MWD Total	1,733,668	100.00%	\$ 158,000,000

Totals may not foot due to rounding

Table 1

Option 2: Calendar Year 2015 Readiness-To-Serve Charge

Water rate \$89.41/acre-foot			
Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre-Feet) FY2003/04 - FY2012/13	RTS Share	12 months @ \$155 million per year (1/15- 12/15)
Anaheim	22,572	1.30%	\$ 2,018,023
Beverly Hills	11,524	0.66%	1,030,303
Burbank	12,642	0.73%	1,130,250
Calleguas MWD	109,981	6.34%	9,832,939
Central Basin MWD	56,302	3.25%	5,033,716
Compton	2,538	0.15%	226,939
Eastern MWD	97,935	5.65%	8,755,983
Foothill MWD	10,373	0.60%	927,397
Fullerton	10,147	0.59%	907,174
Glendale	20,503	1.18%	1,833,087
Inland Empire Utilities Agency	60,010	3.46%	5,365,197
Las Virgenes MWD	22,797	1.31%	2,038,157
Long Beach	34,315	1.98%	3,067,942
Los Angeles	289,350	16.69%	25,869,602
Municipal Water District of Orange County	222,281	12.82%	19,873,182
Pasadena	21,669	1.25%	1,937,298
San Diego County Water Authority	393,731	22.71%	35,201,860
San Fernando	138	0.01%	12,320
San Marino	1,002	0.06%	89,567
Santa Ana	13,509	0.78%	1,207,774
Santa Monica	11,001	0.63%	983,517
Three Valleys MWD	68,167	3.93%	6,094,516
Torrance	18,845	1.09%	1,684,843
Upper San Gabriel Valley MWD	17,081	0.99%	1,527,158
West Basin MWD	131,114	7.56%	11,722,387
Western MWD	74,144	4.28%	6,628,867
MWD Total	1,733,668	100.00%	\$ 155,000,000

Totals may not foot due to rounding

Table 1

Option 3: Calendar Year 2015 Readiness-To-Serve Charge

Water rate \$90.56/acre-foot			
Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre-Feet) FY2003/04 - FY2012/13	RTS Share	12 months @ \$157 million per year (1/15- 12/15)
Anaheim	22,572	1.30%	\$ 2,044,062
Beverly Hills	11,524	0.66%	1,043,598
Burbank	12,642	0.73%	1,144,834
Calleguas MWD	109,981	6.34%	9,959,815
Central Basin MWD	56,302	3.25%	5,098,667
Compton	2,538	0.15%	229,867
Eastern MWD	97,935	5.65%	8,868,964
Foothill MWD	10,373	0.60%	939,364
Fullerton	10,147	0.59%	918,879
Glendale	20,503	1.18%	1,856,740
Inland Empire Utilities Agency	60,010	3.46%	5,434,425
Las Virgenes MWD	22,797	1.31%	2,064,456
Long Beach	34,315	1.98%	3,107,528
Los Angeles	289,350	16.69%	26,203,404
Municipal Water District of Orange County	222,281	12.82%	20,129,611
Pasadena	21,669	1.25%	1,962,296
San Diego County Water Authority	393,731	22.71%	35,656,077
San Fernando	138	0.01%	12,479
San Marino	1,002	0.06%	90,722
Santa Ana	13,509	0.78%	1,223,358
Santa Monica	11,001	0.63%	996,208
Three Valleys MWD	68,167	3.93%	6,173,155
Torrance	18,845	1.09%	1,706,583
Upper San Gabriel Valley MWD	17,081	0.99%	1,546,864
West Basin MWD	131,114	7.56%	11,873,644
Western MWD	74,144	4.28%	6,714,401
MWD Total	1,733,668	100.00%	\$ 157,000,000

Totals may not foot due to rounding

Section 6. That the allocation of the readiness-to-serve charge among member agencies set forth in Section 5 above is consistent with the per-acre-foot water rates imposed pursuant to Section 3 above.

Section 7. That water conveyed through Metropolitan's system for the purposes of water transfers, exchanges or other similar arrangements shall be included in the calculation of a member agency's rolling ten-year average firm demands used to allocate the readiness-to-serve charge.

Section 8. That the readiness-to-serve charge and the amount applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the adopted option based on the General Manager's four alternative options on rates and charges to be effective January 1, 2015, which forms the basis of the readiness-to-serve charge, and the corresponding cost of service report. The adopted option on rates and charges and cost of service reports are on file and available for review by interested parties at Metropolitan's headquarters.

Section 9. That except as provided in Section 11 below with respect to any readiness-to-serve charge collected by means of a Metropolitan water standby charge, the readiness-to-serve charge shall be due monthly, quarterly or semiannually as agreed upon by Metropolitan and the member agency.

Section 10. That such readiness-to-serve charge may, at the request of any member agency which elected to utilize Metropolitan's standby charge as a mechanism for collecting its readiness-to-serve charge obligation in FY 1996/97, be collected by continuing the Metropolitan water standby charge at the same rates imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area to which water is made available by Metropolitan for any purpose, whether such water is used or not.

Section 11. That the proposed water standby charge, if continued, shall be collected on the tax rolls, together with the *ad valorem* property taxes which are levied by Metropolitan for the payment of pre-1978 voter-approved indebtedness. Any amounts so collected shall be applied as a credit against the applicable member agency's obligation to pay a readiness-to-serve charge. After such member agency's readiness-to-serve charge allocation is fully satisfied, any additional collections shall be credited to other outstanding obligations of such member agency to Metropolitan or future readiness-to-serve obligations of such agency or, if crediting against other outstanding obligations of a member agency to Metropolitan proves to be impracticable, may be transmitted to the member agency for application solely to the cost of capital infrastructure projects of benefit to properties within the member agency. Notwithstanding the provisions of Section 9 above, any member agency requesting to have all or a portion of its readiness-to-serve charge obligation collected through standby charge levies within its territory as provided herein shall pay any portion not collected through net standby charge collections to Metropolitan within 50 days after Metropolitan issues an invoice for remaining readiness-to-serve charges to such member agency, as provided in Administrative Code Section 4507.

Section 12. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held May 13, 2014 (or such other date as the Board shall hold its regular meeting in such month), on the General Manager's recommendation to continue its water standby charge for FY 2014/15 under authority of Section 134.5 of the Act on land within Metropolitan at the same rates, per acre of land, or per parcel of land less than an acre, imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area. Such water standby charge will be continued as a means of collecting the readiness-to-serve charge.

Section 13. That no failure to collect, and no delay in collecting, any standby charges shall excuse or delay payment of any portion of the readiness-to-serve charge when due. All amounts collected as water standby charges shall be applied solely as credits to the readiness-to-serve charge of the applicable member

agency, with any excess collections being carried forward and credited against other outstanding obligations of such member agency to Metropolitan.

Section 14. That the readiness-to-serve charge is imposed by Metropolitan as a rate or charge on its member agencies, and is not a fee or charge imposed upon real property or upon persons as incidents of property ownership, and the water standby charge is imposed within the respective territories of electing member agencies as a mechanism for collection of the readiness-to-serve charge. In the event that the water standby charge, or any portion thereof, is determined to be an unauthorized or invalid fee, charge or assessment by a final judgment in any proceeding at law or in equity, which judgment is not subject to appeal, or if the collection of the water standby charge shall be permanently enjoined and appeals of such injunction have been declined or exhausted, or if Metropolitan shall determine to rescind or revoke the water standby charge, then no further standby charge shall be collected within any member agency and each member agency which has requested continuation of Metropolitan water standby charges as a means of collecting its readiness-to-serve charge obligation shall pay such readiness-to-serve charge obligation in full, as if continuation of such water standby charges had never been sought.

Section 15. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 16That this Board finds that the readiness-to-serve charge and other charges provided in this Resolution are not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Section 17. That if any provision of this Resolution or the application to any member agency, property or person whatsoever is held invalid, that invalidity shall not affect other provisions or applications of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

Section 18. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by mailing or by publication.

Section 19.That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on April 8, 2014.

Board Executive Secretary
The Metropolitan Water District
of Southern California

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
ENGINEER'S REPORT**

**PROGRAM TO LEVY READINESS-TO-SERVE CHARGE,
INCLUDING LOCAL OPTION FOR STANDBY CHARGE,
DURING FISCAL YEAR 2014/15**

April 2014

BACKGROUND

The Metropolitan Water District of Southern California is a public agency with a primary purpose to provide imported water supply for domestic and municipal uses at wholesale rates to its member public agencies. More than 18 million people reside within Metropolitan's service area, which covers over 5,000 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. Metropolitan currently provides over 50 percent of the water used within its service area.

REPORT PURPOSES

As part of its role as an imported water supplier, Metropolitan builds capital facilities and implements water management programs that ensure reliable high quality water supplies throughout its service area. The purpose of this report is to: (1) identify and describe those facilities and programs that will be financed in part by Metropolitan's readiness-to-serve (RTS) charge, and (2) describe the method and basis for levying Metropolitan's standby charge for those agencies electing to collect a portion of their RTS obligation through Metropolitan's standby charge in fiscal year 2014/15. **Because the standby charge is levied and collected on a fiscal year basis the calculations in this report also are for the fiscal year, even though the RTS charge is imposed on a calendar year basis.** The RTS charge for calendar year 2014 was adopted by Metropolitan's Board on April 9, 2013 and the RTS charge for 2015 will be considered by the Board on April 8, 2014.

Metropolitan levies the RTS charge on its member agencies to recover a portion of the debt service on bonds issued to finance capital facilities needed to meet existing demands on Metropolitan's system. The standby charge is levied on parcels of land within certain of Metropolitan's member agencies as a method of collecting part or all of such member agency's RTS charge obligation. The RTS charge will partially pay for the facilities and programs described in this report. The standby charge, if levied, will be utilized solely for capital payments and debt service on the capital facilities identified in this report.

METROPOLITAN'S RESPONSE TO FLUCTUATING WATER DEMANDS

To respond to fluctuating demands for water, Metropolitan and its member agencies collectively examined the available local and imported resource options in order to develop a least-cost plan that meets the reliability and quality needs of the region. The product of this intensive effort was an Integrated Resources Plan (IRP) for achieving a reliable and affordable water supply for Southern California. The major objective of the IRP was to develop a comprehensive water resources plan that ensures (1) reliability, (2) affordability, (3) water quality, (4) diversity of supply, and (5) adaptability for the region, while recognizing the environmental, institutional, and political constraints to resource development. As these constraints change over time, the IRP is periodically revisited and updated by Metropolitan and the member agencies to reflect current conditions. To meet the water supply needs of existing and future customers within its service area, Metropolitan continues to identify and develop additional water supplies to maintain the reliability of the imported water supply and delivery system. These efforts include the construction of capital facilities and implementation of demand management programs.

Capital Facilities

The capital facilities include the State Water Project (SWP), the Colorado River Aqueduct (CRA), storage facilities including Diamond Valley Lake (DVL), and additional conveyance and distribution system components. The benefits of these capital facilities are both local and system-wide, as the facilities directly contribute to the reliable delivery of water supplies throughout Metropolitan's service area.

State Water Project Benefits

In 1960, Metropolitan contracted with the California Department of Water Resources (DWR) to receive SWP supplies. Under this contract, Metropolitan is obligated to pay its portion of the construction and operation and maintenance costs of the SWP system through at least the year 2035, regardless of the quantities of project water Metropolitan takes. Metropolitan is entitled to 1.9 million acre-feet of the total SWP contract amounts of 4.2 million acre-feet. All Metropolitan member agencies benefit from the SWP supplies, which are distributed to existing customers and are available to future customers throughout Metropolitan's service area. The potential benefit of the SWP allocable to the RTS charge in fiscal year 2014/15 is shown in Table 1.

System Storage Benefits

The Metropolitan system, for purposes of meeting demands during times of shortage, regulating system flows, and to ensure system reliability in the event of a system outage, provides over 1,000,000 acre-feet of system storage capacity. DVL provides 800,000 acre-feet of storage capacity for water from the Colorado River Aqueduct and SWP, effectively doubling Southern California's previous surface water storage capacity. Water stored in system storage during above average supply conditions (surplus) provides a reserve against shortages when supply sources are limited or disrupted. System storage also preserves Metropolitan's capability to deliver water during scheduled maintenance periods, when conveyance facilities must be removed from service for rehabilitation, repair, or maintenance. The potential benefit of system storage in fiscal year 2014/15 is shown in Table 1.

Conveyance and Distribution System Benefits

Metropolitan has an ongoing commitment, through physical system improvements and the maintenance and rehabilitation of existing facilities, to maintain the reliable delivery of water throughout the entire service area. System improvement projects include additional conveyance and distribution facilities to maintain the dependable delivery of water supplies, provide alternative system delivery capacity, and enhance system operations. Conveyance and distribution system improvement benefits also include projects to upgrade obsolete facilities or equipment, or to rehabilitate or replace facilities or equipment. These projects are needed to enhance system operations, comply with new regulations, and maintain a reliable distribution system. A list of conveyance and distribution system facilities is provided in Table 3 along with the fiscal year 2014/15 estimated conveyance and distribution system benefits.

Demand Management Program Benefits

Demand management programs that could be financed by the RTS charge and standby charge include Metropolitan's participation in providing financial incentives to local agencies for the construction and development of local resource programs and conservation projects. Investments in demand side management programs like conservation, water recycling and groundwater recovery reduce the need to provide additional imported water supplies and help defer the need for additional conveyance, distribution, and storage facilities. A summary of the estimated benefits of the demand management programs as measured by Metropolitan's anticipated expenditures for these programs in fiscal year 2014/15 is shown in Table 1.

Local Resources Program

In 1982, Metropolitan's Board adopted the Local Resources Program (LRP) with the goal of developing local water resources in a cost-efficient manner. Financial incentives of up to \$250 per acre-foot are provided to member agency-sponsored projects that best help the region achieve its local resource production goals of restoring degraded groundwater resources for potable use and developing recycled supplies. In both instances, the programs provide new water supplies, which help defer the need for additional regional conveyance, distribution and storage facilities.

Combined production from participating recycling and groundwater recovery projects produced approximately 233,000 acre-feet of water in fiscal year 2012/13 with financial incentive payments of about \$36 million. Regional recycling, recovered groundwater, and desalinated seawater production are projected to be about 400,000 acre-feet per year, by year 2025. An estimate of potential benefits as measured by Metropolitan's estimated incentive payments for recycling and groundwater recovery projects is shown in Table 2.

Water Conservation

Metropolitan actively promotes water conservation programs within its service area as a cost-effective strategy for ensuring the long-term reliability of supplies and as a means of reducing the need to expand system conveyance, distribution and treatment capacity. Through the Conservation Credits Program, Metropolitan reimburses local agencies for a share of their costs of implementing conservation projects. Since fiscal year 1990/91, Metropolitan has spent over \$333 million in financial incentives to support local conservation projects.

In 1991, Metropolitan agreed to implement conservation "Best Management Practices" (BMPs). By signing the California Urban Water Conservation Council's *Memorandum of Understanding Regarding Urban Water Conservation* (amended March 10, 2004), Metropolitan committed to implement proven and reliable water conserving technologies and practices within its jurisdiction. Based on Metropolitan's IRP, the Conservation Credits Program, in conjunction with plumbing codes and other conservation efforts, has saved over 1,900,000 acre-feet since inception through fiscal year 2012/13. In order to comply with the Governor's mandate of reducing demand by 20 percent by the year 2020, Metropolitan is working on increasing its conservation efforts in the next ten years to meet that request. Conservation is a critical element of Metropolitan's demand management program, effectively increasing the reliability of existing water supplies by lessening the need to import additional water while at the same time deferring the need to expand system capacity. An estimate of the potential benefits of water conservation projects as measured by Metropolitan's incentive payments is given in Table 2.

LONG-RANGE FINANCIAL PLANNING

Metropolitan's major capital facilities are financed largely from the proceeds of revenue bond issues, which are repaid over future years. The principal source of revenue for repayment of these bonds is water sales, which is currently Metropolitan's largest source of revenue. In addition, *ad valorem* property taxes provide an additional limited revenue source, which is used to pay pre-1978 voter-approved indebtedness.

Since the passage of Article XIII A of the California Constitution, Metropolitan has necessarily relied more on water sales revenue than on *ad valorem* property taxes for the payment of debt. Water sales have become the dominant source of revenue, not only for operation and maintenance of the vast network of facilities supplying water to Southern California, but also for replacement and improvement of capital facilities.

The increased reliance on highly variable water sales revenue increases the probability of substantial rate swings from year to year mainly resulting from changing weather patterns. The use of water rates as a primary source of revenue has placed an increasing burden on ratepayers, which might more equitably be paid in part by

assessments on land that in part derives its value from the availability of water. In December 1993, Metropolitan's Board approved a revenue structure that included additional charges to establish a commitment to Metropolitan's capital improvement program and provide revenue stability. This revenue structure included the RTS charge.

Readiness-To-Serve Charge

As noted above, Metropolitan levies the RTS charge on its member agencies to recover a portion of the debt service on bonds issued to finance capital facilities needed to meet existing demands on Metropolitan's system. The estimated potential benefits that could be paid by an RTS charge in fiscal year 2014/15 exceed \$456 million as shown in Table 1.

Although the RTS charge could be set to recover the entire potential benefit amount, the General Manager is recommending that the RTS charge only recover a portion of the total potential benefit. For fiscal year 2014/15, the amount of the total potential benefit to be recovered by the RTS charge is estimated to range from \$155,000,000 up to \$158,000,000. These funds, when combined with Metropolitan's overall financial resources, will result in greater water rate stability for all users throughout Metropolitan's service area. Consistent with the rate structure approved by the Board in October of 2001, the RTS charge for fiscal year 2014/15 is allocated to each member agency on the basis of a ten-year rolling average of historic water purchases from Metropolitan ending June 30, 2013. This average includes all deliveries used to meet firm demand (consumptive municipal industrial demands), including water transfers and exchanges. The estimated fiscal year 2014/15 RTS for each member agency is shown in Table 4.

Standby Charge Option

Metropolitan's standby charge is authorized by the State Legislature and has been levied by Metropolitan since fiscal year 1992/93. The standby charge recognizes that there are economic benefits to lands that have access to a water supply, whether or not such lands are using it. Utilization of the standby charge transfers some of the burden of maintaining Metropolitan's capital infrastructure from water rates and *ad valorem* taxes to all the benefiting properties within the service area. A fraction of the value of this benefit and of the cost of providing it can be effectively recovered, in part, through the imposition of a standby charge. The projects to be supported in part by a standby charge are capital projects that provide both local and Metropolitan-wide benefit to current landowners as well as existing water users. The estimated potential benefits system-wide are several times the amount to be recovered by means of the standby charge.

Metropolitan will levy standby charges only within the service areas of the member agencies that request that the standby charge be utilized. The standby charge for each acre or parcel of less than an acre will vary from member agency to member agency, as permitted under the legislation establishing Metropolitan's standby charge. The water standby charge for each member agency will be the same as that imposed by Metropolitan in fiscal year 1996/97 and is shown in Table 5.

The proposed standby charge includes the reimposition of water standby charges on: (1) parcels which water standby charges have been imposed in fiscal year 1996/97 and annually thereafter ("pre-1997 standby charges") and (2) parcels annexed to Metropolitan and to an electing member agency after January 1997 ("annexation standby charges"). Only land within member agencies which standby charges were imposed in fiscal year 1996/97 will be subject to the reimposition of pre-1997 standby charges for FY 2014/15. Only land annexed to Metropolitan and to an electing member public agency with respect to which standby charges were approved in accordance with the procedures of Article XIII D, Section 4 of the California Constitution will be subject to the imposition or reimposition, as applicable, of annexation standby charges for fiscal year 2014/15. Table 6 lists parcels annexed, or to be annexed, to Metropolitan and to electing member agencies during FY 2014/15, such parcels being subject to the annexation standby charge upon annexation. Parcels annexed prior to FY 2014/15 are

subject to annexation standby charges as described in the Engineer's Report for the fiscal year of their annexation. These parcels and parcels that are subject to the pre-1997 standby charges are identified in a listing filed with the Executive Secretary.

The estimated potential benefits of Metropolitan's water supply program, which could be paid by a standby charge, exceed \$456 million for fiscal year 2014/15, as shown in Table 1. An average total standby charge of about \$105.34 per acre of land or per parcel of less than one acre would be necessary to pay for the total potential program benefits. Benefits in this amount will accrue to each acre of property and parcel within Metropolitan, as these properties are eligible to use water from the Metropolitan system. Because only properties located within Metropolitan's boundaries may receive water supplies from Metropolitan (except for certain contractual deliveries as permitted under Section 131 of the Metropolitan Water District Act), any benefit received by the public at large or by properties outside of the proposed area to be annexed is merely incidental.

Table 5 shows that the distribution of standby charge revenues from the various member agencies would provide net revenue flow of approximately \$43.6 million for fiscal year 2014/15. This total amount is less than the estimated benefits shown in Table 1. Metropolitan will use other revenue sources, such as water sales revenues, readiness-to-serve charge revenues (except to the extent collected through standby charges, as described above), interest income, and revenue from sales of hydroelectric power, to pay for the remaining program benefits. Thus, the benefits of Metropolitan's investments in water conveyance, storage, distribution, and demand management programs far exceed the recommended standby charge.

Equity

The RTS charge is a firm revenue source. The revenues to be collected through this charge will not vary with sales in the current year. This charge is levied on Metropolitan's member agencies and is not a fee or charge upon real property or upon persons as an incident of property ownership. It ensures that agencies that only occasionally purchase water from Metropolitan but receive the reliability benefits of Metropolitan's system pay a greater share of the costs to provide that reliability. Within member agencies that elect to pay the RTS charge through Metropolitan's standby charges, the standby charge results in lower water rates than would otherwise be necessary due to the amount of revenue collected from lands which benefit from the availability of Metropolitan's water supply. With the standby charge, these properties are now contributing a more appropriate share of the cost of importing water to Southern California.

Metropolitan's water supply program increases the availability and reliable delivery of water throughout Metropolitan's service area. Increased water supplies benefit existing consumers and land uses through direct deliveries to consumers and properties, and through the replenishment of groundwater basins and reservoir storage as reserves against shortages due to droughts, natural emergencies, or scheduled facility shutdowns for maintenance. The benefits of reliable water supplies from the SWP, CRA, DVL, and system improvements accrue to more than 250 cities and communities within Metropolitan's six-county service area. Metropolitan's regional water system is interconnected, so water supplies from the SWP and CRA can be used throughout most of the service area and therefore benefit water users and properties system-wide.

Additional Metropolitan deliveries required in the coming fiscal year due to the demands of property development will be reduced by the implementation of demand management projects, including water conservation, water recycling, and groundwater recovery projects. As with the SWP, CRA and DVL and the conveyance and distribution facilities, demand management programs increase the future reliability of water supplies. In addition, demand management programs provide system-wide benefits by effectively decreasing the demand for imported water, which helps to defer construction of additional system conveyance and distribution capacity. However, the abilities of each member agency to implement these projects under Metropolitan's financial assistance programs vary, depending on local conditions.

A major advantage of a firm revenue source, such as a RTS charge, is that it contributes to revenue stability during times of drought or low water sales. It affords Metropolitan additional security, when borrowing funds, that a portion of the revenue stream will be unaffected by drought or by rainfall. This security will help maintain Metropolitan's historically high credit rating, which results in lower interest expense to Metropolitan, and therefore, lower overall cost to the residents of its service area.

SUMMARY

The foregoing and the attached tables describe the current benefits provided by the projects listed as mainstays to the water supply system for Metropolitan's service area. Benefits are provided to both water users and property owners. The projects represented by this report provide both local benefits as well as benefits throughout the entire service area. It is recommended, for fiscal year 2014/15, that the RTS charge be imposed with an option for local agencies to request that a standby charge be imposed on lands within Metropolitan's service area as a credit against such member agency's RTS, up to the standby charge per acre or parcel of less than one acre levied by Metropolitan within the applicable member agency for fiscal year 2014/15. The maximum standby charge would not exceed \$15 per acre of land or per parcel of less than one acre. The benefits described in this Engineer's Report exceed the recommended charge. A listing of all parcels in the service area and the proposed 2014/15 standby charge for each is available in the office of the Chief Financial Officer.

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