



PROPOSED BIENNIAL BUDGET

Fiscal Years 2016/17 and 2017/18

Realizing the Benefit of Sound Investments

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UNDERSTANDING THE LAYOUT OF THE DEPARTMENTAL BUDGET

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 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 2016/17 and FY 2017/18, 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

Category	Description
<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

BIENNIAL BUDGET SUMMARY FY 2016/17 & 2017/18

PROPOSED APPROPRIATIONS

The FY 2016/17 proposed appropriation of \$1,648.7 million is comprised of \$1,200.2 million or 72.8 percent for operations expense, \$328.5 million or 19.9 percent for debt service expense, and \$120.0 million or 7.3 percent to fund Replacement and Refurbishment expenses from operating revenues. The FY 2017/18 proposed appropriation of \$1,695.3 million is comprised of \$1,231.2 million or 72.6 percent for operations expense, \$344.1 million or 20.3 percent for debt service expense, and \$120.0 million or 7.1 percent to fund Replacement and Refurbishment expenses from operating revenues. The table below provides a comparison of FY 2016/17 and FY 2017/18 and illustrates the total proposed appropriations for the operating and capital budgets.

FY 2016/17 and 2017/18 Proposed Operating and Capital Appropriations, \$ millions

Proposed Budget	FY 2016/17	FY 2017/18	Total Biennium
Operating Budget	\$1,200.2	\$1,231.2	\$2,431.4
Debt Service	328.5	344.1	672.6
PAYGo	120.0	120.0	240.0
Grand Total	\$1,648.7	\$1,695.3	\$3,344.0

The proposed biennial budget for FY 2016/17 and 2017/18 provides funding for Metropolitan's key priorities while meeting most financial policy guidelines, with proposed overall rate increases of 4.0 percent in each year of the proposed biennial budget. The proposed overall rate increases of 4.0 percent are in line with recent increases, consistent with rate projections of 3 to 5 percent increases, and reflect the current environment of lower sales volumes due to the Governor's Executive Order to reduce statewide water use by 25 percent.

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 expenditures for Metropolitan for each fiscal year of the biennial budget.

FY 2016/17 Fund Summary, \$ millions

Fiscal Year Ending June 30th, 2017 (\$ in Millions)	All Funds	Operating Funds	Debt Service and Construction Funds	Reserve Funds (1)	Other Funds (2)
Beginning of Year Balance	1,418.1	411.0	301.1	448.3	257.7
USES OF FUNDS					
Expenses					
State Water Contract	582.3	582.3	-	-	-
Supply Programs	78.7	78.7	-	-	-
Colorado River Power	46.6	46.6	-	-	-
Debt Service	328.5	6.5	322.0	-	-
Demand Management	75.1	75.1	-	-	-
Departmental O&M	358.6	358.6	-	-	-
Treatment Chemicals, Sludge & Power	24.3	24.3	-	-	-
Other O&M	34.7	34.7	-	-	-
Sub-total Expenses	1,528.8	1,206.8	322.0	-	-
Capital Investment Plan	200.0	9.6	190.4	-	-
Fund Deposits					
R&R and General Fund	120.0	9.6	110.4	-	-
Revenue Bond Construction	9.6	-	9.6	-	-
Water Stewardship Fund	-	-	-	-	-
Exchange Agreement Set-aside	46.6	-	-	-	46.6
Treatment Surcharge Stabilization Fund (3)	6.7	-	-	-	6.7
Interest for Construction & Trust Funds	0.3	-	0.3	-	0.0
Increase in Required Reserves	65.1	6.8	16.5	41.8	-
Increase in Rate Stabilization Fund	-	-	-	-	-
Sub-total Fund Deposits	248.4	16.4	136.9	41.8	53.3
TOTAL USES OF FUNDS	1,977.2	1,232.7	649.3	41.8	53.3
SOURCES OF FUNDS					
Revenues					
Taxes	98.3	75.1	23.3	-	-
Interest Income	13.6	5.1	3.9	4.5	0.1
Hydro Power	15.3	15.3	-	-	-
Fixed Charges (RTS & Capacity Charge)	182.3	182.3	-	-	-
Treatment Surcharge Revenue (3)	272.9	272.9	-	-	-
Water Sales Revenue (less TS)	1,032.3	1,032.3	-	-	-
Miscellaneous Revenue	12.0	12.0	-	-	-
Bond Proceeds	89.6	-	89.6	-	-
Working Capital Borrowing	46.6	-	-	-	46.6
Sub-total Revenues	1,763.0	1,594.9	116.8	4.5	46.7
Fund Withdrawals					
Transfer Fund	-	-	-	-	-
R&R and General Fund	120.0	9.6	110.4	-	-
Bond Funds for Construction	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-
Treatment Surcharge Stabilization Fund (3)	-	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-
Decrease in Rate Stabilization Fund	94.2	-	-	94.2	-
Sub-total Fund Withdrawals	214.2	9.6	110.4	94.2	-
TOTAL SOURCES OF FUNDS	1,977.2	1,604.5	227.2	98.7	46.7
Inter-Fund Transfers	(0.0)	(371.8)	422.1	(56.9)	6.6
End of Year Balance	1,452.3	417.8	327.6	395.9	311.1

Totals may not foot due to rounding.

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

(2) includes Water Stewardship, Water Treatment Stabilization, Trust Funds and Exchange Agreement Set-aside.

(3) Not affected by treatment rate structure

FY 2017/18 Fund Summary, \$ millions

Fiscal Year Ending June 30th, 2018 (\$ in Millions)	All Funds	Operating Funds	Debt Service and Construction Funds	Reserve Funds (1)	Other Funds (2)
Beginning of Year Balance	1,452.3	417.8	327.6	395.9	311.1
USES OF FUNDS					
Expenses					
State Water Contract	599.4	599.4	-	-	-
Supply Programs	81.7	81.7	-	-	-
Colorado River Power	54.4	54.4	-	-	-
Debt Service	344.1	7.1	337.0	-	-
Demand Management	75.9	75.9	-	-	-
Departmental O&M	358.1	358.1	-	-	-
Treatment Chemicals, Sludge & Power	24.6	24.6	-	-	-
Other O&M	37.1	37.1	-	-	-
Sub-total Expenses	1,575.3	1,238.3	337.0	-	-
Capital Investment Plan	200.0	5.4	194.6	-	-
Fund Deposits					
R&R and General Fund	120.0	5.4	114.6	-	-
Revenue Bond Construction	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-
Exchange Agreement Set-aside	47.4	-	-	-	47.4
Treatment Surcharge Stabilization Fund (3)	-	-	-	-	-
Interest for Construction & Trust Funds	0.4	-	0.4	-	0.0
Increase in Required Reserves	25.4	17.9	(2.6)	10.1	-
Increase in Rate Stabilization Fund	-	-	-	-	-
Sub-total Fund Deposits	193.2	23.3	112.4	10.1	47.4
TOTAL USES OF FUNDS	1,968.5	1,267.0	644.0	10.1	47.4
SOURCES OF FUNDS					
Revenues					
Taxes	100.5	81.7	18.8	-	-
Interest Income	12.4	4.8	3.7	3.8	0.1
Hydro Power	21.6	21.6	-	-	-
Fixed Charges (RTS & Capacity Charge)	172.7	172.7	-	-	-
Treatment Surcharge Revenue (3)	261.3	261.3	-	-	-
Water Sales Revenue (less TS)	1,114.2	1,114.2	-	-	-
Miscellaneous Revenue	12.1	12.1	-	-	-
Bond Proceeds	79.7	-	79.7	-	-
Working Capital Borrowing	47.4	-	-	-	47.4
Sub-total Revenues	1,822.0	1,668.5	102.2	3.8	47.5
Fund Withdrawals					
Transfer Fund	-	-	-	-	-
R&R and General Fund	120.0	5.4	114.6	-	-
Bond Funds for Construction	0.3	-	0.3	-	-
Water Stewardship Fund	-	-	-	-	-
Treatment Surcharge Stabilization Fund (3)	3.2	-	-	-	3.2
Decrease in Required Reserves	-	-	-	-	-
Decrease in Rate Stabilization Fund	23.0	-	-	23.0	-
Sub-total Fund Withdrawals	146.5	5.4	114.9	23.0	3.2
TOTAL SOURCES OF FUNDS	1,968.5	1,673.9	217.1	26.8	50.7
Inter-Fund Transfers	(0.0)	(406.9)	426.8	(16.7)	(3.3)
End of Year Balance	1,499.0	435.7	325.0	383.1	355.3

Totals may not foot due to rounding.

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

(2) includes Water Stewardship, Water Treatment Stabilization, Trust Funds and Exchange Agreement Set-aside.

(3) Not affected by treatment rate structure

FY 2016/17 AND 2017/18 BUDGET SOURCES OF FUNDS

Total Sources of FY 2016/17 and 2017/18 Funds, \$ millions

	2015/16 Budget	2016/17 Budget	2017/18 Budget	2016/17 Budget Compared to 2015/16 Budget	2017/18 Budget Compared to 2016/17 Budget
SOURCES OF FUNDS					
Revenues					
Taxes	92.2	98.3	100.5	6.1	2.2
Interest Income	27.9	13.6	12.4	(14.4)	(1.1)
Hydro Power	18.9	15.3	21.6	(3.6)	6.4
Fixed Charges (RTS & Capacity Charge)	198.8	182.3	172.7	(16.5)	(9.6)
Treatment Surcharge Revenue*	308.9	272.9	261.3	(36.0)	(11.6)
Water Sales Revenue (less TS)	999.5	1,032.3	1,114.2	32.8	81.9
Miscellaneous Revenue	11.3	12.0	12.1	0.7	0.1
Bond Proceeds and Reimbursements	-	89.6	79.7	89.6	(10.0)
Working Capital Borrowing	-	46.6	47.4	46.6	0.8
Sub-total Revenues	1,657.5	1,763.0	1,822.0	105.5	59.0
Fund Withdrawals					
R&R and General Fund	267.9	120.0	120.0	(147.9)	-
Bond Funds for Construction	-	-	0.3	-	0.3
Treatment Surcharge Stabilization Fund*	-	-	3.2	-	3.2
Decrease in Water Rate Stabilization Fund	-	94.2	23.0	94.2	(71.2)
Sub-total Fund Withdrawals	276.6	214.2	146.5	(62.5)	(67.7)
TOTAL SOURCES OF FUNDS	1,934.1	1,977.2	1,968.5	43.1	(8.7)

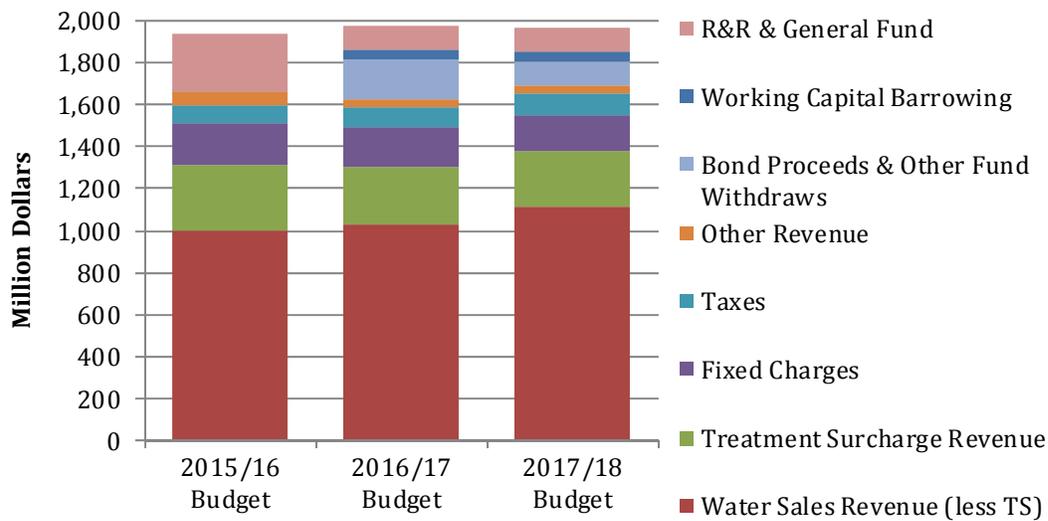
Totals may not foot due to rounding.

* Not affected by treatment rate structure

OPERATING REVENUE

Estimated revenues from water sales, 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 \$1.63 billion for FY 2016/17 and \$1.69 billion for FY 2017/18. For FY 2016/17, this is \$30.7 million less than the FY 2015/16 budget, and for FY 2017/18, this is \$68.1 million more than FY 2016/17. The decrease in revenues for FY 2016/17 is due to decreased sales volumes. For FY 2017/18, the revenue is higher due to higher water rates and charges in calendar year 2017 and calendar year 2018. In addition, the forecast assumes the ad valorem tax rate is maintained at .0035 percent of assessed valuations. A description of each revenue source is included in the Glossary of Terms.

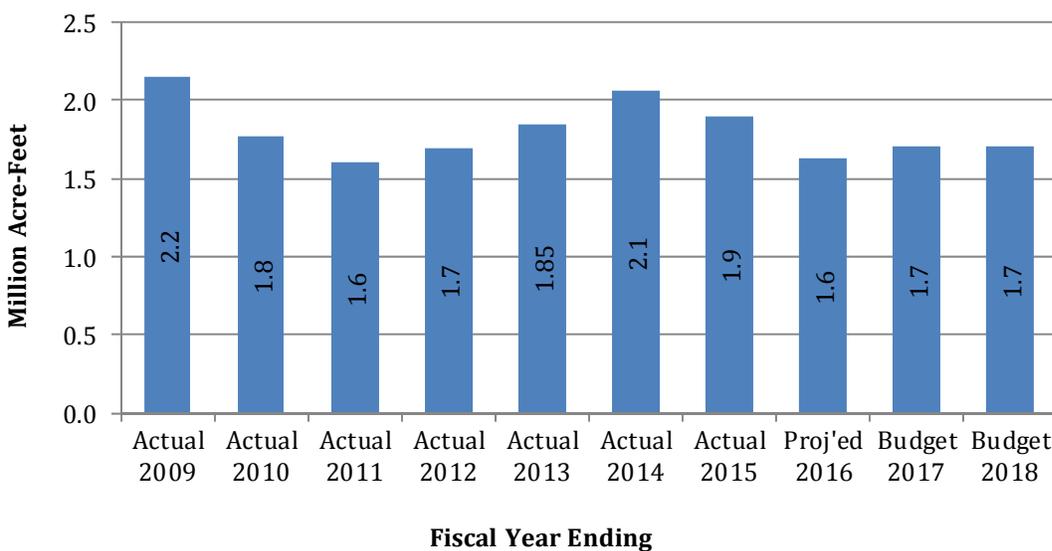
Sources of Funds FY 2016/17 and FY 2017/18, \$ millions



Water Sales

Revenues from water sales, including the Treatment Surcharge, are budgeted at \$1,305.2 million in FY 2016/17 and \$1,375.5 million in FY2017/18. Water rates and charges are proposed to increase by 4.0 percent overall effective January 1, 2017 and 4.0 percent overall effective January 1, 2018. Water sales for FY 2016/17 are estimated to be 1.70 million acre-feet (MAF), a decrease of 50 thousand acre-fee (TAF) from the FY 2015/16 budget. Water sales for FY 2017/18 are estimated to be 1.70 MAF, unchanged from the FY 2016/17 budget. Water sales are forecasted to be lower than FY 2015/16 budget due to conservation efforts throughout the region as a result of the Governor’s Executive Order calling for a statewide reduction in water use of 25 percent. Metropolitan’s implemented the Water Supply Allocation Plan in FY 2015/16 at a Level 3 Regional Shortage Level due to declining storage levels and a low State Water Project (SWP) allocation of 20 percent in calendar year 2015, which followed a historically low allocation in calendar year 2014 of 5 percent.

Water Sales Trend, MAF



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

Taxes and Annexation Fees

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

Fixed Charges

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

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

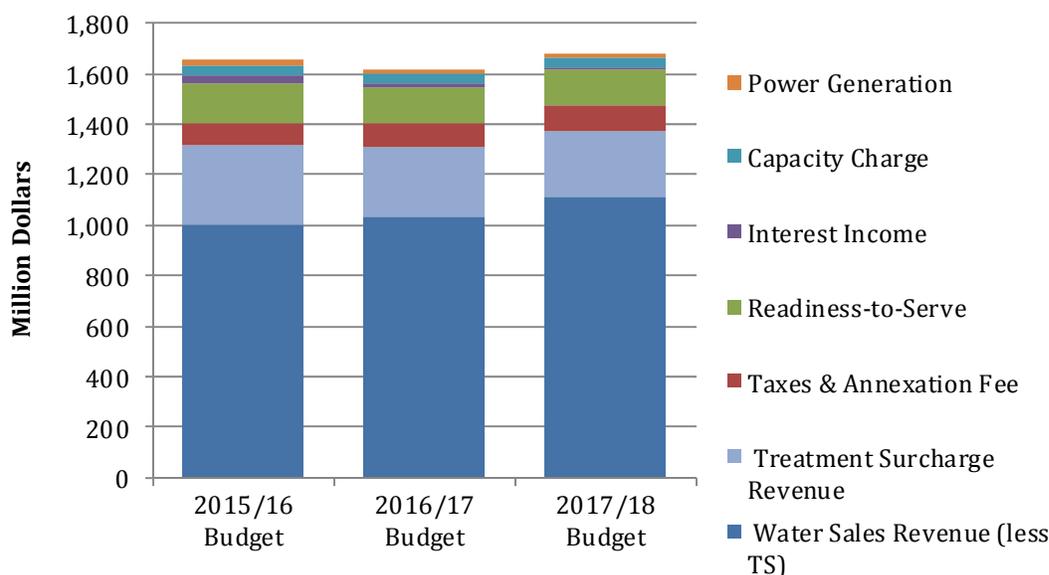
All Other Revenue

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

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

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

Operating Revenues, \$ millions



CAPITAL FUNDING

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

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

Capital Funding Source Descriptions

New Bond Issues

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

Revenue Funded Capital

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

OTHER SOURCES

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

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

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

USES OF FUNDS

Total uses of funds are \$1.98 billion for FY 2016/17 and \$1.97 billion for FY 2017/18. The table and graph below show the breakdown of expenditures and other obligations that make up the Uses of Funds.

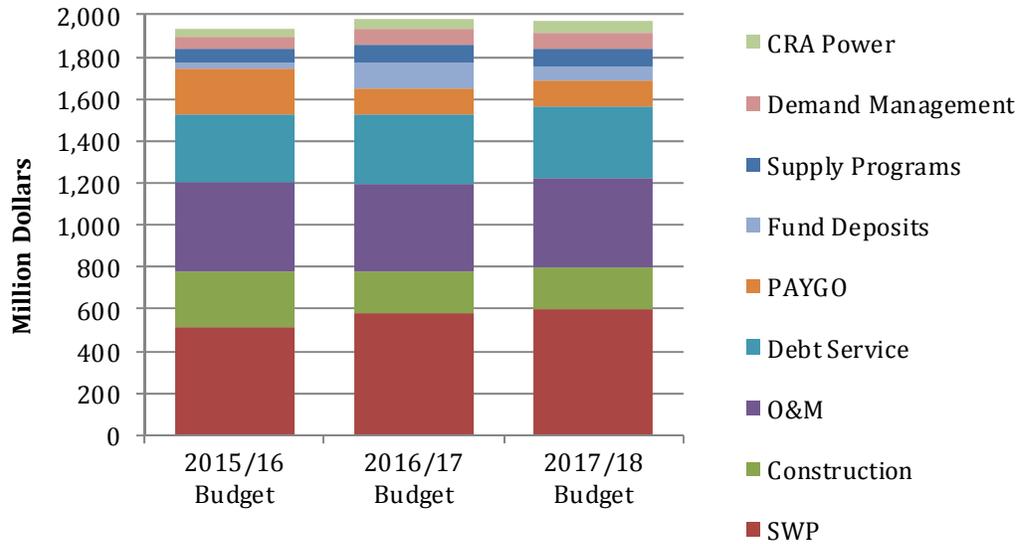
Total Uses of FY 2016/17 and 2017/18 Funds, \$ millions

	2015/16 Budget	2016/17 Budget	2017/18 Budget	2016/17 Budget Compared to 2015/16 Budget	2017/18 Budget Compared to 2016/17 Budget
USES OF FUNDS					
Expenses					
State Water Contract	515.0	582.3	599.4	67.2	17.2
Supply Programs	66.5	78.7	81.7	12.2	3.0
Colorado River Power	36.5	46.6	54.4	10.1	7.8
Debt Service	324.7	328.5	344.1	3.7	15.6
Demand Management	61.7	75.1	75.9	13.5	0.8
Departmental O&M	364.3	358.6	358.1	(5.7)	(0.5)
Treatment Chemicals, Solids & Power	27.6	24.3	24.6	(3.3)	0.3
Other O&M	26.6	34.7	37.1	8.1	2.3
Sub-total Expenses	1,422.9	1,528.8	1,575.3	105.9	46.5
Capital Investment Plan	267.9	200.0	200.0	(67.9)	-
Fund Deposits					
R&R and General Fund	221.0	120.0	120.0	(101.0)	-
Revenue Bond Construction	-	9.6	-	9.6	(9.6)
Water Stewardship Fund	-	-	-	-	-
Exchange Agreement Set-aside	-	46.6	47.4	46.6	0.8
Treatment Surcharge Stabilization Fund *	0.4	6.7	-	6.2	(6.7)
Interest for Construction & Trust Funds	0.4	0.3	0.4	(0.1)	0.0
Increase in Required Reserves	18.2	65.1	25.4	46.9	(39.7)
Increase in Water Rate Stabilization Fund	3.3	-	-	(3.3)	-
Sub-total Fund Deposits	243.4	248.4	193.2	5.0	(55.2)
TOTAL USES OF FUNDS	1,934.1	1,977.2	1,968.5	43.1	(8.7)

Totals may not foot due to rounding.

* Not affected by treatment rate structure

Total Uses of FY 2016/17 and 2017/18 Funds, \$ millions



Colorado River Aqueduct Power

CRA power costs are projected to be \$46.6 million in FY 2016/17 and \$54.4 million in FY 2017/18 based on diversions of approximately 1.0 MAF through the CRA. FY 2017/18 is \$7.8 million higher despite similar pumping as a result of the need to purchase more supplemental energy due to expiration of the Southern California Edison Service and Interchange Agreement.

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

State Water Project

State Water Project (SWP) expenditures are budgeted at \$582.3 million for FY 2016/17 and \$599.4 million in FY 2017/18. This is based on total deliveries of 865 TAF in FY 2016/17 and 882 TAF in FY 2017/18. SWP power costs are expected to be \$164.9 million for FY 2016/17 and \$168.6 million for FY 2017/18. Power costs are lower due to favorable markets for wholesale power and natural gas, and renewable solar and wind projects.

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.

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

Demand Management Costs

Metropolitan provides financial incentives to its member agencies for the development of local water recycling and groundwater recovery projects through the Local Resource Program (LRP). Metropolitan also provides financial incentives for the development of conservation programs through the Conservation Credits Program (CCP). Total expenditures are budgeted at \$75.1 million for FY 2016/17 and \$75.9 million in FY 2017/18.

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

Supply Programs

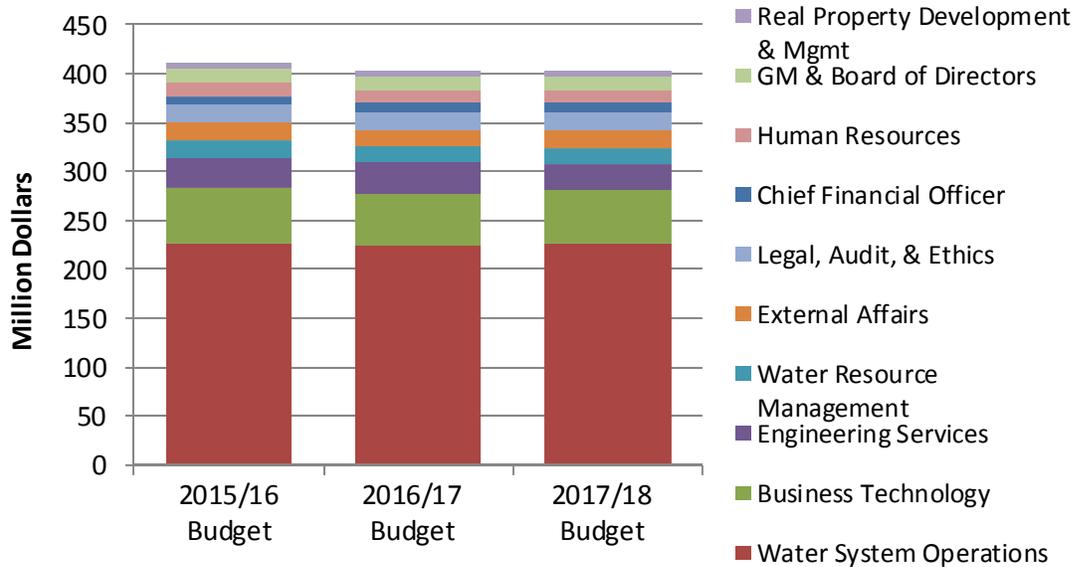
Metropolitan's two principal sources of supply draw from two different watersheds. This has allowed Metropolitan to draw more heavily on one source in the event the other is experiencing a drought. To further ensure regional supply reliability, Metropolitan has developed a portfolio of additional supply programs on both watersheds. Total expenditures are budgeted at \$78.7 million for FY 2016/17 and \$81.7 million in FY 2017/18.

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

OPERATIONS AND MAINTENANCE

The FY 2016/17 O&M budget, including operating equipment purchases, is \$417.7 million. This is \$0.9 million, or 0.2 percent, lower than the FY 2015/16 budget of \$418.5 million. The FY 2017/18 O&M budget is \$419.8 million, an increase of \$2.1 million, or 0.5 percent, over the FY 2016/17 budget.

Departmental Budget by Organization (without Other O&M, operating equipment and overhead credit), \$ millions



Operations and Maintenance Budget by Organization, \$ thousands

Departmental Units	2015/16 Budget	2016/17 Budget	2017/18 Budget	2015/16 Budget vs. 2016/17 Budget	%	2016/17 Budget vs. 2017/18 Budget	%
Office of the General Manager	\$ 15,862.7	\$ 15,563.4	\$ 15,659.1	\$ (299.3)	(1.9%)	\$ 95.7	0.6%
Water System Operations w/o Variable Treatment	198,816.1	199,239.8	202,036.6	423.7	0.2%	2,796.8	1.4%
Water Resource Management	17,157.9	16,430.7	16,594.2	(727.1)	(4.2%)	163.5	1.0%
Engineering Services	30,270.9	32,511.7	27,832.6	2,240.8	7.4%	(4,679.1)	(14.4%)
Business Technology	57,776.7	52,942.4	53,637.6	(4,834.3)	(8.4%)	695.2	1.3%
Real Property Development & Mgmt	5,554.3	5,290.8	5,371.8	(263.5)	(4.7%)	81.0	1.5%
Human Resources	12,380.6	12,295.0	12,202.1	(85.6)	(0.7%)	(92.9)	(0.8%)
Office of the Chief Financial Officer	9,646.8	9,062.0	9,184.9	(584.8)	(6.1%)	122.9	1.4%
External Affairs	18,972.1	17,665.4	18,021.6	(1,306.7)	(6.9%)	356.2	2.0%
Subtotal - General Manager's Dep.	366,438.0	361,001.1	360,540.5	(5,436.9)	(1.5%)	(460.6)	(0.1%)
General Counsel	13,228.5	13,378.5	13,551.9	149.9	1.1%	173.4	1.3%
General Auditor	3,072.0	3,072.0	3,072.0	(0.0)	(0.0%)	0.0	0.0%
Ethics Office	1,075.2	1,344.6	1,353.8	269.4	25.1%	9.2	0.7%
Overhead Credit from Construction	(19,547.7)	(20,213.4)	(20,427.4)	(665.7)	3.4%	(214.0)	1.1%
Total Departmental Budget	364,266.0	358,582.8	358,090.8	(5,683.2)	(1.6%)	(492.0)	(0.1%)
Other O&M							
CCP Vendor Administration	1,550.0	-	-	(1,550.0)	(100.0%)	-	NA
Performance Programs	638.3	100.0	100.0	(538.3)	(84.3%)	-	NA
Association Dues	5,184.8	4,921.2	5,288.0	(263.6)	(5.1%)	366.8	7.5%
Labor and Additive Adjustments	-	7,636.5	10,244.6	7,636.5	NA	2,608.1	34.2%
Insurance	9,800.0	10,594.0	8,987.0	794.0	8.1%	(1,607.0)	(15.2%)
Leases	600.0	700.0	740.0	100.0	16.7%	40.0	5.7%
Property Taxes	636.7	5,170.3	5,273.6	4,533.6	712.0%	103.3	2.0%
Subtotal - Other	18,409.8	29,122.0	30,633.2	10,712.2	58.2%	1,511.2	5.2%
TOTAL OPERATIONS & MAINTENANCE	382,675.8	387,704.8	388,724.0	5,029.1	1.3%	1,019.2	0.3%
Operating Equipment	8,190.3	5,623.4	6,426.0	(2,566.9)	(31.3%)	802.6	14.3%
Variable Treatment	27,644.2	24,330.3	24,610.2	(3,313.9)	(12.0%)	279.9	1.2%
GRAND TOTAL	\$ 418,510.3	\$ 417,658.5	\$ 419,760.2	\$ (851.8)	(0.2%)	\$ 2,101.8	0.5%

Totals may not foot due to rounding

The graph above depicts the distribution of the departmental O&M by organization without other O&M, the overhead credit, and operating equipment. Including treatment costs, the Water System Operations (WSO)

Group accounts for 55 percent and 56 percent, respectively, of the total departmental budget for FY 2016/17 and FY 2017/18. Business Technology, which incorporates Administrative Services, Information Technology, and Business Outreach, is the second largest departmental expenditure area, accounting for 13 percent of the total departmental budget for FY 2016/17 and FY 2017/18. A summary of the O&M budget by organization is shown in the table above. Given the forecast of lower water sales over the next two fiscal years, O&M budgets were reviewed and reduced. For budgeting purposes, only merit increases have been incorporated into departmental budgets. The Labor and Additives Adjustment line under Other O&M accounts for the increase in base labor costs, including changes in additive costs, for FY 2016/17 and FY 2017/18 due to the proposed Memorandum of Understanding (MOU) salary negotiations. Labor additives include retirement, medical and dental premiums.

The table below summarizes the O&M budget by expenditure type. A more detailed discussion of significant factors impacting the O&M budget follows.

2016/17 and 2017/18 Operations & Maintenance Annual Budget by Expenditure Type, \$ thousands

	2015/16 Budget	2016/17 Budget	2017/18 Budget	2015/16 Budget vs. 2016/17 Budget	2016/17 Budget vs. 2017/18 Budget
Salaries & Benefits (1)	267,424.3	262,499.2	266,207.6	(4,925.1)	3,708.5
Chemicals, Solids, and Power (2)	27,644.2	24,330.3	24,610.2	(3,313.9)	279.9
Outside Services	43,777.4	41,666.5	37,957.3	(2,110.9)	(3,709.2)
Materials & Supplies (3)	25,783.3	25,982.0	25,389.2	198.7	(592.8)
Other	45,690.8	57,557.2	59,169.9	11,866.4	1,612.7
Operating Equipment	8,190.3	5,623.4	6,426.0	(2,566.9)	802.6
Total	418,510.3	417,658.5	419,760.2	(851.8)	2,101.8

Totals may not foot due to rounding

(1) Includes overhead credit for construction and savings from liability reduction

(2) Costs associated with treatment only.

(3) Without chemicals associated with treatment plants.

FY 2016/17 O&M Budget

The proposed FY 2016/17 O&M budget includes \$417.7 million for labor and benefits, water treatment chemicals, power, and solids handling, materials and supplies, professional services, and operating equipment purchases. This is \$0.9 million, or 0.2 percent, lower than the FY 2015/16 budget of \$418.5 million due primarily to an effort to control labor costs and equipment expenditures in an environment of lower water sales. Variable treatment costs are also lower due to less treated water sales.

Salaries and Benefits: Labor costs, not including those charged to construction or the MOU salary negotiations are \$262.5 million. This is \$4.9 million, or 1.8 percent, lower than the FY 2015/16 budget of \$267.4 million. This decrease is primarily the result of an effort to control costs by unfunding positions or planning to leave positions vacant for some period during the fiscal year. No base salary increase was incorporated at the time the budget was developed as the MOU salary negotiations were not known. Only merit increases for qualified employees have been included in the group budgets. The Labor and Additives Adjustment amount, described above, is included in the Other category and will be reflected in the Departmental budgets. Net of this increase, Salaries and Benefits will be approximately \$2.7 million higher.

The total authorized personnel complement for the FY 2016/17 budget is 1,912 authorized positions, including 26 agency and district temporary full-time equivalents (FTEs), and reflects an increase of 1 net full-time position from the FY 2015/16 budget. Incorporating unfunded positions and positions that are planned to be vacant for portions of the year, the total funded positions are 1,840 FTEs.

Other O&M – Chemicals, solids, and power reflect the cost of the water treatment process and are anticipated to decrease by \$3.3 million in FY 2016/17, driven by a decrease in treated water sales. Operating equipment is budgeted \$2.5 million lower to minimize replacement of equipment. Other O&M is higher primarily due to increased property tax expenditures associated with the PVID land purchase and the Labor and Additives Adjustment resulting from the MOU negotiations.

FY 2017/18 O&M Budget

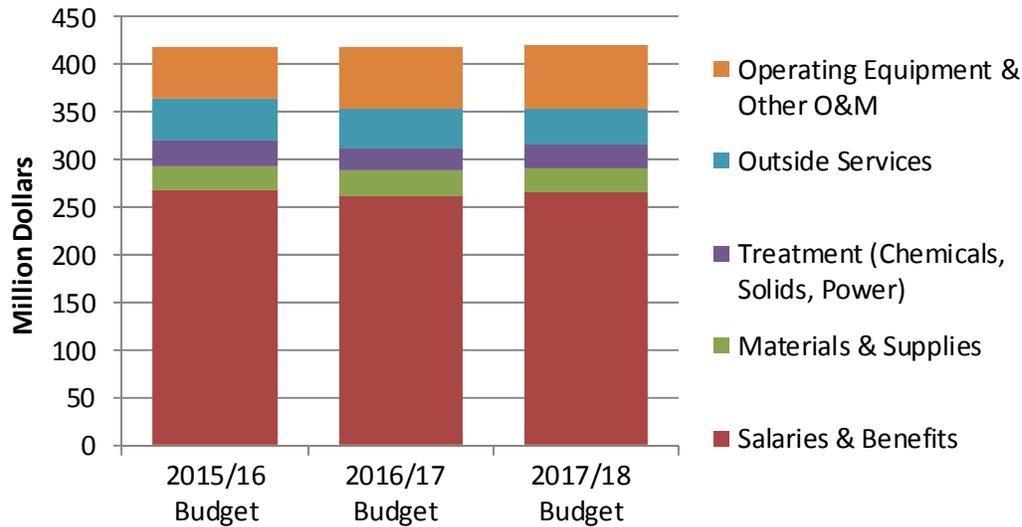
The proposed FY 2017/18 O&M budget is \$419.8 million, an increase of \$2.1 million, or 0.5 percent, compared to the FY 2016/17 budget. This increase is primarily due to merit increases for qualified employees, an increase in labor additive costs, and slight increase in chemical and power costs to operate the treatment plants due to slightly higher treated water sales.

Salaries and Benefits –The FY 2017/18 O&M labor budget is about \$3.7 million higher than the FY 2016/17 budget driven primarily by an increase in labor additive costs and merit increases for qualified employees. No base salary increase was incorporated in the group budgets as the current labor MOUs expire December 31, 2016. The Labor and Additives Adjustment amount, described above, was calculated to allow for salaries and benefits to increase at the inflation rate of 2.25 percent overall.

The total authorized personnel complement for FY 2017/18 is reduced by 2 FTEs to 1,910 positions, due to a decrease in temporary labor. Incorporating unfunded positions and positions that are planned to be vacant for portions of the year, the total funded positions are 1,841 FTEs.

Other O&M –The cost of chemicals, power, and sludge disposal incurred in the water treatment process is anticipated to increase slightly by \$0.7 million in FY 2017/18 due primarily to higher treated water sales.

Departmental Budget by Expenditure Type, \$ millions



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 2016/17 and 2017/18.

STAFFING PLAN

Total authorized positions (including temporary workers) for FY 2016/17 and FY 2017/18 are 1,912 and 1,910 positions respectively. Total O&M personnel are up by 4 district temporary positions (rounded) to 1,912 in 2016/17 and decrease 2 regular full time positions to a total of 1,910 in FY 2017/18. Positions dedicated to capital work are expected to increase slightly during the biennium while positions dedicated to O&M will decrease slightly. The proposed FY 2016/17 and FY 2017/18 budget includes unfunded positions and positions that are planned to be vacant for portions of the year in order to manage O&M labor costs. Therefore, funded positions are lower than the authorized complement. The personnel complement is shown in the following tables.

Regular and Temporary Positions

	2014/15 Budget	2015/16 Budget	2016/17 Budget	2017/18 Budget	2015/16 Budget vs. 2016/17 Budget	2016/17 Budget vs. 2017/18 Budget
Regular Full Time Positions	1,886	1,885	1,886	1,886	1	0
District Temporary Positions	20	20	22	20	2	-2
Agency Temporary Positions	-	-	4	4	4	0
Total	1,906	1,905	1,912	1,910	7	-2

Totals may not foot due to rounding.

O&M and Capital Staffing Levels

	2015/16 Budget	2016/17 Budget	2017/18 Budget
O&M Positions			
Regular Full Time Positions	1,604	1,600	1,592
District & Agency Temporary Positions	20	24	23
Total O&M	1,624	1,624	1,615
Capital Positions			
Regular Full Time Positions	281	286	294
District & Agency Temporary Positions	-	2	1
Total Capital	281	288	295
GRAND TOTAL	1,905	1,912	1,910

Totals may not foot due to rounding.

CAPITAL INVESTMENT PLAN

The CIP budget for FY 2016/17 and FY 2017/18 is forecasted at \$200.0 million in both fiscal years. It is proposed to be funded by current operating revenues (i.e., budgeted PAYGo) and by issuing new revenue bonds. The FY 2016/17 capital budget is \$68 million lower than the FY 2015/16 budget.

The two largest areas of expenditures in the FY 2016/17 and FY 2017/18 CIP are Infrastructure Reliability and Water Quality. 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 proposed to be funded 60 percent by current operating revenues (budgeted PAYGo). The PAYGO funding for FY 2016/17 and FY 2017/18 is budgeted at \$120 million in each fiscal year.

Debt Funded Capital

Overall, the CIP is proposed to be funded 40 percent by revenue bond proceeds. New debt issues are planned in FY 2016/17 in the amount of \$90 million, and in FY 2017/18 in the amount of \$80 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 2016/17 and FY 2017/18, Metropolitan plans to issue new revenue bond debt as described above. Debt service payments in FY 2016/17 are budgeted at \$328.5 million and \$344.1 million in FY 2017/18.

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 2016/17 budget forecasts a \$52.4 million decrease in reserves by June 30, 2017 and includes the Water Rate Stabilization Fund (WRSF) and the Revenue Remainder Fund. In addition, required reserves and increases to the Treatment Surcharge Stabilization Fund (TSSF) and the Water Stewardship Fund (WSF) are projected to increase by \$30.0 million.

The FY 2017/18 budget forecasts a \$12.9 million decrease in reserves by June 30, 2018 and includes the WRSF and the Revenue Remainder Fund. In addition, required reserves and changes to the TSSF and WSF are expected to increase by a net of \$12.1 million.

Fund balances are budgeted to be \$1.45 billion at June 30, 2017. Of that total, \$746 million is restricted by bond covenants, contracts, or board policy, and \$706 million is unrestricted. Fund balances are budgeted to be \$1.50 billion at June 30, 2018. Of that total, \$762 million is restricted by bond covenants, contracts, or board policy, and \$737 million is unrestricted.

On June 30, 2017, the targets for the minimum and target reserve funds are estimated to be \$247.2 million and \$600.6 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about \$395.9 million, about \$148.7 million over the minimum level.

On June 30, 2018, the targets for the minimum and target reserve funds are estimated to be \$257.3 million and \$626.9 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about \$383.1 million, about \$125.8 million over the minimum level.

Included in the designated trust funds is the exchange agreement set-aside amounts discussed previously.

Projected Fund Balances, \$ millions

	Restricted		Unrestricted		Total
	Contractual	Board	Designated	Undesignated	
2016/17 Budget					
Operating Funds	205.3	103.5	0.0	0.0	308.8
Debt Service Funds	296.6	0.0	0.0	0.0	296.6
Construction Funds	31.0	0.0	0.0	0.0	31.0
Reserve Funds (1)	0.0	0.0	0.0	395.9	395.9
Rate Stabilization Funds (2)	0.0	0.0	6.7	0.0	6.7
Trust and Other Funds (3)	109.9	0.0	303.5	0.0	413.4
Total June 30, 2017	642.8	103.5	310.2	395.9	1,452.3
2017/18 Budget					
Operating Funds	217.5	109.2	0.0	0.0	326.7
Debt Service Funds	293.5	0.0	0.0	0.0	293.5
Construction Funds	31.5	0.0	0.0	0.0	31.5
Reserve Funds (1)	0.0	0.0	0.0	383.1	383.1
Rate Stabilization Funds (2)	0.0	0.0	3.4	0.0	3.4
Trust and Other Funds (3)	109.9	0.0	350.9	0.0	460.8
Total June 30, 2018	652.4	109.2	354.3	383.1	1,499.0

Totals may not foot due to rounding.

(1) includes Water Rate Stabilization Fund and Revenue Remainder Fund, and working capital borrowings in an amount equal to the exchange agreement set-aside

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

(3) includes exchange agreement set-aside

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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.

PROGRAMS

The Office of the General Manager provides overall leadership and management of Metropolitan’s mission. This includes 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 General Manager’s Business Plan outlines the strategic priorities that this office and Metropolitan will focus on for the period covered by the biennial budget.

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

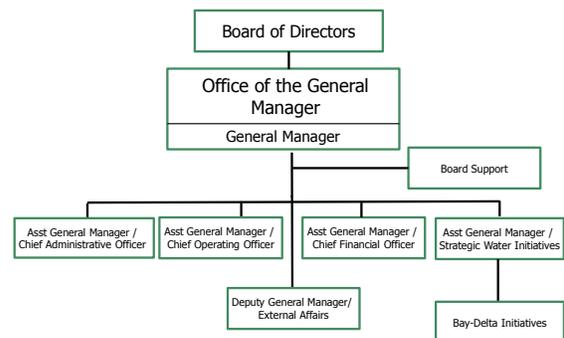
Office of the General Manager is responsible for the management and administration of Metropolitan’s activities including the management of all matters pertaining to the business of the Board and research on actions and policies of the Board by staff for directors, member agencies, and the public.

Bay-Delta Initiatives organization was created in recognition of the increased importance of the Bay Delta to Southern California’s long-term

reliability goals and opportunities available to advance the long-term needs of the Bay Delta. This organization spearheads efforts necessary to ensure a stable water supply from key sources in an environmentally responsible manner.

Board of Directors provides policy and direction as the governing body of the Metropolitan Water District. The Board Support Team provides administrative support to the business of the Board.

Inspection Trip Team conducts field inspection trips to Metropolitan and related facilities for the purpose of providing business and community leaders with firsthand knowledge of Metropolitan’s operations.



GOALS AND OBJECTIVES

For FY 2016/17 and FY 2017/18, the General Manager's Business Plan outlines five strategic priorities to support Metropolitan's mission.

Strategic Priority #1: Complete the Bay Delta Conservation Plan/California WaterFix (BDCP/CA WaterFix) Environmental Impact Report/Statement

During FY 2016/17, the goal will be to complete the environmental documentation and necessary financing agreements so that Metropolitan's Board of Directors can make a sound business decision on participation in and implementation of the BDCP/CA WaterFix.

Interim steps in this process that will be completed during this time period include organizing and developing procedures and structures to handle the mechanics and logistics of managing a mega-construction project, including but not limited to: establishing and staffing a construction office; developing appropriate specifications for equipment procurement, design and construction; establishing procedures for land acquisition and habitat development; creating approaches for interim and long-term project financing; and preparing all necessary permitting documentation.

In addition, staff will continue near-term efforts to provide greater reliability of State Water Project (SWP) supplies. These actions include identifying and pursuing early-action habitat projects that satisfy current permit obligations and will also be compatible with the BDCP/CA WaterFix. Staff will also pursue implementation of new management techniques for species in the Delta including development of new models for species life cycles, turbidity monitoring and other approaches all designed to lead to better management of water supplies while enhancing protection for endangered species.

Finally, staff will continue implementation of the Delta Flood Emergency Preparedness, Response Recovery Plan in the event of a catastrophic interruption of water supplies due to earthquake or flood damage.

Strategic Priority #2: Develop Water Supplies and Manage Water Reserves

Staff will work closely with the Board to manage Metropolitan's water supply reserves in the face of the unprecedented drought conditions in California and throughout the Southwest. Should El Niño conditions create more supply, staff is prepared to maximize storage opportunities. On the other hand, should supply conditions not improve then actions will include implementation of storage withdrawals, coordination of deliveries with the member agencies, close monitoring of drought conditions and possible allocation actions as part of the Water Surplus and Drought Management (WSDM) plan, and targeted outreach on conversation efforts. The past year's successful implementation of the Water Supply Allocation Plan (WSAP) will be reviewed and a determination will be made on what actions to take for FY 2016/17.

Strategic Priority #3: Embark on Strategic Review of Metropolitan's Mission and Programs

Periodically the Board has reviewed its policies and mission to ensure they fit with the times. Many significant policy issues have arisen from the historic drought conditions and were discussed in the 2015 Integrated Resources Plan (IRP) update. FY 2016/17 presents an opportune time for Metropolitan to look in the mirror and determine if changes to policies should be made as we make critical decisions on broader California water policy matters.

Strategic Priority #4: Educate the Public and Stakeholders on Critical Water Supply Conditions and Critical Water Management Decisions.

The coming two years will be a cross road for California water. The current drought gripping California has caused unprecedented water conditions for much of California and led to a dramatic response at the state and federal level. These conditions are likely to continue at least through 2017 if not beyond, complicated by the strong El Niño conditions and flooding

predictions. Additionally, indications are that key decisions may occur on a Bay Delta plan, a potential water bond, significant legislative proposals for statewide action and key Colorado River milestones. It will be essential to fully engage the public and key stakeholders in Metropolitan's service area and statewide on the importance of these issues, as decisions made over the next two years will impact California water for decades to come.

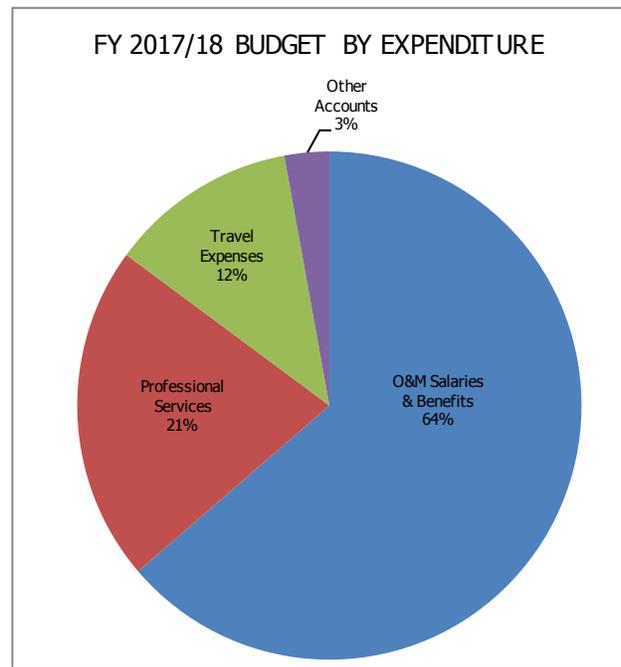
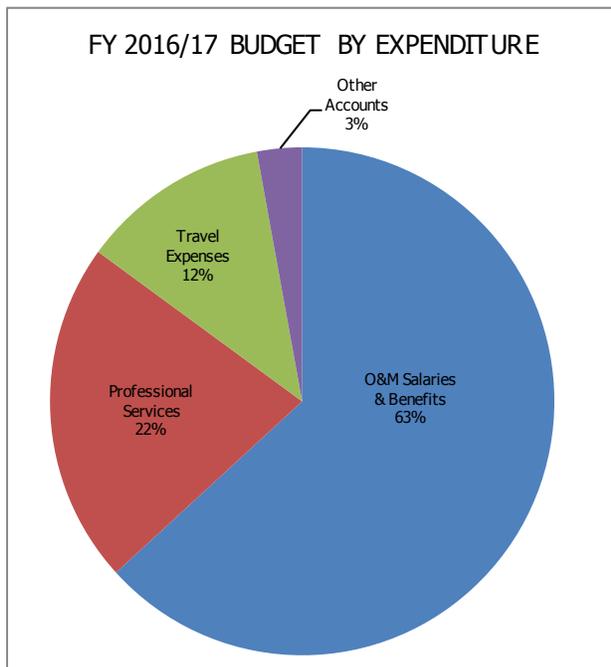
Strategic Priority #5: Employee Development

The proposed budget calls for Metropolitan to cease its managed attrition that has shrunk Metropolitan from 2,400 full-time employee positions to a current workforce of approximately 1,770. Recruitment activity will be expanded to keep pace with retirements and fund the work force at approximately 1,840 positions over the next two years. Increased employee cross-training and employee development efforts will be needed to meet the challenge of retirements brought about by an aging workforce.

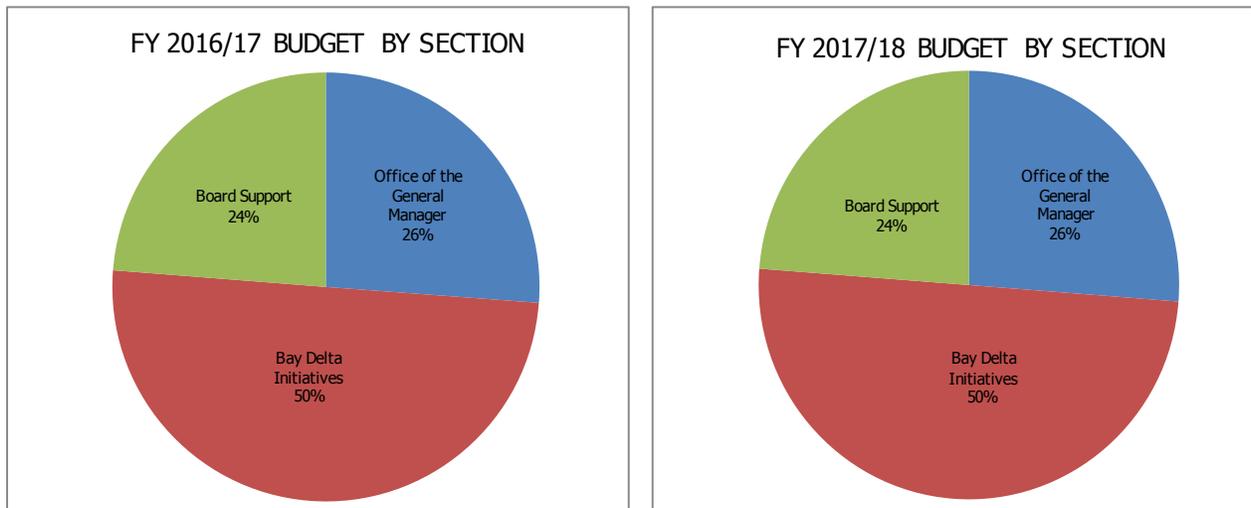
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	9,451,200	10,197,900	9,839,100	(358,800)	9,973,100	134,000
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
O&M Salaries and Benefits	9,451,200	10,197,900	9,839,100	(358,800)	9,973,100	134,000
% Change		7.9%		(3.5%)		1.4%
Professional Services	4,171,100	3,666,100	3,391,700	(274,400)	3,353,600	(38,100)
Travel Expenses	1,529,200	1,654,200	1,883,900	229,700	1,882,900	(1,000)
Other Accounts	470,200	344,500	448,700	104,200	449,500	800
Total O&M	15,621,700	15,862,700	15,563,400	(299,300)	15,659,100	95,700
% Change		1.5%		(1.9%)		0.6%

Note – Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16	2016/17	Change from	2017/18	Change from	Personnel Budget		
	Budget	Proposed	2015/16	Proposed	2016/17	15/16	16/17	17/18
Office of the General Manager	4,230,100	4,074,100	(156,000)	4,108,400	34,300	13	12	12
Bay-Delta Initiatives	8,126,400	7,791,800	(334,600)	7,826,800	35,000	19	19	19
Board Support	3,506,200	3,697,500	191,300	3,723,900	26,400	10	10	10
Total O&M	15,862,700	15,563,400	(299,300)	15,659,100	95,700	42	41	41

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

		2014/15	2015/16	2016/17	Change from	2017/18	Change from
		Actual	Budget	Proposed	2015/16	Proposed	2016/17
Regular		37	41	40	(1)	40	—
	O&M	37	41	40	(1)	40	—
	Capital	—	—	—	—	—	—
Temporary		—	1	1	—	1	—
	O&M	—	1	1	—	1	—
	Capital	—	—	—	—	—	—
Total Personnel		37	42	41	(1)	41	—
	O&M	37	42	41	(1)	41	—
	Capital	—	—	—	—	—	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the General Manager's biennial budget is \$15.6 million in FY 2016/17 and \$15.7 million in FY 2017/18 or a decrease of 1.9% and an increase of 0.6%, respectively from the prior budget years. The main factors affecting these changes:

- Salaries and Benefits costs were reduced as a result of the elimination of one regular position.
- Travel costs which include inspection trips were increased to respond to and promote key initiatives, notably those related to the Bay Delta and Colorado River supplies.
- Offsetting these increases was a reduction in professional services mainly related to drought-related science projects funded in FY 2014/15 that are now nearing completion.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

Total personnel count was reduced by one from the FY 2015/16 budget with the elimination of a position.

Professional Services

The budget decrease is mainly due to the exclusion of funding for State and Federal Contractors Water Agency drought-related science projects that were funded in FY 2014/15 but are now nearing completion. Other Bay-Delta related projects undertaken by Engineering in FY 2014/15 and FY 2015/16 that were funded

through Bay Delta initiative are also not included in the budget for FY 2016/17.

FY 2017/18

Personnel-related issues

Total personnel count remains flat with FY 2016/17. Salaries and Benefits reflect merit increases for qualified employees and an increase in retirement-related benefits.

Professional Services

The budget decrease is due to the completion of some projects that are not anticipated to continue this year.

WATER SYSTEM OPERATIONS

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

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. Water quality is paramount and all functions focus on producing and maintaining water surpassing drinking water standards.

WSO accomplishes its mission through the following programs or sections:

Office of 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, administration, and security. The security function ensures that Metropolitan's employees, water infrastructure, and equipment are adequately protected.

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 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 Fleet Services unit acquires and maintains vehicles and emergency generators. The Power & Equipment Reliability unit provides maintenance services which include: predictive, preventive, and corrective maintenance analysis for critical

equipment, including all hydroelectric power plants, pressure control structures, high voltage equipment, and heating, ventilation, and air conditioning (HVAC) systems. Additionally, the section helps member agencies with service connection requests.

Water Treatment operates and maintains five water treatment plants with a combined capacity of over 2.6 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. Four of the treatment plants (Jensen, Mills, Skinner, and Diemer) have been retrofit to use ozone as the primary disinfectant. Ozone construction is underway at the Weymouth plant and, by the end of this biennial budget, the nearly \$1.3 billion ozone retrofit program will be complete.

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. The conveyance system consists primarily of the Colorado River Aqueduct system and five pumping plants. The distribution system consists of about 820 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.

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 advocating for measures to reduce the risk of point and non-point source pollution.

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 water storage reserves at reasonable cost.

In addition, the section programs and maintains Metropolitan’s control system, known as Supervisory Control and Data Acquisition (SCADA) and is also responsible for emergency response management and providing emergency response training to employees.

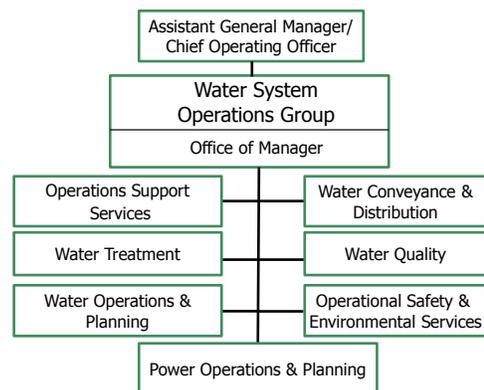
Safety and Environmental Services is responsible for ensuring a safe working environment for employees through programs and training, ensuring business operations are conducted in an environmentally responsible way, and complying with all environmental and occupational health and safety rules and regulations. 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 environmental incidents.

In addition, the section manages technical skills training for maintenance craft employees and sponsors an accredited apprenticeship program which trains 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 Colorado River Aqueduct (CRA). This activity requires 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 generally 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 2016/17 and FY 2017/18, 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.

As the drought eases, rebuild water storage into accounts that provide the greatest delivery flexibility and cost effectiveness.

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 pre-stressed concrete cylinder pipelines.

Maintain eight-pump flow readiness and manage storage accounts to capture all available Colorado River supplies.

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 indirect potable reuse.

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.

Establish vibration-based predictive maintenance program for all large electric motors, vertical turbine pumps, and emergency generators to improve equipment reliability and reduce unnecessary maintenance.

Provide secure facilities through employee training, access controls, incident monitoring, and

response for critical infrastructure sites and office locations.

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

Energy Management

Manage and limit price exposure for wholesale energy to support CRA pumping.

Secure an agreement for coordinated electrical operations of the CRA.

Workforce Development & Succession Planning

Conduct annual Management Academy 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.

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, pharmaceuticals, nutrients, and algal toxins.

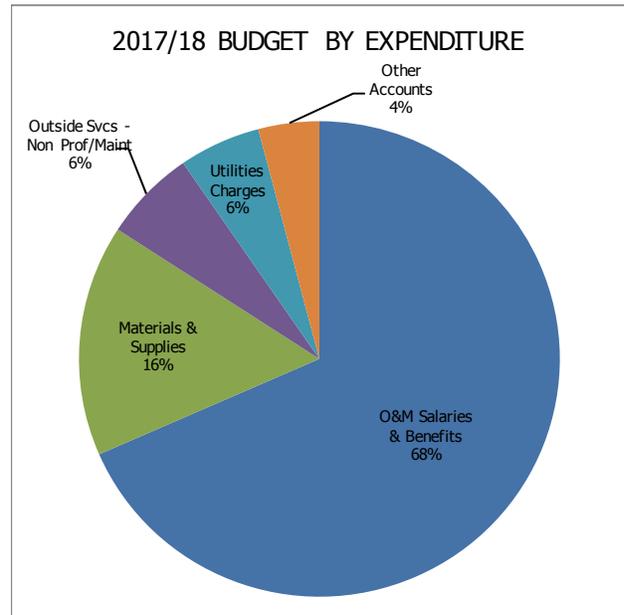
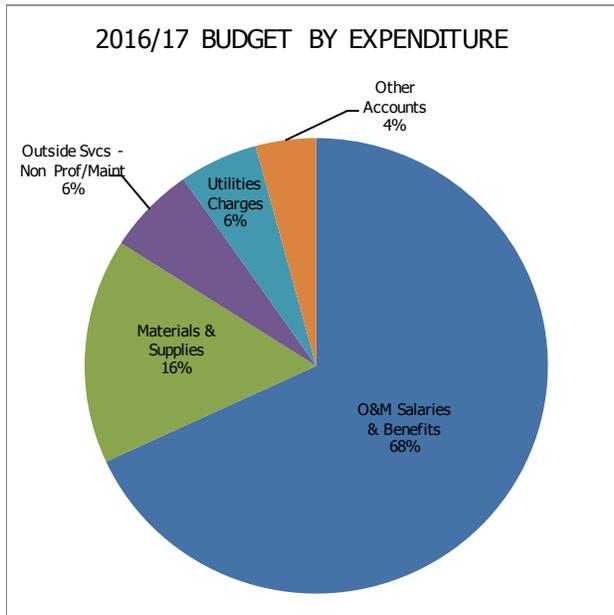
Complete implementation of ozone retrofit program with the startup of ozone at the Weymouth plant.

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

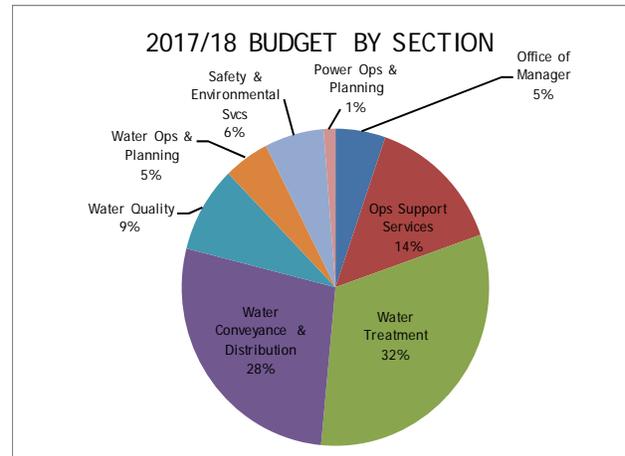
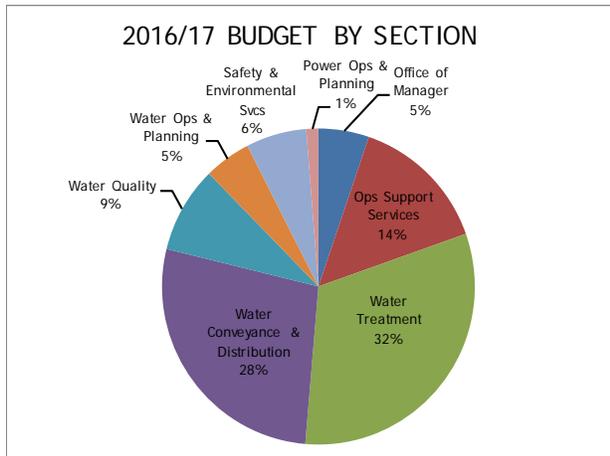
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	155,336,500	155,277,700	157,184,700	1,907,000	160,471,200	3,286,500
Direct Charges to Capital	(7,391,500)	(7,222,700)	(6,897,300)	325,400	(6,931,700)	(34,400)
O&M Salaries and Benefits	147,945,000	148,055,000	150,287,400	2,232,400	153,539,500	3,252,100
% Change		0.1%		1.5%		2.2%
Professional Services	1,325,900	2,377,000	1,119,000	(1,258,000)	1,060,500	(58,500)
Materials and Supplies	36,671,100	39,381,200	37,715,800	(1,665,400)	37,320,220	(395,600)
Outside Services - Non Professional / Maintenance	13,508,100	15,307,800	13,765,000	(1,542,800)	14,013,500	248,500
Utilities Charges	13,904,900	13,651,900	12,483,200	(1,168,700)	12,576,300	93,100
Other Accounts	9,076,100	7,687,300	8,199,700	512,400	8,136,800	(62,900)
Total O&M	222,431,100	226,460,300	223,570,100	(2,890,100)	226,646,800	3,076,700
% Change		1.8%		(1.3%)		1.4%
Operating Equipment	7,311,300	7,019,900	4,489,200	(2,530,700)	5,539,400	1,050,200
Total O&M and Operating Equipment	229,742,400	233,480,200	228,059,300	(5,420,800)	232,186,200	4,126,900
% Change		1.6%		(2.3%)		1.8%

Note – Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16	2016/17	Change from	2017/18	Change from	Personnel Budget		
	Budget	Proposed	2015/16	Proposed	2016/17	15/16	16/17	17/18
Office of the Manager	12,769,300	11,545,500	(1,223,700)	11,821,100	275,600	20	19	19
Operations Support Services	32,292,800	31,679,200	(613,600)	32,226,800	547,600	153	161	161
Water Treatment	75,815,600	72,628,500	(3,187,000)	73,587,600	959,100	275	273	273
Water Conveyance and Distribution	57,196,000	60,980,100	3,784,100	61,758,500	778,300	267	271	271
Water Quality	20,409,400	19,512,800	(896,600)	19,719,100	206,200	95	93	93
Water Operations and Planning	10,691,300	10,654,200	(37,100)	10,778,600	124,400	43	43	43
Safety and Environmental Svcs	14,342,800	13,813,000	(529,700)	13,962,500	149,500	54	55	55
Power Operations and Planning	2,943,200	2,756,700	(186,500)	2,792,700	36,000	11	11	11
Total O&M	226,460,300	223,570,100	(2,890,100)	226,646,800	3,076,700	917	926	926

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

		2014/15	2015/16	2016/17	Change from	2017/18	Change from
		Actual	Budget	Proposed	2015/16	Proposed	2016/17
Regular		883	949	951	2	951	—
	O&M	852	903	907	4	907	—
	Capital	31	46	44	(2)	44	—
Temporary		26	14	19	5	19	—
	O&M	24	14	19	5	19	—
	Capital	1	—	—	—	—	—
Total Personnel		909	963	970	7	970	—
	O&M	876	917	926	9	926	—
	Capital	33	46	44	(2)	44	—

Note - Totals may not foot due to rounding.

SIGNIFICANT BUDGET ISSUES

WSO's biennial O&M and Operating Equipment budget is 228.1 million in FY 2016/17 and \$232.2 million in FY 2017/18 or a decrease of 2.3% and an increase of 1.8%, respectively from the prior year budgets. The decrease is due primarily to the following factors:

- Lower treated water flows, falling worldwide commodity prices and lower chemical dosages needed to treat the more abundant Colorado River supplies has resulted in the reduction of chemical costs for water treatment.
- Lower-than-projected electrical rates and new solar energy production has resulted in decreased utility costs.
- A reduction in professional services primarily due to the deferral or winding down of projects.
- Overall reduction in security costs as a result of a highly competitive bid for new security guard contract.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

For O&M work, the complement of regular employees was increased by two positions to reflect increased support for servicing the vehicle fleet and a shift of two positions back to O&M as a result of decreasing capital work. In addition, the equivalents of 5 temporary employees were added to offset peak workload and long-term employee absences.

Professional Services

The budget reflects the deferral or winding down of projects. Budget is based on historical spending and planned projects.

Materials and Supplies

The budget reflects decreased chemical costs for water treatment due to lower treated water flows, falling worldwide commodity prices and lower chemical dosages needed to treat Colorado River supplies.

Utilities Charges

The budget reflects decreased electricity costs due to lower-than-projected electrical rates and new solar energy production.

Other

The Outside Services-Non Professional/Maintenance budget reflects decreased security costs resulting from highly competitive bid for new security guard contract.

FY 2017/18

Personnel-related issues

Overall personnel count for both O&M and capital work remains flat from the FY 2016/17 budget. The rise in salary and benefits costs results from merit increases and an increase in retirement-related benefits.

Materials and Supplies

The budget reflects inflationary pressure anticipated on materials and supplies.

Utilities Charges

The budget reflects higher anticipated electricity rates from FY 2016/17.

Other

Outside Services-Non Professional/Maintenance budget reflects increased cost anticipated for annual security guard contract.

Operating Equipment – FY 2016/17 and FY 2017/18

The operating equipment budget has been reduced in this biennial budget which results in a

slightly aging fleet, particularly for lighter-duty vehicles. Priority was placed on maintaining sufficient heavy equipment for emergency response and aqueduct maintenance. For emergency response, the goal is to enable an internal response to two simultaneous pipeline breaks.

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WATER RESOURCE MANAGEMENT

Water Resource Management (WRM) plans, secures, and manages water resources that Metropolitan supplies to its member agencies in a reliable, cost-effective, and environmentally responsible manner.

PROGRAMS

Water Resource Management protects and optimally manages imported water quantity and quality; advances water-use efficiency; provides supply and demand forecasts that are the foundation for resource planning; and develops and implements timely resource planning, programs, and projects.

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

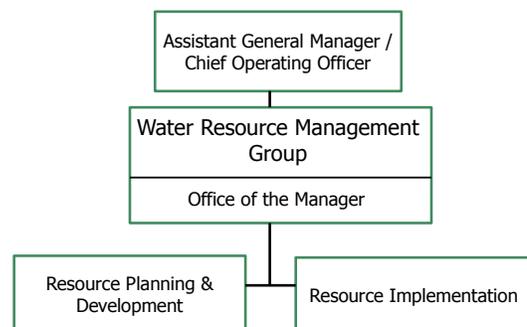
Water Resource Management accomplishes its mission through the following programs or sections:

Office of 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 Resource Plan (IRP) and Water Surplus and Drought Management (WSDM) plan; and develops resource options, such as groundwater conjunctive use, regional recycling 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 innovation for the Colorado River, State Water Project, water recycling, groundwater recovery, and conservation. This section also monitors and responds to regulatory, legislative, and operational activities that may influence Metropolitan’s rights and benefits related to the quality, reliability and cost of water.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, WRM will focus on the following key issues:

Colorado River

Evaluate continuing challenges to the Quantification Settlement Agreement (QSA) and develop strategies to respond to changed conditions.

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

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 cross-border water supply programs.

Administer Imperial Irrigation District (IID) and Palo Verde Irrigation District (PVID) 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 319 and coordinate emergency deliveries for Tijuana.

Continue administration of pilot system water projects that help keep Lake Mead levels above shortage triggers.

Develop strategy and tools for managing new agricultural land purchases 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.

Continue to monitor and inform member agencies and groundwater managers of proposed legislation and regulations that potentially affect groundwater recharge or management.

Legislative Review

Continue to review and provide comments 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 LRP initiatives to meet 20x2020 urban water use reduction target.

Pursue grant funding supplement implementation of regional water conservation program initiatives.

Participate in 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 research to advance local resource and conservation program effectiveness.

Seawater Desalination

Continue to develop and actively participate in CalDesal and support its regulatory and legislative initiatives with the State's Ocean Plan and the Ocean Protection Council's draft Strategic Action Plan.

State Water Project

Renegotiate the SWP contract, extending the contract term, and adjust cost repayment provisions to reflect longer term supply and repayment needs.

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 discuss and resolve disputed charges for the SWP.

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.

Support Metropolitan's interests in any SWP-related litigation.

Coordinate major rehabilitations and new SWP capital improvements to ensure cost-effective and reliable water supply, energy generation, and use.

Promote water quality monitoring and forecasting activities and raise awareness of potential water quality impacts from operational decisions.

Develop and implement strategies to access SWP conveyance facilities to optimize use of Metropolitan water transfer and banking programs in light of scheduled and forced infrastructure outages.

Continue participation in State Water Contractors, Inc., State Water Project Contractors Authority, and State and Federal Water Contractors Authority to coordinate activities at a statewide level.

Future Supply Actions

Staff will consider other future supply actions as deemed necessary.

Continue participation in the Southern California Water Committee Stormwater Task Force to identify opportunities and remove obstacles to increases in stormwater capture and infiltration for measurable groundwater yield.

Water Supply and System Planning

Complete annual progress reports on IRP implementation and Metropolitan's water supplies and achievements in conservation, recycling, and groundwater recharge (SB 60 report).

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

Explore potential partnerships with member agencies and other entities for development of regional seawater desalination, recycling, and groundwater replenishment facilities.

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

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

Water Transfers and Exchanges Program

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

Pursue additional water transfers and exchanges as needed.

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

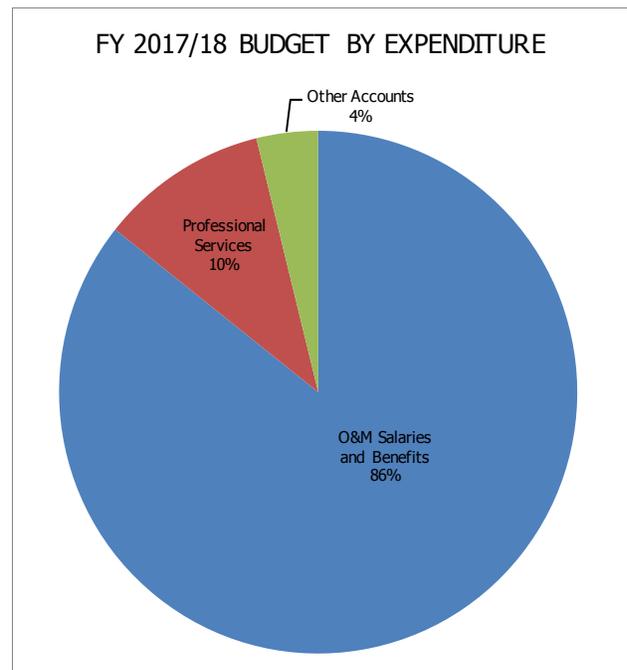
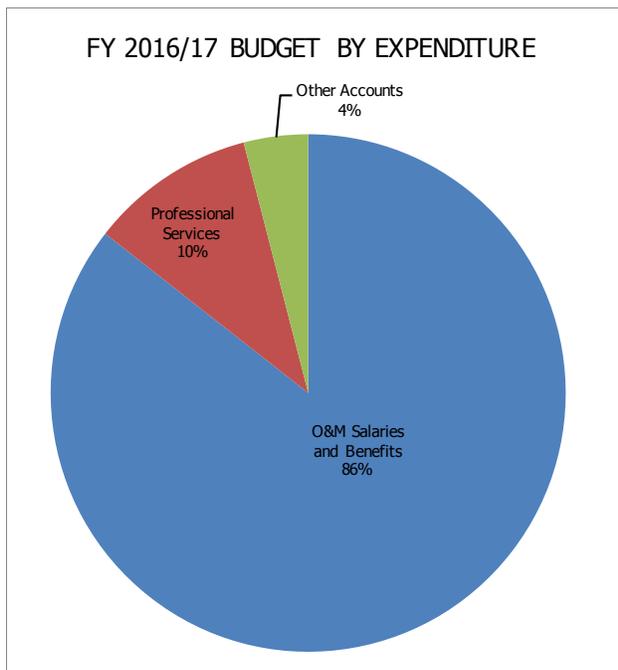
Workforce Development & Succession Planning

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

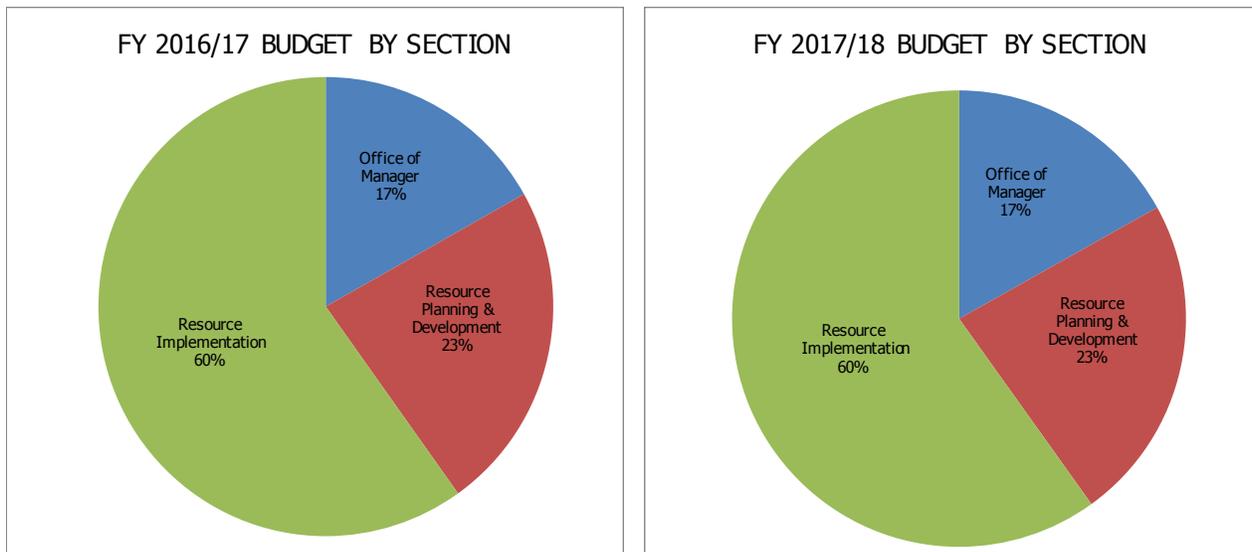
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	12,717,400	14,157,500	14,056,800	(100,700)	14,217,800	161,000
<i>Direct Charges to Capital</i>	<i>(2,000)</i>	—	—	—	—	—
O&M Salaries and Benefits	12,715,400	14,157,500	14,056,800	(100,700)	14,217,800	161,000
% Change		11.3%		(0.7%)		1.1%
Professional Services	1,322,100	2,113,200	1,710,000	(403,200)	1,740,000	30,000
Grant / Donation Expense	102,000	125,000	125,000	—	125,000	—
Graphics & Reprographics	11,200	79,900	35,700	(44,200)	25,700	(10,000)
Materials and Supplies	125,300	82,300	104,400	22,100	89,400	(15,000)
Memberships & Subscriptions	181,600	185,700	77,200	(108,500)	77,000	(200)
Rent & Leases	11,500	10,000	45,000	35,000	43,000	(2,000)
Training & Seminars Costs	10,700	46,000	36,200	(9,800)	36,200	—
Travel Expenses	139,200	156,500	126,000	(30,500)	126,100	100
Other Accounts	85,500	201,800	114,400	(87,400)	114,000	(400)
Total O&M	14,704,500	17,157,900	16,430,700	(727,200)	16,594,200	163,500
% Change		16.7%		(4.2%)		1.0%

Note – Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17	Personnel Budget		
						15/16	16/17	17/18
Office of Manager	3,559,500	2,768,300	(791,200)	2,804,100	35,900	19	14	14
Resource Planning & Development	4,276,500	3,824,900	(451,500)	3,848,200	23,300	15	16	16
Resource Implementation	9,321,900	9,837,500	515,600	9,941,900	104,400	34	38	38
Total O&M	17,157,900	16,430,700	(727,100)	16,594,200	163,500	68	68	68

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular	59	68	68	—	68	—
O&M	59	68	68	—	68	—
Capital	—	—	—	—	—	—
Temporary	—	—	—	—	—	—
O&M	—	—	—	—	—	—
Capital	—	—	—	—	—	—
Total Personnel	59	68	68	—	68	—
O&M	59	68	68	—	68	—
Capital	—	—	—	—	—	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

WRM's biennial budget is \$16.4 million in FY 2016/17 and \$16.6 million in FY 2017/18, or a decrease of 4.2% and an increase of 1.0%, respectively from the prior budget years. WRM achieved the 4.2% decrease while taking on additional responsibilities related to Colorado River Program Desert Land Management. The decrease was primarily due to the following factors:

- The primary factor, professional services, has been decreased through the reduction or deferral of various conservation research studies, system analysis technical studies, supply and aqueduct modeling, and water use investigations. The reduction may limit the ability to provide timely responses to technical studies and update models for the water resource evaluation.
- Various memberships were also eliminated that may reduce the ability to collaborate with other boards or agencies on statewide and federal issues.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

Total personnel count remains flat with the FY-2015/16 budget. Salaries and Benefits budget reflects anticipated retirements and vacancies filled at lower level job classifications.

Professional Services

The budget reflects reduced technical services for Colorado River water use mapping and monitoring, conservation research studies, IRP, system analysis technical studies and eliminated SWP supply and aqueduct modeling support. These reductions were offset by professional services related to Colorado River Program Desert Land Management.

Memberships and Subscriptions

Budget reflects the elimination of memberships and subscriptions for Western Urban Water

Coalition, California Urban Water Agencies, and WaterReuse Foundation.

Other

The budget reflects reduced travel associated with SWP, CRA, conservation, and local resources program and a reduction in conservation marketing materials and IRP reports.

FY 2017/18

Personnel-related issues

Total personnel count remains flat with the FY-2016/17 budget. Salaries and Benefits budget reflects merit increases for qualified employees and an increase in retirement-related benefits costs.

Professional Services

The budget reflects an increase related to the State Water Contract audit.

ENGINEERING SERVICES

Engineering Services Group provides innovative, high-quality, and cost-effective solutions to meet our customers' needs and to ensure the long-term reliability and successful operation of Metropolitan's infrastructure.

PROGRAMS

Engineering Services performs project management, design, construction management, environmental planning, infrastructure protection monitoring, water-related facility planning, and manages Metropolitan's Capital Investment Plan (CIP).

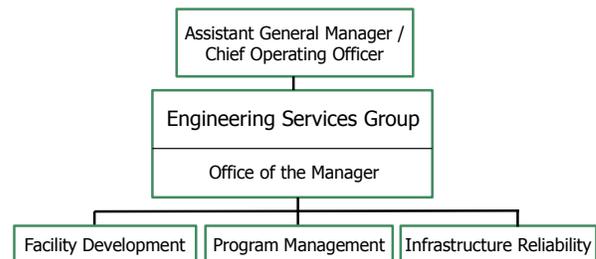
Engineering Services accomplishes its mission through the following programs or services:

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.

Facility Development is responsible for providing design, environmental planning, and local and regional water-related facility planning services.

Infrastructure Reliability is responsible for construction management and for the monitoring and protection of Metropolitan's infrastructure.

Program Management is responsible for overall project delivery of capital and O&M projects, and serves as Metropolitan's "Owner's Engineer."



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, Engineering Services will focus on the following key issues:

California Water Fix and California Eco Restore

Provide engineering and program management leadership in support of the California Water Fix and California Eco Restore initiatives.

Drought Management

Develop and execute projects to optimize water system operations and expand the delivery of Colorado River water to areas of the distribution system that are normally supplied by the State Water Project.

Expedite development of a Regional Recycled Water Supply Program including the design and construction of a demonstration-scale recycled water treatment plant, and preparation of a comprehensive feasibility study of a full-scale recycled water system.

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

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, and treatment facilities.

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

CIP Management

Execute and prioritize capital projects to address Metropolitan's short-term needs and long-term objectives, and optimize utilization of internal and external resources.

Evaluate project performance to identify and implement improvements in project delivery.

Employee Development

Lead workforce development and succession planning activities to optimally maintain technical expertise and skills needed in the future.

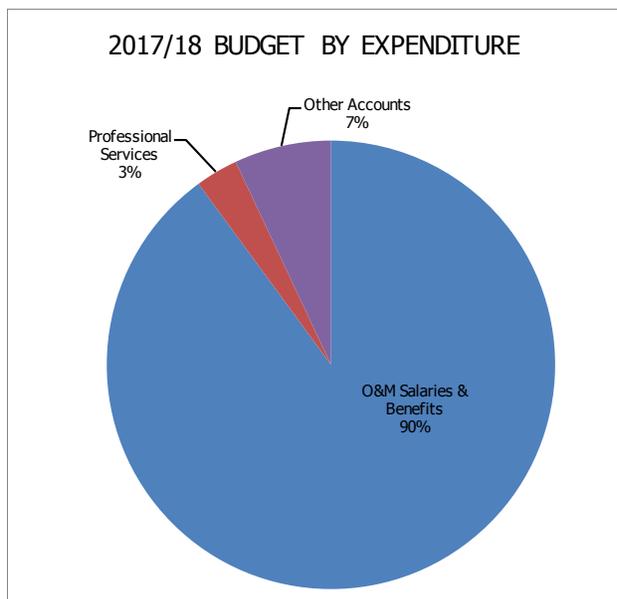
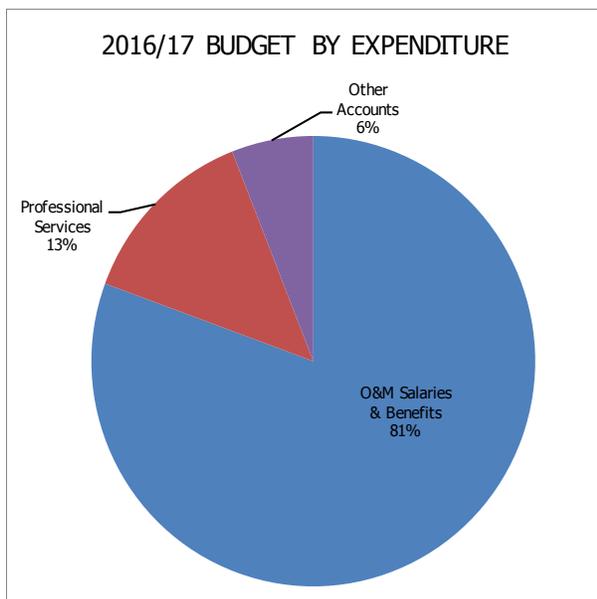
Customer Service

Provide technical leadership and services to meet Metropolitan's business needs.

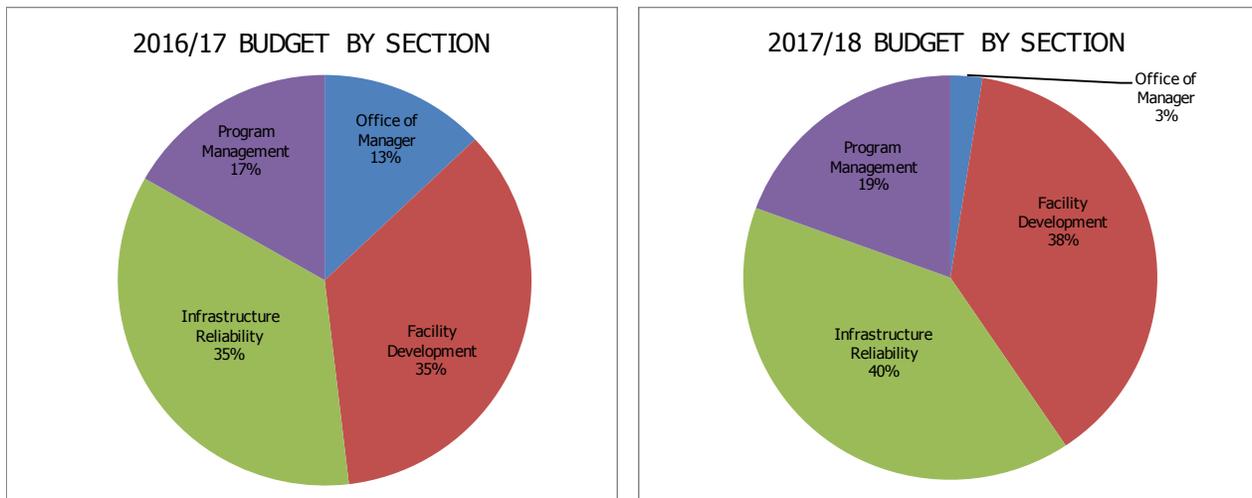
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	68,237,600	68,811,500	70,196,000	1,384,500	71,410,800	1,214,800
<i>Direct Charges to Capital</i>	<i>(41,307,600)</i>	<i>(41,895,500)</i>	<i>(43,990,800)</i>	<i>(2,095,300)</i>	<i>(46,375,100)</i>	<i>(2,384,300)</i>
O&M Salaries and Benefits	26,930,000	26,916,000	26,205,200	(710,800)	25,035,700	(1,169,500)
% Change		(0.1%)		(2.6%)		(4.5%)
Professional Services	1,161,600	1,445,300	4,371,000	2,925,700	851,000	(3,520,000)
Communication Expenses	95,200	130,000	100,000	(30,000)	100,000	—
Materials and Supplies	578,400	448,800	580,200	131,400	602,200	22,000
Memberships & Subscriptions	89,400	146,700	181,300	34,600	188,900	7,600
Taxes & Permits	371,500	302,000	320,000	18,000	330,000	10,000
Travel Expenses	167,600	261,900	140,400	(121,500)	130,000	(10,400)
Utilities Charges	166,800	240,000	180,000	(60,000)	180,000	—
Other Accounts	558,900	380,200	433,600	53,400	414,800	(18,800)
Total O&M	30,119,400	30,270,900	32,511,700	2,240,800	27,832,600	(4,679,100)
% Change		0.5%		7.4%		(14.4%)
Operating Equipment	566,200	406,300	435,400	29,100	258,800	(176,600)
Total O&M and Operating Equipment	30,685,600	30,677,200	32,947,100	2,269,900	28,091,400	(4,855,700)
% Change		0.0%		7.4%		(14.7%)

Note - Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16	2016/17	Change from	2017/18	Change from	Personnel Budget		
	Budget	Proposed	2015/16	Proposed	2016/17	15/16	16/17	17/18
Office of Manager	1,117,700	4,214,800	3,097,200	696,800	(3,518,000)	8	1	1
Facility Development	12,010,200	11,429,500	(580,600)	10,599,700	(829,800)	55	50	45
Infrastructure Reliability	11,404,300	11,421,700	17,400	11,133,900	(287,700)	60	58	56
Program Management	5,738,700	5,445,600	(293,100)	5,402,200	(43,500)	23	30	29
Total O&M	30,270,900	32,511,700	2,240,800	27,832,600	(4,679,100)	146	139	131

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

		2014/15	2015/16	2016/17	Change from	2017/18	Change from
		Actual	Budget	Proposed	2015/16	Proposed	2016/17
Regular		345	371	371	—	371	—
	O&M	134	146	139	(7)	131	(8)
	Capital	211	225	232	7	240	8
Temporary		2	—	—	—	—	—
	O&M	—	—	—	—	—	—
	Capital	2	—	—	—	—	—
Total Personnel		347	371	371	—	371	—
	O&M	134	146	139	(7)	131	(8)
	Capital	213	225	232	7	240	8

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

Engineering Services O&M budget is \$32.5 million in FY 2016/17 and \$27.8 million in FY 2017/18. As detailed below, Engineering Services' budget is influenced significantly by a new initiative, Metropolitan's Regional Recycled Water Supply Program. During FY 2016/17, a conceptual feasibility study for this program will be conducted that is categorized as a Major O&M project. This effort is planned to be completed within that fiscal year.

Total planned expenditures for FY 2016/17 are approximately \$2.2 million or 7.4% more than in FY 2015/16, with the addition of Major O&M support required for Metropolitan's Regional Recycled Water Supply Program. All support to the California Water Fix initiative is planned to be funded under a reimbursable agreement.

For FY 2017/18, planned expenditures are approximately \$4.7 million or 14.4% less than in FY 2016/17, due to completion of Major O&M work in support of the Regional Recycled Water Supply Program.

O&M	FY 2015/16	FY 2016/17	FY 2017/18
Labor	\$26,916,000	\$24,649,200	\$25,035,700
Non-labor	\$3,354,900	\$2,786,500	\$2,796,900
Total O&M	\$30,270,900	\$27,435,700	\$27,832,600
Recycled Water (labor & non-labor)	\$0	\$5,076,000	\$0
Total O&M & Special Initiative	\$30,270,900	\$32,511,700	\$27,832,600
% Change		7.4%	(14.4%)

Note: Excludes Operating Equipment

The following are the significant changes by budget year.

FY 2016/17

Personnel-Related Issues

Total personnel levels remain consistent with the previous fiscal year. However, the O&M and capital complement is different from the FY 2015/16 budget. This is primarily due to the shift in Major O&M work with the California Water Fix initiative no longer being funded under Major O&M as it is planned to be funded under a reimbursable agreement, and Major O&M support required for Metropolitan's Regional Recycled Water Supply Program.

Planned capital expenditures for FY 2016/17 are approximately \$56 million less than in

FY 2015/16, with a total capital budget of \$180 million. This decrease in planned expenditures reflects a readjustment of project budgets and schedules to meet Metropolitan's overall biennial budgetary goals. Actual capital expenditures during the FY 2015/16 are also projected to be about \$33 million less than budgeted.

Professional Services

The budget primarily reflects increases to support Metropolitan's Regional Recycled Water Supply Program.

Materials and Supplies

The budget reflects an increase in design-related software maintenance costs.

Travel Expenses

The budget reflects decreases of travel-related expenses for the California Water Fix initiative, which is planned to be funded under a reimbursable agreement.

Utility Charges

The budget reflects an overall decrease in Engineering Services' utility costs at the La Verne facility based on current expenditure trends.

Other

Other non-labor budget includes planned expenditures to support Metropolitan's Regional Recycled Water Supply Program and Engineering's workforce development programs (e.g., Career Launch, Mentoring Program, etc.).

FY 2017/18

Personnel-related issues

Total personnel levels remain consistent with the previous fiscal year. However, the O&M and capital complement is different from the FY 2016/17 budget. This is primarily due to the planned completion of Major O&M work in FY 2016/17 for Metropolitan's Regional Recycled Water Supply Program, resulting in a shift of O&M staffing to CIP in FY 2017/18.

Planned capital expenditures for FY 2017/18 will remain steady, with a total capital budget of

\$180 million. High priority projects that will continue during the fiscal year include the Weymouth Oxidation Retrofit Program, which will be completed; the Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation Program; the Colorado River Aqueduct (CRA) Reliability Programs; and the Right of Way and Infrastructure Protection Program.

Professional Services

The budget primarily reflects a decrease due to completion of support to Metropolitan's Regional Recycled Water Supply Program.

Materials and Supplies

The budget reflects anticipated increases in design-related software maintenance costs.

Other

The Conference and Meetings budget reflects decreases due to completion of support to Metropolitan's Regional Recycled Water Supply Program.

Operating Equipment – FY 2016/17 and FY 2017/18

The operating equipment budget reflects a slight increase from FY 2015/16 to FY 2016/17, and then a decrease in FY 2017/18 primarily due to the deferral of vehicle replacements. Other equipment identified to be replaced includes robotic total stations (field survey equipment) which have already exceeded their expected service life.

BUSINESS TECHNOLOGY

Business Technology Group (BTG) provides outstanding value to its customers for a wide range of administrative and technical services.

PROGRAMS

Business Technology group accomplishes its mission through the following programs or sections:

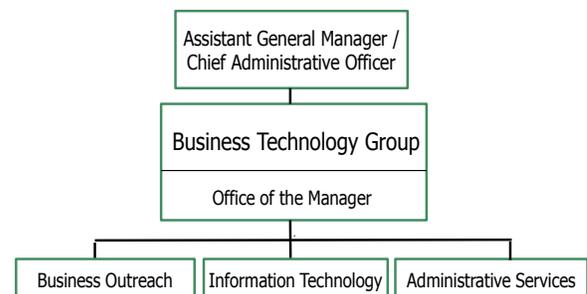
Office of the Manager oversees Metropolitan's annexation functions along with the group's business planning, budget development, performance management, strategic initiatives, and workforce development.

Administrative Services provides a range of services including contracting, procurement, inventory management, warehousing, graphics, videography and photography, technical writing, grant management, records management, facilities management for Union Station and the DVL Visitor Center, and administration of Metropolitan's Rideshare Program.

Information Technology delivers comprehensive technology services and solutions in water systems and business applications (e.g., laboratory information management system, financial and human resource systems, maintenance management system, etc.), geographic information systems,

telecommunications/networks, SCADA, programming, network communications, and computer hardware and software.

Business Outreach seeks to advance Metropolitan's policy to actively encourage participation in the solicitation and procurement of all construction contracts, professional service contracts, equipment, and other materials and supplies by all individuals and businesses, including but not limited to small, local owned, women-owned, minority-owned, and veteran and economically disadvantaged business enterprises.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, BTG will focus on the following key issues:

Business Technology & Process Enhancement

Implement projects in support of the Information Technology Strategic Plan (ITSP) update. Expected initiatives include additional migration to mobile technology and implementation of cloud solutions to enhance productivity and streamline business processes, mitigate cost or cost avoidance.

Continue with the development of the Water System Control Master Plan to fully coordinate and further protect the operational and business investments of Metropolitan's SCADA systems.

Continue to evaluate emerging technology advancements in the business environment to determine their application for Metropolitan.

Continue to promote procurement training methods including online training for credit card use and agreement administration to further the customer's knowledge of available procurement tools and value added opportunities for Metropolitan.

Continue to monitor and participate in local and national efforts aimed at enhancing security capabilities for water utilities.

Partner with the Engineering Services and Water Systems Operations groups to begin deployment of a Water Systems Asset Information Program that will support ongoing and future planning, engineering, operations, maintenance, and asset management.

Initiate the design phase of the Enterprise Content Management (ECM) system to satisfy existing and future compliance of physical and electronic records in line with fiscal, legal, and regulatory requirements. As part of a strong ECM strategy and design, the system will provide a framework for collaboration and automation while protecting Metropolitan by reducing risk of exposure in litigation, enhancing efficiency of core business

processes, and supporting the enterprise business continuity plan.

Information Systems Upgrades and Projects

Complete upgrade for Enterprise Learning Management.

Initiate project to replace the critical data storage devices at Metropolitan Headquarters datacenter to provide sufficient computing power and modernize the datacenter to meet current and future needs.

Deploy phase one of a three-phase project to improve the reliability, performance, and capacity of Metropolitan's wireless network infrastructure comprising of microwave radio wide-area networks (WANs) and wireless access point local-area-networks (LANs).

Begin the first phase of the project to implement power, grounding, and HVAC upgrades to computer rooms and communications facilities to ensure that critical IT, WSO, and business systems remain operational for required emergency durations in the event of a temporary electrical power outage.

Deploy the upgrade of audio, video and information technology-related equipment in the main board room and all committee rooms in Metropolitan's headquarters building.

Complete final design and seek Board approval for a construction contract to upgrade the control and electrical protection systems at the Wadsworth Pumping Plant to ensure continued reliability of the facility.

Continue enhancements to Metropolitan's cyber security capabilities to ensure protection against evolving cyber threats.

Complete deployment of the emergency two-way radio system to improve its coverage, reliability, ease of use and durability during emergencies.

Initiate an infrastructure upgrade at Metropolitan's IT Disaster Recovery Facility (DRF) in Riverside County. The upgrade will equip the facility with necessary upgrades to hardware and software to recover critical IT systems at a desired performance level and reduce risk of disruption of these business systems.

Business Outreach

Continue to maintain an effective Business Outreach Program for regional, small businesses, and veterans to ensure broad participation and competitive costs while achieving board-adopted goals of 25% or better for contracting dollars to small business.

Continue to participate as a host of the Annual California Construction Expo where Metropolitan and other state agencies present public works construction opportunities to contractors and suppliers.

Continue to partner with member agencies in hosting "Connect 2 Met" business opportunity forums in order to educate local business on how to conduct business with public agencies and their purchasing departments.

Continue collaboration with member agencies, water agencies, and Isle Utilities to maintain a Technology Approval group to identify, develop, and commercialize emerging water technologies. The goal is to advance public water agencies' role in the development of water and power related technologies.

Sustainability Efforts

Continue with innovative sustainability efforts in business practices and employee education by hosting Metropolitan's Annual Spring Green Expo and Innovators Showcase, Metropolitan's Rideshare Program to reduce travel emission, and the Our Legacy e-Newsletter for employees.

Facility & Energy Management

Continue to optimize the cost of maintaining Metropolitan's headquarters building and DVL Visitors Center while supporting Metropolitan's sustainability initiatives and the guidelines and benchmarks established by the Building Owners and Managers Association.

Begin implementation of findings from an energy management/usage audit of Union Station designed to reduce energy costs and improve operational efficiency.

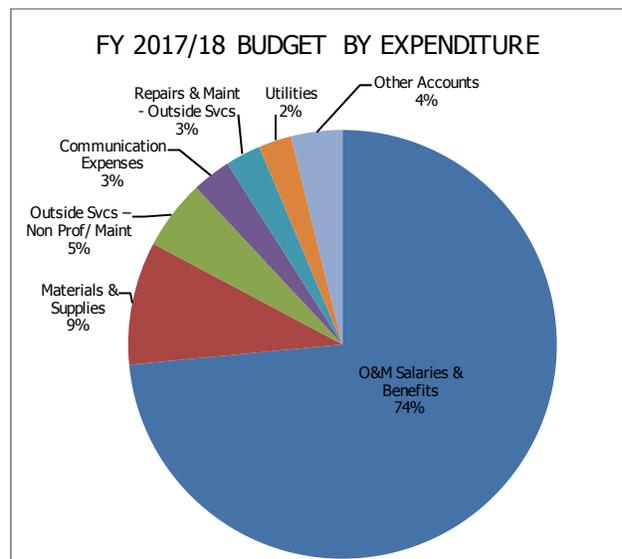
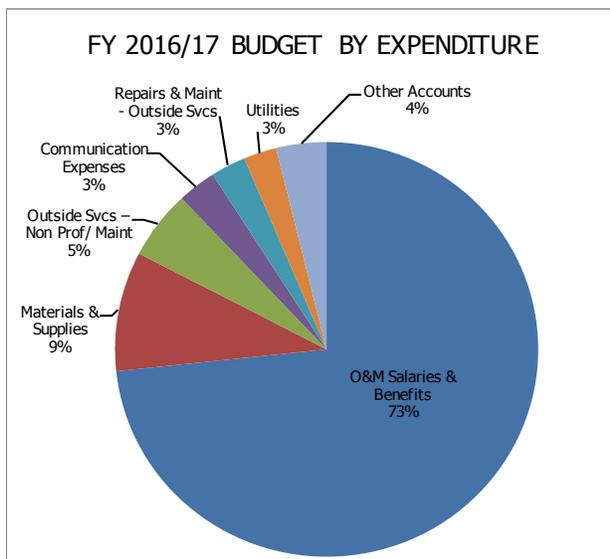
Continue to partner with Real Property Development and Management to effectively utilize space and to support leasing space for revenue generation.

Manage critical rehabilitation projects of Union Station Headquarters as the facility ages beyond 17 years old; repairing and replacing equipment only as required.

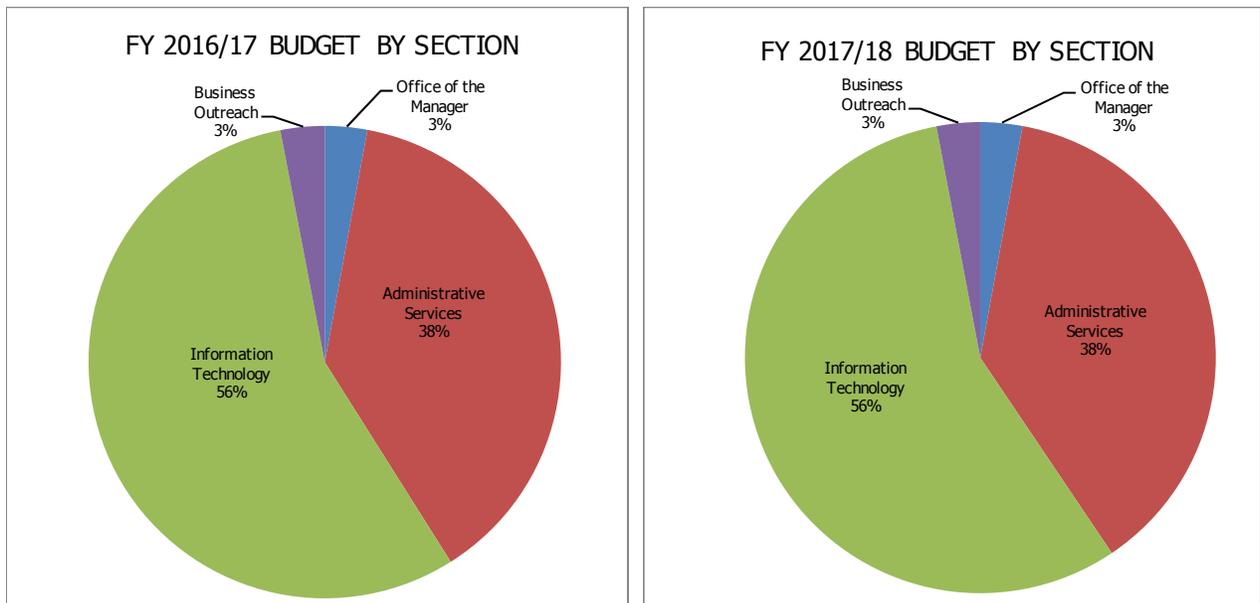
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	40,428,100	43,838,800	40,121,200	(3,717,600)	40,736,600	615,400
Direct Charges to Capital	(1,307,200)	(966,100)	(1,309,200)	(343,100)	(1,319,300)	(10,100)
O&M Salaries and Benefits	39,120,900	42,872,700	38,812,000	(4,060,700)	39,417,300	605,300
% Change		9.6%		(9.5%)		1.6%
Professional Services	493,100	452,700	524,500	71,800	540,700	16,200
Communication Expenses	1,550,800	1,571,300	1,574,200	2,900	1,574,200	—
Materials and Supplies	5,106,700	5,357,500	4,943,800	(413,700)	4,979,200	35,400
Outside Services - Non Professional / Maintenance	2,446,200	2,867,100	2,822,600	(44,500)	2,827,900	5,300
Rent & Leases	696,500	818,600	704,500	(114,100)	729,500	25,000
Repairs & Maintenance - Outside Services	998,800	1,511,800	1,420,600	(91,200)	1,427,600	7,000
Utilities Charges	1,093,900	1,461,400	1,332,600	(128,800)	1,332,600	—
Other Accounts	1,000,800	863,600	807,600	(56,000)	808,600	1,000
Total O&M	52,507,700	57,776,700	52,942,400	(4,834,300)	53,637,600	695,200
% Change		10.0%		(8.4%)		1.3%
Operating Equipment	936,200	764,000	698,700	(65,300)	627,800	(70,900)
Total O&M and Operating Equipment	55,443,900	58,540,700	53,641,100	(4,899,600)	54,265,400	624,300
% Change		9.5%		(8.4%)		1.2%

Note – Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16	2016/17	Change from	2017/18	Change from	Personnel Budget		
	Budget	Proposed	2015/16	Proposed	2016/17	15/16	16/17	17/18
Office of the Manager	1,660,200	—	(1,660,200)	—	—	7	—	—
Administrative Services	21,777,700	20,784,000	(993,700)	21,049,200	265,100	98	102	102
Information Technology	32,608,500	30,375,500	(2,233,000)	30,794,000	418,500	124	123	123
Business Outreach	1,730,300	1,782,800	52,500	1,794,400	11,600	7	7	7
Total O&M	57,776,700	52,942,400	(4,834,300)	53,637,600	695,200	236	232	232

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

	2014/15	2015/16	2016/17	Change from	2017/18	Change from
	Actual	Budget	Proposed	2015/16	Proposed	2016/17
Regular	223	241	239	(2)	239	—
O&M	217	236	232	(4)	232	—
Capital	5	5	7	2	7	—
Temporary	3	—	2	2	1	(1)
O&M	3	—	—	—	—	—
Capital	—	—	2	2	1	(1)
Total Personnel	226	241	241	—	240	(1)
O&M	220	236	232	(4)	232	—
Capital	6	5	9	4	8	(1)

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

Business Technology's biennial O&M and Operating Equipment budget is \$53.6 million in FY 2016/17 and \$54.3 million in FY 2017/18 or a decrease of 8.4% and a slight increase of 1.2%, respectively from the prior budget years. The decrease is due to the following factors:

- The primary factor, Salary and Benefits, has been reduced as a result of the elimination of a position, the unfunding of nine positions and the anticipated vacancies from retirements and position movements. In addition, resources are anticipated to be shifted to Capital Projects in lieu of the use of consultants. BTG is preparing its customers for O&M service delays over this biennium period as workload will be tightly managed and prioritized in order to meet budget reductions.
- Software maintenance costs were eliminated for any new corporate/business applications that have not come online with some costs passed back to the user.
- Lower outside service maintenance costs are expected for IT servers as a result of new servers installed over the past biennium that are under warranty.
- Additional maintenance reductions/deferrals for Union Station Headquarters and DVL Facilities are also planned.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

Total personnel count remains flat with the FY 2015/16 budget.

Salaries and Benefits budget reflects the elimination of one regular position, a transfer of a regular position to Human Resources, nine unfunded positions, and planned vacancies that will negatively impact service levels in the areas of Union Station HQ and DVL Facility Maintenance, Records Management, and Warehouse systems. In the areas of information technology, service level delays and/or reductions are planned for the areas of new mobile technology, software compliance monitoring, database administration for Oracle Financials, and desktop/helpdesk support.

Capital labor budget reflects an increase in scheduled demands for ongoing rehabilitation and upgrades of IT facilities in support of the Water System Operations and Engineering Services groups. These include upgrades to the DVL Controls at the Wadsworth Pumping Plant, the Emergency Two-way Radio system, the Water Asset Information System, Water Systems Control

Master Plan, Cyber Security Enhancements and the Communications Infrastructure Upgrade.

Professional Services

The budget reflects additional IT support in the areas of video streaming for board and committee rooms and initiatives associated with the ITSP.

Materials and Supplies

The budget reflects reduced levels of software licensing/support agreements as a result of deferred capital projects associated with capital reporting, Enterprise Content Management, and Emergency Radio Communications. Any contractual cost increases of existing software maintenance and licensing will be absorbed. The budget also reflects reductions in janitorial and building maintenance supplies due to deferring building maintenance at Union Station and DVL facilities.

Outside Services – Non Professional and Repairs/Maintenance

The budget reflects a decrease due to deferral/delays for Union Station and DVL visitor building maintenance and services for maintenance of IT Servers and equipment.

Other

The utilities budget reflects a decrease to align with current usage at Union Station and DVL Facilities along with the assumption of a zero-percent change to utility rates. The rents and leases budget reflects the current costs for rideshare vehicles and reprographic equipment.

FY 2017/18

Personnel-related issues

Total regular personnel count for both O&M and capital work remains flat from the FY 2016/17 budget. The slight increase of 1.6% in the Salaries

and benefits budget is due to merit increases for qualified employees and an increase in retirement-related benefit costs.

Operating Equipment – FY 2016/17 and FY 2017/18

The operating equipment budget reflects the critical replacement of IT servers, routers, and storage devices used for Metropolitan applications; and replacement of Union Station headquarters equipment at end of life.

The operating equipment budget is decreasing slightly between budget years FY 2016/17 and FY 2017/18 primarily as 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.

PROGRAMS

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

HR services include employee and labor relations, recruitment and selection, equal employment opportunity (EEO), benefits, retirement, leave administration, classification and compensation administration, medical screening, workers compensation, training, organizational development, workforce and career development, and Metropolitan's casualty insurance and risk management programs to minimize exposure to loss.

HR accomplishes its mission through the following programs or sections:

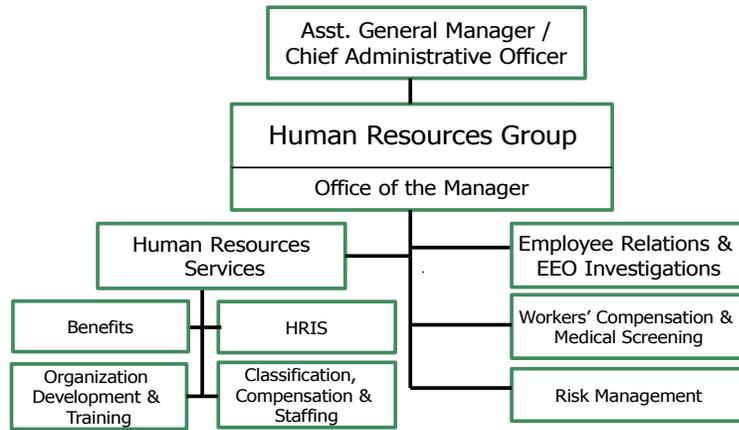
Office of Human Resource Group Manager provides strategic leadership and direction for Metropolitan's Human Resources functions. Organizations reporting directly to it include Employee Relations, Human Resources Services, Risk Management and Workers' Compensation and Medical Screening.

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, including

working as a partner with senior management in developing Metropolitan's collective bargaining strategy. 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.

The section also has responsibility for diversity and inclusion and investigating internal complaints of unlawful discrimination. Diversity and inclusion includes partnering with Employee Resource groups and external affinity groups to outreach to future applicants. EEO investigations staff meet with complainants, interviews witnesses, and issues 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.

Human Resources Services is responsible for the strategic design and implementation of Metropolitan's compensation, benefits, recruitment, training and the Human Resources Information Systems programs. 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, and implementing new programs and agreements.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, HR will focus on the following key issues that support the GM'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 people 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.

Build Partnerships with HR Customers

Effective people solutions require that HR partner with its customers which includes management, labor, 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.

Strengthen HR/customer partnerships and communication to identify areas for improvement in HR products, services, support and messaging.

Ensure Risk Management, Employee Relations, EEO and Legal Department coordinate to avoid unnecessary litigation of liability claims and cost-

effectively resolve claims that are addressed by these organizations.

Prepare to Meet Challenges of Future Workforce Changes

Based on current workforce demographics, it is a certainty that Metropolitan will face increasing staff turnover over the next decade. This will create opportunities for existing employees and challenges for management. As employees are promoted or hired, management needs to examine opportunities for re-organizing work, restructuring functions, supporting diversity and managing change.

This 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 and impacts almost every aspect of the organization. To make 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 will continue to simplify policies, processes, and procedures to reduce the costs of HR administration by utilizing technology, reducing redundancies or 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.

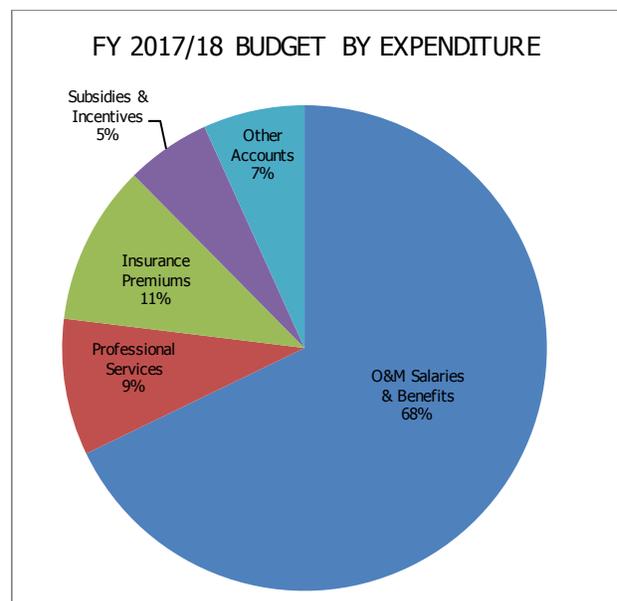
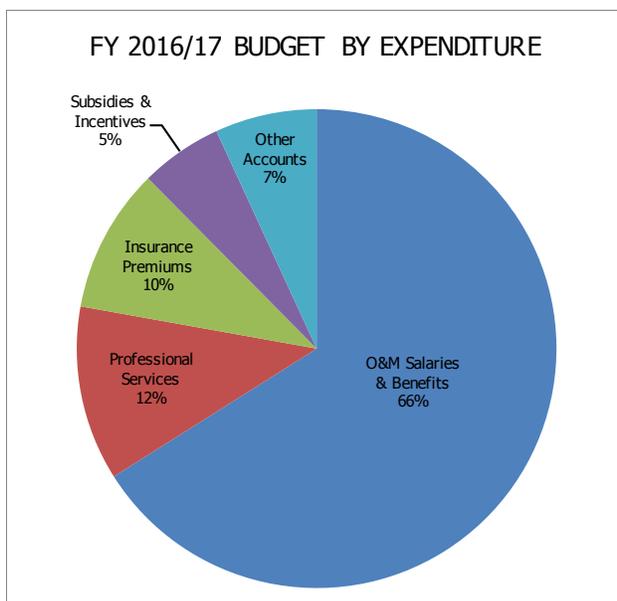
HR will ensure Metropolitan meets Equal Employment Opportunity requirements and numerous Federal, State, and Local laws and regulations and Public Sector codes and rulings.

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.

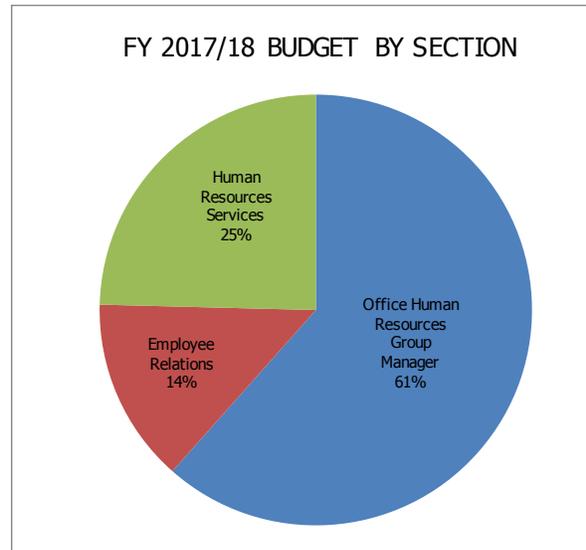
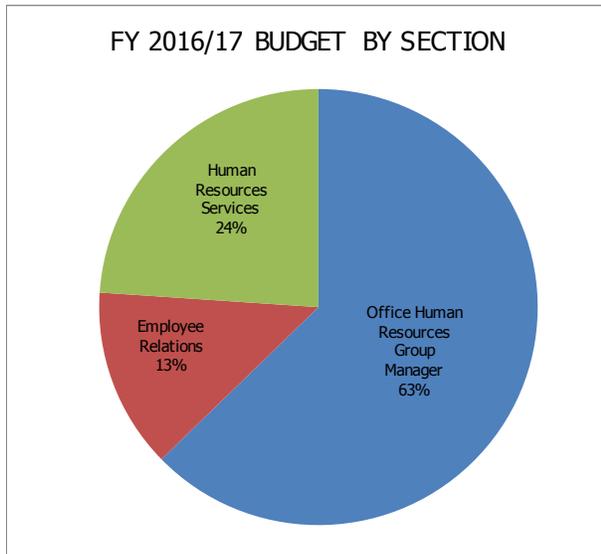
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	8,073,200	8,254,300	8,117,800	(136,500)	8,277,000	159,200
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
O&M Salaries and Benefits	8,073,200	8,254,300	8,117,800	(136,500)	8,277,000	159,200
% Change		2.2%		(1.7%)		2.0%
Professional Services	911,100	1,279,600	1,451,800	172,200	1,110,400	(341,400)
Advertising	165,700	165,000	150,000	(15,000)	150,000	—
Insurance Premiums	1,122,400	1,300,000	1,200,000	(100,000)	1,300,000	100,000
Outside Services - Non Professional / Maintenance	120,800	277,000	197,000	(80,000)	202,000	5,000
Subsidies & Incentives	956,600	680,000	681,200	1,200	688,500	7,300
Training & Seminars Costs	181,800	132,800	186,200	53,400	160,200	(26,000)
Other Accounts	326,400	292,000	311,000	19,000	314,000	3,000
Total O&M	11,858,000	12,380,700	12,295,000	(85,700)	12,202,100	(92,900)
% Change		4.4%		(0.7%)		(0.8%)
Operating Equipment	12,800	—	—	—	—	—
Total O&M and Operating Equipment	11,870,800	12,380,700	12,295,000	(85,700)	12,202,100	—
% Change		4.3%		(0.7%)		(0.8%)

Note - Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16	2016/17	Change from	2017/18	Change from	Personnel Budget		
	Budget	Proposed	2015/16	Proposed	2016/17	15/16	16/17	17/18
Office of the Manager	7,221,900	7,709,400	487,500	7,508,400	(201,000)	19	21	21
Employee Relations	1,650,200	1,642,300	(7,900)	1,692,100	49,800	7	7	7
Human Resources Services	3,508,500	2,943,300	(565,200)	3,001,600	58,300	15	14	14
Total O&M	12,380,600	12,295,000	(85,600)	12,202,100	(92,900)	41	42	42

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

		2014/15	2015/16	2016/17	Change from	2017/18	Change from
		Actual	Budget	Proposed	2015/16	Proposed	2016/17
Regular		39	41	42	1	42	—
	O&M	39	41	42	1	42	—
	Capital	—	—	—	—	—	—
Temporary		2	—	—	—	—	—
	O&M	2	—	—	—	—	—
	Capital	—	—	—	—	—	—
Total Personnel		41	41	42	1	42	—
	O&M	41	41	42	1	42	—
	Capital	—	—	—	—	—	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

HR's biennial budget is \$12.3 million in FY 2016/17 and \$12.2 million in FY 2017/18 or a decrease of 0.7% and 0.8% respectively from the prior budget years. The decrease is due primarily to the following factor:

- Based on an assessment of future training needs and priorities, more in-house training versus hiring consultants will be done. As a result, professional services decrease by 13% over the biennium.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

Personnel count increased by one from FY 15/16 budget for an analyst to support workers compensation and medical screening. Salaries and Benefits budget is lower due to hiring replacement employees at lower levels and unfunding a position.

Professional Services

The budget reflects services related to bargaining unit negotiations.

Insurance Premiums

The budget is anticipated to remain lower in 2016/17 based on 2015/16 negotiated rates.

Advertising

The budget is anticipated to be lower due to a declining number of recruitments.

FY 2017/18

Personnel-related issues

Personnel count remains flat from FY 16/17. Salaries and Benefits budget reflects merit increases for qualified employees and retirement-related benefit increases.

Professional Services

The budget is anticipated to be lower due to the completion of labor negotiations.

Insurance Premiums

The budget reflects anticipated increases in 2016/17 rates.

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REAL PROPERTY DEVELOPMENT & MANAGEMENT

The Real Property Development and Management (RPDM) group plans, secures and manages Metropolitan’s real property assets, proactively seeking to enhance revenue while ensuring that Metropolitan’s core business is protected.

PROGRAMS

The Real Property Development and Management group accomplishes its mission through the following programs or sections:

Office of the Group Manager directs the group’s efforts in planning, acquiring, and managing Metropolitan’s real property assets; monitors and tracks the group’s business plan, financial and budgetary initiatives; and provides administrative and business process support.

The Office of the Group Manager is also responsible for the development of real property policies and strategies.

The Office of the Group Manager includes the Planning & Acquisition unit, the Revenue & Property Management unit and the Business Management – Real Estate team.

Planning & Acquisition Unit is responsible for the planning and acquisition of property and property rights for O&M and capital projects including the Right of Way and Infrastructure Protection Program, Regional Recycled Water Supply Program, and Bay Delta Initiatives.

Revenue & Property Management Unit strategically seeks to generate supplementary ongoing revenue from Metropolitan’s real property assets and handle surplus property dispositions and requests from third parties to use Metropolitan real property through leases, licenses, entry permits, and easements.

Business Management – Real Estate Team handles property tax and lease payments, contract support, Board letter and report coordination and all other administrative functions related to property acquisition and management.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, RPDM will focus on the following key issues:

Revenue Enhancement Strategies

Continue to implement revenue enhancement strategies and opportunities for Metropolitan real property assets.

Continue to meet and negotiate with State and local agencies and other compatible tenants seeking to lease space at Metropolitan's headquarters building.

Continue review of the comprehensive inventory of Metropolitan-owned real property to identify excess property and consider leasing opportunities based on compatible third-party and secondary-use requests.

Property Management System Improvement

Continue efforts to improve procedures, tools, technologies, and practices for public sector property management in light of current and future trends.

Complete implementation of REPortfolio, the group's new real property management system software.

Real Property Asset Protection & Stewardship

Protect rights-of-way and facilities for optimal operating conditions and promote stewardship and sustainability of real property assets.

Make property tax payments and file possessory tax reports to appropriate counties on time.

Make timely and suitable responses to adjacent projects, land developments, legislation, and environmental proceedings.

Complete annual site inspections of conveyed property.

Improve land security practices to further decrease incidences of trespass.

Revise right-of-way operating policies to reflect contemporary best practices.

Continue efforts to detect and address right-of-way encroachments in a responsible manner.

Monitor compliance with terms of licensing and leasing agreements (e.g., invoicing, insurance coverage, accounts receivable).

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

Bay Delta Initiatives Support

Provide property planning, research, and valuation in support of the California Water Fix and Eco Restore efforts.

DVL Management

Continue to manage DVL and explore new marina opportunities, expand lease revenues, and improve trail access and public use.

Property & Right of Way Acquisition

Provide real property and right-of-way acquisition, negotiations, and relocation services for Metropolitan projects.

Conduct real property valuation, feasibility and cost studies for proposed and planned infrastructure and water reliability projects.

Capital Projects Support

Appraise and acquire all permanent and temporary easements for the Right of Way and Infrastructure Protection program.

Prepare a land use study, perform site analysis, and appraise construction areas for the Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation and Replacement program.

Acquire temporary easements for construction laydown areas for the Conveyance and Distribution System Rehabilitation program.

Prepare real property feasibility and cost studies for the Regional Recycled Water Supply program.

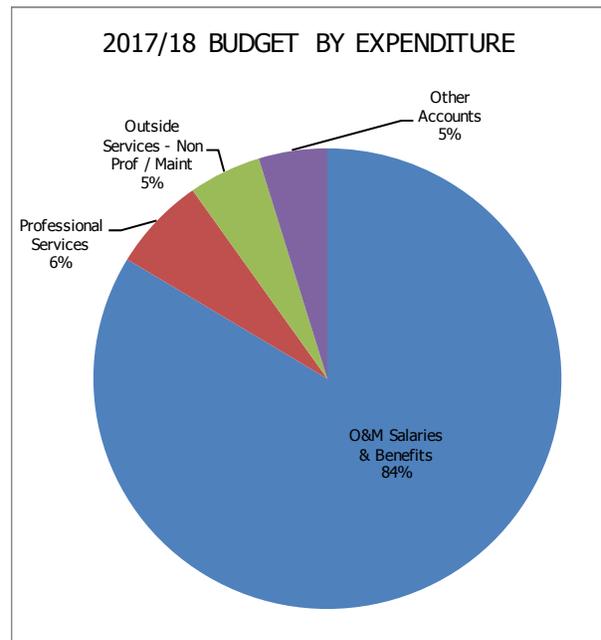
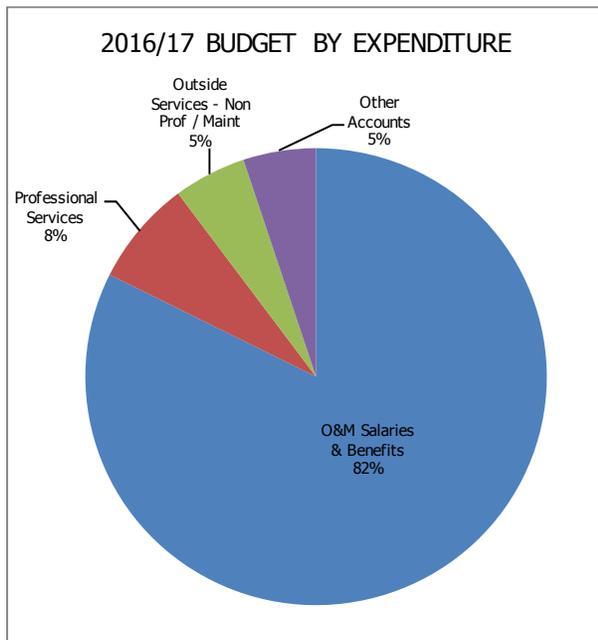
Workforce Development & Succession Planning

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

O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	4,160,800	4,851,400	4,930,900	79,500	5,071,300	140,400
Direct Charges to Capital	(241,200)	(289,800)	(572,800)	(283,000)	(577,200)	(4,400)
O&M Salaries and Benefits	3,919,600	4,561,600	4,358,100	(203,500)	4,494,100	136,000
% Change		16.4%		(4.5%)		3.1%
Professional Services	263,300	372,000	393,000	21,000	353,000	(40,000)
Materials and Supplies	28,100	29,500	30,000	500	30,000	—
Memberships & Subscriptions	41,600	65,500	46,000	(19,500)	46,000	—
Outside Services - Non Professional / Maintenance	282,300	320,000	270,000	(50,000)	270,000	—
Repairs & Maintenance - Outside Services	15,700	25,000	28,000	3,000	28,000	—
Training & Seminars Costs	14,400	22,000	28,000	6,000	28,000	—
Travel Expenses	6,300	39,700	40,300	600	40,300	—
Other Accounts	87,400	119,100	97,400	(21,700)	82,400	(15,000)
Total O&M	4,658,700	5,554,400	5,290,800	(263,600)	5,371,800	81,000
% Change		19.2%		(4.7%)		1.5%

Note – Totals may not foot due to rounding.



PERSONNEL SUMMARY

		2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular		22	28	28	—	28	—
	O&M	21	25	25	—	25	—
	Capital	2	3	3	—	3	—
Temporary		1	3	1	(2)	1	—
	O&M	1	3	1	(2)	1	—
	Capital	—	—	—	—	—	—
Total Personnel		23	31	29	(2)	29	—
	O&M	22	28	26	(2)	26	—
	Capital	2	3	3	—	3	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

RPDM's biennial budget is \$5.3 million in FY 2016/17 and \$5.4 million in FY 2017/18, a decrease of 4.7% and an increase of 1.5% respectively from the prior budget years. The decrease is due primarily to the following factors:

- A reevaluation and reduction in classifications prior to recruitments for previously vacant positions and the elimination of two district temps.
- A reduction in law enforcement in the DVL recreation area and DVL landscape maintenance services.
- Reduced participation fees for the Western Riverside County Agricultural Coalition, formed to inform and educate agricultural producers about regulator issues and to coordinate with county and state regulatory agencies.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

Total personnel count reflects a reduction of two district temps from FY 2015/16.

The budget reflects an increase in capital labor due to increased support of the Right of Way and Infrastructure Protection program, the Prestressed Concrete Cylinder Pipe Rehabilitation and Replacement program, and the Conveyance and Distribution System Rehabilitation program.

Professional and Non Professional Services

The budget reflects an increase in consulting services anticipated for management of the Verbena properties, offset by a reduced need for law enforcement due to lower lake elevations and the resulting decrease in visitors, and a reduced landscape maintenance contract that incorporates a sharing of costs with other property tenants.

Other

Memberships & Subscriptions budget reduction is a result of reassessed participation fees for the Western Riverside County Agricultural Coalition.

FY 2017/18

Personnel-related issues

Personnel count remains flat from FY 2016/17 budget. The increase in Salaries and Benefits budget is due to merit increases for qualified employees and an increase in retirement-related benefit costs.

Professional Services

The budget reflects the reduced need for law enforcement due to lower lake elevations and the resulting decrease in visitors.

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.

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:

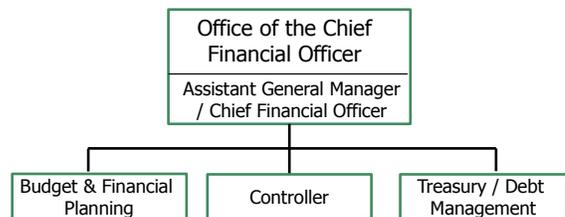
Chief Financial Officer is responsible for the overall administration of finance and accounting functions for Metropolitan including debt and investment management; financial planning and analysis including rate setting and budgeting; accounting and control including financial reporting, payroll, accounts payable, accounts receivable; and business continuity. The business continuity program ensures that Metropolitan takes the necessary steps to identify the impacts of potential losses and maintain viable recovery strategies, recovery plans, and continuity of operations.

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 all payment processing, including but not limited to 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 2016/17 and FY 2017/18, the Office of the CFO will focus on the following key issues:

Cost of Service

Complete the annual cost-of-service analysis for rates and charges for calendar year 2017 and 2018.

Financial Forecasts and Analysis

Provide an updated 10-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 BDCP/CA WaterFix.

Analyze the underfunding of financial obligations that have accrued over the past several years.

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.

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.

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

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 performance.

Business Continuity

Refine the Business Continuity Plan and Program in accordance with the results of the Business Impact Analysis and internal audit recommendations. Conduct a Risk Assessment and implement an annual Business Continuity Plan update cycle utilizing the new Business Continuity Program Management System developed in the Fusion Framework system.

Work with IT Disaster Recovery to identify actions required to meet the recovery requirements identified in the Business Impact Analysis and conduct exercises to test the program's capabilities to recover Metropolitan's business functions in the event of a significant regional disaster.

Workforce Development & Succession Planning

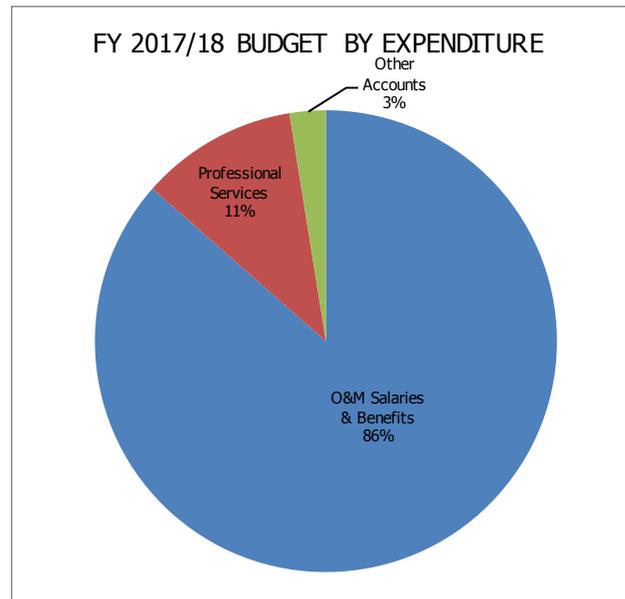
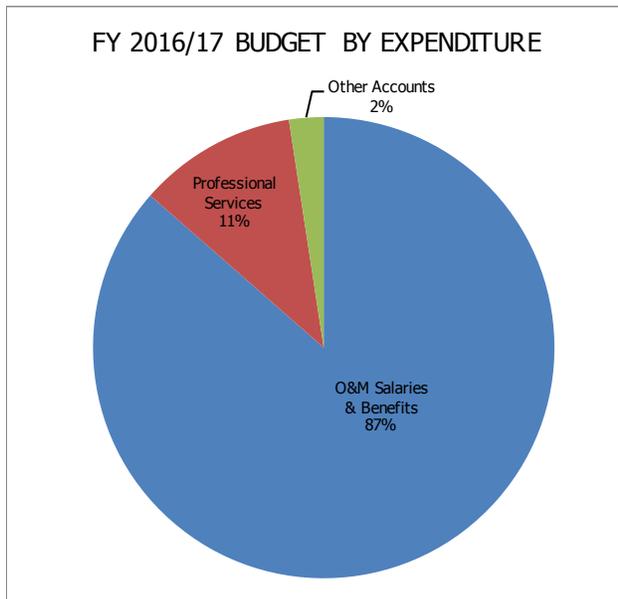
Continue to examine and consider the challenges associated with succession planning and future staffing requirements in light of the composition and age of the workforce.

Continue to develop and offer classes in the Finance Academy to foster employee development.

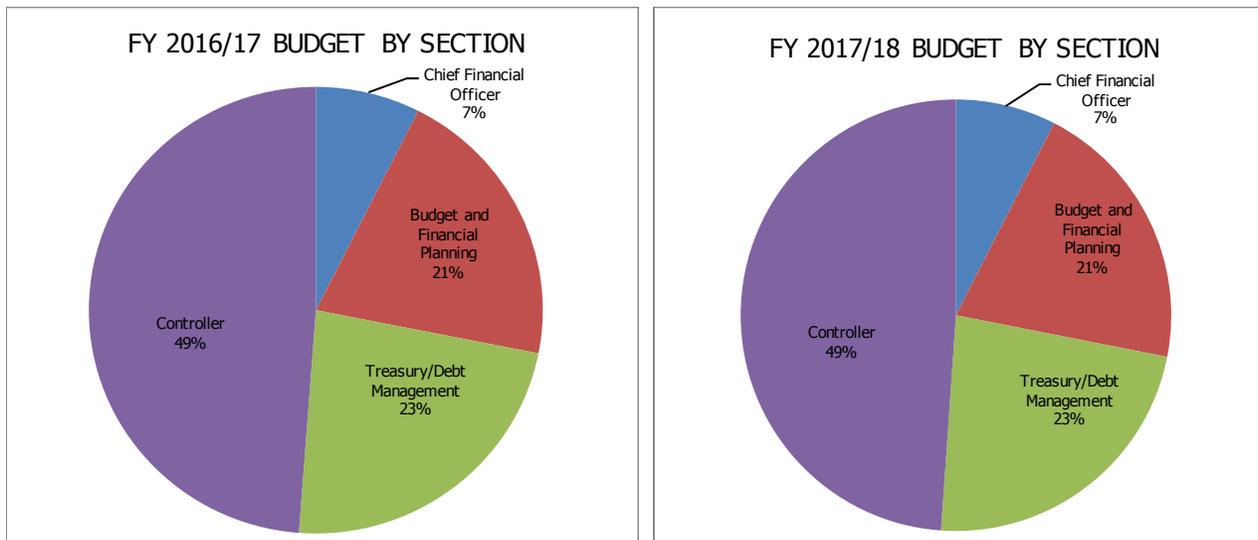
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	8,232,800	8,604,300	7,835,300	(769,000)	7,943,300	108,000
<i>Direct Charges to Capital</i>	<i>(113,600)</i>	<i>(157,600)</i>	—	157,600	—	—
O&M Salaries and Benefits	8,119,200	8,446,700	7,835,300	(611,400)	7,943,300	108,000
% Change		4.0%		(7.2%)		1.4%
Professional Services	837,400	984,400	1,007,900	23,500	1,009,100	1,200
Advertising	—	10,000	—	(10,000)	12,000	12,000
Materials and Supplies	79,800	44,600	74,500	29,900	74,500	—
Memberships & Subscriptions	42,500	49,000	46,100	(2,900)	47,600	1,500
Subsidies & Incentives	13,300	14,700	12,000	(2,700)	12,000	—
Training & Seminars Costs	7,600	19,000	15,000	(4,000)	15,000	—
Travel Expenses	46,600	36,900	40,800	3,900	41,000	200
Other Accounts	67,100	41,600	30,400	(11,200)	30,400	—
Total O&M	9,213,500	9,646,900	9,062,000	(584,900)	9,184,900	122,900
% Change		4.7%		(6.1%)		1.4%

Note – Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17	Personnel Budget		
						15/16	16/17	17/18
Chief Financial Officer	910,300	675,800	(234,400)	692,100	16,300	3	3	3
Budget and Financial Planning	1,969,000	1,870,600	(98,500)	1,887,700	17,100	8	8	8
Controller	4,424,900	4,423,100	(1,800)	4,490,900	67,800	26	28	28
Treasury/Debt Management	2,342,600	2,092,500	(250,100)	2,114,300	21,700	7	7	7
Total O&M	9,646,800	9,062,000	(584,800)	9,184,900	122,900	44	46	46

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular	42	46	46	—	46	—
O&M	42	44	46	2	46	—
Capital	1	2	—	(2)	—	—
Temporary	—	—	—	—	—	—
O&M	—	—	—	—	—	—
Capital	—	—	—	—	—	—
Total Personnel	43	46	46	—	46	—
O&M	42	44	46	2	46	—
Capital	1	2	—	(2)	—	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the CFO's biennial budget is \$9.1 million in FY 2016/17 and \$9.2 million in FY 2017/18 or a decrease of 6.1% and a slight increase of 1.4% respectively from the prior budget years. The change is primarily due to the following factors:

- Salaries and benefits have been reduced by 5.9% over the biennium as a result of three positions being unfunded and several position classifications being downgraded. The budget reflects merit increases for qualified employees and an increase in retirement-related benefit costs.
- Professional Services and other non-labor costs which represent about 13% of the budget increased by 3.4% over the biennium primarily as a result of the increased cost of commercial banking services, portfolio investment management services, and software and licensing support costs for Business Continuity efforts.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

Total personnel count remains flat from the FY 2015/16 budget. This follows the elimination of five positions through the last several budget cycles. In addition, three positions have been unfunded and several position classifications have been downgraded over the biennium.

The budget reflects a decrease in capital labor following the completion of the Oracle upgrade.

Professional Services

The budget reflects increased cost of commercial banking services and portfolio investment management services and efforts associated with ad valorem property tax verification.

Materials and Supplies

The budget reflects software and licensing support costs for the Business Continuity Program Management System.

FY 2017/18

Personnel-related issues

Total personnel count remains flat from the FY 2016/17 budget. The slight increase in Salaries and Benefits budget is due to merit increases for qualified employees and an increase in retirement-related benefit costs.

Professional Services

The budget reflects increased cost of commercial banking services and portfolio investment management services.

EXTERNAL AFFAIRS

External Affairs is charged with working with state and federal legislators to enhance and protect the operational interests of Metropolitan and its member agencies.

PROGRAMS

External Affairs is responsible for advancing Metropolitan's policy objectives and communicating with external audiences on its behalf. Because Metropolitan's water supplies and operations are influenced significantly by state, federal and even international policy, External Affairs manages strategic offices in Sacramento, Washington, D.C. and San Diego, and conducts its core business at the Union Station headquarters. Personnel in External Affairs' remote offices execute Metropolitan's state and federal legislative advocacy, provide strategic counsel and extend community outreach to these regions. Personnel at the Union Station office give voice to Metropolitan's policy priorities and project initiatives through external communications, regional outreach and educational initiatives in support of the General Manager's business plan.

Office of Group Manager oversees the Legislative Services, Conservation & Community Services, Media & Communications Sections, Customer Services Unit and the Business Management Team. The Group Manager directs the activities of the group, establishes the communication plans, and manages and deploys resources in support of Metropolitan's policy objectives in coordination with the board, executive management and other groups in the organization.

The Customer Services Unit, which reports directly to the Group Manager, provides support services to member agencies; manages outreach efforts regarding Metropolitan's facility operations, construction activities, conservation and other water resource initiatives; works with and supports member agencies, local government

and the community-at-large; provides staff support for the Agriculture and Industry Relations Committee; and directs research efforts to support External Affairs programs.

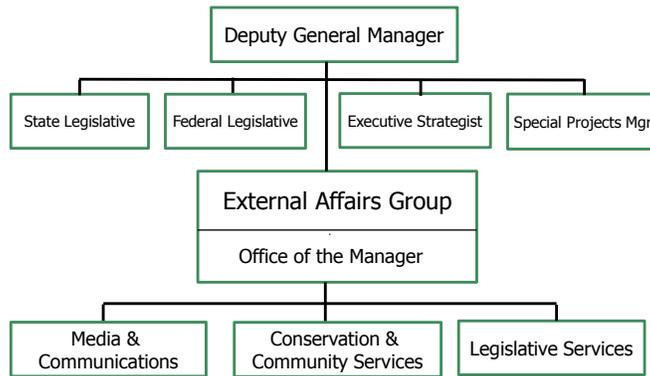
Media & Communications develops, coordinates and communicates messages, information and achievements to support Metropolitan's key objectives and programs. The section is responsible for strategic communications planning, handling media inquiries and press conferences; developing news releases, videos, fact sheets, talking points, brochures and opinion pieces; and managing Metropolitan's websites, e-newsletters, blogs and its growing presence on social media platforms.

Conservation and Community Services advances public awareness through advertising, education and community outreach. The Community Programs Unit coordinates and manages Metropolitan's sponsorships for education and research programs, exhibits, water forums, events, and community memberships. The Education Unit develops and distributes printed and online materials to support a comprehensive, standards-based water education curriculum and oversees programs that support Metropolitan's initiatives for students and teaching staff in elementary and secondary schools, colleges and universities.

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 to meet Metropolitan’s legislative and regulatory objectives, and supports an effective and growing

outreach program with member agencies and other stakeholders to mobilize and sustain support for legislative and regulatory policies.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, External Affairs will continue to focus on the following key issues and objectives:

Legislative Policy Objectives

Work with the board, member agencies and executive management to secure support for and/or sponsor federal and state legislation and regulatory policies that advance Metropolitan's policy objectives, including strategic water quality and supply initiatives, conservation and drought responses, Delta solutions, regional water resources projects, and sustainable water and energy management.

Conduct briefings, presentations, and inspection trips for elected officials, government leaders and environmental and business organizations to inform about the impacts of legislative and regulatory policies on Metropolitan operations and the overall management of water programs, policies and sustainability initiatives throughout Southern California.

Communication and Outreach Efforts

Develop and implement strategic, creative and well-coordinated communication plans to inform the public, businesses, environmental and other stakeholder groups about Metropolitan's important role and leadership to ensure safe, reliable water supplies now and into the future through its operations, policies, objectives, and programs.

Expand public outreach efforts to disseminate information on Metropolitan and its programs, policies and objectives through broad-based direct contact with the news media and through production of publications, videos, social media/Internet platforms and the Your Water e-newsletter that inform and educate. Continue to develop and utilize cost-effective social, digital and online platforms to provide information to target audiences and engage with stakeholders.

Strengthen the Community Partnering Program's capacity to enhance communication and information sharing with community leaders,

stakeholder groups and the public on water issues and stewardship in communities throughout Southern California.

Water Supply Reliability, Conservation and Sustainability

Develop and implement paid advertising and other effective outreach campaigns using available resources for multi-cultural and multi-media communications efforts that increase public awareness of drought and water supply conditions and support for long-term conservation strategies.

Provide communication support for Metropolitan programs and projects that ensure water supply reliability including existing water operations, imported supplies from the Colorado River and State Water Project, local resource programs that diversify the region's water portfolio, expanded conservation actions and innovative water supply technologies.

Increase awareness of Metropolitan's long-standing efforts to promote environmental stewardship through its actions and investments for projects, programs, research, and collaboration that protect, restore and enhance habitat, ecosystems, watersheds, and water quality.

Bay Delta 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 the California WaterFix and EcoRestore.

Member Agency Support

Facilitate ongoing communication and coordination between Metropolitan and its member agencies through regular meetings of general managers, legislative and education coordinators and public information officers.

Respond promptly to member agency requests regarding Metropolitan's services and infrastructure, conservation, environmental and legislative issues, and public outreach.

Engage in research and related activities that provide accurate and timely information on public opinions, consumer/customer attitudes and awareness to help inform future outreach activities with member agencies, stakeholders and the public.

Board and Committee Activities

Provide primary support to the Communications and Legislation Committee and the Agriculture and Industry Relations Committee, and ensure that committee presentations, board letters and associated activities such as inspection trips and community events provide timely, accurate, important information on programs, trends and activities that can help inform board actions and ensure transparency.

Engage in research and related activities that provide accurate and timely information on public opinions, consumer/customer attitudes and awareness to help inform future outreach activities with member agencies, stakeholders and the public.

Educational Programs

Continue to update and expand distribution of Metropolitan's comprehensive K-12 water education curriculum that meets state standards for each grade level in the areas of science, math, language arts and social studies.

In coordination with member agencies and the educational community, advance the use of online services and new technologies to reach more students, teachers and classrooms including underserved and culturally diverse populations. Explore opportunities to expand services for all educational levels in traditional classrooms, homeschool and online education services, and after school programs.

Continue support for Metropolitan's unique educational programs including Solar Cup, World Water Forum and the Student Art Contest.

Emergency Management and Crisis Communication

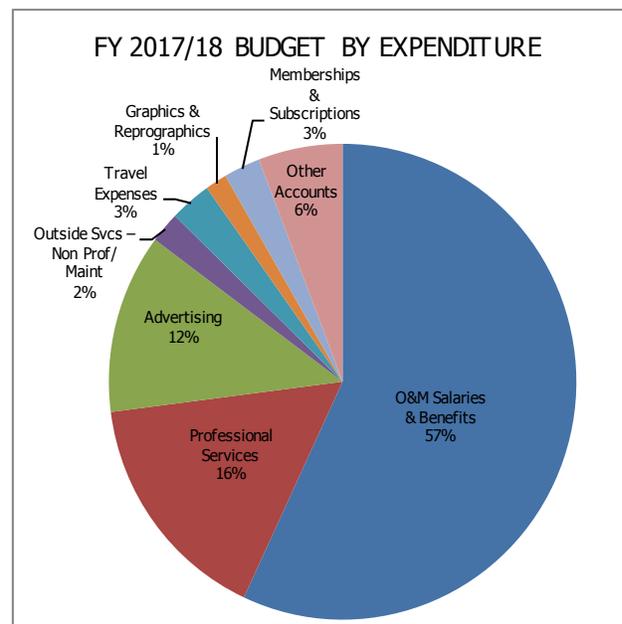
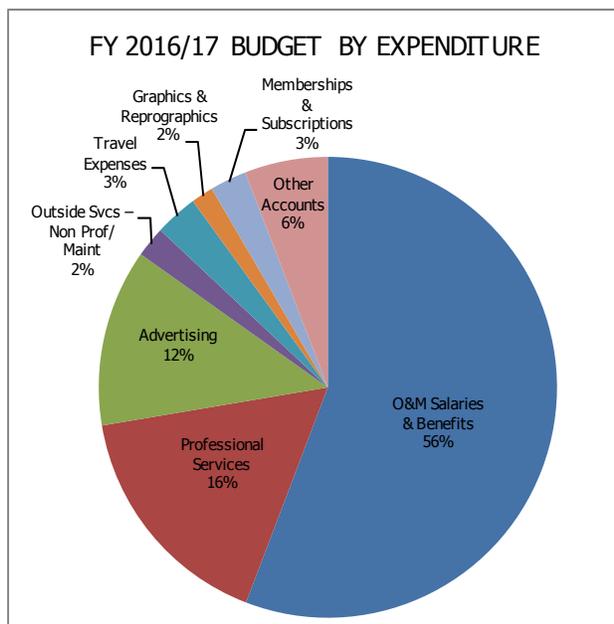
Support Metropolitan's emergency preparedness with a responsive, updated crisis communications plan and trained staff for emergency response.

Expand capabilities of social media and other communications technologies to provide essential services to Metropolitan staff and the public during times of emergency and in response to natural and man-made disasters.

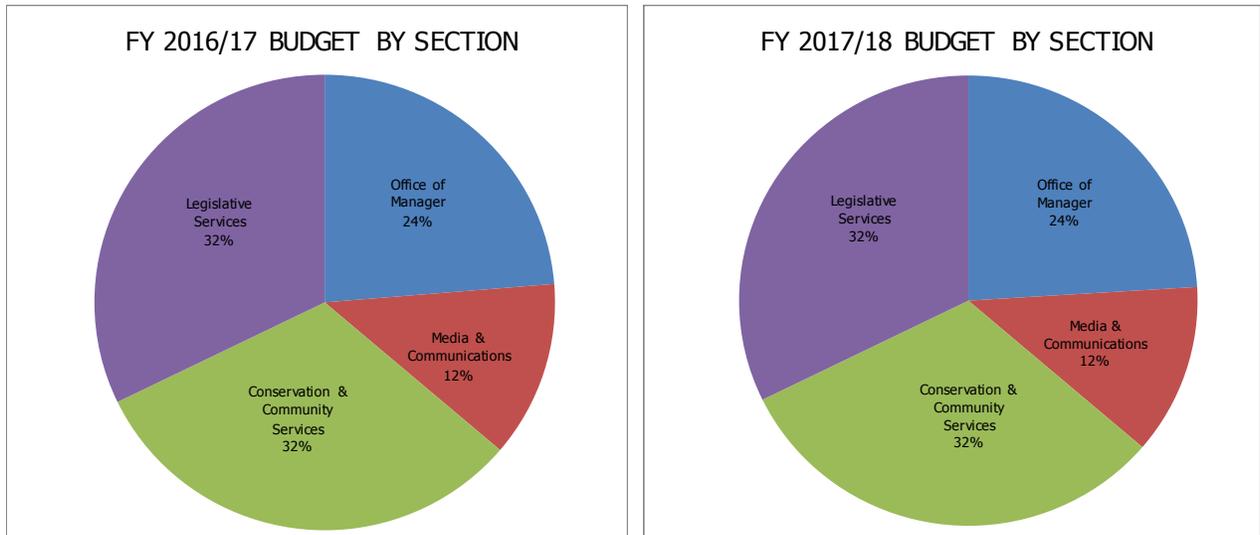
O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	8,828,900	10,084,300	9,859,700	(224,600)	10,259,900	400,200
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
O&M Salaries and Benefits	8,828,900	10,084,300	9,859,700	(224,600)	10,259,900	400,200
% Change		14.2%		(2.2%)		4.1%
Professional Services	2,324,200	2,876,700	2,919,700	43,000	2,889,700	(30,000)
Advertising	1,529,600	3,148,600	2,200,000	(948,600)	2,200,000	—
Memberships & Subscriptions	380,500	379,100	379,100	—	379,100	—
Outside Services - Non Professional / Maintenance	461,200	546,400	535,400	(11,000)	514,400	(21,000)
Sponsorships	282,700	282,000	277,000	(5,000)	272,000	(5,000)
Travel Expenses	263,800	436,000	456,000	20,000	456,000	—
Other Accounts	757,300	1,219,000	1,038,500	(180,500)	1,050,500	12,000
Total O&M	14,828,200	18,972,100	17,665,400	(1,306,700)	18,021,600	356,200
% Change		27.9%		(6.9%)		2.0%

Note – Totals may not foot due to rounding.



O&M BUDGET BY SECTION



	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17	Personnel Budget		
						15/16	16/17	17/18
Office of Manager	4,257,200	4,187,900	(69,400)	4,331,100	143,300	15	15	15
Media & Communications	2,193,100	2,209,500	16,400	2,206,300	(3,100)	8	9	8
Conservation and Community Services	6,920,000	5,579,400	(1,340,600)	5,670,100	90,800	11	11	11
Legislative Services	5,601,800	5,688,700	86,900	5,814,000	125,300	14	14	14
Total O&M	18,972,100	17,665,400	(1,306,700)	18,021,600	356,200	48	49	48

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular	40	48	48	—	48	—
O&M	40	48	48	—	48	—
Capital	—	—	—	—	—	—
Temporary	1	—	1	1	—	(1)
O&M	1	—	1	1	—	(1)
Capital	—	—	—	—	—	—
Total Personnel	42	48	49	1	48	(1)
O&M	42	48	49	1	48	(1)
Capital	—	—	—	—	—	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

External Affairs' biennial budget is \$17.7 million in FY 2016/17 and \$18.0 million in FY 2017/18 or a decrease of 6.9% and an increase of 2.0%, respectively from the prior budget years. In an effort to achieve budget savings, advertising and outreach efforts have been reexamined with the following impacts:

- **Advertising:** In FY 2014/15 and 2015/16, the board authorized a \$5.5 million multi-media and multi-lingual advertising and outreach campaign to promote greater awareness of water conditions and conservation activities. With the currently proposed funding for the next two fiscal years, a limited advertising campaign using social and digital media, radio and some outdoor advertising could be implemented. To run a full-scale advertising campaign on drought response or other important water management issues, board authorization and additional funding will be necessary in FY 2016/17 and FY 2017/18.
- **Capital Projects Outreach:** Communications and public outreach support for capital improvements and other major operational and policy initiatives, including the Regional Recycled Water Supply program and refurbishment of existing infrastructure such as the Second Lower Feeder and other pipe rehabilitation projects will require funding from the capital projects.
- **Diamond Valley Lake:** External Affairs inherited the responsibility for the exhibits and education materials at the DVL Visitors Center without an O&M budget and the exhibits have fallen into disrepair. To update and maintain the exhibits at DVL Visitors Center at a level of quality consistent with Metropolitan's standards and provide information that engages audiences to discover more about the history and future of water management in Southern California, new funding will be required in future budgets for the visitor center and activities in the community.

The following are the significant changes by budget year:

FY 2016/17

Personnel-related issues

The number of authorized positions in the External Affairs office will remain at 48, maintaining staffing reductions made since 2008/09 when the group was budgeted for 55 positions. The budget for Salary and Benefits reflects anticipated vacancies from retirements and unfilled positions.

Other

The budget reflects reductions in funding for sponsorship, materials and supplies, advertising, non-professional and graphics to achieve budget savings. These changes have been carefully evaluated to ensure External Affairs will be able to successfully carry out its core mission and objectives in these areas effectively and efficiently.

The budget identifies and redirects existing funding for new research and related activities that provide accurate and timely information on public opinions, consumer/customer attitudes and awareness to help inform future outreach activities with member agencies, stakeholders and the public.

FY2017/18

Personnel-related issues

The budget for Salary and Benefits reflects merit increases and an increase in retirement-related benefits.

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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.

PROGRAMS

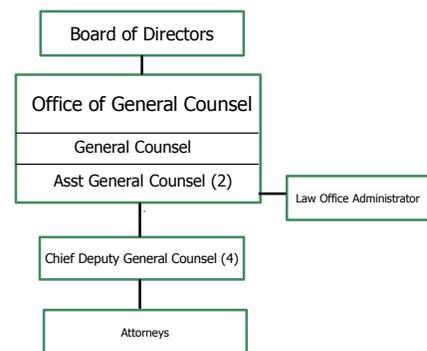
The General Counsel is the chief legal spokesperson for Metropolitan and the Board of Directors and oversees the Legal Department’s administrative functions.

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; and 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 interests relating to water supply matters, including Bay Delta resources, Colorado River supply, the State Water Contract, groundwater and water transfer issues, California Environmental Quality Act and Endangered Species Act issues, energy issues, and water delivery and treatment.
- Represents Metropolitan’s interest 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, bond issuance, legality of investments, and fiscal administration.
- Provides legal advice related to labor and personnel matters.
- Reviews, analyzes, and monitors pending state and federal legislation and drafts legislative recommendations.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, 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 comprehensive solutions in the proposed California WaterFix while vigorously asserting and defending Metropolitan's interest in litigation and administrative proceedings.

Provide legal advice in support of the development of the California WaterFix and the California EcoRestore, including Delta conveyance options, and the associated environmental documentation and implementing agreements in a manner supportive of Metropolitan's goals and objectives.

Represent Metropolitan, as a separate party or working through the State Water Contractors, in litigation and regulatory proceedings relating to operation of the State Water Project (SWP), water diversions in and affecting the Delta or SWP supplies, construction of new conveyance facilities, and other matters relating to the Delta.

Provide legal advice regarding implementation, financing, and governance of a Delta conveyance system and any resulting amendments to Metropolitan's long-term water supply contract with the Department of Water Resources.

Provide legal advice and support relative to water supply, delivery and water quality issues resulting from the drought and the reduced allocation from the SWP. Provide legal advice and support for initiatives to address the proclaimed emergency due to drought conditions. Provide legal advice and support for proposed water transfers and exchanges and development of local resources, desalination and conservation projects and programs. Provide legal advice and support with respect to implementation of Metropolitan's Water Supply Allocation Plan, water delivery and other issues related to drought conditions. Provide legal support for capital projects required

to 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 and resource programs to assist the region in meeting the goal of reducing retail water consumption by 20 percent by the year 2020.

Provide legal advice and support in connection with the proposed extension and amendment of the State Water Contract (SWC) and preparation of supporting environmental documents under the California Environmental Quality Act (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 to address the long-term supply and demand issues identified in the Bureau of Reclamation's 2012 Colorado River Basin Water Supply and Demand Study.

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 (PRAs).

Corporate Resources/District Infrastructure

Provide legal support for capital investment 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 and advice on workforce issues.

Continue to defend Metropolitan in PERB matters, as well as grievance and disciplinary matters.

Real Property

Assist Real Property Development and Management group (RPDM) 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.

Support the expanded work efforts of RPDM.

Technology

Work with the Business Technology Group, Human Resources and External Affairs on social media policies.

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.

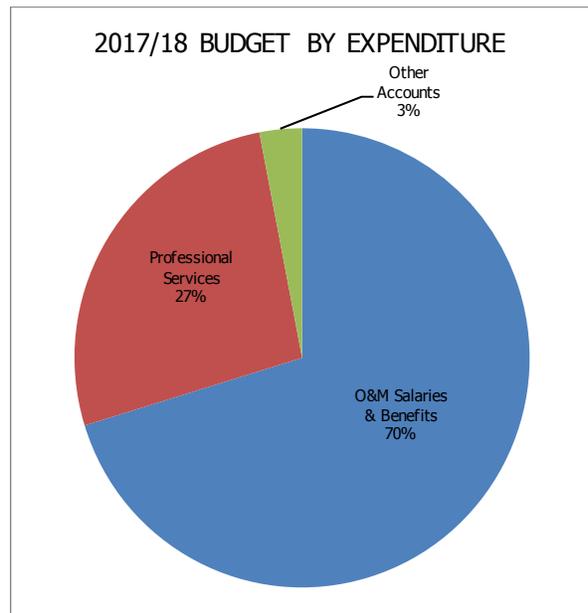
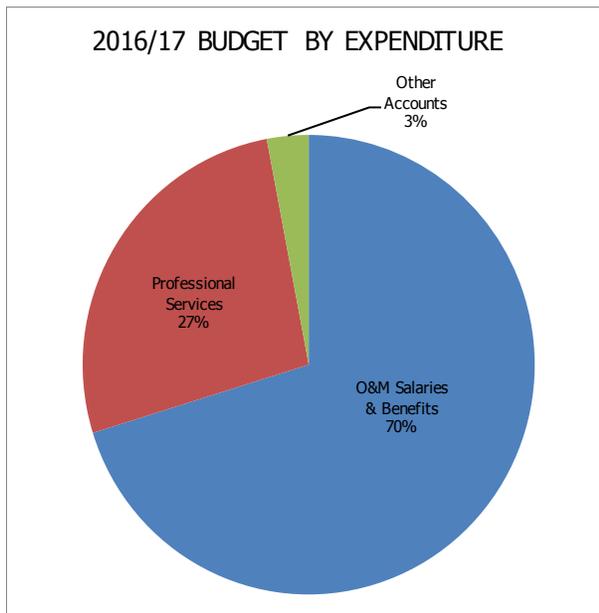
Legal Department Administration

Continue to aggressively manage outside counsel costs, while obtaining effective representation to protect Metropolitan's interests. Continue to work with IT staff on implementation of the electronic discovery management system to enable Metropolitan's Legal and IT staff to more effectively and efficiently respond to litigation and PRAs.

O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	8,900,800	9,195,500	9,392,100	196,600	9,518,900	126,800
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
O&M Salaries and Benefits	8,900,800	9,195,500	9,392,100	196,600	9,518,900	126,800
% Change		3.3%		2.1%		1.4%
Professional Services	1,082,300	3,620,000	3,588,400	(31,600)	3,625,000	36,600
Materials and Supplies	28,000	60,000	50,000	(10,000)	50,000	—
Memberships & Subscriptions	95,100	110,000	100,000	(10,000)	100,000	—
Outside Services - Non Professional / Maintenance	24,900	40,000	30,000	(10,000)	30,000	—
Rent & Leases	14,800	20,000	20,000	—	20,000	—
Subsidies & Incentives	51,000	55,000	55,000	—	55,000	—
Travel Expenses	105,700	90,000	110,000	20,000	120,000	10,000
Other Accounts	16,400	38,000	33,000	(5,000)	33,000	—
Total O&M	10,319,000	13,228,500	13,378,500	150,000	13,551,900	173,400
% Change		28.2%		1.1%		1.3%

Note – Totals may not foot due to rounding.



PERSONNEL SUMMARY

		2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular		34	36	36	—	36	—
	O&M	34	36	36	—	36	—
	Capital	—	—	—	—	—	—
Temporary		1	2	2	—	2	—
	O&M	1	2	2	—	2	—
	Capital	—	—	—	—	—	—
Total Personnel		35	38	38	—	38	—
	O&M	35	38	38	—	38	—
	Capital	—	—	—	—	—	—

Note – Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the General Counsel's biennial budget is \$13.4 million in FY 2016/17 and \$13.6 million in FY 2017/18 or an increase of 1.1% and 1.3% 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 were also impacted by merit increases for qualified employees and an increase in retirement-related benefits costs.

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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.

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. They will be communicated to the appropriate level of management.



GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, 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

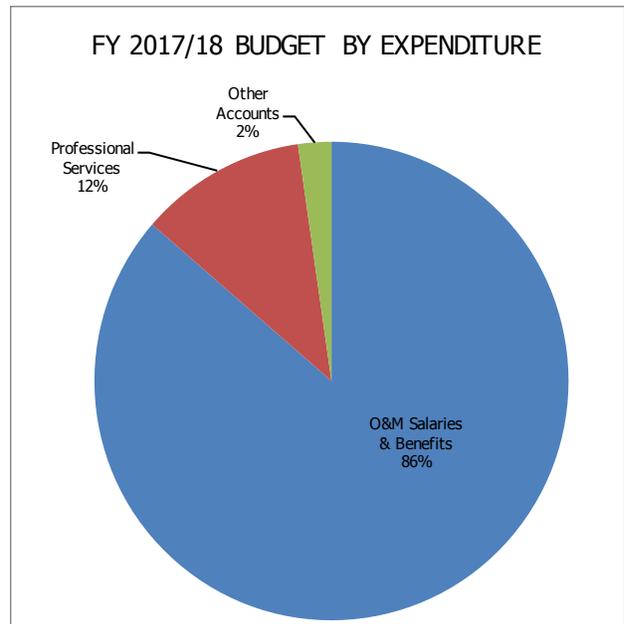
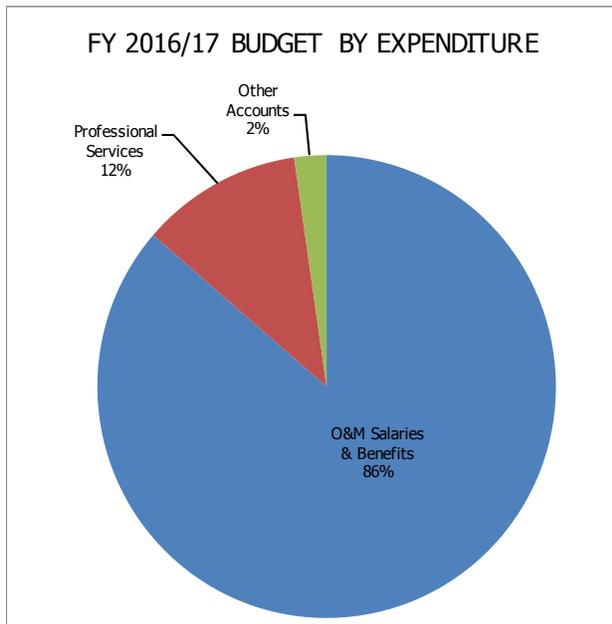
Efficiently manage the department's budget for maximum effectiveness of state budgetary objectives.

Uphold the mission, roles, and responsibilities of the Audit Department.

O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	2,247,500	2,652,500	2,652,500	—	2,652,500	—
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
O&M Salaries and Benefits	2,247,500	2,652,500	2,652,500	—	2,652,500	—
% Change		18.0%		0.0%		0.0%
Professional Services	305,000	350,000	350,000	—	350,000	—
Materials and Supplies	13,400	14,500	15,000	500	15,000	—
Memberships & Subscriptions	4,200	5,500	5,500	—	5,500	—
Rent & Leases	3,200	5,500	5,500	—	5,500	—
Subsidies & Incentives	9,500	15,000	15,000	—	15,000	—
Training & Seminars Costs	5,600	14,500	15,000	500	15,000	—
Travel Expenses	1,000	5,000	5,000	—	5,000	—
Other Accounts	5,300	9,500	8,500	(1,000)	8,500	—
Total O&M	2,594,700	3,072,000	3,072,000	—	3,072,000	—
% Change		18.4%		0.0%		0.0%

Note – Totals may not foot due to rounding.



PERSONNEL SUMMARY

		2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular		10	12	12	—	12	—
	O&M	10	12	12	—	12	—
	Capital	—	—	—	—	—	—
Temporary		—	—	—	—	—	—
	O&M	—	—	—	—	—	—
	Capital	—	—	—	—	—	—
Total Personnel		10	12	12	—	12	—
	O&M	10	12	12	—	12	—
	Capital	—	—	—	—	—	—

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Audit Department's biennial budget is \$3.1 million in FY 2016/17 and FY 2017/18. There are no significant budget changes.

ETHICS OFFICE

The Ethics Office promotes a transparent and ethical culture at Metropolitan by proposing and administering Metropolitan's ethics-related regulations and providing advice and education to the Metropolitan community.

PROGRAMS

Metropolitan's Ethics Office was established by special legislation enacted in 2000. As an independent department head, the Ethics Officer maintains a small staff and reports directly to the Board of Directors. The operations of the Ethics Office run the gamut of standard ethics and compliance functions: from training employees and board members on ethics rules and standards to policy-making to compliance. An important objective has been to balance these various responsibilities and to execute them in an integrated fashion to maximize their effectiveness.

Metropolitan's evolving approach to ethics is grounded in objective, measurable elements. Establishing clear and consistently applied rules is an essential condition of fair and predictable enforcement as well as practical and unambiguous advice and education. As a free-standing department, the Ethics Office continues to review and periodically recommend revisions to Metropolitan's internal ethics rules and standards to promote compliance through advice, education, and investigation of alleged violations.

The Ethics Office accomplishes its mission through the following programs or services:

Ethics Compliance Serving as filing officer for state-mandated financial interest disclosures for directors and hundreds of employees who make or participate in making decisions affecting outside financial interests. Maintaining and updating Metropolitan's code for designating positions and disclosure categories narrowly tailored to the unique responsibilities of each designated position.

Advice Providing advice, counseling, or other assistance to any director, officer, employee, or contractor regarding application or interpretation of Metropolitan's ethics rules or policies. Typically, this advice focuses on options for avoiding conflicts of interest or other violations of standards of conduct for public officials.

Policy Analysis and Program Development Performing risk assessment, drafting of proposed rules and procedures, preparing board and committee presentations, drafting strategic planning documents, analyzing procedural justice issues, and preparing case memoranda and correspondences.

Investigation 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.

Education Developing training programs, drafting publications, and preparing website content. The Office also facilitates sexual harassment prevention training for directors, and provides orientations for new directors and employees about Metropolitan's internal ethics provisions.

Outreach Holding events at headquarters and field facilities to communicate availability, purpose, and process of Ethics Office.

Management Providing oversight, planning, and administration of all Ethics Office programs. Proactively engaging, coordinating with, and receiving feedback from the board, senior management, and other interested persons.

Administration Providing case docketing and information management, intake administration, matter tracking, budget preparation, contract administration, and preparation of quarterly, semi-annual, and annual reports.

GOALS AND OBJECTIVES

In FY 2016/17 and FY 2017/18, the Ethics Office will focus on the following key issues and initiatives:

Policy Development

In 2013 and 2014, the Ethics Office proposed and the board approved amendments to the foundational ethics rules within Metropolitan's Administrative Code. Some issues were deferred for later consideration. The Ethics Office plans to initiate further analysis and review of alternatives for promoting transparency and maintaining the integrity of procurements and other official decisions that can affect outside financial interests. The Office also plans to consider alternatives for identifying the relative seriousness of various potential violations, in order to provide guidelines for the board and department heads to apply when considering responsive actions related to investigation findings.

Investigation Process

Besides reviewing and updating procedures and guidelines, develop human resources capacity to plan, implement, and document investigations of alleged violations in accordance with best practices for quality, integrity, objectivity, and professionalism. Clarify responsibilities and duties of employees and others to cooperate fully in any investigation, along with consequences of non-cooperation, false statements, or obstruction.

Program Development

Provide annual assessments of overall program effectiveness in annual business plans.

Develop and track metrics for accurately gauging the health of Metropolitan's ethics culture at any given time, in accordance with emerging findings and research in the ethics and compliance industry.

Maintain open lines of communication with the Audit and Ethics Committee and the Board, along with the other departments about program needs, trends, and directions.

Education and Outreach

Develop Ethics Office materials to increasingly and effectively communicate the Ethics Office's role at Metropolitan and how it can advance Metropolitan's core missions. Increase awareness among directors, employees, and other interested persons of how they can interact directly with the Ethics Office to address individual concerns. Update public website to enable easy access to program materials and public information.

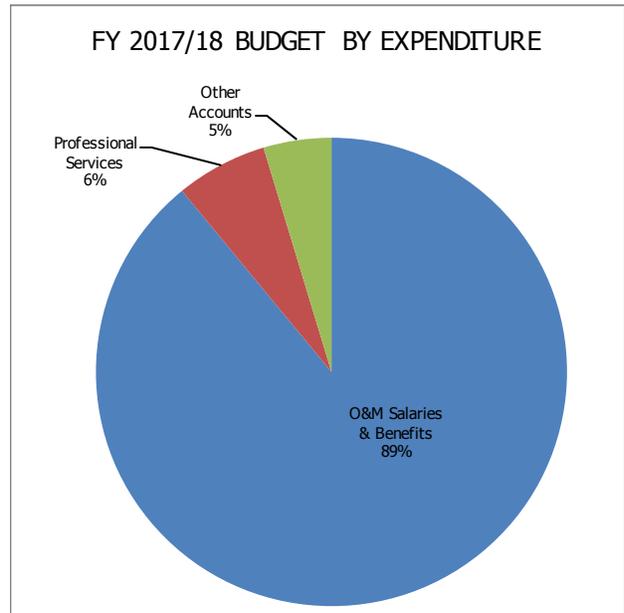
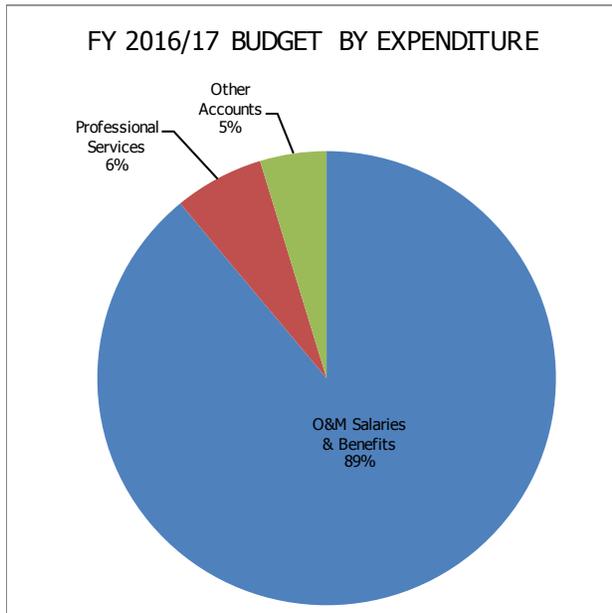
Modernization of Business Processes

Implement an electronic system for compiling, and analyzing information and records for cases, investigations, advice responses, education, and administration. Develop automated reporting tools to promote clear reporting for auditing, board review, or other oversight purposes.

O&M FINANCIAL SUMMARY

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Total Salaries and Benefits	927,300	939,700	1,196,500	256,800	1,205,700	9,200
<i>Direct Charges to Capital</i>	—	—	—	—	—	—
O&M Salaries and Benefits	927,300	939,700	1,196,500	256,800	1,205,700	9,200
% Change		1.3%		27.3%		0.8%
Professional Services	40,300	100,000	85,000	(15,000)	85,000	—
Memberships & Subscriptions	2,400	3,500	15,000	11,500	15,000	—
Outside Services - Non Professional / Maintenance	11,900	—	15,000	15,000	15,000	—
Rent & Leases	2,000	3,500	3,500	—	3,500	—
Subsidies & Incentives	9,500	11,000	13,000	2,000	13,000	—
Training & Seminars Costs	—	4,000	6,000	2,000	6,000	—
Travel Expenses	600	4,000	6,000	2,000	6,000	—
Other Accounts	1,900	9,500	4,600	(4,900)	4,600	—
Total O&M	995,900	1,075,200	1,344,600	269,400	1,353,800	9,200
% Change		8.0%		25.1%		0.7%

Note – Totals may not foot due to rounding.



PERSONNEL SUMMARY

		2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Regular		4	4	5	1	5	—
	O&M	4	4	5	1	5	—
	Capital	—	—	—	—	—	—
Temporary		—	—	—	—	—	—
	O&M	—	—	—	—	—	—
	Capital	—	—	—	—	—	—
Total Personnel		4	4	5	1	5	—
	O&M	4	4	5	1	5	—
	Capital	—	—	—	—	—	—

Note – Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Ethics Office's biennial budget is \$1.3 million in FY 2016/17 and \$1.4 million in FY 2017/18 or an increase of 25.1% and 0.7% respectively from the prior budget years. The increase is due primarily to the following:

- The Ethics Officer has proposed a re-organization, modifications of positions, and addition of one full-time employee, as described below.

The following are the significant changes by budget year.

FY 2016/17

Personnel-related issues

The Ethics Officer has proposed a reorganization and reorientation of its personnel resources in order to:

- Provide capacity for the Ethics Office to perform its core responsibilities with its own personnel.
- Enable the Ethics Office to function at the highest levels of professionalism, expertise, and integrity in the field of governmental ethics and compliance, and to meet the best practices standards in this emerging field.
- Enable the Ethics Officer to dedicate more time to addressing high-level issues with directors and senior management staff.

- Ensure continuation of operations in the event the Ethics Officer is absent or otherwise unable to act in person.

One existing position (Ethics Policy Analyst) would be altered to an Assistant Ethics Officer position, reporting directly to the Ethics Officer. This position would ensure consistency and coordination with the Ethics Officer's priorities and assist the Ethics Officer in considering actions or policies recommended by other professional staff. Also, consistent with the other three departments, this designation would enable continuation of operations in the event the Ethics Officer is absent or otherwise unable to act in person.



A new job classification Deputy Ethics Officer would be added. This classification would involve essential functions and qualifications consistent with mid- or advanced-level professionals in the field of government ethics and compliance. One Deputy Ethics Officer position would focus on investigations, fact-finding, and analysis. The other Deputy Ethics Officer position would focus on advanced research, writing, analysis, and drafting of policies, rules, and procedures, provide focused advice, and develop educational programs and materials.

One Deputy Ethics Officer position would be modified from a Principal Administrative Analyst classification. The other Deputy Ethics Officer position would be added as a new position within the Ethics Office.

As a result of these changes, the Ethics Office staff (including the Ethics Officer) would increase from four to five employees.

Professional Services

The Ethics Office does not anticipate major changes to its professional services requirements in the next two-year budget cycle.

FY 2017/18

Personnel-related issues

No additional anticipated changes.

Professional Services

No additional anticipated changes.

STATE WATER PROJECT

OVERVIEW

The State Water Project (SWP), managed and operated by the Department of Water Resources (DWR), 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 37 million residents.

The SWP consists of a complex system of dams, reservoirs, power plants, pumping plants, canals and aqueducts to deliver water. Water from rainfall and snowmelt runoff 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. The budgeted costs for the SWP are as follows:

SWP Cost Summary, \$ millions¹

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Delta Water Charge: Capital	\$35.0	\$22.1	\$39.2	\$17.1	\$39.4	\$0.2
Delta Water Charge: OMP&R	68.7	56.5	102.1	45.6	105.3	3.3
Transportation Capital	122.9	147.9	137.3	(10.6)	139.8	2.5
Transportation OMP&R	145.4	128.2	177.4	49.2	184.0	6.6
Power, Variable	116.3	187.0	155.3	(31.7)	162.8	7.5
Power, OAPF	22.5	9.8	9.6	(0.2)	5.8	(3.8)
Credits	(72.5)	(36.3)	(38.6)	(2.3)	(37.9)	0.7
SWP Total ¹	\$438.3	\$515.0	\$582.3	\$67.3	\$599.4	\$17.1
SWC Dues	\$3.3	\$4.5	\$4.3	\$(0.2)	\$4.6	\$0.3
Acre-feet delivered	579,000	927,000	865,350	(61,650)	881,850	16,500

¹ Does not include Departmental costs reflected elsewhere in this Budget.

Annually, the DWR reviews and redetermines the water supply and financial aspects of the SWP as required by the SWC. 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 2016 is supported by Appendix B to

Bulletin 132-15). 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).

Metropolitan's budgeted SWP costs are based on the 2016 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 29 agencies and districts, known collectively as the State Water Contractors (Contractors). Through Calendar Year 2012, 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 \$10.7 billion through fiscal year 2013/14. Metropolitan's SWC expires on December 31, 2035.

The Contractors have long-term contracts with DWR for the 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 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 SWC is predominantly a 'take-or-pay' agreement, with Contractors paying most water conservation and transportation costs regardless of the amount of water delivered. 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. On average, Metropolitan pays about 63 percent of SWP transportation costs.

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. Because Metropolitan moves the largest amount of water on the SWP and Metropolitan's delivery points on the East and West Branch are at or near the southern extreme of the SWP, Metropolitan pays approximately 70 percent of the SWP power costs.

Cost of SWP Power for Metropolitan Terminal Delivery Points, \$ per Acre-Foot

	CY 2011 DWR	CY 2012 DWR	CY 2013 DWR	CY 2014 DWR	CY 2015 Preliminary	CY 2016 Estimated	CY 2017 Estimated
East Branch	\$197.34	\$224.27	\$230.27	\$280.07	\$241.17	\$206.33	\$205.08
West Branch	\$170.79	\$210.93	\$215.61	270.03	\$226.58	\$196.19	\$195.05

The SWP energy costs are impacted by the energy policies of the state of California. 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.

In total, Metropolitan paid 55 percent of the total SWP charges in Calendar Year 2014.

BUDGET HIGHLIGHTS

The budget for the SWP is increasing due to higher costs for salaries and benefits, rehabilitation and replacement expenditures, maintenance of aging infrastructure, and fish restoration agreement costs. Power costs are projected to be lower due to: higher water deliveries which spread fixed power costs over a larger usage base; lower market costs for natural gas, wholesale power, and cap-and-trade emissions allowances; and a recent favorable environment for negotiating renewable power contracts.

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, 450 miles of high voltage power lines, 1 electric substation, 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 Colorado River Aqueduct. 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 Summary¹, \$ millions

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
CRA Power	\$39.6	\$36.5	\$46.6	\$10.1	\$54.4	\$7.8
CRA Dues ²	\$0.6	\$0.6	\$0.7	\$0.1	\$0.7	\$0
Acre-feet delivered	1,185,493	876,000	857,100	(18,900)	881,850	24,750

¹ Does not include Departmental costs reflected elsewhere in this Budget

²Six 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 Systems 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 four basic sources of power available to meet CRA energy requirements: Hoover Power, Parker Power, Benefit Energy from Southern California Edison (SCE), 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 2011	FY 2012	FY 2013	FY 2014	FY 2015
Hoover ¹	\$16.81	\$17.26	\$18.60	\$29.74	\$15.84
Parker ¹	\$20.13	\$17.27	\$9.33	\$12.41	\$13.55
SP15, off-peak ²	\$23.73	\$23.44	\$33.15	\$40.24	\$33.15
SP15, on-peak ³	\$37.53	\$33.45	\$45.38	\$50.90	\$40.68

¹Information from Annual Reports for years 2011, 2012, 2013, 2014, and 2015

²SP15, off-peak price, described below, is used to determine the market value of Benefit Energy. Benefit Energy is available to Metropolitan for use only during off-peak hours. Thus, to the extent Benefit Energy is not available to meet Metropolitan's off-peak energy needs, Metropolitan must purchase off-peak power.

³SP15, on-peak, described below, 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.

Under a contract between the United States, Department of Energy, Western Area Power Administration, and Metropolitan, Metropolitan currently has a right to approximately 247 megawatts (MW) of capacity at the Hoover Power Plant, which is about 12 percent of the total generating capacity. Metropolitan has an annual firm energy entitlement of 1,291 megawatt-hours (MWh) (904 MWh in summer and 387 MWh in winter), which is about 28 percent of the total Boulder Canyon Project (Hoover) firm energy allocations. This contract expires in 2017; a follow-on contract is in the process of negotiations. Hoover Power Plant generation is cost-

based. Metropolitan acquired the benefits of the low-cost, federally funded hydroelectric plant in order to cost-effectively deliver Metropolitan's Colorado River water to its member agencies.

Under a contract among the United States, Department of the Interior, Bureau of Reclamation (Reclamation) and Metropolitan, Metropolitan funded the total cost of construction of Parker Dam and incidental facilities, and 50 percent of the construction cost of the Parker Powerplant. By providing the funding contribution, Metropolitan is entitled in perpetuity to 50 percent of the capacity and energy of the four Parker generating units, which is approximately 60 MW of capacity. Parker power is also cost-based. Like Hoover power, Metropolitan acquired the benefits of the low-cost, federally funded hydroelectric plant in order to cost-effectively deliver Metropolitan's Colorado River water to its member agencies.

Metropolitan has a Service and Interchange Agreement (Agreement) with SCE that provides services and benefits to both parties. The Agreement expires in 2017. Under the Agreement, SCE can dispatch Metropolitan's Hoover Dam and Parker Dam power entitlements and utilize excess transmission capacity on Metropolitan's CRA transmission system. SCE in return must meet Metropolitan's CRA energy and reliability requirements on a continuous basis. SCE must also provide Benefit Energy, the amount of which is determined annually, at no cost to Metropolitan for the benefits SCE receives.

Benefit Energy is the energy SCE provides to Metropolitan in consideration of the benefits SCE receives under the Service and Interchange Agreement. There is no charge for this energy. The amount of Benefit Energy available annually depends on the amount of water diverted through the CRA, and thereby the amount of energy used. Because SCE is obligated to meet the energy and reliability requirements of the CRA, SCE benefits if the CRA is not operating at full capacity. The relationship between the amount of Benefit Energy provided and pumping load is inverse: the more Metropolitan pumps, the less Benefit Energy SCE provides. Therefore, under a high diversion scenario, Metropolitan receives slightly less Benefit Energy to meet pumping loads than would be realized under a lower diversion scenario. The minimum amount of Benefit Energy provided annually by SCE is 200,000 MWh. The contract sets maximum and minimum amounts of Benefit Energy that can be allocated monthly. Benefit Energy can only be used to meet off-peak energy requirements. A follow-on contract to the Service and Interchange Agreement is in the process of negotiations.

Metropolitan's current basic resource mix is very 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. The amount of power required to pump an acre-foot of water through the CRA is 2,000 kilowatt-hours. The additional pumping would also reduce the amount of Benefit Energy available to Metropolitan under the Service and Interchange Agreement with SCE. To compensate for this loss of Benefit Energy to Metropolitan, an additional 317 kilowatt-hours per acre-foot of water pumped must be provided to Metropolitan. Finally, any Colorado River water that is pumped through Metropolitan's CRA is diverted above Parker Dam and cannot generate energy for Metropolitan's use at the Parker Powerplant. To compensate for this loss, an additional 32 kilowatt-hours per acre-foot are required to make Metropolitan whole for undertaking to pump non-Metropolitan water through the CRA that would otherwise have flowed through the Parker Powerplant. In total, 2,349 kilowatt-hours (or 2.349 megawatt-hours) of energy must be provided to Metropolitan to convey each acre-foot of non-Metropolitan water supplies through the CRA.

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 Platt's Market Report index and the California Independent System Operator (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.

Any party seeking to pump non-Metropolitan water through the CRA would have to purchase, or arrange for Metropolitan to purchase on its behalf, supplemental power. The market cost for purchases of power for the CRA is reflected in the SP15 index published by Platt’s Market Report or the CAISO OASIS Day-Ahead Locational Marginal Price. Because Metropolitan utilizes the pumping capacity on the CRA for its own water supplies during off-peak hours to minimize its costs, the pumping of non-Metropolitan water would occur during on-peak hours and the on-peak price index published in Platt’s Market Report or the CAISO OASIS Day-Ahead Locational Marginal Price is indicative of the price that would be paid to pump non-Metropolitan water.

Metropolitan from time to time sells excess energy into the wholesale market and realizes revenues, which offset the total cost of energy as reflected in the System Power Rate. If Metropolitan were to deliver additional water through the CRA, these sales become a lost opportunity. The on-peak price index published in Platt’s Market Report or the CAISO OASIS Day-Ahead Locational Marginal Price is indicative of the price that Metropolitan could realize by selling excess energy.

South-of-Path 15 On-Peak Energy Prices, \$/MWh

	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
January	\$ 37.13	\$ 28.73	\$ 46.15	\$ 49.53	\$ 35.70
February	\$ 38.13	\$ 29.05	\$ 46.45	\$ 71.85	\$ 31.88
March	\$ 32.72	\$ 24.85	\$ 51.39	\$ 52.06	\$ 30.73
April	\$ 36.01	\$ 29.33	\$ 56.34	\$ 51.19	\$ 29.03
May	\$ 34.91	\$ 31.36	\$ 51.49	\$ 51.85	\$ 28.11
June	\$ 36.98	\$ 31.43	\$ 47.77	\$ 50.90	\$ 37.01
July	\$ 41.20	\$ 36.46	\$ 51.74	\$ 53.18	\$ 39.27
August	\$ 42.25	\$ 44.32	\$ 45.44	\$ 50.47	\$ 39.02
September	\$ 41.53	\$ 41.99	\$ 48.91	\$ 51.49	\$ 38.00
October	\$ 34.78	\$ 42.81	\$ 42.82	\$ 49.06	\$ 35.55
November	\$ 34.49	\$ 39.84	\$ 44.13	\$ 49.28	\$ 30.22
December	\$ 32.59	\$ 38.77	\$ 52.14	\$ 41.80	\$ 29.83

MWh = megawatt-hour, or 1,000 kilowatt-hours

As key contracts expire in 2017, namely Hoover and the SCE Service and Interchange Agreement, Metropolitan’s resource mix and costs will likely change. Metropolitan has an obligation to acquire and surrender emissions allowances for the generation that is imported into California. As these factors continue to develop, Metropolitan may face increased exposure to both on- and off-peak wholesale energy prices.

BUDGET HIGHLIGHTS

The budget for the CRA power is increasing due to expiration of the SCE Service and Interchange Agreement and the loss of Benefit Energy. Benefit Energy is replaced by market purchases, which increases the operating costs.

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

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Supply Programs ¹	\$94.3	\$75.3	\$78.7	\$3.4	\$81.7	\$3.0

¹ 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 deliveries on the CRA of 857.1 to 881.9 thousand acre-feet (TAF). On the SWP, Supply Program expenditures 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 expenditures support the Palo Verde Irrigation District land following program and the Imperial Irrigation District/Metropolitan Conservation Program, as well as other programs to conserve and develop supplies.

SUPPLY PROGRAMS HAVE BEEN DEVELOPED TO CONVEY ON THE SWP TRANSPORTATION SYSTEM

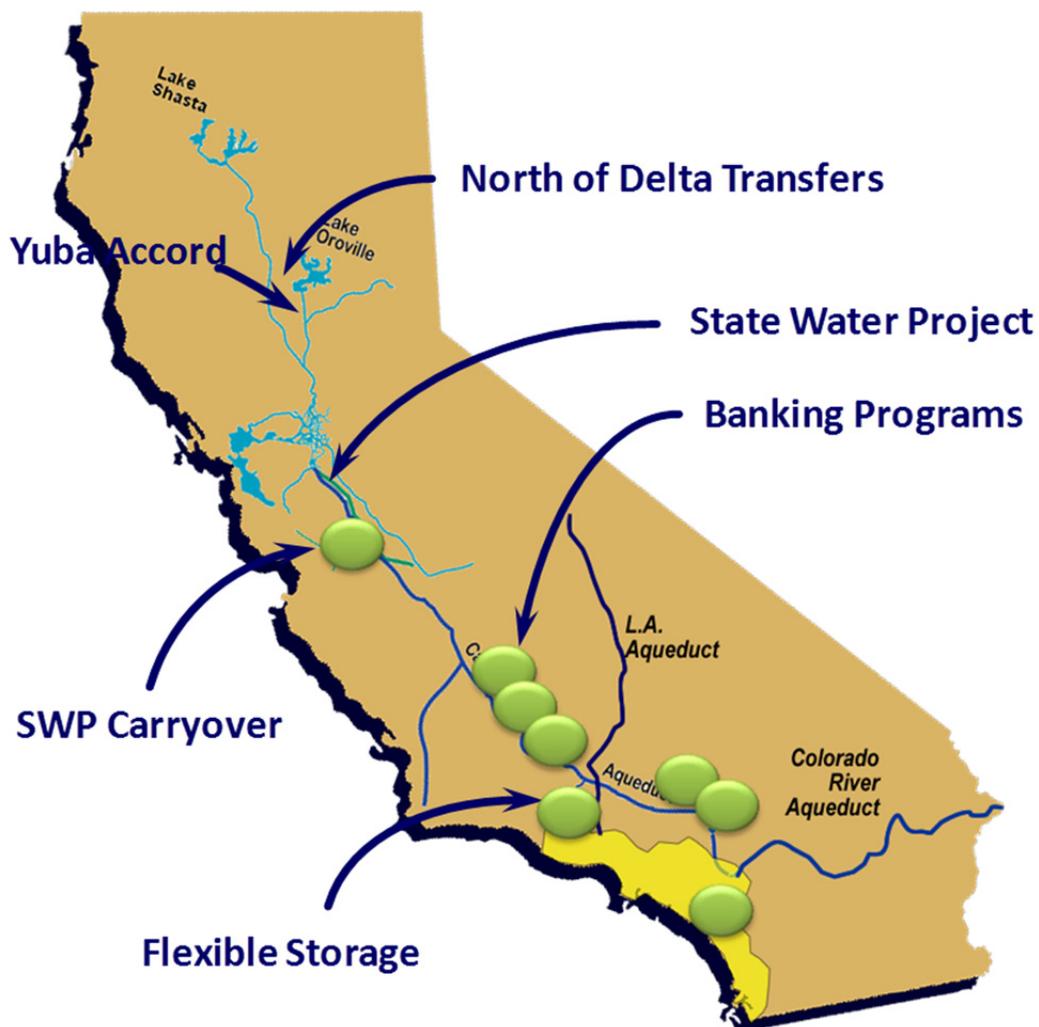
Since inception, the SWC provided Contractors the ability to use the SWP to convey non-SWP water under certain circumstances. Specifically, Article 18(c)(2) of the original SWC addresses situations where there is a shortage in the supply of water made available under the SWC and states, "[T]he District, 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 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 Amendment also expanded the ability to carry over SWP water in SWP storage facilities, allowed participating Contractors to borrow water from terminal

reservoirs, and allowed Contractors to store water in groundwater storage facilities outside a Contractor's service area for later use.

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.

Since adoption of the 1996 Integrated Resources Plan (IRP) and subsequent updates, Metropolitan has developed and actively managed a portfolio of supplies to convey through the California Aqueduct. 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 figure below shows the geographic location of the portfolio of supplies that Metropolitan has developed to be conveyed through the SWP since adoption of the Monterey Amendment and the 1996 IRP. These resources extend from north of the Delta to Southern California.

California Aqueduct Portfolio of Supplies

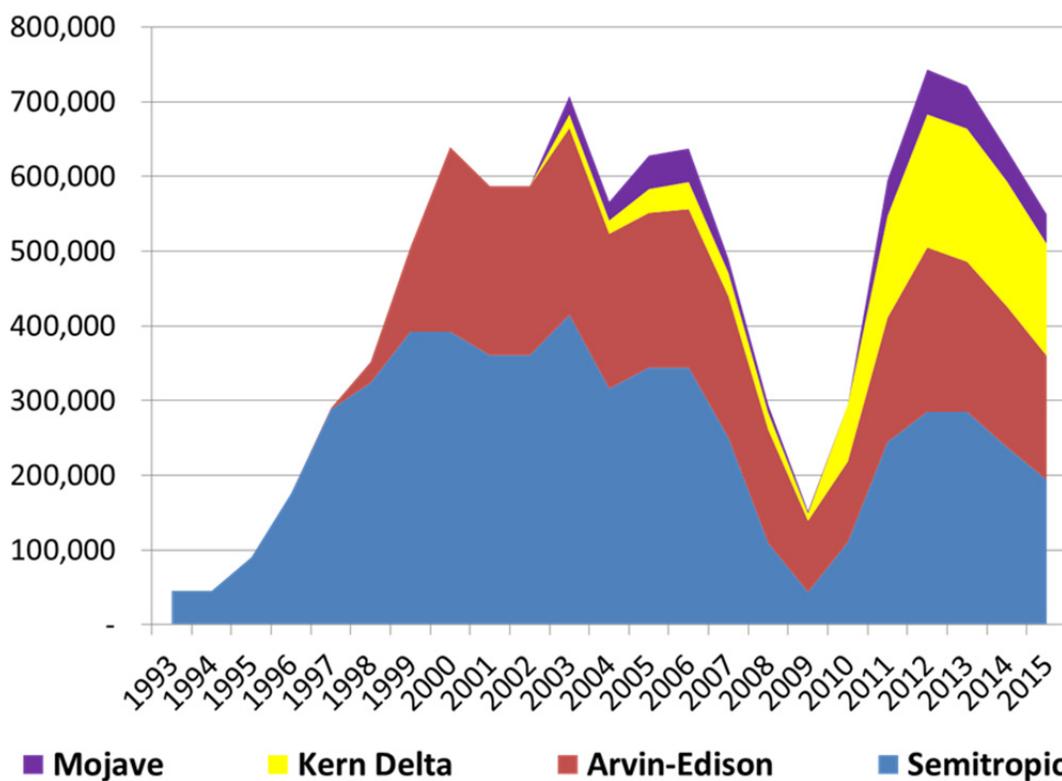


Since the Monterey Amendment, Metropolitan has secured one-year water transfer supplies through Metropolitan-only purchases, buyer coalition-purchases, and Governor Drought Water Banks. The most recent years in which these one-year transactions occurred were 2008 through 2010, 2013 and 2015. No purchases were made in 2011 or 2012 due to favorable water supply conditions. Most of the sellers were Sacramento Valley water users who are not Contractors. Other Contractors obtained one-year water transfers during this timeframe as well.

In addition to the 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.

Metropolitan also has developed groundwater storage agreements that allow Metropolitan to store available supplies in the Central Valley for return later. Metropolitan enters into agreements with DWR to deliver water supplies from the SWP facilities to these storage programs. Metropolitan enters into agreements for introduction of local supplies to return these water supplies to the SWP system for delivery to Metropolitan. The year-end balances of Metropolitan’s SWP storage activities are shown in the graph below.

SWP Groundwater Storage Programs year-end balance, acre-feet



- **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.
- **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.

- **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.
- **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. As of December 2014, the minimum annual yield to Metropolitan is 34,700 acre-feet, and the maximum annual yield is 236,200 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.
- **Antelope Valley East Kern (AVEK) Storage and Exchange Program:** under the agreement, AVEK provides at least 30,000 acre-feet over ten years of its unused SWP Table A amount to Metropolitan and 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 at least 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.

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.

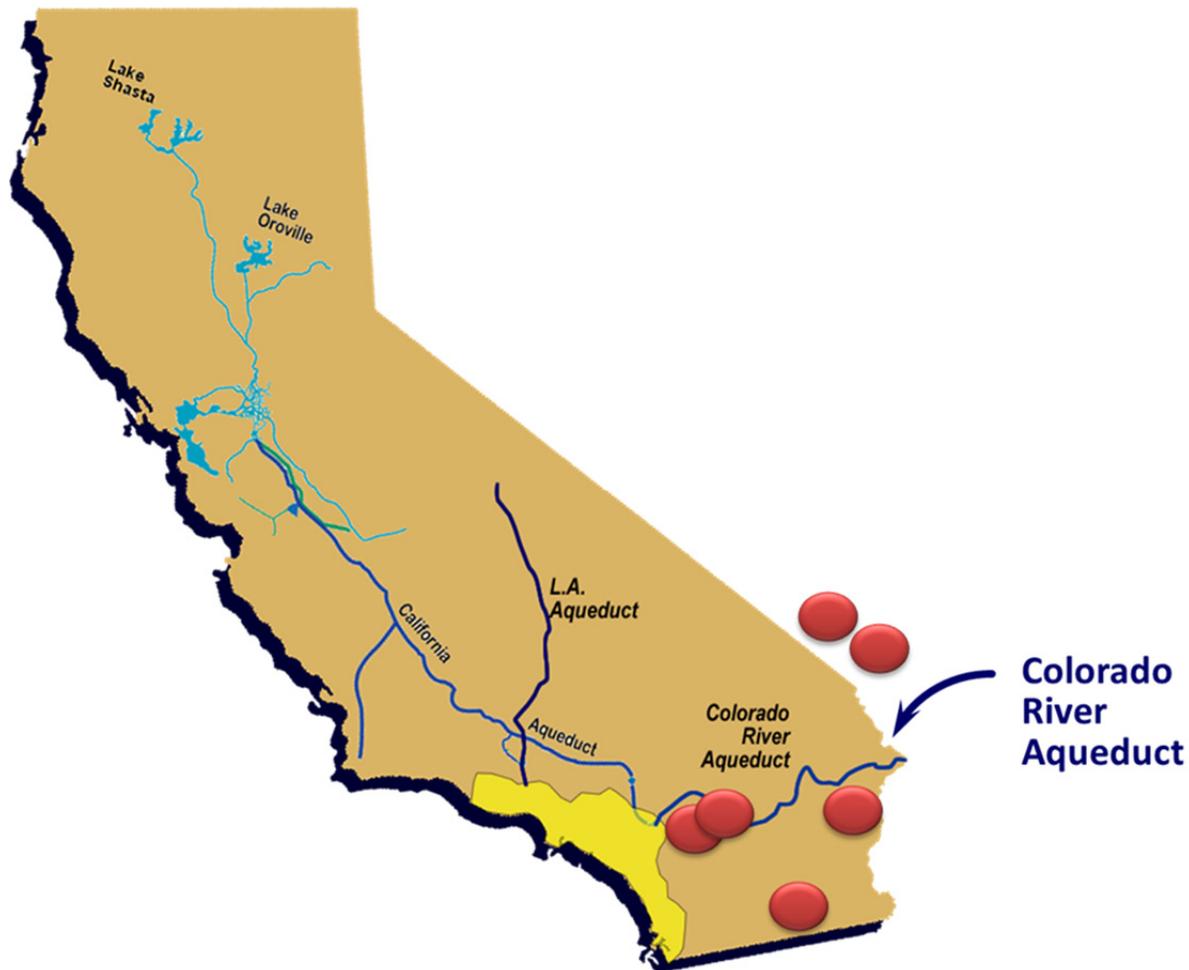
- **San Bernardino Valley Municipal Water District:** under the agreement, Metropolitan can exchange up to 11,000 acre-feet on an annual basis with the return negotiated.
- **San Gabriel Valley Water District:** under this agreement, Metropolitan delivers treated water to a San Gabriel Valley Water District subagency in exchange for twice as much untreated SWP supplies delivered into the groundwater basin that supplies this agency and Metropolitan subagencies. Metropolitan can purchase at least 5,000 acre-feet per year, in excess of the unbalanced exchange amount. There are no fees to put water into storage, or take water out of the storage account. 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 exchange for those agencies' SWP Contract Table A allocations to be delivered to Metropolitan at a later date. In addition to their Table A supplies, DWA and CVWD can take delivery of SWP supplies available under Article 21 of the SWC 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. Thus the availability of other water sources allows DWA and CVWD to exchange their Table A supplies with Metropolitan. 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.

SUPPLY PROGRAMS HAVE BEEN DEVELOPED TO CONVEY ON THE CRA

Since adoption of the 1996 Integrated Resources Plan (IRP) and subsequent updates, Metropolitan has developed and actively manages a portfolio of supplies to convey through the CRA, and as owner and operator, determines the delivery schedule of those resources throughout the year based on changes in the availability of SWP and Colorado River water. The figure below shows the geographic location of the portfolio

of supplies that Metropolitan has developed for diversion into the CRA since adoption of the 1996 IRP. These resources extend from Lake Mead to Southern California.

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 has been provided to Metropolitan. In 2015, 107,820 acre-feet of conserved water is being made available by IID to Metropolitan. Execution of the Quantification Settlement Agreement (QSA) and other agreement amendments resulted in changes in the availability of water under the program. As a result of a 2014 IID-Metropolitan letter agreement, the amount to be made available 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 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 Palo Verde Irrigation District (PVID) are paid to reduce water use by not irrigating a portion of their land. A maximum of 29 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 on January 1, 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, as much as 148,600 acre-feet of water was saved. The volume of water that becomes available to Metropolitan is governed by the QSA and the Colorado River Water Delivery Agreement. Under these agreements:

- o 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
- o 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.

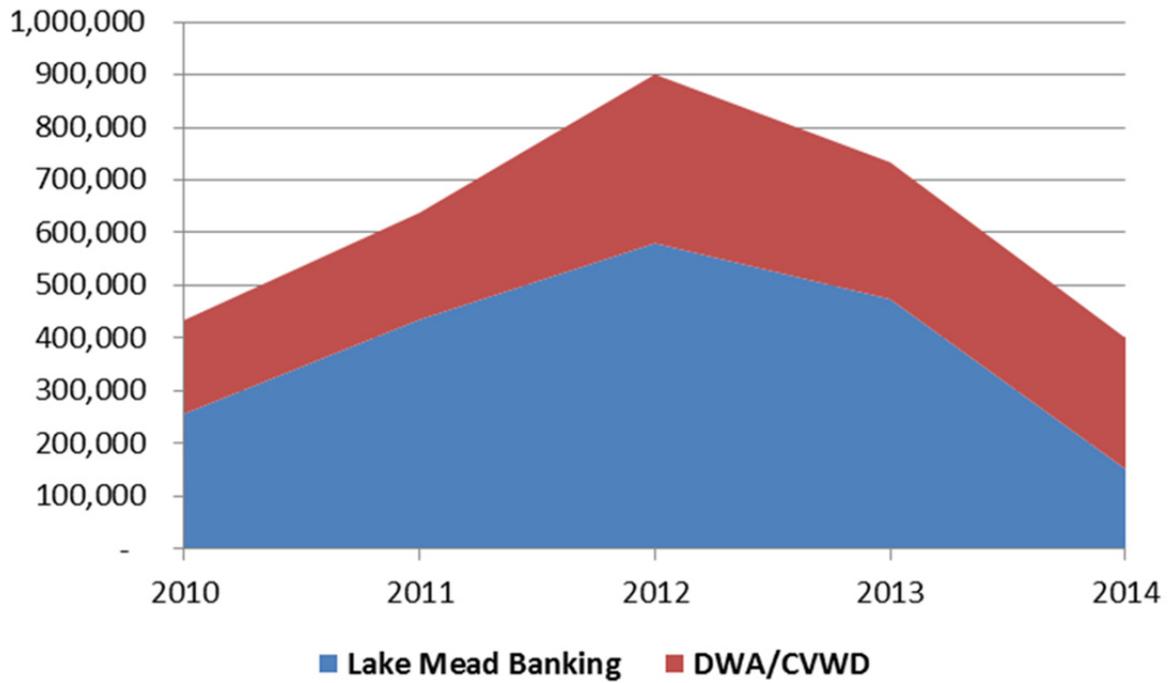
- All-American and Coachella Canal Lining Projects: Metropolitan takes delivery of 16,000 acre-feet of water annually as a result of the All-American and Coachella Canal Lining Projects. In the future, that water will be made available for the benefit of the La Jolla, Pala, Pauma, Rincon and San Pasqual Bands of Mission Indians, the San Luis Rey River Indian Water Authority, the City of Escondido and the Vista Irrigation District, upon completion of a water rights settlement among those parties and the United States.
- Southern Nevada Water Authority and Metropolitan Storage and Interstate Release Agreement: Under this 2004 agreement and a related Operational Agreement, additional Colorado River water supplies are made available to Metropolitan when there is space available in the CRA to receive the water, subject to a request by Southern Nevada Water Authority (SNWA) for Metropolitan to reduce its Colorado River water order to return a portion of this water. In 2009, 2012, and 2015, Metropolitan, the Colorado River Commission of Nevada, and SNWA amended the related Operational Agreement. The agreements can be terminated upon 90 days' notice following the return of the water stored by Metropolitan.
- Lower Colorado Water Supply Project: Under a contract among Metropolitan, the City of Needles, and the United States Bureau of Reclamation, Metropolitan receives annually exchange water unused by the City of Needles and other entities who have no rights or insufficient rights to use Colorado River water in California. The beneficiaries of the project, including the City of Needles, receive water exchanged for groundwater pumped from wells into the All-American Canal. 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, and stored in and delivered from Lake Mead. The amount of water stored in Lake Mead, created through extraordinary conservation, system efficiency, or tributary conservation methods, is available for delivery in a subsequent year, with extraordinary conservation ICS subject to a one-time deduction and 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, and groundwater desalination. The guidelines concerning the operation of the Colorado River system reservoirs provide the ability for agencies to create "System Efficiency ICS" 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:
 - o 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 receive 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.

- o Yuma Desalting Plant: Metropolitan contributed to a one-year pilot operation of the Plant at one-third capacity to provide data regarding the long-term operation of the Plant. Metropolitan's yield from the pilot run of the project was 24,397 acre-feet.
- o 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 will be credited to Metropolitan's intentionally-created surplus water account no later than 2017. 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.
- Hayfield Groundwater Storage Program: This program will allow Metropolitan to store Colorado River water in the Hayfield Groundwater Basin in eastern Riverside County for future withdrawal and delivery to the CRA. Drought conditions in the Colorado River watershed have resulted in a lack of surplus supplies for storage. When water supplies become more plentiful, Metropolitan may pursue this program and develop storage capacity of about 400,000 acre-feet.
- 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 advance of the exchange for 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 without having to deliver an equivalent amount of Colorado River water.

The year-end balances of Metropolitan's CRA storage programs are shown in the graph below.

CRA Storage Programs year-end balance, acre-feet



BUDGET HIGHLIGHTS

The budget for the Supply Programs increases slightly over the budget period compared to FY 2015/16. This reflects the assumption of a 50 percent allocation on the SWP and approximately 857.1 to 881.9 TAF on the CRA over the same three budget periods.

DEMAND MANAGEMENT

OVERVIEW

Demand Management costs are Metropolitan's expenditures for funding local water resource development programs and water conservation programs. These demand management programs incentivize the development of local water supplies and the conservation of water to reduce the reliance on imported water. 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 programs reduce the use of and burden on Metropolitan's distribution and conveyance system, which, in turn, helps reduce the capital, operating, maintenance and capital improvement costs associated with these facilities. For example, local water resource development and conservation has deferred the need to build additional infrastructure such as the Central Pool Augmentation Project and the San Diego Pipeline No. 6. Overall, the decrease in demand resulting from these projects is estimated to defer the need for projects between four and twenty-five years at a savings of between \$324 and \$910 million. The programs also free up capacity in Metropolitan's system to convey both Metropolitan water and water from other non-Metropolitan sources.

The budgeted costs for Demand Management are as follows:

Demand Management Cost Summary¹, \$ millions

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Conservation Credits Program	\$134.4	\$20.0	\$27.0	\$7.0	\$32.0	\$5.0
Local Resources Program	\$35.8	\$41.7	\$43.7	\$2.0	\$41.9	\$(1.8)
Future Supply Actions		0	\$4.4	\$4.4	\$2.0	\$(2.4)

¹ Does not include Departmental costs reflected elsewhere in this Budget.

Budgeted Demand Management costs reflect increasing the financial commitment for the Conservation Credits Program 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 SB X7-7. In 2009, the state Legislature passed SB X7-7, which was enacted to reduce urban per capita water use by 20 percent by December 31, 2020. Urban retail water suppliers are not eligible for state water grants or loans unless they comply with the water conservation requirements of the legislation. Demand Management programs help the region achieve urban per capita water use reductions.

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.

DEMAND MANAGEMENT PROGRAMS REDUCE RELIANCE ON IMPORTED WATER

Metropolitan increased the emphasis on Demand Management programs after the devastating drought of the early 1990's. Metropolitan's 1996 Integrated Resources Plan identified the Preferred Resource Mix as the resource plan that achieved the region's reliability goal of providing the full capability to meet all retail-level demands during all foreseeable hydrologic events, represented the least-cost sustainable resources plan, met the region's water quality objectives, was balanced and diversified and minimized risks, and was flexible, allowing for adjustments should future conditions change.

The Preferred Resource Mix included locally developed water supplies and conservation, and recognized that regional participation was important to achieve their development. Additional imported supplies frequently have relatively lower development costs, but can create a large cost commitment for regional infrastructure to transport and store those imported supplies. On the other hand, local projects, like those designed to recycle water or increase groundwater production, may have higher development costs but require little or no additional infrastructure to distribute water supplies to customers. This trade-off between relatively lower-cost imported supplies requiring large regional infrastructure investments and relatively higher-cost local supply development requiring less additional local infrastructure was an important consideration in the development of the Preferred Resource Mix. A strategy of aggressively investing in imported water supply would lead to higher costs for the region because of the larger investments required in infrastructure. Since 1996, the Integrated Resources Plan has been updated twice, in 2004 and 2010, reaffirming long-term sustainability of the region's water supply through implementation of conservation and local resource development.

DEMAND MANAGEMENT PROGRAMS REDUCE DEMANDS AND BURDENS ON METROPOLITAN'S SYSTEM

Demand Management programs decrease and avoid operating and maintenance and capital improvement costs, such as costs for repair of and construction of additional or expanded water conveyance, distribution, and storage facilities. The programs also free up capacity in Metropolitan's system to convey both Metropolitan water and water from other non-Metropolitan sources.

The purpose of Demand Management is to generate additional local resources or reduce consumption through conservation, which reduces the amount of water that must otherwise be transported through Metropolitan's system. Investments in Demand Management programs like conservation, water recycling

and groundwater recovery help defer the need for additional conveyance, distribution, and storage facilities. Demand Management is an important part of Metropolitan's resource management efforts. Metropolitan's incentives in these areas contribute to savings for all users of the system in terms of lower capital costs that would otherwise have been required to expand and maintain the system.

SB 60 DIRECTED METROPOLITAN TO EXPAND DEMAND MANAGEMENT PROGRAMS

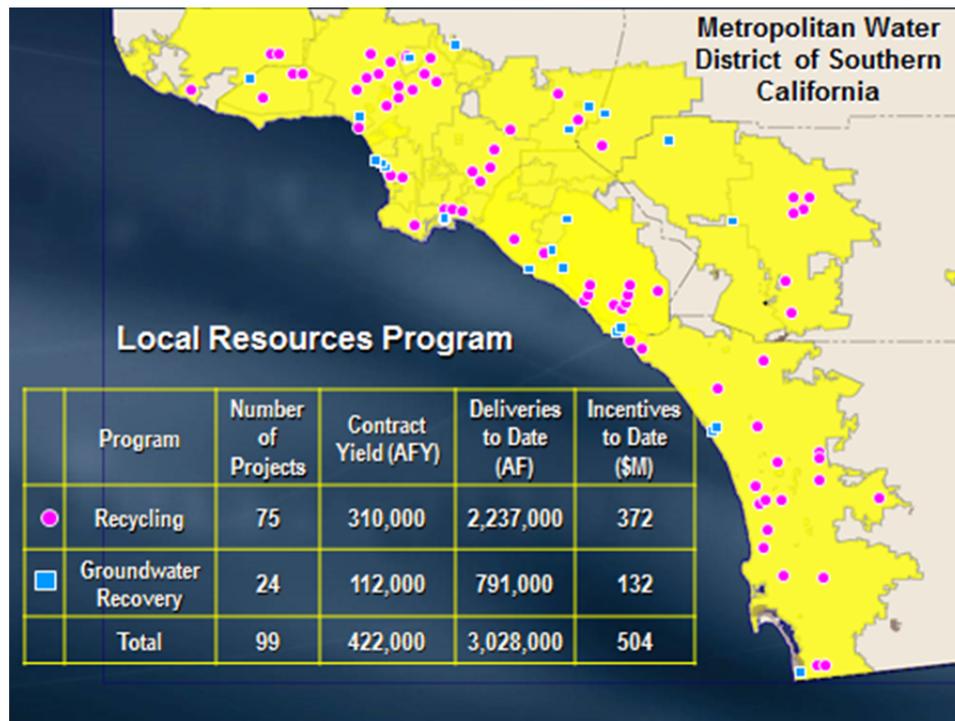
In September 1999, Governor Gray Davis signed SB 60 (Hayden) into law. SB 60 amended the Metropolitan Water District Act to direct Metropolitan to increase "sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures." SB 60 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 2014/15 alone, Metropolitan's service area achieved 1.5 million acre-feet of water savings from conservation, recycled water and groundwater recovery programs. The 1.5 million acre-feet of water savings from water management activities in fiscal year 2014/15 nearly equaled actual water sold in the same period of 1.91 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 1990 Metropolitan has invested almost \$1 Billion to achieve water savings.

Metropolitan's Conservation Credits 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 2014/15, the Conservation Credits Program achieved 944,000 acre-feet of saved water through new and existing conservation initiatives funded with incentives and maintained through plumbing codes. Cumulatively, through fiscal year 2014/15 the Conservation Credits Program has achieved over 2.2 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 75 recycling projects and 24 groundwater recovery projects located throughout Metropolitan's service area, of which 85 projects are in operation. From the Local Resources Program's inception in 1982 through FY 2014/15, Metropolitan has paid out about \$372 million in incentives to produce about 2.2 million acre-feet of recycled water. Metropolitan also provided approximately \$132 million to produce 791,000 acre-feet of recovered degraded groundwater for municipal use.

Local Resources Program Projects



SB X7-7 REQUIRES INCREASED CONSERVATION

SBX7-7 mandated a new requirement to lower urban per capita water use 20 percent by December 31, 2020. Enacted by the state Legislature and signed into law by Governor Schwarzenegger as part of a historic package of water reforms in November 2009, the “20x2020” plan gave local communities flexibility in meeting this target while accounting for previous efforts in conservation and recycling. The Legislature found that reducing water use through conservation and regional water resources management would result in protecting and restoring fish and wildlife habitats, reducing dependence on water through the Delta, and providing significant energy and environmental benefits. Metropolitan coordinates closely with its member agencies to achieve these targets both at a retail agency level in compliance with legislative requirements, and as a region in achieving a true 20 percent reduction in per-capita water use.

BUDGET HIGHLIGHTS

The budget for the Demand Management costs is increasing slightly when comparing the biennial budget to FY 2015/16, due primarily to increased expenditures for the Conservation Credits Program.

CAPITAL FINANCING

OVERVIEW

Capital financing costs are Metropolitan's expenditures for revenue bond debt service, General Obligation bond debt service, debt administration costs, the funding of capital expenditures from current operating revenues, or Pay-As-You-Go (PAYGo), and State Revolving Fund (SRF) Loan payments.

The budgeted costs for capital financing are as follows:

Capital Financing Cost Summary, \$ millions

	2014/15 Actual	2015/16 Budget	2016/17 Proposed	Change from 2015/16	2017/18 Proposed	Change from 2016/17
Debt Service, net of BABs Reimbursement	\$266.3	\$296.4	\$298.7	\$2.3	\$318.1	\$19.4
GO Bond Debt Service	23.4	23.3	23.3	0	18.8	(4.5)
SRF Loan	1.3	1.3	1.3	0	1.3	0
Debt Administration	2.7	3.7	5.2	1.5	5.9	0.7
PAYGo	210.2	221.0	120.0	(101.0)	120.0	0
Total¹	\$503.9	\$545.7	\$448.5	\$(97.2)	\$464.1	\$15.6

¹ 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 lower PAYGo amounts to support a lower 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) for FY 2016/17 and FY 2017/18 is estimated to be \$200.0 million in each fiscal year. It is proposed to be funded by current operating revenues (PAYGo) and revenue bond proceeds. The FY 2016/17 CIP is \$68 million lower than the FY 2015/16 Adopted budget, and the FY 2017/18 CIP is unchanged from FY 2016/17. The largest areas of expenditures in the biennial budget are Infrastructure Reliability and Water Quality.

PAYGo Percentage of Funding, \$ millions

	2015/16 Budget	2016/17 Proposed	2017/18 Proposed
Capital Investment Plan expenses	\$267.9	\$200.0	\$200.0
Project Funding:			
New Bond Issues		90.0	80.0
Prior Bond Funds/Construction Fund		20.0	50.0
Grants and Loans Funds			
Operating Revenues (PAYGo)	221.0	120.0	120.0
R&R Fund	47.0		
PAYGo Percentage of Funding	100.0%	60.0%	60.0%

In FY 2016/17 and FY 2017/18, the percentage of capital that is funded by debt will be set at 40 percent, consistent with the FY 2014/15 and FY 2015/16 ten-year forecast for this time period. The projected average percentage of capital funded from debt will be 40 percent over the ten years of the long-range forecast.

OUTSTANDING DEBT

Metropolitan has total long-term debt outstanding of \$4.35 billion as of December 31, 2015. Metropolitan's debt issues are summarized below and discussed in detail thereafter.

Outstanding Debt, \$'s, as of December 31, 2015

Issue	Debt Outstanding
Long-Term Debt:	
Water Revenue Refunding Bonds, 1993 Series A	\$86,540,000
Water Revenue Bonds, 2000 Authorization, Series B-3	88,800,000
Water Revenue Bonds, 2005 Authorization, Series C	175,000,000
Water Revenue Refunding Bonds, 2006 Series B	24,055,000
Water Revenue Bonds, 2006 Authorization, Series A	389,235,000
Water Revenue Refunding Bonds, 2008 Series A-2(1)	62,465,000
Water Revenue Refunding Bonds, 2008 Series B	126,980,000
Water Revenue Refunding Bonds, 2008 Series C	34,700,000
Water Revenue Bonds, 2008 Authorization, Series A	183,525,000
Water Revenue Refunding Bonds, 2009 Series A-2(1)	104,180,000
Water Revenue Refunding Bonds, 2009 Series B	106,690,000
Water Revenue Refunding Bonds, 2009 Series C	91,165,000
Water Revenue Bonds, 2008 Authorization, Series B	12,735,000
Water Revenue Bonds, 2008 Authorization, Series C(2)	78,385,000
Water Revenue Bonds, 2008 Authorization, Series D(2)	250,000,000
Water Revenue Refunding Bonds, 2009 Series D	58,860,000
Water Revenue Refunding Bonds, 2009 Series E	15,590,000
Water Revenue Bonds, 2010 Authorization, Series A(2)	250,000,000
Water Revenue Refunding Bonds, 2010 Series B	79,330,000
Water Revenue Refunding Bonds, 2011 Series A1-A4(1)	228,875,000
Water Revenue Refunding Bonds, 2011 Series B	35,760,000
Water Revenue Refunding Bonds, 2011 Series C	147,935,000
Water Revenue Refunding Bonds, 2012 Series A	181,180,000
Water Revenue Refunding Bonds, 2012 Series B-1 and B-2(1)	98,585,000
Water Revenue Refunding Bonds, 2012 Series C	190,600,000
Water Revenue Refunding Bonds, 2012 Series D	605,000
Water Revenue Refunding Bonds, 2012 Series E3	31,220,000
Water Revenue Refunding Bonds, 2012 Series F	59,335,000
Water Revenue Refunding Bonds, 2012 Series G	111,890,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D(1)	87,445,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E(1)	104,820,000
Water Revenue Refunding Bonds, 2014 Series A	95,935,000
Water Revenue Refunding Bonds, 2014 Series B	10,575,000
Water Revenue Refunding Bonds, 2014 Series C1-C3	30,335,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D(1)	63,575,000
Water Revenue Refunding Bonds, 2014 Series E	86,060,000
Water Revenue Refunding Bonds, 2014 Series G1-G5	57,840,000
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and A-2(1)	188,900,000
Water Revenue Bonds, 2015 Series A	208,255,000
Total Revenue Bonds	\$4,237,960,000
Waterworks General Obligation Refunding Bonds, 2009 Series A	\$33,485,000
Waterworks General Obligation Refunding Bonds, 2010 Series A	27,290,000
Waterworks General Obligation Refunding Bonds, 2014 Series A	49,645,000
Total General Obligation Bonds	\$110,420,000
Total Long-Term Debt:	\$4,348,380,000

(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 2016/17 are budgeted at \$328.5 million and includes \$23.3 million in General Obligation bond debt service, \$298.7million in revenue bond debt service, \$1.3 million for SRF Loan payments, and \$5.2 million for debt administration costs.

Debt Service payments in FY 2017/18 are budgeted at \$344.1 million and include \$18.8 million in General Obligation bond debt service, \$318.1 million in revenue bond debt service, \$1.3 for SRF Loan payments, and \$5.9 million for debt administration costs. Total debt service costs in FY 2017/18 are expected to be \$15.6 million more than the FY 2016/17 payments due to new money bond issues.

Interest payments on synthetic fixed rate debt were calculated at their associated swap rates plus any spread (if known). Interest rates on variable rate debt were calculated at 0.45 percent for FY 2016/17 and 0.80 percent for FY 2017/18.

Outstanding variable rate debt on December 31, 2015 was approximately \$1.03 billion, including bonds bearing interest in the Index Mode or Flexible Index Mode, special variable rate bonds initially designated as self-liquidity bonds, and variable rate demand obligations supported by standby bond purchase agreements between Metropolitan and various liquidity providers. Of the \$1.03 billion, \$493.6 million are treated by Metropolitan as fixed rate debt by virtue of interest rate swap agreements. The remaining \$534 million of variable rate obligations represent approximately 12.6 percent of total outstanding water revenue bonds.

Going forward, Metropolitan will finance its construction program through a combination of fixed-rate debt and variable rate debt. Metropolitan intends to issue approximately \$90 million of new debt in FY 2016/17 and \$80 million of new debt in FY 2017/18.

DEBT RATINGS

Credit risk is the risk that a financial loss will be incurred if a counterparty to a transaction does not fulfil 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 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.

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, 2015, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.35 billion represented approximately 0.18 percent of the FY 2015/16 taxable assessed valuation of \$2,451 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 assets of Metropolitan at June 30, 2015 were \$6.9 billion. The aggregate amount of revenue bonds outstanding as of December 31, 2015 was \$4.24 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 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 debt service on all revenue bonds and other senior debt. The target is 2.0 times. In FY 2016/17 and FY 2017/18, the projected debt coverage ratio is 1.60 and 1.60 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 2016/17 and FY 2017/18, the projected debt coverage ratio is 1.30 and 1.30, respectively. These levels help maintain strong credit ratings and access to the capital markets at low cost.

BUDGET HIGHLIGHTS

The budget for Capital Financing is decreasing from the FY 2015/16 budget due to lower CIP expenditures overall. The FY 2017/18 Capital Financing budget is higher than FY 2016/17 as new debt is issued to finance the CIP. Lower overall Capital Financing costs provide increased financial flexibility and resiliency.

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GLOSSARY OF TERMS

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.

Appropriation — Money set aside for a specific purpose. The designation of the use to which a fund of money is to be applied.

Area of Origin — An area where the headwaters of a river or other significant water body originates. The "area" may be a county, region, or other geographic region of the state.

Area of Origin Litigation — Solano County Water Agency v. Department of Water Resources. In this litigation, Solano County Water Agency and other State Water Project Contractors including Butte County, Yuba City, and Napa County Flood Control and Water Conservation District who serve water to northern California communities in the areas of origin filed suit claiming rights to an increased share of the State Water Project water based on the area of origin statutes. The area of origin statutes can be used to prioritize water rights in the area that the water originated.

Assembly Bill 1234 — This bill requires a local agency that provides reimbursement for expenses to members of its legislative body to adopt a written policy on the duties for which legislative body members may receive compensation, other than meetings of the legislative body or an advisory body or attendance at a conference or organized educational activity. The bill requires such a governing body to adopt a written policy concerning what occurrences qualify a member to receive reimbursement of expenses for travel, meals, and lodging and would impose related requirements, including the filing of expense reports, which would be public records.

Assembly Bill 32 — The Global Warming Solutions Act of 2006, is California's landmark global warming legislation. It will reduce California greenhouse gas emissions (GHG's) to 1990 levels by 2020 and to 80 percent below 1990 levels by 2050.

Assembly Bill 72 — This bill changed the date that newly elected Municipal Water Directors begin their term from the first Monday after January to the first Friday in December.

Assembly Bill 803 — (also known as the Water Recycling Act of 2013) – This bill harmonizes recycled water spill reporting requirements and authorizes Regional Water Quality Control Boards to permit the introduction of Advanced Treated Purified Water into conveyance systems prior to comingling with any raw water or other water source.

Assembly Bill 850 — This bill amended the Joint Exercise of Powers Act of the California Government Code to allow Joint Powers Authorities (JPAs) to issue rate reduction bonds which would be used to fund certain capital investments of municipally owned California water utilities.

AWWA — American Water Works Association.

Balanced Budget — Metropolitan considers the budget to be balanced when sources of funds equals the uses of funds.

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.

BDCP — Bay Delta Conservation Plan. A long-term conservation strategy that sets forth actions needed for a healthy Delta.

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.

Business Outreach — This program's intent is to solicit participation in the performance of all construction contracts, professional services contracts, and procurement of supplies and equipment for Metropolitan by all individuals and businesses, including but not limited to small, locally owned, women owned, minority owned, and economically disadvantaged business enterprises.

California WaterFix (CA WaterFix) — The new permitting approach and associated new alternatives to the BDCP that would be implemented under a different Endangered Species Act regulatory permitting process (Section 7 versus Section 10[a]) as proposed by Governor Brown on April 30, 2015. 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.

CDPH — California Department of Public Health.

Capacity Charge — Recovers the cost of providing peak water service capacity within the distribution system. Member agencies pay the capacity charge based on their maximum daily flow during the summer months.

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.

CARB — California Air Resources Board. This is the "clean air agency", a regulatory department within the [California Environmental Protection Agency](#). The goals of CARB include attaining and maintaining healthy [air quality](#); protecting the public from exposure to toxic air contaminants; and providing innovative approaches for complying with air pollution rules and regulations.

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.

Chromium 6 — Occurs naturally in the environment from the erosion of natural chromium deposits and industrial processes. People who use water containing total chromium in excess of the maximum contaminant level (MCL) over many years could experience allergic dermatitis.

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 Credits Program (CCP) — A program where Metropolitan provides financial assistance for the development of conservation programs (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.

DHCCP — Delta Habitat Conservation and Conveyance Program. Formed in 2008 as a result of demands to protect the Delta, prompting studies to assess potential habitat restoration and water conveyance options. DHCCP will conduct an environmental review of the BDCP.

Debt Service — The annual cost of repaying outstanding debt.

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.

FCC — Federal Communications Commission.

FERC — Federal Energy Regulatory Commission.

Fee Property — An estate in land for which Metropolitan has full ownership, generally referred to as fee simple absolute.

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.

GFOA — Government Finance Officers Association.

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, indirect, and capital cost of developing and implementing the program. This agreement is renewable.

Information Technology Strategic Plan (ITSP) — A roadmap for investment in IT projects over the next 3 to 5 years.

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.

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.

Metropolitan/Arizona Interim Surplus Guidelines Agreement — This May 23, 2001 agreement between the State of Arizona and Metropolitan was voided when the Quantification Settlement Agreement was not in full force and effect by December 31, 2002. Arizona and California have completed negotiations on a replacement agreement.

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.

Ocean Plan — California's Ocean Plan contains regulations for ocean brine discharges and intakes, and the State Water Resources Control Board is proposing to add new regulations specifically for seawater desalination projects.

Ocean Protection Council — The Ocean Protection Council develops a five-year Strategic Plan to guide future ocean resource policies for other state agencies and has developed new policy recommendations for seawater desalination development.

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 — Is a faintly blue gas with a pungent odor. 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 Excellence — A long-term effort to implement best practices in day-to-day operations and maintenance activities, emphasizing continuous improvement in operations and maintenance practices.

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.

PPCP — Pharmaceutical and personal care products.

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) — An agreement between the Coachella Valley Water District, Imperial Irrigation District, and Metropolitan regarding the priority, use, and transfer of Colorado River Water.

Readiness-To-Serve (RTS) Charge — A charge designed to provide firm revenue for Capital Investment Plan (CIP) debt service to meet the reliability and quality needs of existing and potential users.

RPDM — Real Property Development and Management (group); an organization within Metropolitan that provides real property related services.

Regional Urban Water Management Plan — A document prepared in response to the California Urban Water Management Act, Water Code Sections 10610 through 10656, enacted in 1983. The Act requires that every urban water supplier providing water for municipal purposes to more than 3,000 customers or supplying more than 3,000 acre-feet of water annually prepare an adopt an urban water management plan that describes and evaluates reasonable, practical, and efficient water uses, recycling, conservation activities, and drought contingency planning. These plans must be updated every five years and filed with the California Department of Water Resources.

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.

Reserve Transfer — Fund transfers required to maintain a given level of fund balances in accordance with Board policies and bond covenants.

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 — 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) — Metropolitan's agreement with DWR for a specified water supply in return for paying a portion of the costs associated with the construction and operation of the SWP, a major water conveyance system designed to transport water from the Bay Delta to central and southern portions of California. The term may also be used to refer to State Water Contractors.

State Water Project (SWP) — A water development and distribution system owned and operated by the State of California DWR to transport water from the Bay Delta to central and southern portions of California. It entails the development of an aqueduct system and power associated with pumping the water.

System Access Rate (SAR) — A volumetric rate that member agencies pay for use of Metropolitan's conveyance and distribution system.

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.

System Power Rate (SPR) — A volumetric rate to recover the cost of pumping water through the Colorado River Aqueduct and the State Water Project.

TAF (thousand acre-feet) — A unit of measure of water.

Tier 1 Supply Rate — A rate applied to recover the cost of maintaining reliable water supplies.

Tier 2 Supply Rate — A rate that reflects the cost of north of the Delta transfers. The Tier 2 Rate is intended to encourage cost-effective water conservation, recycling, groundwater recovery as well as water transfers.

Total Dissolved Solids (TDS) — Refers to the total organic carbon concentration in water. Measurement of TOC 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.

Treatment Surcharge — Charge to users of treated water to pay the operations, maintenance and capital costs of treating imported water supplies.

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 Stewardship Rate (WSR) — A volumetric rate to recover the cost of demand management programs including the Conservation Credits Program (CCP) and the Local Resources Program (LRP).

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 twenty-six 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:

Working Capital = Current Assets - Current Liabilities.

WSO — Water Systems Operations (group); an organization within Metropolitan responsible for operating and maintain Metropolitan's water conveyance, treatment, and distribution system and its appurtenant systems.

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

