



METROPOLITAN WATER DISTRICT



Proposed Biennial Budget

Fiscal Years
2018/19 and
2019/20

Realizing the
Benefit of Sound
Investments

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BIENNIAL BUDGET SUMMARY

APPROPRIATIONS

The FY 2018/19 proposed appropriation of \$1,692.3 million is comprised of \$1,240.3 million or 73.3% percent for operations expense, \$332.0 million or 19.6% percent for debt service expense, and \$120.0 million or 7.1% percent for the Capital Investment Plan expenses (CIP). The FY 2019/20 proposed appropriation of \$1,743.0 million is comprised of \$1,292.1 million or 74.1% percent for operations expense, \$330.9 million or 19.0% percent for debt service expense, and \$120.0 million or 6.9% percent for the CIP expenses. The table below provides a comparison of FY 2018/19 and FY 2019/20 and illustrates the total proposed appropriations for the operating, debt service and CIP expenses.

FY 2018/19 and 2019/20 Operating and Capital Appropriations, \$ millions

| | 2018/19 Proposed | 2019/20 Proposed | Total Biennium |
|--------------------|------------------|------------------|------------------|
| Operating Budget | \$1,240.3 | \$1,292.1 | \$2,532.4 |
| Debt Service | 332.0 | 330.9 | 662.9 |
| PAYGo | 120.0 | 120.0 | 240.0 |
| Grand Total | \$1,692.3 | \$1,743.0 | \$3,435.3 |

The Biennial Budget for FY 2018/19 and 2019/20 provides funding for Metropolitan’s strategic priorities while meeting most financial policy guidelines, with overall rate increases of 3.0 percent in each year of the Biennial Budget. The overall rate increases of 3.0 percent are in line with recent increases, consistent with rate projections of 3 to 5 percent increases, and reflect the current environment of lower water demands as southern California is coming off a record wet year and local supplies are robust.

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

FUND SUMMARY

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

FY 2018/19 Fund Summary, \$ millions

| Fiscal Year Ending June 30th, 2019 (\$ in Millions) | All Funds | Operating Funds | Debt Service and Construction Funds | Reserve Funds (1) | Other Funds (2) |
|--|----------------|-----------------|--|-------------------|-----------------|
| Beginning of Year Balance | 1,151.6 | 373.9 | 283.9 | 401.4 | 92.4 |
| USES OF FUNDS | | | | | |
| Expenses | | | | | |
| State Water Contract | 566.7 | 566.7 | — | — | — |
| Supply Programs | 61.2 | 61.2 | — | — | — |
| Colorado River Power | 45.8 | 45.8 | — | — | — |
| Debt Service | 332.0 | 6.5 | 325.5 | — | — |
| Demand Management | 89.1 | 89.1 | — | — | — |
| Departmental O&M | 441.9 | 441.9 | — | — | — |
| Treatment Chemicals, Sludge & Power | 27.1 | 27.1 | — | — | — |
| Other O&M | 8.5 | 8.5 | — | — | — |
| Sub-total Expenses | 1,572.2 | 1,246.8 | 325.5 | — | — |
| Capital Investment Plan | 200.0 | 20.0 | 180.0 | — | — |
| Fund Deposits | | | | | |
| R&R and General Fund | 120.0 | 20.0 | 100.0 | — | — |
| Treatment Surcharge Stabilization Fund | 6.6 | — | — | — | 6.6 |
| Interest for Construction & Trust Funds | 0.2 | — | 0.2 | — | — |
| Increase in Required Reserves | 31.6 | 28.8 | 3.2 | (0.4) | — |
| Increase in Rate Stabilization Fund | 14.2 | — | — | 14.2 | — |
| Sub-total Fund Deposits | 172.7 | 48.8 | 103.4 | 13.8 | 6.6 |
| TOTAL USES OF FUNDS | 1,944.9 | 1,315.6 | 608.9 | 13.8 | 6.6 |
| SOURCES OF FUNDS | | | | | |
| Revenues | | | | | |
| Taxes | 116.6 | 102.3 | 14.4 | — | — |
| Interest Income | 16.9 | 5.9 | 4.3 | 5.4 | 1.3 |
| Hydro Power | 20.9 | 20.9 | — | — | — |
| Fixed Charges (RTS & Capacity Charge) | 170.3 | 170.3 | — | — | — |
| Water Revenue (3) | 1,395.5 | 1,395.5 | — | — | — |
| Miscellaneous Revenue | 11.1 | 11.1 | — | — | — |
| Bond Proceeds | 79.4 | — | 79.4 | — | — |
| Sub-total Revenues | 1,810.8 | 1,705.9 | 98.1 | 5.4 | 1.3 |
| Fund Withdrawals | | | | | |
| R&R and General Fund | 120.0 | 20.0 | 100.0 | — | — |
| Bond Funds for Construction | 0.6 | — | 0.6 | — | — |
| Water Stewardship Fund | 13.6 | — | — | — | 13.6 |
| Sub-total Fund Withdrawals | 134.1 | 20.0 | 100.6 | — | 13.6 |
| TOTAL SOURCES OF FUNDS | 1,944.9 | 1,725.9 | 198.7 | 5.4 | 14.9 |
| Inter-Fund Transfers | — | (410.4) | 410.2 | 8.4 | (8.3) |
| End of Year Balance | 1,190.2 | 402.7 | 286.8 | 415.2 | 85.5 |

Totals may not foot due to rounding.

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

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

(3) includes revenues from water sales, exchanges and wheeling

FY 2019/20 Fund Summary, \$ millions

| Fiscal Year Ending June 30th, 2020 (\$ in Millions) | All Funds | Operating Funds | Debt Service and Construction Funds | Reserve Funds (1) | Other Funds (2) |
|--|----------------|-----------------|--|-------------------|-----------------|
| Beginning of Year Balance | 1,190.2 | 402.7 | 286.8 | 415.2 | 85.5 |
| USES OF FUNDS | | | | | |
| Expenses | | | | | |
| State Water Contract | 602.5 | 602.5 | — | — | — |
| Supply Programs | 54.4 | 54.4 | — | — | — |
| Colorado River Power | 52.9 | 52.9 | — | — | — |
| Debt Service | 330.9 | 6.9 | 324.0 | — | — |
| Demand Management | 85.8 | 85.8 | — | — | — |
| Departmental O&M | 461.7 | 461.7 | — | — | — |
| Treatment Chemicals, Sludge & Power | 27.7 | 27.7 | — | — | — |
| Other O&M | 7.0 | 7.0 | — | — | — |
| Sub-total Expenses | 1,623.0 | 1,299.0 | 324.0 | — | — |
| Capital Investment Plan | 200.0 | 20.0 | 180.0 | — | — |
| Fund Deposits | | | | | |
| R&R and General Fund | 120.0 | 20.0 | 100.0 | — | — |
| Water Stewardship Fund | 4.8 | — | — | — | 4.8 |
| Treatment Surcharge Stabilization Fund | 16.5 | — | — | — | 16.5 |
| Interest for Construction & Trust Funds | 0.2 | — | 0.2 | — | — |
| Increase in Required Reserves | 41.3 | 31.8 | (3.1) | 12.6 | — |
| Increase in Rate Stabilization Fund | 55.2 | — | — | 55.2 | — |
| Sub-total Fund Deposits | 238.0 | 51.8 | 97.1 | 67.8 | 21.2 |
| TOTAL USES OF FUNDS | 2,060.9 | 1,370.8 | 601.1 | 67.8 | 21.2 |
| SOURCES OF FUNDS | | | | | |
| Revenues | | | | | |
| Taxes | 118.1 | 103.7 | 14.3 | — | — |
| Interest Income | 18.1 | 6.3 | 4.3 | 6.0 | 1.5 |
| Hydro Power | 19.1 | 19.1 | — | — | — |
| Fixed Charges (RTS & Capacity Charge) | 165.8 | 165.8 | — | — | — |
| Water Revenue (3) | 1,528.5 | 1,528.5 | — | — | — |
| Miscellaneous Revenue | 11.5 | 11.5 | — | — | — |
| Bond Proceeds | 79.4 | — | 79.4 | — | — |
| Sub-total Revenues | 1,940.4 | 1,834.9 | 98.1 | 6.0 | 1.5 |
| Fund Withdrawals | | | | | |
| R&R and General Fund | 120.0 | 20.0 | 100.0 | — | — |
| Bond Funds for Construction | 0.6 | — | 0.6 | — | — |
| Sub-total Fund Withdrawals | 120.6 | 20.0 | 100.6 | — | — |
| TOTAL SOURCES OF FUNDS | 2,060.9 | 1,854.9 | 198.6 | 6.0 | 1.5 |
| Inter-Fund Transfers | — | (484.0) | 402.5 | 61.8 | 19.8 |
| End of Year Balance | 1,307.5 | 434.5 | 283.3 | 483.0 | 106.7 |

Totals may not foot due to rounding.

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

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

(3) includes revenues from water sales, exchanges and wheeling

SOURCES OF FUNDS

Total Sources of FY 2018/19 and FY 2019/20 Funds, \$ millions

| | 2017/18 Budget | 2018/19 Proposed | 2019/20 Proposed | 2018/19 Proposed Compared to 2017/18 Budget | 2019/20 Proposed Compared to 2018/19 Proposed |
|---|-------------------|---------------------|---------------------|--|--|
| SOURCES OF FUNDS | | | | | |
| Revenues | | | | | |
| Taxes | 100.5 | 116.6 | 118.1 | 16.1 | 1.4 |
| Interest Income | 12.4 | 16.9 | 18.1 | 4.5 | 1.2 |
| Hydro Power | 21.6 | 20.9 | 19.1 | (0.7) | (1.9) |
| Fixed Charges (RTS & Capacity Charge) | 172.7 | 170.3 | 165.8 | (2.4) | (4.5) |
| Water Revenues (1) | 1,375.5 | 1,395.5 | 1,528.5 | 20.0 | 133.0 |
| Miscellaneous Revenue | 12.1 | 11.1 | 11.5 | (1.1) | 0.4 |
| Bond Proceeds and Reimbursements | 79.7 | 79.4 | 79.4 | (0.2) | — |
| Working Capital Borrowing | 47.4 | — | — | (47.4) | — |
| Sub-total Revenues | 1,822.0 | 1,810.8 | 1,940.4 | (11.2) | 129.6 |
| Fund Withdrawals | | | | | |
| R&R and General Fund | 120.0 | 120.0 | 120.0 | — | — |
| Bond Funds for Construction | 0.3 | 0.6 | 0.6 | 0.2 | — |
| Water Stewardship Fund | — | 13.6 | — | 13.6 | (13.6) |
| Treatment Surcharge Stabilization Fund | 3.2 | — | — | (3.2) | — |
| Decrease in Water Rate Stabilization Fund | 23.0 | — | — | (23.0) | — |
| Sub-total Fund Withdrawals | 146.5 | 134.1 | 120.6 | (12.4) | (13.6) |
| TOTAL SOURCES OF FUNDS | 1,968.5 | 1,944.9 | 2,060.9 | (23.6) | 116.1 |

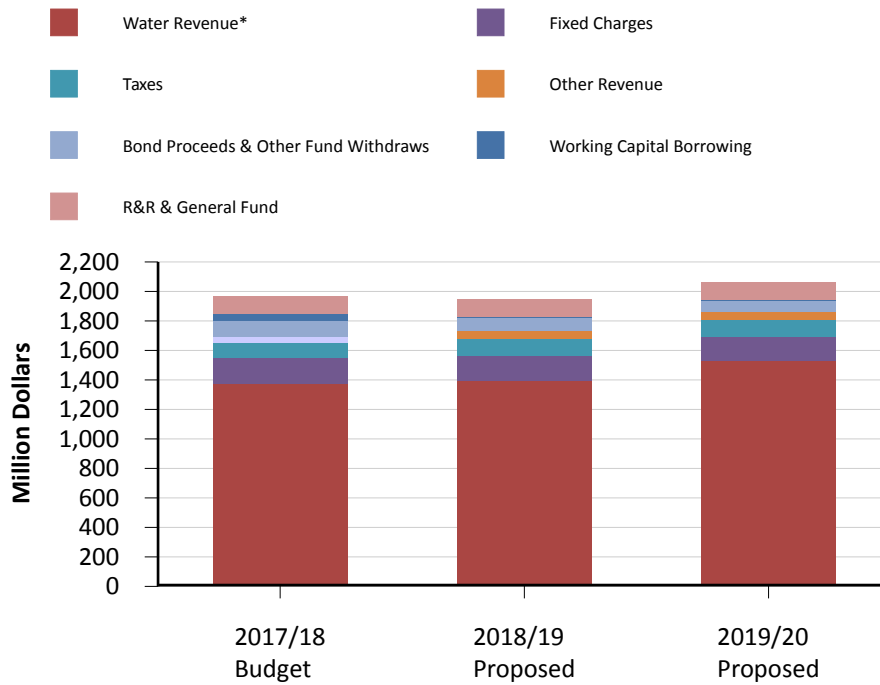
Totals may not foot due to rounding.

(1) includes revenues from water sales, exchanges and wheeling

OPERATING REVENUE

Estimated revenues from water rates, fixed charges (Readiness-To-Serve Charge and Capacity Charge), taxes and annexation fees, and other miscellaneous income (interest income, power recovery, etc.) are projected to be \$1.73 billion for FY 2018/19 and \$1.86 billion for FY 2019/20. For FY 2018/19, this is \$36.4 million more than the FY 2017/18 budget, and for FY 2019/20, this is \$129.6 million more than FY 2018/19. The increase in revenues for FY 2018/19 is due to higher tax revenues and higher water rates and charges in Calendar Year 2019. For FY 2019/20, the revenue is higher due to higher water rates and charges in calendar year 2019 and calendar year 2020. 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 2018/19 and FY 2019/20, \$ millions

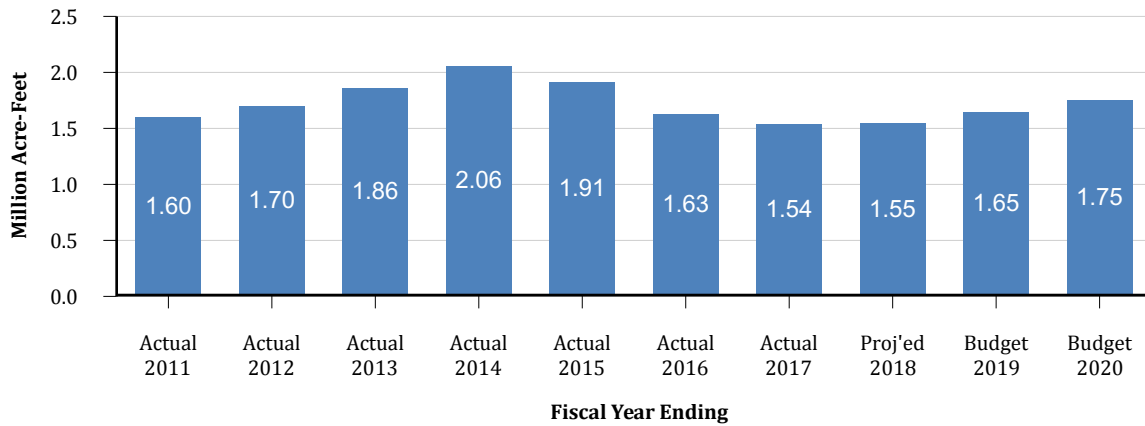


* includes revenues from water sales, exchanges and wheeling

Water Revenues

Revenues from water transactions are budgeted at \$1,395.5 million in FY 2018/19 and \$1,528.5 million in FY 2019/20. Water rates and charges are proposed to increase by 3.0 percent overall effective January 1, 2019 and 3.0 percent overall effective January 1, 2020. Water transactions for FY 2018/19 are estimated to be 1.65 million acre-feet (MAF), a decrease of 50 thousand acre-feet (TAF) from the FY 2017/18 budget. Water transactions for FY 2019/20 are estimated to be 1.75 million acre-feet (MAF), an increase of 100 thousand acre-feet (TAF) from the FY 2018/19 budget. Water transactions are forecasted to be lower than the FY 2017/18 budget as southern California is coming off a record wet year and local supplies are robust.

Water Transactions Trend, MAF



The FY 2018/19 fiscal year water transactions include 1.42 MAF of firm sales and 227 TAF of exchange water to the San Diego County Water Authority (SDCWA) pursuant to the 2003 Amended and Restated Exchange Agreement (exchange water). Treated water sales are estimated at 839 TAF, or 51 percent of total water transactions in FY 2018/19. The FY 2019/20 fiscal year water transactions include 1.49 MAF of firm sales and 258 TAF of exchange water. Treated sales are estimated at 884 TAF, or 51 percent of total water transactions in FY 2019/20. The figure above shows the trend of water transactions.

Taxes and Annexation Fees

Revenues from taxes, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the SWP, are estimated to be \$116.6 million in FY 2018/19 and \$118.1 million in FY 2019/20.

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 2018/19, these charges are estimated to generate \$33.8 million and \$136.5 million, respectively. In FY 2019/20, these charges are estimated to generate \$31.3 million and \$134.5 million, respectively. In total this represents a \$2.4 million decrease from the FY 2017/18 to FY 2018/19 budget, and a \$4.5 million decrease from the FY 2018/19 to the FY 2019/20 budget. Fixed charges are decreasing due to lower peak demands on the distribution system, and lower SWP transportation capital costs.

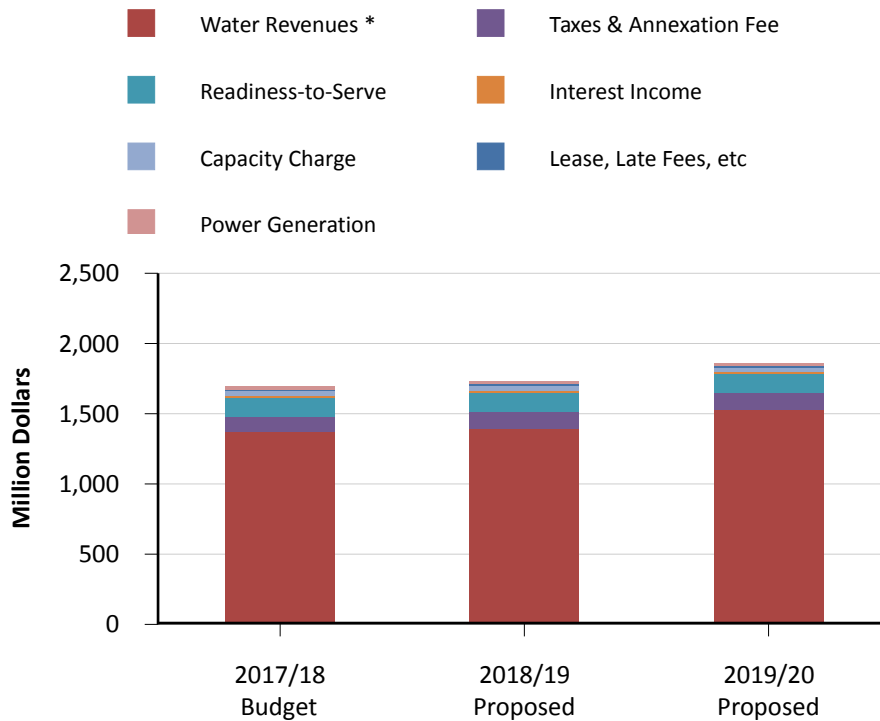
All Other Revenue

Revenues from hydroelectric and CRA power sales are estimated to be \$20.9 million for FY 2018/19 and \$19.1 million for FY 2019/20. FY 2018/19 is lower than the FY 2017/18 budgeted amount of \$21.6 million due to lower deliveries through the distribution system and lower wholesale prices.

Miscellaneous revenues, including interest income and lease revenues, are estimated to total \$28.2 million for FY 2018/19 and \$29.8 million for FY 2019/20 (including trust accounts and construction funds), higher than the FY 2017/18 budgeted amounts of \$24.6 million, mainly due to higher assumed interest rates.

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

Operating Revenues, \$ millions



* includes revenues from water sales, exchanges and wheeling

CAPITAL FUNDING

The FY 2018/19 and FY 2019/20 Capital Investment Plan (CIP) will be funded with bond proceeds and current operating revenues (PAYGo). It is anticipated that Metropolitan will issue \$80 million in new revenue bonds in FY 2018/19 and \$80 million in new revenue bonds in FY 2019/20. Combined with revenue funded capital of \$120.0 million in FY 2018/19 and \$120.0 million in FY 2019/20, 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.

USES OF FUNDS

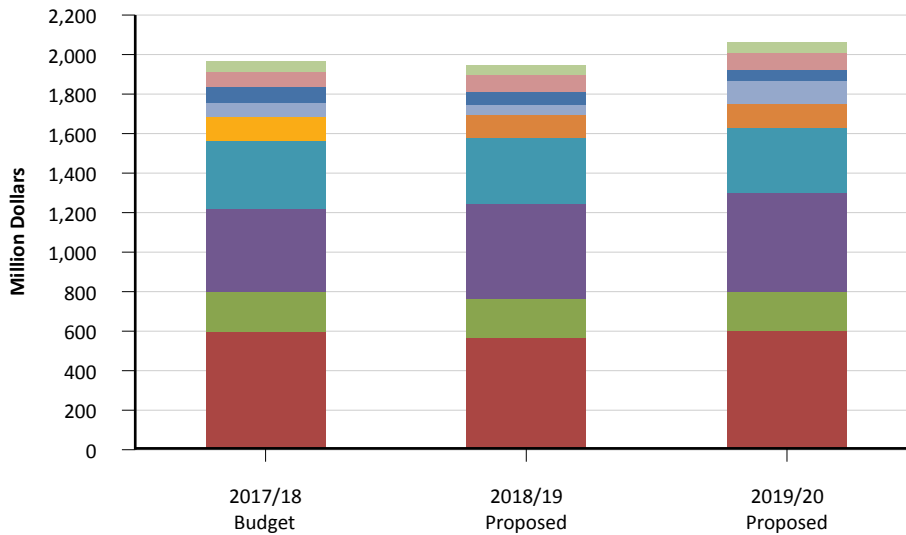
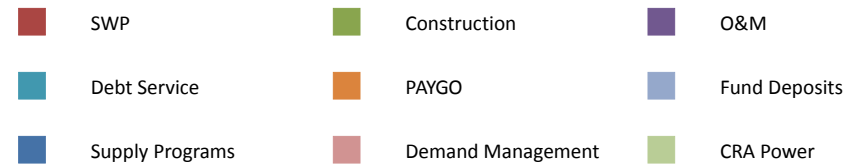
Total uses of funds are \$1.94 billion for FY 2018/19 and \$2.06 billion for FY 2019/20. The table and graph below show the breakdown of expenditures and other obligations that make up the Uses of Funds.

Total Uses of FY 2018/19 and FY 2019/20 Funds, \$ millions

| | 2017/18 Budget | 2018/19 Proposed | 2019/20 Proposed | 2018/19 Proposed Compared to 2017/18 Budget | 2019/20 Proposed Compared to 2018/19 Proposed |
|---|-------------------|---------------------|---------------------|--|--|
| USES OF FUNDS | | | | | |
| Expenses | | | | | |
| State Water Contract | 599.4 | 566.7 | 602.5 | (32.7) | 35.8 |
| Supply Programs | 81.7 | 61.2 | 54.4 | (20.6) | (6.8) |
| Colorado River Power | 54.4 | 45.8 | 52.9 | (8.5) | 7.1 |
| Debt Service | 344.1 | 332.0 | 330.9 | (12.1) | (1.0) |
| Demand Management | 75.9 | 89.1 | 85.8 | 13.1 | (3.2) |
| Departmental O&M | 388.7 | 441.9 | 461.7 | 53.2 | 19.8 |
| Treatment Chemicals, Sludge & Power | 24.6 | 27.1 | 27.7 | 2.5 | 0.6 |
| Other O&M | 6.4 | 8.5 | 7.0 | 2.1 | (1.6) |
| Sub-total Expenses | 1,575.3 | 1,572.2 | 1,623.0 | (3.1) | 50.8 |
| Capital Investment Plan | 200.0 | 200.0 | 200.0 | — | — |
| Fund Deposits | | | | | |
| R&R and General Fund | 120.0 | 120.0 | 120.0 | — | — |
| Water Stewardship Fund | — | — | 4.8 | — | 4.8 |
| Exchange Agreement Set-aside | 47.4 | — | — | (47.4) | — |
| Treatment Surcharge Stabilization Fund | — | 6.6 | 16.5 | 6.6 | 9.9 |
| Interest for Construction & Trust Funds | 0.4 | 0.2 | 0.2 | (0.1) | — |
| Increase in Required Reserves | 25.4 | 31.6 | 41.3 | 6.2 | 9.7 |
| Increase in Water Rate Stabilization Fund | — | 14.2 | 55.2 | 14.2 | 41.0 |
| Sub-total Fund Deposits | 193.2 | 172.7 | 238.0 | (20.5) | 65.3 |
| TOTAL USES OF FUNDS | 1,968.5 | 1,944.9 | 2,060.9 | (23.6) | 116.1 |

Totals may not foot due to rounding.

Total Uses of FY 2018/19 and FY 2019/20 Funds, \$ millions



Colorado River Aqueduct Power

CRA power costs are projected to be \$45.8 million in FY 2018/19 and \$52.9 million in FY 2019/20 based on diversions of approximately 838 TAF in FY 2018/19 and 915 TAF in FY 2019/20. FY 2018/19 is lower than the FY 2017/18 budget due to lower diversions at Intake. FY 2019/20 is \$7.1 million higher due to higher costs for Hoover and Parker federal contracts and more supplemental power purchases and associated costs.

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 \$566.7 million for FY 2018/19 and \$602.5 million in FY 2019/20. This is based on Metropolitan's supplies of 908 TAF in FY 2018/19 and 907 TAF in FY 2019/20. SWP power costs are expected to be \$167.3 million for FY 2018/19 and \$174.8 million for FY 2019/20. 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 \$89.1 million for FY 2018/19 and \$85.8 million in FY 2019/20.

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

Supply Programs

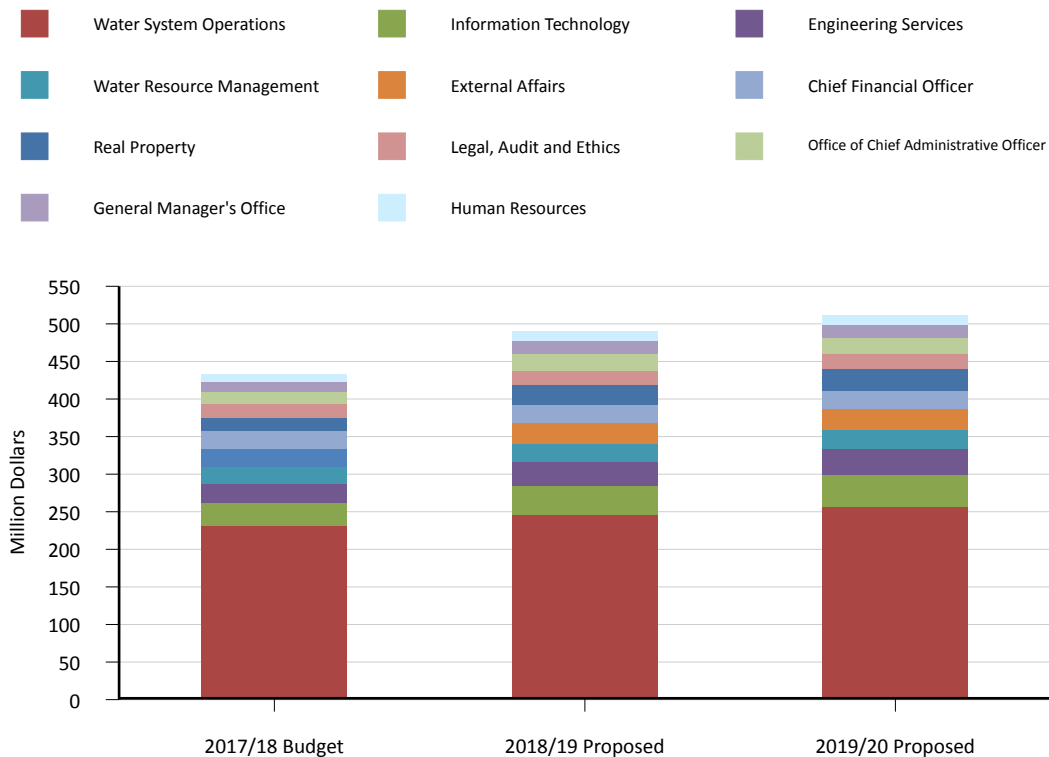
Metropolitan’s two principal sources of supply draw from two different watersheds. This has allowed Metropolitan to draw more heavily on one source in the event the other is experiencing a drought. To further ensure regional supply reliability, Metropolitan has developed a portfolio of additional supply programs on both watersheds. Total expenditures are budgeted at \$61.2 million for FY 2018/19 and \$54.4 million in FY 2019/20.

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

OPERATIONS AND MAINTENANCE

The FY 2018/19 O&M budget, including operating equipment purchases, is \$477.5 million. This is \$57.7 million, or 13.8% percent, higher than the FY 2017/18 budget of \$419.8 million. The FY 2019/20 O&M budget is \$496.4 million, an increase of \$18.9 million, or 3.9% percent, over the FY 2018/19 budget.

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



Operations and Maintenance Budget by Organization, \$ thousands

| Departmental Units | 2017/18 Budget | 2018/19 Proposed | 2019/20 Proposed | 2017/18 Budget vs. 2018/19 Proposed | % Change | 2018/19 Proposed vs. 2019/20 Proposed | % Change |
|--|--------------------|--------------------|--------------------|-------------------------------------|--------------|---------------------------------------|-------------|
| Office of the General Manager | \$13,430.9 | \$18,083.1 | \$17,470.3 | \$4,652.2 | 34.6% | (\$612.8) | (3.4%) |
| Water System Operations w/o Variable Treatment | 204,657.0 | 218,696.1 | 228,606.7 | 14,039.1 | 6.9% | 9,910.6 | 4.5% |
| Water Resource Management | 22,040.6 | 23,946.2 | 25,066.0 | 1,905.6 | 8.6% | 1,119.8 | 4.7% |
| Engineering Services | 25,312.4 | 32,937.7 | 33,865.0 | 7,625.3 | 30.1% | 927.3 | 2.8% |
| Office of Chief Administrative Officer | 16,448.1 | 21,648.0 | 21,428.7 | 5,199.9 | 31.6% | (219.3) | (1.0%) |
| Information Technology | 31,359.8 | 38,009.1 | 43,261.5 | 6,649.3 | 21.2% | 5,252.4 | 13.8% |
| Real Property | 18,262.7 | 26,338.3 | 28,209.3 | 8,075.6 | 44.2% | 1,871.0 | 7.1% |
| Human Resources | 10,221.3 | 12,342.4 | 12,881.5 | 2,121.2 | 20.8% | 539.1 | 4.4% |
| Chief Financial Officer | 23,082.3 | 24,561.4 | 25,198.1 | 1,479.1 | 6.4% | 636.7 | 2.6% |
| External Affairs | 24,335.1 | 27,604.6 | 27,752.2 | 3,269.5 | 13.4% | 147.7 | 0.5% |
| Subtotal - General Manager's Dep. | 389,150.3 | 444,167.0 | 463,739.3 | 55,016.7 | 14.1% | 19,572.3 | 4.4% |
| General Counsel | 13,777.0 | 14,211.0 | 15,202.3 | 433.9 | 3.1% | 991.4 | 7.0% |
| Office of the General Auditor | 3,140.8 | 3,620.8 | 3,855.0 | 480.0 | 15.3% | 234.2 | 6.5% |
| Ethics Department | 1,376.0 | 1,396.0 | 1,448.4 | 20.0 | 1.5% | 52.4 | 3.8% |
| Overhead Credit from Construction | (20,427.4) | (21,510.2) | (22,554.0) | (1,082.8) | 5.3% | (1,043.8) | 4.9% |
| Total Departmental Budget | 387,016.7 | 441,884.5 | 461,691.0 | 54,867.8 | 14.2% | 19,806.5 | 4.5% |
| Operating Equipment | 6,426.0 | 8,522.1 | 6,955.4 | 2,096.1 | 32.6% | (1,566.7) | (18.4%) |
| Variable Treatment | 26,317.6 | 27,098.3 | 27,713.9 | 780.8 | 3.0% | 615.6 | 2.3% |
| GRAND TOTAL | \$419,760.2 | \$477,504.9 | \$496,360.3 | \$57,744.7 | 13.8% | \$18,855.4 | 3.9% |

Totals may not foot due to rounding

The graph above depicts the distribution of the departmental O&M by organization without the overhead credit and operating equipment. Including treatment costs, the Water System Operations (WSO) group accounts for 50 percent of the total departmental budget for FY 2018/19 and FY 2019/20. Information Technology is the second largest departmental expenditure area, accounting for 8 percent of the total departmental budget for FY 2018/19 and FY 2019/20. A summary of the O&M budget by organization is shown in the table above. The table below summarizes the O&M budget by expenditure type. A more detailed discussion of significant factors impacting the O&M budget follows.

FY 2018/19 and FY 2019/20 Operations & Maintenance Annual Budget by Expenditure Type, \$ thousands

| | 2017/18 Budget | 2018/19 Proposed | 2019/20 Proposed | 2017/18 Budget vs. 2018/19 Proposed | 2018/19 Proposed vs. 2019/20 Proposed |
|---------------------------------|--------------------|--------------------|--------------------|-------------------------------------|---------------------------------------|
| Salaries & Benefits (1) | \$273,061.3 | \$303,703.7 | \$322,637.6 | \$30,642.5 | \$18,933.9 |
| Chemicals, Sludge and Power (2) | 26,317.6 | 27,098.3 | 27,713.9 | 780.8 | 615.6 |
| Outside Services | 38,996.1 | 50,908.0 | 53,025.3 | 11,912.0 | 2,117.3 |
| Materials & Supplies (3) | 23,738.4 | 27,418.5 | 27,278.8 | 3,680.1 | (139.7) |
| Other | 51,221.0 | 59,854.3 | 58,749.3 | 8,633.3 | (1,105.0) |
| Operating Equipment | 6,426.0 | 8,522.1 | 6,955.4 | 2,096.1 | (1,566.7) |
| Total | \$419,760.2 | \$477,504.9 | \$496,360.3 | \$57,744.7 | \$18,855.4 |

Totals may not foot due to rounding

(1) Includes overhead credit for construction.

(2) Costs associated with treatment only.

(3) Without chemicals associated with treatment plants.

FY 2018/19 O&M Budget

The FY 2018/19 O&M budget includes \$477.5 million for labor and benefits, water treatment chemicals, power, and solids handling, materials and supplies, professional services, and operating equipment purchases. This is \$57.7 million, or 13.8 percent, higher than the FY 2017/18 budget of \$419.8.

Salaries and Benefits: Labor costs, not including those charged to construction are \$303.7 million. This is \$30.6 million, or 11.2 percent, higher than the FY 2017/18 budget of \$273.1 million. Negotiated labor increases represent \$18.7 million, or 61.1 percent of the increase. Increases in retirement, medical and other benefits represent \$7.3 million, or 23.7 percent of the increase. The remaining \$4.6 million increase, or 15.2 percent, is primarily attributable to funding 14 new and 8 previously unfunded regular full time positions in the FY 2017/18 budget.

The total authorized personnel complement for the FY 2018/19 budget is 1,927 authorized positions, including 27 agency and district temporary full-time equivalents (FTEs), and reflects an increase of 14 net regular full-time positions and 3 net temporary positions from the FY 2017/18 budget. Incorporating unfunded positions and positions that are planned to be vacant for portions of the year, the total funded positions are 1,862 FTEs.

Over the biennium a total of 19 regular full-time positions will be added to accommodate increased recruitment, Board and Bay Delta support, enhanced security and land management efforts, SWP and CRA program support, increased outreach, environmental planning and business technology support, and succession planning for future vacancies.

Outside Services and Materials & Supplies: Outside Services are anticipated to increase by \$11.9 million and Materials & Supplies by \$3.7 million primarily as a result of the potential Regional Recycled Water Program, Seismic Headquarters Relocation Project and Bay Delta science studies, grants and sponsorships.

Other O&M and Operating Equipment: Chemicals, solids, and power reflect the cost of the water treatment process and are anticipated to increase by \$0.8 million in FY 2018/19, driven by an increase in treated water deliveries. Environmental remediation and mitigation costs are anticipated to be \$3.0 million higher due to the Foothill Feeder Dewatering project and Diemer Basin Rehabilitation project. Property taxes are increasing by \$1.5 million for the previously unbudgeted Delta Islands and PVID properties. The FY 2018/19 budget reflects funds of \$1.2 million, which were not previously budgeted, contributed by Metropolitan to advance efforts on collaborative science through various State, Federal and other agencies. In addition, the FY 2018/19 budget reflects an anticipated increase of \$1.0 million in tuition reimbursement and professional development costs. Operating equipment is higher by \$2.1 million primarily due to the purchase of analytical instrumentation in support of the Regional Recycled Water Program and the replacement of critical IT infrastructure for District facilities.

FY 2019/20 O&M Budget

The FY 2019/20 O&M budget is \$496.4 million, an increase of \$18.9 million, or 3.9% percent, compared to the FY 2018/19 budget. This increase is primarily due to negotiated labor increases and increases in retirement, medical and other benefits. The increase in outside services is offset by a decrease in environmental remediation and operating equipment costs.

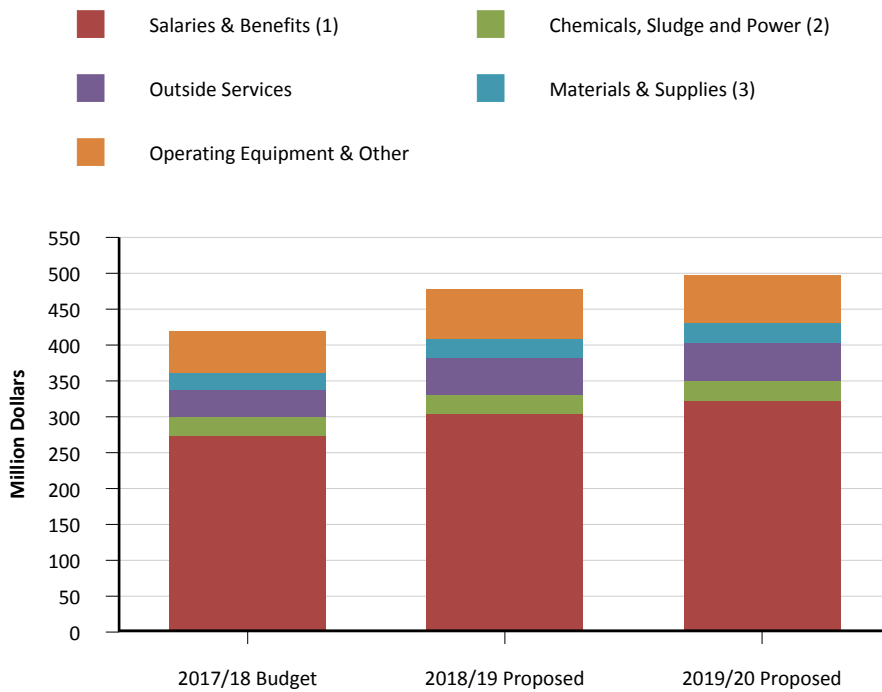
Salaries and Benefits: The FY 2019/20 O&M labor budget is about \$18.9 million or 6.2 percent higher than the FY 2018/19 budget. Negotiated labor increases represent \$12.5 million, or 66.2 percent of the increase. Increases in retirement, medical and other benefits represent \$5.9 million, or 31.4 percent of the increase. The remaining \$0.5 million increase, or 2.4 percent, is primarily attributable to funding 5 new and 1 previously unfunded regular full time position in the FY 2018/19 budget.

The total authorized personnel complement for FY 2019/20 is increased by 5 net regular full-time positions to 1,932 positions. Incorporating unfunded positions and positions that are planned to be vacant for portions of the year, the total funded positions are 1,868 FTEs.

Outside Services: Outside Services are anticipated to increase by \$2.1 million due to the first year of a ten-year planned effort to refurbish all of the floors at Metropolitan's headquarters.

Other O&M and Operating Equipment –The cost of chemicals, power, and sludge disposal incurred in the water treatment process is anticipated to increase slightly by \$0.6 million in FY 2019/20 due primarily to higher treated water deliveries. Other O&M is lower primarily due to the one time environmental remediation cost of \$1.5 million in FY 2018/19 for the Foothill Feeder Dewatering project. Operating equipment is lower by \$1.6 million from FY 2018/19. FY 2019/20 includes \$2.7 million for the replacement of a plane that has reached end of life but decreases in heavy equipment, trucks, monitoring equipment and IT infrastructure more than offsets this purchase.

Departmental Budget by Expenditure Type, \$ millions



- (1) Includes overhead credit for construction.
- (2) Costs associated with treatment only.
- (3) Without chemicals associated with treatment plants.

The figure above summarizes the total departmental O&M budget by expenditure type, of which about 64 percent is for salaries and benefits in both FY 2018/19 and 2019/20.

STAFFING PLAN

Total authorized positions (including temporary workers) for FY 2018/19 and FY 2019/20 are 1,927 and 1,932 positions respectively. Total personnel are up by 14 new full time positions and 2 district temporary positions (rounded) to 1,927 in 2018/19 and increase by 5 regular full time positions and 1 district temporary position (rounded) to a total of 1,932 in FY 2019/20.

Over the biennium, positions dedicated to O&M work are expected to increase by 28 regular full time positions in large part to support the Regional Recycled Water Program, California WaterFix, dam safety monitoring, enhanced security and land management efforts, environmental planning and business technology, and increased recruitment efforts. Positions dedicated to capital work are expected to decrease slightly over the biennium.

The FY 2018/19 and FY 2019/20 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

| | 2016/17 Budget | 2017/18 Budget | 2018/19 Proposed | 2019/20 Proposed | 2017/18 Budget vs. 2018/19 Proposed | 2018/19 Proposed vs. 2019/20 Proposed |
|------------------------------|-------------------|-------------------|---------------------|---------------------|--|--|
| Regular Full Time Positions | 1,886 | 1,886 | 1,900 | 1,905 | 14 | 5 |
| District Temporary Positions | 22 | 20 | 22 | 23 | 2 | 1 |
| Agency Temporary Positions | 4 | 4 | 5 | 4 | 1 | — |
| Total | 1,912 | 1,910 | 1,927 | 1,932 | 17 | 5 |

Totals may not foot due to rounding.

O&M and Capital Staffing Levels

| | 2017/18 Budget | 2018/19 Proposed | 2019/20 Proposed |
|---------------------------------------|-------------------|---------------------|---------------------|
| O&M Positions | | | |
| Regular Full Time Positions | 1,592 | 1,618 | 1,620 |
| District & Agency Temporary Positions | 23 | 25 | 25 |
| Total O&M | 1,615 | 1,643 | 1,645 |
| Capital Positions | | | |
| Regular Full Time Positions | 294 | 282 | 285 |
| District & Agency Temporary Positions | 1 | 2 | 2 |
| Total Capital | 295 | 284 | 287 |
| GRAND TOTAL | 1,910 | 1,927 | 1,932 |

Totals may not foot due to rounding.

CAPITAL INVESTMENT PLAN

The CIP budget for FY 2018/19 and 2019/20 is forecasted at \$200.0 million in both fiscal years. It is anticipated to be funded by current operating revenues (i.e., PAYGo) and by issuing new revenue bonds. The FY 2019/20 capital budget is flat with the FY 2017/18 budget.

The two largest areas of expenditures in the FY 2018/19 and 2019/20 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 anticipated to be funded 60 percent by current operating revenues (PAYGo). The PAYGO funding for FY 2018/19 and 2019/20 is budgeted at \$120.0 million in each fiscal year.

Debt Funded Capital

Overall, the CIP is anticipated to be funded 40 percent by revenue bond proceeds. New debt issues are planned in FY 2018/19 in the amount of \$80 million, and in FY 2019/20 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 2018/19 and FY 2019/20 Metropolitan plans to issue new revenue bond debt as described above. Debt service payments in FY 2018/19 are budgeted at \$332.0 million and \$330.9 million in FY 2019/20. 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 2018/19 budget forecasts a \$13.8 million increase in reserves by June 30, 2019 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), Water Management Fund (WMF) and the Water Stewardship Fund (WSF) are projected to decrease by \$7.0 million.

The FY 2019/20 budget forecasts a \$67.8 million increase in reserves by June 30, 2020 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 \$21.2 million.

Fund balances are budgeted to be \$1.19 billion at June 30, 2019. Of that total, \$683.6 million is restricted by bond covenants, contracts, or board policy, and \$506.6 million is unrestricted. Fund balances are budgeted to be \$1.31 billion at June 30, 2020. Of that total, \$712.0 million is restricted by bond covenants, contracts, or board policy, and \$595.6 million is unrestricted.

On June 30, 2019, the targets for the minimum and target reserve funds are estimated to be \$256.9 million and \$626.4 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about \$415.2 million, about \$158.3 million over the minimum level.

On June 30, 2020, the targets for the minimum and target reserve funds are estimated to be \$269.5 million and \$654.4 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about \$483.0 million, about \$213.5 million over the minimum level.

Projected Fund Balances, \$ millions

| | Restricted | Designated | Unrestricted | Total |
|------------------------------|--------------|--------------|--------------|----------------|
| 2018/19 Proposed | | | | |
| Operating Funds | 332.7 | 0.0 | 0.0 | 332.7 |
| Debt Service Funds | 264.3 | 0.0 | 0.0 | 264.3 |
| Construction Funds | 15.6 | 6.8 | 0.0 | 22.4 |
| Reserve Funds (1) | 0.0 | 0.0 | 415.2 | 415.2 |
| Rate Stabilization Funds (2) | 0.0 | 84.6 | 0.0 | 84.6 |
| Trust and Other Funds | 70.9 | 0.0 | 0.0 | 70.9 |
| Total June 30, 2019 | 683.6 | 91.3 | 415.2 | 1,190.2 |
| 2019/20 Proposed | | | | |
| Operating Funds | 364.5 | 0.0 | 0.0 | 364.5 |
| Debt Service Funds | 261.2 | 0.0 | 0.0 | 261.2 |
| Construction Funds | 15.3 | 6.8 | 0.0 | 22.1 |
| Reserve Funds (1) | 0.0 | 0.0 | 483.0 | 483.0 |
| Rate Stabilization Funds (2) | 0.0 | 105.8 | 0.0 | 105.8 |
| Trust and Other Funds | 70.9 | 0.0 | 0.0 | 70.9 |
| Total June 30, 2020 | 712.0 | 112.6 | 483.0 | 1,307.5 |

Totals may not foot due to rounding.

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

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

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

O&M Financial Summary

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

Expense Category

| 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.

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.

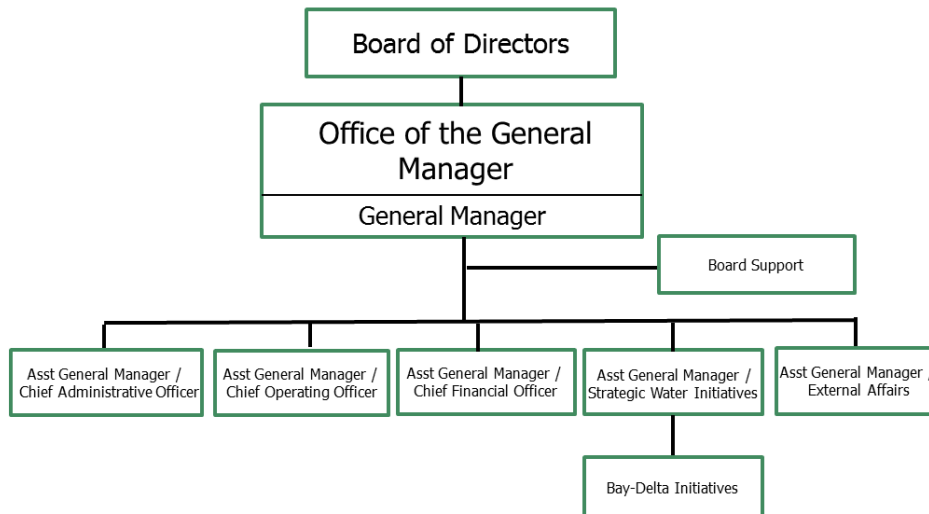
The Office of the General Manager accomplishes its mission through the following programs or sections:

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 spearheads efforts toward advancement of the State’s Proposed Delta Improvements, including the California WaterFix and EcoRestore and the pursuit of the best scientific research to protect and restore fish, wildlife, and the Delta’s ecosystem while ensuring water supply reliability.

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.



GOALS AND OBJECTIVES

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

Strategic Priority #1: Enhance Infrastructure Safety, Security and Resiliency

Metropolitan's vast network of aqueducts, pipelines, pumps and treatment facilities are the backbone of Southern California's regional water system. Metropolitan's flexible and adaptable system enables Metropolitan to move water across six counties from where it is sourced to where it is needed. Our robust treatment and delivery infrastructure allowed Metropolitan to supply Southern California almost entirely with Colorado River water in 2015 and then flip to delivering almost all Northern California water in 2017. However, this vital infrastructure is aging and heightened reinvestment in this system is essential to ensure Metropolitan can continue to deliver on its promise of reliability in the coming decades.

In the past, the bulk of Metropolitan's Capital Investment Program was focused on large-scale projects such as Diamond Valley Lake, the Inland Feeder and the Ozone Retrofit Program with repair and replacement projects being secondary. The focus of our CIP has now shifted largely to reinvestment in our existing infrastructure. These projects will ensure the long-term reliability of Metropolitan's critical infrastructure and build seismic resilience into our facilities. In 2000, Metropolitan's annual CIP was nearly \$600 million for approximately 100 projects. Over the next budget cycle, Metropolitan will be managing nearly 400 individual capital projects for a \$200 million CIP. This requires changes in organization and management of our capital program and is reflected in our budgeting actions and staffing plans.

The four critical areas of focus will be the ongoing rehabilitation of the Colorado River Aqueduct, pre-stressed concrete cylinder pipe replacement, system seismic hardening and physical and cyber security. Staff will be bringing numerous action items to the Board in these areas and will be discussing with the Board strategies on best

management techniques for handling the shifting nature of our CIP.

Strategic Priority #2: Prepare for More Extreme Hydrology

Maximize Storage Opportunities: The recent historic drought cycle sequence highlighted the enormous value of Metropolitan's regional storage investments. Over the past decade, California has had eight drought years with two wet years. To meet regional demands, Metropolitan drew on storage heavily in most years over this period but was able to take full advantage of the wetter years to restore storage reserves. But for Metropolitan's robust storage portfolio and conveyance capabilities, Southern California would have faced severe shortages this past decade. Regional storage has become increasingly critical to maintaining water supply reliability in the face of increasing water supply volatility due to climate change. Staff will work closely with the Board to assess Metropolitan's storage capabilities, current strategies and review future needs to identify whether new strategies and/or new investments are needed.

Promote Innovation and Efficiency in Water Use: Water use efficiency and conservation investments were also essential to managing through the historic drought by reducing regional demands nearly 25 percent. Metropolitan is a national leader in water conservation and reached a significant milestone in 2017 by achieving more than one million acre-feet per year in annual water savings. Most of this progress was built on Metropolitan's successful rebate programs and advocacy to change codes and standards. To build on that success, Metropolitan will examine new opportunities to leverage technology and innovation to promote conservation, efficient water use and water stewardship through a comprehensive demand management program that includes investments in research, innovation and public education along with targeted incentives for the residential, commercial, industrial and institutional sectors.

Strategic Priority #3: Ensure Imported Supply Reliability

Southern California's foundational water supply remains the Colorado River and the State Water Project and their ongoing reliability is critical for the region. Important decisions on both supplies need to be made over the next two years.

The emphasis for the State Water Project will be on maintaining the momentum of the decisions by water contractors regarding financing California WaterFix and beginning the logistical and management work for project construction. Simultaneously, staff will be working with the state to extend the State Water Project Contract, complete repairs at Oroville reservoir and review the status and upkeep of all SWP facilities. Also essential will be strategic investments regarding science and restoration of the Delta ecosystem in support of the co-equal goals of water supply reliability and environmental restoration. This includes support for California EcoRestore projects, salmon and smelt resiliency plans, and development of a multiuse, long-term plan for Metropolitan's Delta Islands.

On the Colorado River, the emphasis over the next year will be on completing the Drought Contingency Plan to provide stability on the Colorado River while protecting Metropolitan's supplies and access to storage in Lake Mead. Additionally, staff will analyze the combined impacts of long-term hydrological conditions and various competing demands, including pending tribal water rights litigation and environmental interests, such as the Salton Sea, to ensure Metropolitan's Colorado River water supplies remain protected and reliable. Finally, Metropolitan will continue to work proactively to manage its Palo Verde lands in a way that supports long-term water supply goals and a vibrant agricultural economy in the region.

Strategic Priority #4: Maximize Local Resources

In 2018, construction of the Regional Recycled Water Advanced Purification Center demonstration facility in partnership with the Sanitation Districts of Los Angeles County will be completed. While Metropolitan learns about the technical and water quality aspects of the project to optimize design of treatment processes for a full-scale facility, staff

will begin work with the Board and member agencies on a review of the institutional issues associated with the Regional Recycled Water Program and its relationship to Metropolitan's ongoing Local Resources Program. This review will address a variety of issues related to the Program and seek Board policy direction. The issues addressed will include how project costs would be allocated, how revenues would be collected, what form water delivery would take to local agencies, cooperation and cost sharing with non-member agencies, and other policy issues.

Strategic Priority #5: Promote Environmental Stewardship and Sustainability

Metropolitan has undertaken a comprehensive program of environmental stewardship both internally and externally. In the course of accomplishing its mission and mitigating for impacts of its projects and operations, Metropolitan establishes and manages open space, and partners with other organizations to preserve and support native species and habitat. In the coming years, Metropolitan will continue to lead with programs that promote actions that support sustainable practices, reduce greenhouse gas emissions and protect natural habitat and water quality. A comprehensive risk management strategy is needed to address the uncertainty and threat associated with climate change. As understanding of climate change impacts advances, Metropolitan will develop and implement strategies to improve resiliency, reduce risk and increase sustainability for infrastructure, water systems and the ecosystems.

Strategic Priority #6: Foster Leadership and Strengthen Workforce Capabilities

More than half of Metropolitan's workforce has reached retirement age, including many members of Metropolitan's executive management team. The retirement rate at Metropolitan is now slightly more than 100 employees a year and will remain at that level through this budget cycle. This is a challenge to the District's capacity to adequately train and prepare its workforce but is also an opportunity to build a workforce geared for the challenges of the future. To retain essential agency knowledge capture and ensure smooth leadership transitions, Metropolitan will expedite internal promotions and recruitment processes, and augment employee development training programs

to ensure employees have the knowledge and technological skills to compete in today's competitive job environment. Succession planning actions will be enhanced to increase the availability of experienced and capable employees prepared to assume critical roles as they become available, building on Metropolitan's current successful apprenticeship program and management academies. While Metropolitan's workforce is becoming increasingly more diverse, Metropolitan will continue to foster an inclusive workplace, promoting a safe and discrimination-free work environment, and provide opportunities for all employees to use their diverse talents to support the District's mission.

Strategic Priority #7: Maintain Sound Business Practices and Fiscal Integrity

Metropolitan will continue its longstanding practice of operating in a productive, cost-effective, transparent and efficient manner to ensure sound financial stability. Metropolitan holds some of the nation's highest credit ratings for government agencies by maintaining strong reserves and limiting its use of debt. Long-term investments will be made through a prudent combination of long-term funding sources as well as annual rate revenues. Capital expenses will continue to be funded at a significant level on a pay as-you-go (PAYGO) basis per Board policy. Potential investments such as modernizing the State Water Project with California WaterFix would be phased in over time and have been prudently built into Metropolitan's rate projections. Staff will ensure that expenditures on WaterFix will be regularly reported to the Board and the public in a clear and transparent manner.

After a decade of virtually no rate increases, then a few steep catch up years in 2009 and 2010, Metropolitan's overall rate increases have stabilized over the past four years to close to the rate of inflation. Thanks to prudent management of Metropolitan's capital program, reduction in debt load and management of labor costs, the proposed budget limits overall rate increases to three percent in each year while it continues funding Metropolitan's PAYGO policy, paying down Metropolitan's Pension and Other Post Employment Benefit liability, and expanding Metropolitan's conservation and demand management programs. Most importantly, due to the continued sound financial management

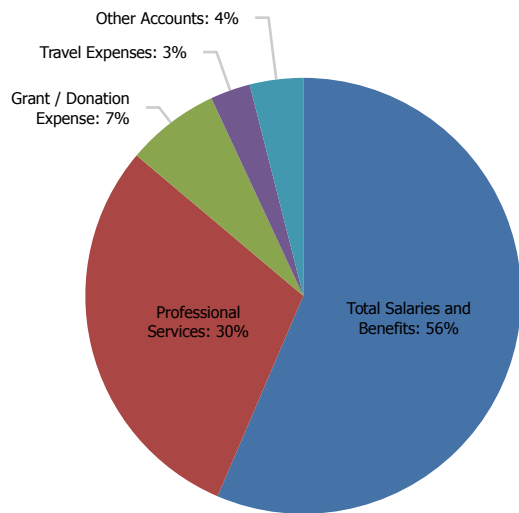
practices of Metropolitan, the ten-year financial forecast predicts overall rate increases will remain within the three to five percent range over the next decade.

O&M FINANCIAL SUMMARY

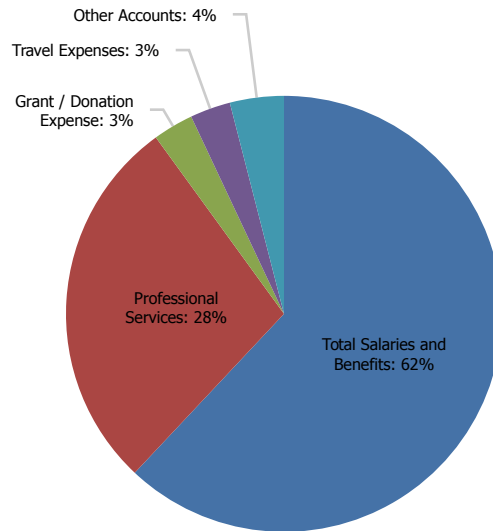
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 9,346,100 | 9,169,600 | 10,381,400 | 1,211,800 | 10,980,400 | 599,000 |
| Direct Charges to Capital | 0 | 0 | (87,900) | (87,900) | (93,100) | (5,200) |
| Total Salaries and Benefits | 9,346,100 | 9,169,600 | 10,293,500 | 1,123,900 | 10,887,300 | 593,800 |
| % Change | | (1.9%) | | 12.3% | | 5.8% |
| Professional Services | 3,522,900 | 3,353,600 | 5,337,500 | 1,983,900 | 4,920,000 | (417,500) |
| Conferences & Meetings | 100,000 | 108,400 | 115,200 | 6,800 | 114,800 | (400) |
| Grant / Donation Expense | 423,300 | — | 1,225,000 | 1,225,000 | 525,000 | (700,000) |
| Materials & Supplies | 52,300 | 33,600 | 269,300 | 235,700 | 261,100 | (8,200) |
| Travel Expenses | 476,700 | 571,900 | 573,100 | 1,200 | 508,400 | (64,700) |
| Other Accounts | 157,800 | 193,900 | 269,500 | 75,600 | 253,700 | (15,800) |
| Total O&M | 14,079,100 | 13,431,000 | 18,083,100 | 4,652,100 | 17,470,300 | (612,800) |
| % Change | | (4.6%) | | 34.6% | | (3.4%) |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

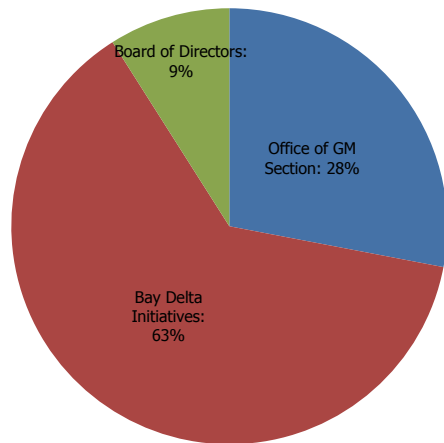


FY 2019/20 BUDGET BY EXPENDITURE

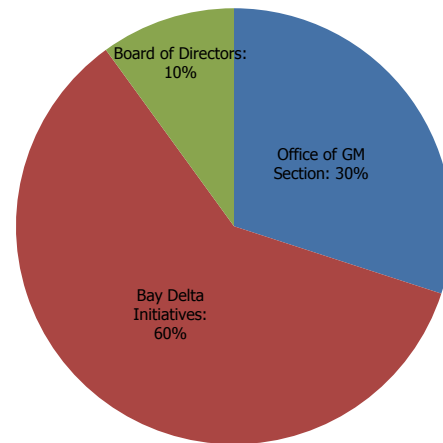


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|-----------------------|-------------------|-------------------|---------------------|-------------------|---------------------|------------------|-----------|-----------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Office of GM Section | 4,273,200 | 5,001,700 | 728,400 | 5,224,100 | 222,500 | 12 | 13 | 13 |
| Bay Delta Initiatives | 7,939,100 | 11,432,500 | 3,493,400 | 10,545,800 | (886,700) | 19 | 19 | 19 |
| Board of Directors | 1,218,500 | 1,649,000 | 430,400 | 1,700,400 | 51,400 | 5 | 6 | 6 |
| Total O&M | 13,430,900 | 18,083,100 | 4,652,200 | 17,470,300 | (612,800) | 36 | 38 | 38 |

Note – Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|---------|----------------|----------------|------------------|---------------------|------------------|---------------------|
| Regular | | 32.8 | 35.0 | 37.0 | 2.0 | 37.0 | — |
| | O&M | 32.8 | 35.0 | 36.5 | 1.5 | 36.5 | — |
| | Capital | — | — | 0.5 | 0.5 | 0.5 | — |
| Temporary | | 1.3 | 0.5 | 1.1 | 0.6 | 1.1 | — |
| | O&M | 1.3 | 0.5 | 1.1 | 0.6 | 1.1 | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | | 34.1 | 35.5 | 38.1 | 2.6 | 38.1 | — |
| | O&M | 34.1 | 35.5 | 37.6 | 2.1 | 37.6 | — |
| | Capital | — | — | 0.5 | 0.5 | 0.5 | — |

Note – Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the General Manager's O&M Biennial Budget is \$18.1 million in FY 2018/19 and \$17.5 million in FY 2019/20 or an increase of 34.6% and a decrease of 3.4% respectively from the prior budget years. The main factors affecting these changes:

- Increase in staffing by two positions to accommodate increased support for the Board and Bay Delta efforts.
- Professional services reflect ramped up activities related to Bay Delta science, Delta Islands operations, regulatory activities and Colorado River supply activities.
- Grant expense reflects funds, which were not previously budgeted, contributed by Metropolitan to advance efforts on collaborative science through various State, Federal and other agencies.

The following are the significant changes by budget year.

FY 2018/19

Personnel-related issues

Total personnel count increased by one regular position in the Board Support Team and one regular position for Bay Delta efforts.

Capital labor (one regular FTE) is budgeted for Delta Islands projects.

Salaries and Benefits reflect negotiated labor increases.

Professional Services

The budget reflects ramped up activities related to Bay Delta science, Delta Islands operations, regulatory activities and Colorado River supply activities.

Grant Expense

Contributions to various agencies were not budgeted in FY 2017/18 but since 2016, Metropolitan has been contributing funds to advance efforts on collaborative science through agencies such as SFCWA (State and Federal Contractors Water Authority), NCWA (Northern California Water Association), USGS (United States Geological Study) and others. Staff foresees increased funding requirements during FY 2018/19.

Materials & Supplies

The budget reflects purchase of software for Board support team and electronic equipment for Board members.

FY 2019/20

Personnel-related issues

Total personnel count remains flat with FY 2019/20.

Salaries and benefits reflect negotiated labor increases.

Professional Services

The budget reflects a reduction in Bay Delta science studies, data management and modeling efforts.

Grant Expense

The budget reflects a reduction in Metropolitan funding of science grants due to anticipated completion of some efforts.

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WATER SYSTEM OPERATIONS

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

PROGRAMS

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

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 District wide support through their Security and Fleet Services units. The security function ensures that Metropolitan's employees, water infrastructure, and equipment are adequately protected, and provides emergency management support. The fleet function acquires and maintains vehicles, equipment, aircraft, and emergency generators.

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

which include: predictive, preventive, and corrective maintenance analysis for critical equipment, including all treatment plants, pumping plants, hydroelectric power plants, pressure control structures, high voltage equipment, and heating, ventilation, and air conditioning (HVAC) systems. 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 2.3 billion gallons per day. The section oversees treatment processes to ensure high-quality water is reliably produced that complies with drinking water regulations. All five treatment plants are staffed and operated 24 hours a day, seven days a week to meet about half of Metropolitan's annual deliveries. All five of the treatment plants (Jensen, Mills, Skinner, Weymouth and Diemer) have been retrofitted to use ozone as the primary disinfectant.

Water Conveyance and Distribution meets delivery requirements of member agencies by moving water throughout Metropolitan's 5,200 square mile service area and performing a wide range of operations and maintenance activities to ensure system reliability. The section's work encompasses the Colorado River Aqueduct system and its five pumping plants as well as the distribution system of about 830 miles of pipelines, approximately 350 service connections to member agencies, 16 hydroelectric plants, and 9 storage and regulatory reservoirs that help Metropolitan meet peak flow periods and provide dry year and emergency supply reliability.

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

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 the Supervisory Control and Data Acquisition (SCADA) system.

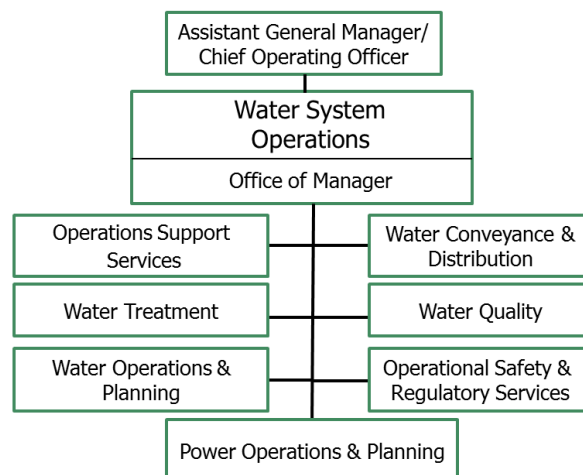
Operational Safety and Environmental Regulatory Services is responsible for ensuring a safe working environment for employees through programs and training, ensuring business

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

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

Power Operations and Planning plans, acquires and accounts for the energy required to operate the Colorado River Aqueduct (CRA). This activity includes energy transactions with electric utilities and marketers. The section also negotiates and manages the contracts and energy accounting of Renewable Energy Credits and Greenhouse Gas Allowances for 16 small hydroelectric power plants and the CRA.

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



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/2020, WSO will focus on the following key issues:

System Reliability

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

Develop and distribute the annual operating plan and rebuild water storage where possible into accounts that provide the greatest delivery flexibility and cost effectiveness. Build on strategies such as employing operational flexibility to mitigate drought condition impacts on water availability.

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

Maintain eight-pump flow readiness and manage storage accounts to capture all available Colorado River supplies and balanced with water supplies from other sources.

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

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

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.

Implement 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, incident monitoring, and response for critical infrastructure sites and office locations.

Upgrade physical security features and access control equipment at headquarters and selected field facilities.

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

Control System Replacement Project

Complete conceptual design phase for replacement project to modernize the control system for the water treatment plants and distribution system.

Energy Management

Manage and limit price exposure for wholesale energy to support CRA pumping. Implement new energy and transmission agreements for the CRA 230K transmission system.

Negotiate and execute new agreements for energy generation at Metropolitan's Foothill, Lake Mathews, San Dimas, and Yorba Linda hydroelectric plants when the energy sale agreement with DWR for these plants expires in 2019.

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.

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

Water Quality, Environmental Protection, and Safety

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

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

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

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

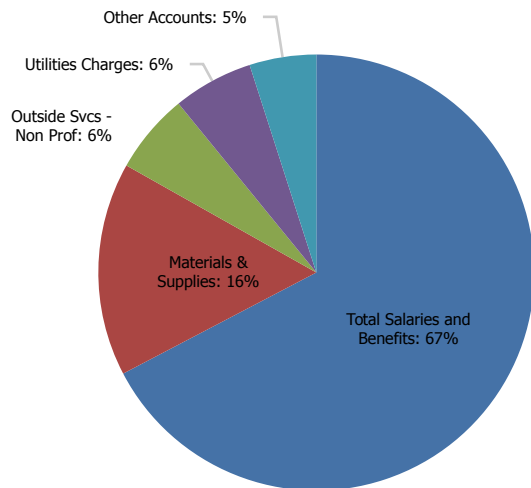
Increase monitoring of quagga mussels in the west and east branches of the State Water Project and prepare quagga mussel action plans.

O&M FINANCIAL SUMMARY

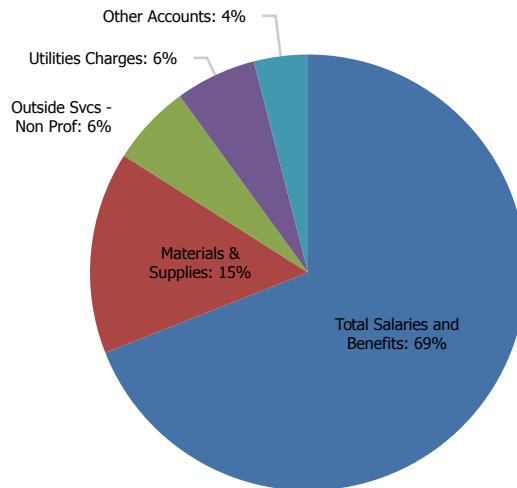
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|--------------------|--------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 161,349,900 | 164,188,300 | 174,056,500 | 9,868,200 | 184,595,100 | 10,538,600 |
| <i>Direct Charges to Capital</i> | <i>(7,870,600)</i> | <i>(7,161,700)</i> | <i>(7,326,400)</i> | <i>(164,700)</i> | <i>(7,718,200)</i> | <i>(391,800)</i> |
| Total Salaries and Benefits | 153,479,300 | 157,026,600 | 166,730,100 | 9,703,500 | 176,876,900 | 10,146,800 |
| % Change | | 2.3% | | 6.2% | | 6.1% |
| Professional Services | 1,057,700 | 1,044,500 | 1,494,000 | 449,500 | 1,541,200 | 47,200 |
| Materials & Supplies | 35,798,800 | 37,336,500 | 38,475,300 | 1,138,800 | 38,330,400 | (144,900) |
| Outside Services - Non Professional / Mainte | 14,099,600 | 14,894,200 | 15,134,200 | 240,000 | 15,442,300 | 308,100 |
| Utilities Charges | 12,643,700 | 12,502,000 | 14,316,500 | 1,814,500 | 14,868,200 | 551,700 |
| Other Accounts | 9,272,300 | 8,170,700 | 9,644,400 | 1,473,700 | 9,261,600 | (382,800) |
| Total O&M | 226,351,400 | 230,974,500 | 245,794,500 | 14,820,000 | 256,320,600 | 10,526,100 |
| % Change | | 2.0% | | 6.4% | | 4.3% |
| Operating Equipment | 4,564,857 | 5,039,400 | 5,655,200 | 615,800 | 6,000,000 | 344,800 |
| Total O&M and Operating Equipment | 226,351,400 | 236,013,900 | 251,449,700 | 15,435,800 | 262,320,600 | 10,870,900 |
| % Change | | 4.3% | | 6.5% | | 4.3% |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

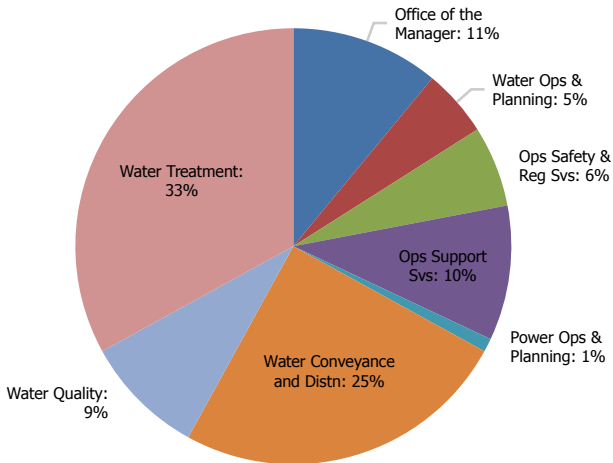


FY 2019/20 BUDGET BY EXPENDITURE

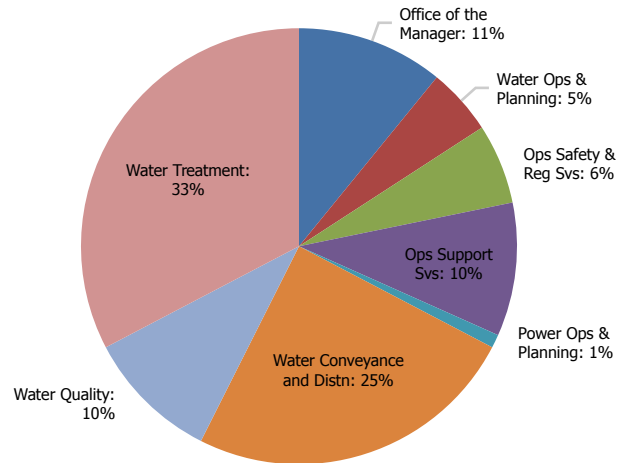


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|--|--------------------|--------------------|---------------------|--------------------|---------------------|------------------|------------|------------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Office of the Manager | 23,152,500 | 26,177,000 | 3,024,500 | 27,107,500 | 930,500 | 61 | 60 | 60 |
| Water Operations and Planning | 10,990,100 | 11,528,000 | 537,900 | 12,056,900 | 528,900 | 43 | 42 | 42 |
| Operational Safety and Regulatory Services | 14,228,500 | 15,238,300 | 1,009,800 | 15,884,300 | 646,000 | 55 | 55 | 55 |
| Operations Support Services | 22,630,000 | 23,717,500 | 1,087,500 | 24,899,800 | 1,182,300 | 120 | 120 | 120 |
| Power Operations and Planning | 2,852,900 | 3,343,500 | 490,600 | 3,518,800 | 175,300 | 11 | 12 | 12 |
| Water Conveyance and Distn | 60,745,100 | 62,272,400 | 1,527,300 | 64,486,200 | 2,213,800 | 270 | 264 | 264 |
| Water Quality | 20,118,100 | 22,944,400 | 2,826,300 | 24,570,000 | 1,625,600 | 93 | 95 | 96 |
| Water Treatment | 76,257,400 | 80,573,200 | 4,315,800 | 83,797,200 | 3,223,900 | 273 | 277 | 277 |
| Total O&M | 230,974,600 | 245,794,400 | 14,819,800 | 256,320,600 | 10,526,200 | 926 | 925 | 926 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|----------------|----------------|------------------|---------------------|------------------|---------------------|
| Regular | Total | 866 | 951 | 948 | (3) | 948 | — |
| | O&M | 828 | 907 | 906 | (1) | 906 | — |
| | Capital | 38 | 44 | 43 | (2) | 43 | — |
| Temporary | Total | 34 | 19 | 20 | 1 | 21 | 1 |
| | O&M | 32 | 19 | 20 | 1 | 21 | 1 |
| | Capital | 1 | — | — | — | — | — |
| Total Personnel | Total | 900 | 970 | 968 | (2) | 969 | 1 |
| | O&M | 860 | 926 | 925 | 0 | 926 | 1 |
| | Capital | 39 | 44 | 43 | (2) | 43 | — |

BUDGET HIGHLIGHTS

WSO's O&M and Operating Equipment Biennial Budget is \$251.4 million in FY 2018/19 and \$262.3 million in FY 2019/20 or a increase of 6.5% and an increase of 4.3%, respectively from the prior year budgets. The increase is due primarily to the following factors:

- Following the severe drought, a combination of increased treated water flows, increased chemical commodity prices and higher chemical dosages needed to treat the more abundant State Water Project supplies raised the expected chemical costs for water treatment.
- An increase in hazardous waste disposal costs expensed to O&M as a result of capital improvement projects.
- An increase in temporary labor and an increase in materials and supplies to support the Regional Recycled Water Program.
- The increases are offset in part by a reduction in non-professional services by improved brush control through precise chemical application.

The following are the significant changes by budget year.

FY 2018/19

Personnel-related issues

For O&M work, the overall number of positions decreased by three which reflects a transfer of four employees to Real Property for employee housing support in the desert and an increase of one employee to fulfill new electrical transmission tasks for the CRA electrical system.

Salaries and Benefits reflect negotiated labor increases.

Non Professional Services

A reduction in brush clearing services by improved brush control through precise chemical application.

Materials and Supplies

The budget reflects increased chemical costs for water treatment due to higher treated water flows, some increase in commodity prices and higher chemical dosages needed to treat the more abundant State Water Project supplies.

Utilities Charges

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

FY 2019/20

Personnel-related issues

Overall personnel count for both O&M and capital work remains flat from the FY 2018/19 budget.

Salaries and Benefits reflect negotiated labor increases.

Materials and Supplies

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

Utilities Charges

The budget reflects an anticipated four percent increase in electricity rates from FY 2018/19.

Other

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

Operating Equipment – FY 2018/19 and FY 2019/20

The operating equipment budget is maintained to replace aging fleet and heavy equipment. In FY 2018/19, the budget was increased to procure analytical instrumentation in support of the Regional Recycled Water Program. In FY 2019/20, the operating equipment was also increased to plan for the replacement of one aircraft for security patrols and employee transportation to remote facilities.

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, Water Resource Management 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.

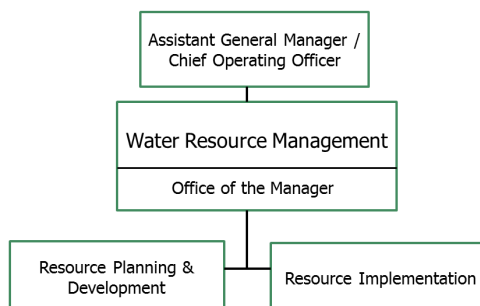
Water Resource Management accomplishes its mission through the following programs or sections:

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 2018/19 and FY 2019/20, 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.

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

Partner with other Colorado River water delivery contractors to develop new Metropolitan supplies, including 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.

Legislative Review

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

Regional Resources and Water Conservation

Implement Long-Term Water Conservation Plan and new 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 support member agencies development efforts and actively participate in CalDesal regulatory and legislative initiatives.

State Water Project

Execute the SWP contract extension, extending the contract term by 50 years from 2035 to 2085. As a result the terms of the supply agreement and the repayment period for DWR bonds will be extended as well.

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 through the Municipal Water Quality Investigations program 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

Consider future supply action programs to promote innovation and remove barriers to local resource development.

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 demands to support revenue requirements and budget process.

Continue to pursue development of the full scale Regional Recycled Water Program to increase water reuse and enhance opportunities for groundwater recharge within Metropolitan's service area. Upgrade and enhance planning tools, such as computer models for demand forecasting, resource program evaluation, and distribution system.

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

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

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

Water Transfers, Exchanges, and Storage Programs

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

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

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

Workforce Development & Succession Planning

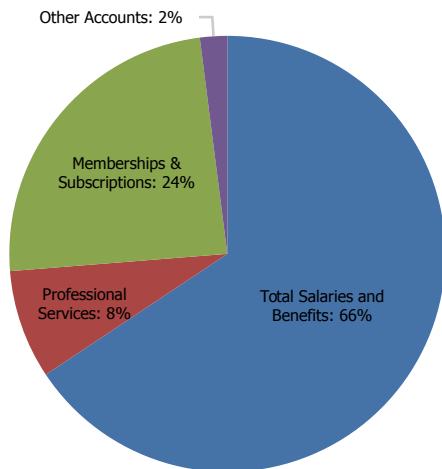
Continue to develop staff expertise in critical areas to prepare for employee retirements or departures.

O&M FINANCIAL SUMMARY

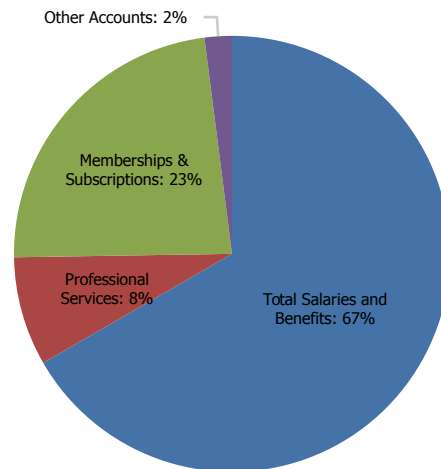
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 13,343,700 | 14,376,200 | 15,676,000 | 1,299,800 | 16,651,600 | 975,600 |
| Direct Charges to Capital | (1,500) | — | — | — | — | — |
| Total Salaries and Benefits | 13,342,200 | 14,376,200 | 15,676,000 | 1,299,800 | 16,651,600 | 975,600 |
| % Change | | 7.7% | | 9.0% | | 6.2% |
| Professional Services | 1,712,300 | 1,740,000 | 1,940,000 | 200,000 | 1,986,500 | 46,500 |
| Memberships & Subscriptions | 4,014,800 | 5,365,000 | 5,767,500 | 402,500 | 5,844,900 | 77,400 |
| Other Accounts | 276,300 | 559,400 | 562,700 | 3,300 | 583,000 | 20,300 |
| Total O&M | 19,345,600 | 22,040,600 | 23,946,200 | 1,905,600 | 25,066,000 | 1,119,800 |
| % Change | | 13.9% | | 8.6% | | 4.7% |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

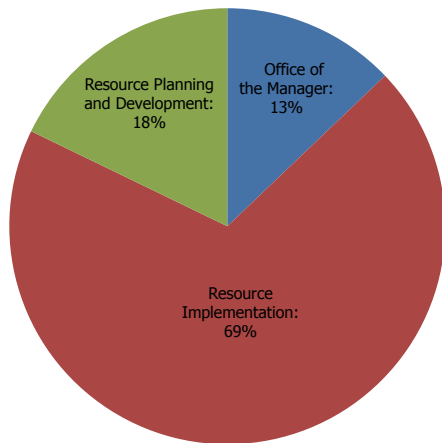


FY 2019/20 BUDGET BY EXPENDITURE

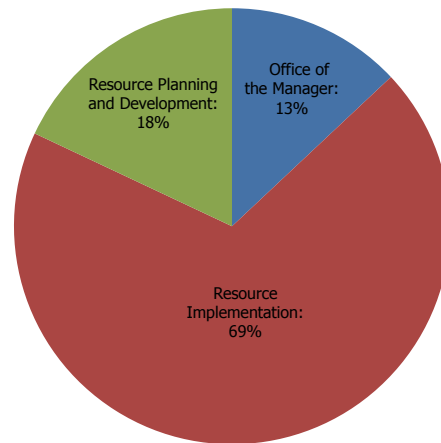


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|-----------------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|------------------|-----------|-----------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Office of the Manager | 2,871,000 | 3,026,700 | 155,700 | 3,209,300 | 182,600 | 14 | 13 | 13 |
| Resource Implementation | 15,233,800 | 16,675,000 | 1,441,200 | 17,299,800 | 624,800 | 37 | 40 | 40 |
| Resource Planning and Development | 3,935,900 | 4,244,600 | 308,700 | 4,556,900 | 312,300 | 16 | 16 | 16 |
| Total O&M | 22,040,600 | 23,946,200 | 1,905,600 | 25,066,000 | 1,119,800 | 67 | 69 | 69 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|----------------|----------------|------------------|---------------------|------------------|---------------------|
| Regular | Total | 60 | 67 | 68 | 1 | 68 | — |
| | O&M | 60 | 67 | 68 | 1 | 68 | — |
| | Capital | — | — | — | — | — | — |
| Temporary | Total | 1 | — | 1 | 1 | 1 | — |
| | O&M | 1 | — | 1 | 1 | 1 | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 61 | 67 | 69 | 2 | 69 | — |
| | O&M | 61 | 67 | 69 | 2 | 69 | — |
| | Capital | — | — | — | — | — | — |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

WRM's Biennial Budget is \$23.9 million in FY 2018/19 and \$25.1 million in FY 2019/20, or an increase of 8.6% and 4.7%, respectively from the prior budget years. The increase is primarily due to the following factors:

- Increase in staffing by one regular position and one district temporary position for SWP and CRA program support.
- The increase in Memberships and Subscriptions budget enhances Metropolitan's ability to collaborate with other boards or agencies on statewide and federal issues.
- Net increase in professional services includes resource analysis studies for on-going resource and demand management assessment; SWP audit fee increase and consulting assistance for SWP contract extension issues; and technical studies for infrastructure related to water supply impacts.

The following are the significant changes by budget year.

FY 2018/19

Personnel-related issues

Personnel count increased by one regular position and one District Temporary position from FY 2017/18 budget for water reliability support related to SWP and CRA programs.

Salaries and Benefits reflect negotiated labor increases offset by vacancies filled at lower level job classifications.

Professional Services

Budget reflects increase in State Water Project audit fee and consulting services for assessing SWP contract extension issues; technical studies for infrastructure related to water supply impacts; research studies associated with new conservation planning model and water saving estimates update.

Memberships and Subscriptions

Budget includes increase in State Water Contractors dues and legal services related to CA WaterFix; membership dues for Western Urban Water Coalition, California Urban Water Agencies, and new membership for California Data Collaboration.

Other

Budget reflects net increase in materials and supplies for resource planning model software; travel associated with SWP, CRA, conservation, and local resources program; a reduction in graphic and reprographic for utilizing in-house services.

FY 2019/20

Personnel-related issues

Total personnel count remains flat with the FY 2018/19 budget.

Salaries and Benefits reflect negotiated labor increases.

Professional Services

Budget reflects increase in the SWP audit fee and additional research studies in desalination and salinity management.

Memberships and Subscriptions

Budget reflects SWC membership dues increase.

Other

Budget reflects increase in materials and supplies for acquiring water forecast demographic data.

ENGINEERING SERVICES

Engineering Services 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 manages projects, performs design, construction management, infrastructure condition assessments, and facility planning, and manages Metropolitan's Capital Investment Plan (CIP).

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

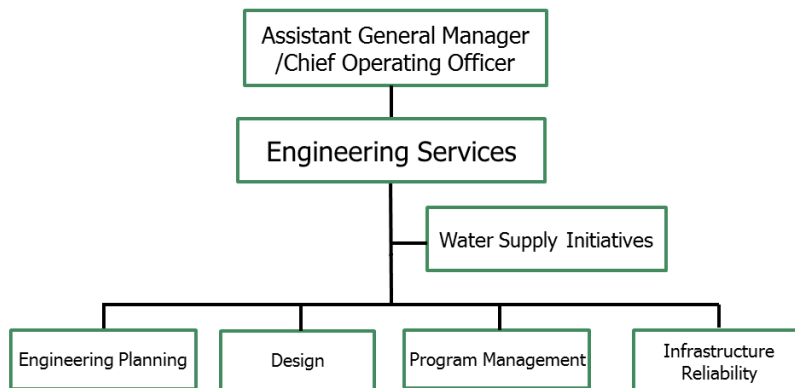
Office of the Group Manager oversees the Engineering Services group and provides strategic leadership on engineering initiatives and core business efforts, to ensure the continued reliability and quality of water deliveries. The office also provides technical support for special initiatives including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

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

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

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

Infrastructure Reliability is responsible for the management of construction contracts, field inspection, and factory fabrication inspection, management of Metropolitan's dams, surveying and mapping, and corrosion and materials engineering.



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/20, Engineering Services will focus on the following key issues:

California WaterFix

Provide engineering and program management leadership in support of the California WaterFix and EcoRestore programs as team members on both of those initiatives. Additionally, represent the State Water Contractors as an Owner's representative providing oversight of the California WaterFix project office in Sacramento by providing technical reviews of work product developed by the project team.

New Water Supply Initiatives

Complete construction of the Advanced Water Treatment Demonstration Plant and provide technical support for start-up and testing, in support of Metropolitan's Regional Recycled Water Program.

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, treatment, and support facilities.

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

CIP Management

Prioritize and execute capital projects to address Metropolitan's short-term needs and long-term objectives in a cost-effective manner.

Evaluate project performance to identify and take advantage of improvements in project delivery.

Employee Development

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

Customer Service

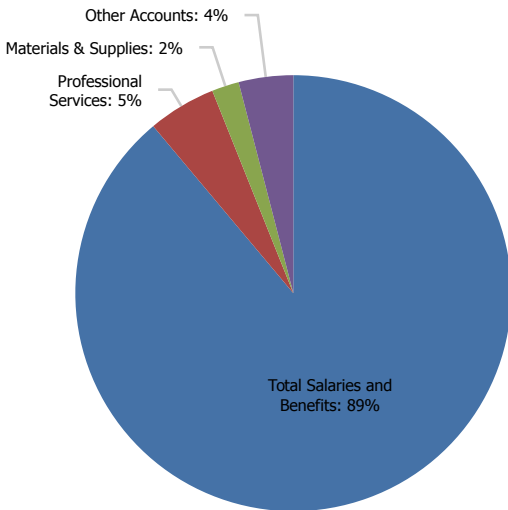
Provide technical leadership and services to internal and external customers to meet Metropolitan's business needs.

O&M FINANCIAL SUMMARY

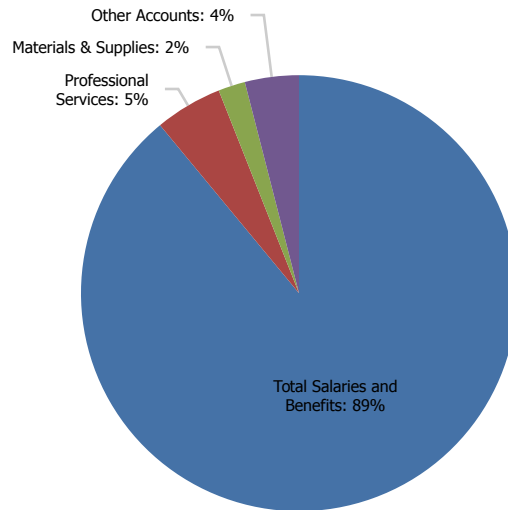
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|---------------------|---------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 65,783,000 | 70,313,500 | 77,056,200 | 6,742,700 | 81,444,400 | 4,388,200 |
| <i>Direct Charges to Capital</i> | <i>(39,757,000)</i> | <i>(47,170,300)</i> | <i>(47,991,100)</i> | <i>(820,800)</i> | <i>(51,301,500)</i> | <i>(3,310,400)</i> |
| Total Salaries and Benefits | 26,026,000 | 23,143,200 | 29,065,100 | 5,921,900 | 30,142,900 | 1,077,800 |
| % Change | | (11.1%) | | 25.6% | | 3.7% |
| Professional Services | 3,367,600 | 301,000 | 1,775,800 | 1,474,800 | 1,552,800 | (223,000) |
| Materials & Supplies | 673,600 | 600,000 | 704,600 | 104,600 | 734,200 | 29,600 |
| Memberships & Subscriptions | 177,100 | 183,000 | 223,600 | 40,600 | 237,000 | 13,400 |
| Taxes & Permits | 321,400 | 320,000 | 440,000 | 120,000 | 484,000 | 44,000 |
| Travel Expenses | 136,100 | 95,300 | 170,600 | 75,300 | 172,100 | 1,500 |
| Other Accounts | 1,189,600 | 669,900 | 558,000 | (111,900) | 542,000 | (16,000) |
| Total O&M | 31,891,400 | 25,312,400 | 32,937,700 | 7,625,300 | 33,865,000 | 927,300 |
| % Change | | (20.6%) | | 30.1% | | 2.8% |
| Operating Equipment | 539,903 | 258,800 | 989,600 | 730,800 | 174,800 | (814,800) |
| Total O&M and Operating Equipment | 31,891,400 | 25,571,200 | 33,927,300 | 8,356,100 | 34,039,800 | 112,500 |
| % Change | | (19.8%) | | 32.7% | | 0.3% |

Note - Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

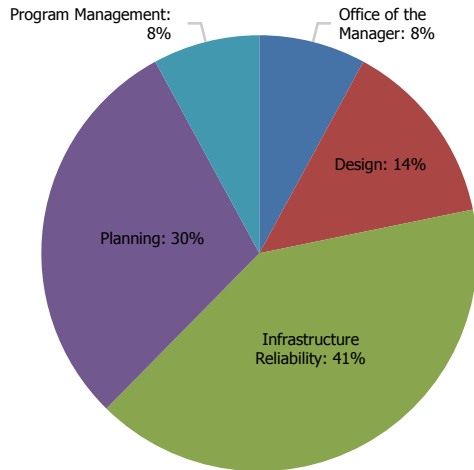


FY 2019/20 BUDGET BY EXPENDITURE

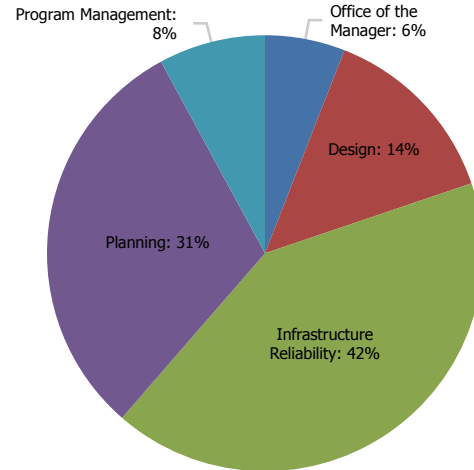


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|----------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|------------------|------------|------------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Office of the Manager | 703,500 | 2,528,400 | 1,825,000 | 1,865,200 | (663,200) | 1 | 4 | 2 |
| Design | 3,381,100 | 4,537,700 | 1,156,600 | 4,817,400 | 279,700 | 32 | 16 | 16 |
| Infrastructure Reliability | 11,397,700 | 13,415,700 | 2,018,000 | 14,213,100 | 797,400 | 56 | 58 | 58 |
| Planning | 7,948,000 | 9,771,600 | 1,823,600 | 10,346,100 | 574,500 | 0 | 41 | 41 |
| Program Management | 1,882,200 | 2,684,200 | 802,100 | 2,623,100 | (61,100) | 29 | 11 | 10 |
| Total O&M | 25,312,400 | 32,937,700 | 7,625,300 | 33,865,000 | 927,300 | 118 | 129 | 127 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|----------------|----------------|------------------|---------------------|------------------|---------------------|
| Regular | Total | 331 | 355 | 355 | — | 355 | — |
| | O&M | 124 | 118 | 129 | 12 | 127 | (3) |
| | Capital | 206 | 238 | 226 | (12) | 228 | 3 |
| Temporary | Total | 2 | — | — | — | — | — |
| | O&M | 1 | — | — | — | — | — |
| | Capital | 1 | — | — | — | — | — |
| Total Personnel | Total | 332 | 355 | 355 | — | 355 | — |
| | O&M | 125 | 118 | 129 | 12 | 127 | (3) |
| | Capital | 207 | 238 | 226 | (12) | 228 | 3 |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

Engineering Services' O&M budget is \$32.9 million in FY 2018/19 and \$33.9 million in FY 2019/20. As detailed below, Engineering Services' budget is influenced significantly by Metropolitan's strategic initiatives, which include the California WaterFix, Regional Recycled Water Program, and Dam Safety Initiatives as well as staff relocation efforts for the improvements at Metropolitan's Headquarters Building at Union Station.

Total planned O&M expenditures for FY 2019/20 are approximately \$7.6 million or 30.1% more than in FY 2017/18, due to salaries and benefits reflecting negotiated labor increases and the addition of Major O&M support for California WaterFix, Regional Recycled Water Program, and Dam Safety Initiatives.

For FY 2019/20, planned O&M expenditures are approximately \$0.9 million or 2.8% more than in FY 2018/19, due mainly to salaries and benefits reflecting negotiated labor increases and staff relocation efforts for the Headquarters Building improvements.

| O&M | FY 2017/18 | FY 2018/19 | FY 2019/20 |
|---|---------------------|---------------------|---------------------|
| Labor | \$23,143,200 | \$26,622,400 | \$28,202,300 |
| Non-labor | \$2,169,200 | \$2,153,600 | \$2,202,100 |
| Total O&M | \$25,312,400 | \$28,776,000 | \$30,404,400 |
| Regional Recycled Water Program (labor & non-labor) | \$0 | \$2,206,000 | \$801,200 |
| Dam Safety Initiatives (labor & non-labor) | \$0 | \$1,140,700 | \$1,215,500 |
| CA WaterFix (labor & non-labor) | \$0 | \$815,000 | \$841,300 |
| Headquarters Building staff relocation | \$0 | \$0 | \$602,600 |
| Total O&M & Special Initiatives | \$25,312,400 | \$32,937,700 | \$33,865,000 |
| % Change | | 30.1% | 2.8% |

Note: Excludes Operating Equipment

The following are the significant changes by budget year.

FY 2018/19

Personnel-Related Issues

Total personnel levels remain consistent with the previous fiscal year. However, the O&M and capital staffing complement differs from the FY 2017/18 budget. This is primarily due to Major O&M support required for special initiatives including the California WaterFix, Regional Recycled Water Program, and Dam Safety Initiatives, thereby resulting in a shift of staff from capital work to O&M in FY 2018/19.

Planned capital expenditures for FY 2018/19 will remain steady with a district-wide capital budget estimated to be approximately \$250 million (see

details in CIP Appendix). Planned expenditures reflect project budgets and schedules to meet Metropolitan's overall biennial budgetary goals. High priority projects that will continue during the fiscal year include the Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation Program; the Colorado River Aqueduct (CRA) Reliability Program; the Distribution System Reliability Program; and the Right of Way and Infrastructure Protection Program.

Salaries & Benefits

Salaries and benefits reflect negotiated labor increases and dedicated support for the California WaterFix, Regional Recycled Water Program, and Dam Safety Initiatives.

Professional Services

The budget primarily reflects increases to support the California WaterFix, Regional Recycled Water Program, and Dam Safety Initiatives.

Materials and Supplies

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

Memberships & Subscriptions

The budget reflects anticipated increases in Underground Service Alert requests.

Taxes & Permits

The budget reflects an increase in annual dam safety fees paid to the state Division of Safety of Dams.

Travel Expenses

The budget primarily reflects increases to support the California WaterFix.

Other

Other non-labor budget items include anticipated decreases in graphics and reprographics charges; lower lease costs for Xerox copiers; and lower utility costs at the La Verne site.

FY 2019/20

Personnel-related issues

Total personnel levels remain consistent with the previous fiscal year. However, the O&M and capital staffing complement differs from the FY 2018/19 budget. This is primarily due to the anticipated completion of construction of the Advanced Water Treatment Demonstration Plant for the Regional Recycled Water Program, resulting in a shift of O&M staffing to capital work in FY 2019/20.

Planned capital expenditures for FY 2019/20 will remain steady with a district-wide capital budget estimated to be approximately \$250 million (see details in CIP Appendix). Planned expenditures reflect project budgets and schedules to meet Metropolitan's overall biennial budgetary goals. High priority projects that will continue during the fiscal year include the Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation Program; the Colorado River Aqueduct (CRA) Reliability Program; the Distribution System Reliability Program; and the Right of Way and Infrastructure Protection Program.

Salaries & Benefits

Salaries and benefits reflect negotiated labor increases and an increase for staff relocation efforts for Metropolitan's Headquarters Building improvements.

Professional Services

The budget primarily reflects slightly decreasing support required for the Regional Recycled Water Program.

Materials and Supplies

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

Memberships and Subscriptions

The budget reflects anticipated increases in Underground Service Alert requests.

Taxes & Permits

The budget reflects anticipated increases in annual dam safety fees paid to the state Division of Safety of Dams.

Travel Expenses

The budget reflects ongoing support to the California WaterFix initiative and general travel expenses in support of core work.

Operating Equipment – FY 2018/19 and FY 2019/20

The operating equipment budget reflects an increase from FY 2017/18 to FY 2018/19 and then a decrease in FY 2019/20 primarily due to the majority of requested vehicle replacements occurring in FY 2018/19. Other equipment to be replaced in FY 2018/19 includes a weatherometer, CAD plotters, and other engineering test equipment.

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OFFICE OF CHIEF ADMINISTRATIVE OFFICER

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

PROGRAMS

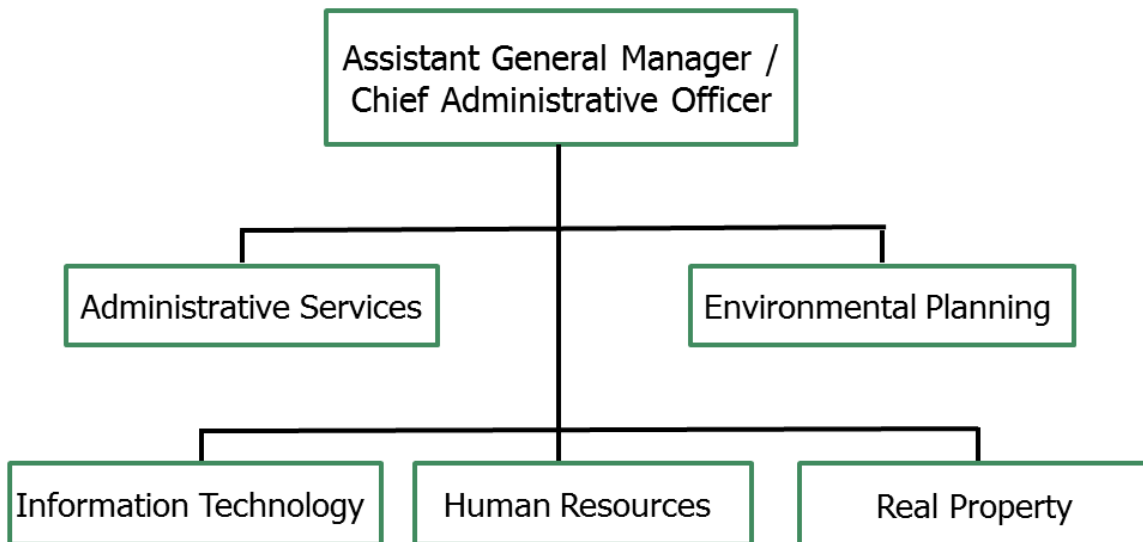
Office of the Chief Administrative Officer accomplishes its mission through the following programs or sections:

Administrative Services provides a range of services including contracting, inventory management, warehousing, reprographics, technical writing, grant management, records management, EForms management, Enterprise Content Management, Spring Green Expo and ECO Innovators Showcase, and administration of Metropolitan's Rideshare Program.

Environmental Planning (EPS) provides expertise for environmentally responsible decision-making and compliance with environmental laws

and regulations. EPS ensures Metropolitan activities comply with the California Environmental Quality Act (CEQA); obtains permits or approvals from federal and state environmental regulatory agencies for Metropolitan activities; conducts studies, monitoring and training; and participates in management of Metropolitan reserves and coordination with other non-Metropolitan reserve planning efforts. EPS also provides technical environmental planning support to Metropolitan customers, member agencies and outside agencies.

Please see the separate group budget sections for Information Technology, Human Resources and Real Property.



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/2020, the Office of the Chief Administrative Officer will focus on the following key issues:

Support Proposed Delta Improvements

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

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

Support Development of Water Supplies and Management of Water Reserves

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

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

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

Sustainability and Climate Action Planning

Coordinate sustainability and climate action planning.

Assess and evaluate climate action planning, reporting, and measures currently underway in the organization. These include Greenhouse Gas (GHG) emissions tracking, climate change planning and adaptation to protect infrastructure and water supply, water conservation programs, and infrastructure improvements.

Collaborate with other departments to develop a suite of options for executive management consideration regarding the potential development

of a Sustainability and Climate Action Plan (CAP) to mitigate the significant effects of greenhouse gas emissions.

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

Continue the annual Spring Green Expo and ECO Innovators Showcase highlighting innovative ideas and productive partnerships between students and businesses to solve environmental problems and demonstrate actions individuals can take to live and work sustainably.

Ensure Metropolitan's Rideshare Program remains effective for employees and compliant with regulatory requirements.

Cultural Resources Planning

Continue cultural resources planning and education to preserve the historic legacy of Metropolitan.

Complete the historic record documentation for the Colorado River Aqueduct (CRA) and develop a treatment plan for the CRA and its facilities. The treatment plan will provide guidance on how to identify, evaluate, treat, and manage cultural resources associated with the CRA.

Collaborate with External Affairs on cultural resources exhibitions and provide continued support for traditional and social media outreach. Work closely with Engineering Services and Water System Operations to ensure preservation or reproduction, whenever feasible, of Metropolitan's historic built environment, including buildings structures, objects and certain sites.

Regulatory Compliance

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

Represent Metropolitan and the State Water Contractors on the Ecological Committee and Recreational Advisory Committee for Federal Energy Regulatory Commission license

requirements.

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

Reserve Management

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

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

Serve as Metropolitan's representative on the Reserve Management Committee for the Lake Mathews Multi-Species Reserve, administer a reserve management agreement with Riverside County Habitat Conservation Agency, and actively manage Lake Mathews reserve lands to ensure compliance with state and federal permits. This active participation includes updating the draft management plan.

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

Facilitate collaboration among Metropolitan, Parks, and the Reserve Management Committee towards development of a Trails Plan, to include multi-use connecting trails between Diamond Valley Lake and Lake Skinner and between the Reserve and the County's Regional Trail System.

Work collaboratively with Real Property, Engineering Services, and Parks to facilitate field coordination among stakeholders. Provide technical review of all studies and recommendations pertaining to natural and cultural resources, review and provide input for all recommendations of design and use of trails and trail heads, and provide all other environmental planning support to fulfill provisions of the MOI.

Coordinate capital and O&M projects, as necessary, with reserve management committees, steering committees and boards.

Innovative Solutions

Enhance procurement training methods by expanding online training modules in key areas such as requisition processing, agreement administration and warehouse ordering to further the customer's knowledge.

Collaborate with management to automate the Operating Policy process to increase collaboration, productivity, and operational efficiency. Centralize administrative functions to promote standardization, ensure consistency, and improve efficiency in key areas such as grant management, and document management.

Implement Information Governance / Enterprise Content Management (ECM) to improve existing storage, retrieval and control of physical and electronic records in line with fiscal, legal, and regulatory requirements. Enhance efficiency of core business processes by moving to a digital records environment while protecting Metropolitan by reducing risk of exposure in litigation.

Utilize Metropolitan's EForm Management program to improve business processes, increase productivity and enhance overall user experience by incorporating mobile technology and adopting innovative and efficient business practices.

Employee Development/Succession Planning

Lead and manage employee development, recruitment, knowledge capture, cross-training, and succession planning.

Continue to cross-train staff to promote organizational adaptability, institutional

knowledge, experience, and expertise, particularly in the Desert area and Metropolitan's reserves.

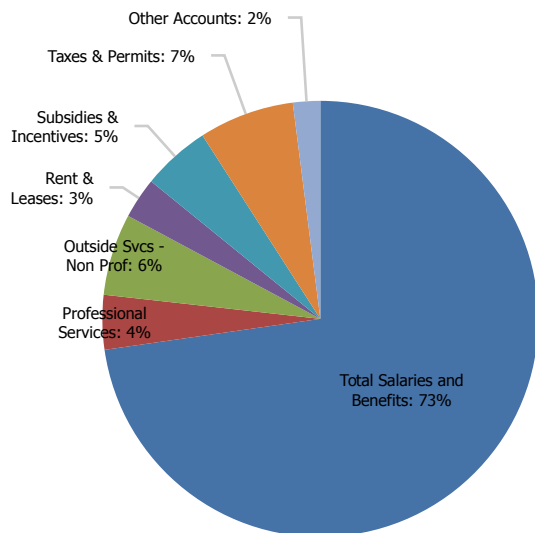
Formalize mentoring for entry-level staff and continue the successful utilization of Metropolitan's student internship program to provide collegiate students hands-on work experience while giving Metropolitan access to future candidates in recruitment.

O&M FINANCIAL SUMMARY

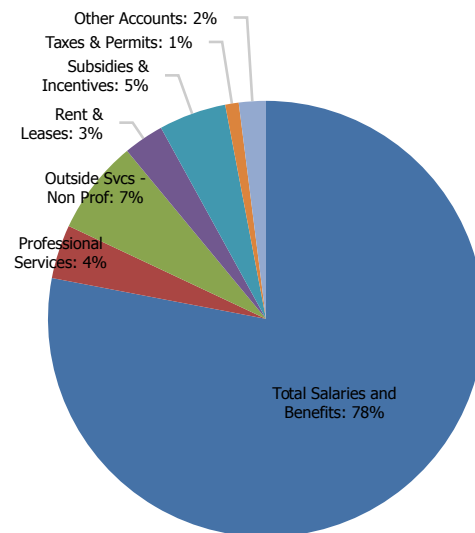
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 14,822,200 | 15,191,400 | 17,237,000 | 2,045,600 | 18,559,400 | 1,322,400 |
| Direct Charges to Capital | (559,000) | (743,600) | (1,589,000) | (845,400) | (1,795,200) | (206,200) |
| Total Salaries and Benefits | 14,263,200 | 14,447,800 | 15,648,000 | 1,200,200 | 16,764,200 | 1,116,200 |
| % Change | | 1.3% | | 8.3% | | 7.1% |
| Professional Services | 914,400 | 573,900 | 876,900 | 303,000 | 798,900 | (78,000) |
| Materials & Supplies | 140,400 | 140,500 | 211,800 | 71,300 | 202,500 | (9,300) |
| Outside Services - Non Professional / Mainte | 273,200 | 322,600 | 1,402,300 | 1,079,700 | 1,598,000 | 195,700 |
| Rent & Leases | 420,700 | 593,000 | 658,600 | 65,600 | 658,600 | — |
| Subsidies & Incentives | 485,000 | 516,300 | 1,012,400 | 496,100 | 1,012,400 | — |
| Taxes & Permits | 32,300 | 13,900 | 1,553,600 | 1,539,700 | 173,600 | (1,380,000) |
| Other Accounts | 44,200 | (160,000) | 284,400 | 444,400 | 220,400 | (64,000) |
| Total O&M | 16,573,400 | 16,448,000 | 21,648,000 | 5,200,000 | 21,428,600 | (219,400) |
| % Change | | (0.8%) | | 31.6% | | (1.0%) |
| Operating Equipment | — | — | 195,200 | 195,200 | — | (195,200) |
| Total O&M and Operating Equipment | 16,573,400 | 16,448,000 | 21,843,200 | 5,395,200 | 21,428,600 | (414,600) |
| % Change | | (0.8%) | | 32.8% | | (1.9%) |

Note - Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

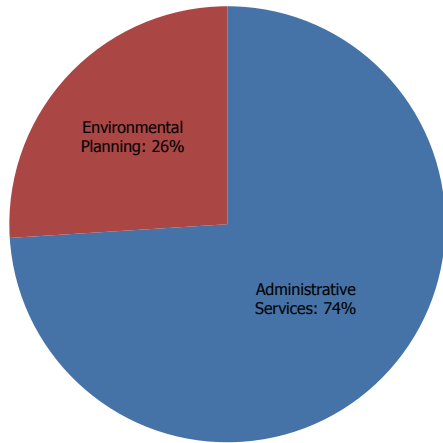


FY 2019/20 BUDGET BY EXPENDITURE

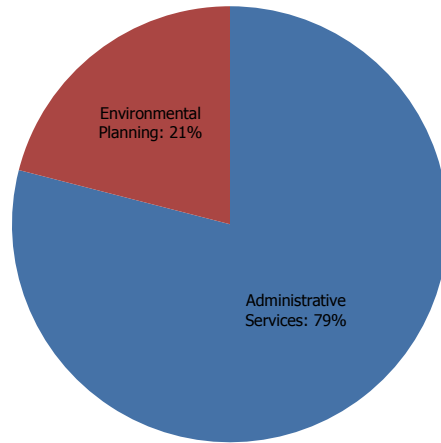


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|-------------------------|-------------------|---------------------|------------------------|---------------------|------------------------|------------------|-----------|-----------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Administrative Services | 13,092,700 | 16,020,200 | 2,927,500 | 16,859,100 | 838,900 | 81 | 76 | 76 |
| Environmental Planning | 3,355,300 | 5,627,800 | 2,272,400 | 4,569,600 | (1,058,200) | 15 | 17 | 18 |
| Total O&M | 16,448,100 | 21,648,000 | 5,199,900 | 21,428,700 | (219,300) | 96 | 92 | 93 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 | 2017/18 | 2018/19 | Change from | 2019/20 | Change from |
|------------------------|--------------|-----------|-----------|-----------|-------------|-----------|-------------|
| | | Actual | Budget | Proposed | 2017/18 | Proposed | 2018/19 |
| Regular | Total | 86 | 98 | 97 | (1) | 98 | 1 |
| | O&M | 83 | 96 | 92 | (4) | 93 | 1 |
| | Capital | 3 | 2 | 5 | 3 | 5 | — |
| Temporary | Total | 1 | — | — | — | — | — |
| | O&M | 1 | — | — | — | — | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 87 | 98 | 97 | (1) | 98 | 1 |
| | O&M | 84 | 96 | 92 | (4) | 93 | 1 |
| | Capital | 3 | 2 | 5 | 3 | 5 | — |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the CAO's O&M and Operating Equipment Biennial Budget is \$21.8 million in FY 2018/19 and \$21.4 million in FY 2019/20 or an increase of 32.8% and a decrease of 1.9%, respectively from the prior budget years. The increase is due to the following factors:

- Salaries and Benefits reflect the addition of three positions in the Environmental Planning section over the biennium to support increased workload, succession planning and the need for in-house technical specialists.
- Taxes and Permits reflect the environmental mitigation costs associated with the Foothill Feeder Dewatering project.
- Professional services reflects an increased need for specialized technical expertise related to environmental planning and remediation efforts, and support for inventory management services.
- Non Professional services reflects an increase for Metropolitan's Enterprise Content Management back file conversion which cannot be capitalized.

The following are the significant changes by budget year.

FY 2018/19

Personnel-related issues

Total personnel count decreased by one FTE from the FY 2017/18 budget. The budget reflects the transfer of three positions (from Administrative Services section) to Real Property and the addition of two positions in Environmental Planning.

Salaries and Benefits reflect the funding of three positions (in Administrative Services section), negotiated labor increases and merit increases for qualified employees.

Professional Services

The budget reflects an increased need for specialized technical expertise related to environmental planning. It also includes remediation efforts and support for inventory management services.

Taxes & Permits

The budget reflects \$1.5 million for environmental mitigation for the Foothill Feeder Dewatering Project.

Non Professional Services

The budget increase is due to costs associated with scanning and digitizing documents District-wide as part of the Enterprise Content Management project.

Other Accounts

The budget for rideshare incentives was increased to reflect the increase in the maximum monthly MOU allowance.

FY 2019/20

Personnel-related issues

Total personnel count increased by one FTE from the FY 2018/19 budget with the addition of a position in the Environmental Planning section.

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

The budget also includes an increase in capital labor for the potential Regional Recycled Water Program, Cal WaterFix and the Enterprise Content Management system.

Professional Services

The budget decreases slightly due to the completion of the Foothill Feeder Dewatering project.

Taxes & Permits

The budget decreases due to the completion of the Foothill Feeder Dewatering Project.

Non-Professional Services

The budget increase is due to costs associated with scanning and digitizing documents District-wide as part of the Enterprise Content Management project.

Operating Equipment - FY 2018/19 and FY 2019/20

The operating equipment budget reflects the replacement of vehicles, forklifts, scanners and microfiche readers.

INFORMATION TECHNOLOGY

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

PROGRAMS

Information Technology accomplishes its mission by delivering 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, and cyber security.

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

IT Enterprise Architecture is responsible for leading the efforts to develop the application, data, and technology architectures for Metropolitan's Information Technology.

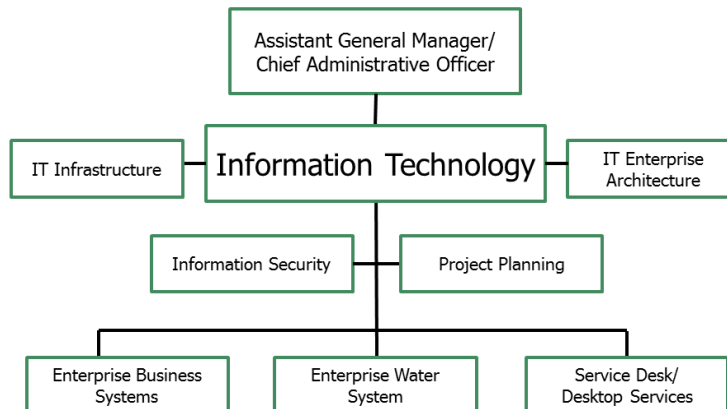
Service Desk / Desktop Services manages and supports IT business and service functions.

IT Infrastructure / Cyber Security is responsible for the management of telecommunications, network services, servers, storage, data center operations and cyber security operations.

Enterprise Business Systems provides services and solutions in the areas of enterprise and business applications.

Enterprise Water Systems is responsible for services and solutions in the areas of Engineering Services and Water System Operations applications.

Project Planning oversees project control and delivery of capital and O&M technology projects.



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/20, Information Technology will focus on the following key areas:

Business Technology & Process Enhancement

Implement projects in support of Metropolitan's strategic initiatives including continued migration to mobile technology and implementation of cloud solutions to enhance productivity, streamline business processes, and cost mitigation.

During the past fiscal year, Information Technology underwent an organizational change from section to group that included the filling of the IT group manager position and the formation of a new IT Executive Governance Council. The council was established as an advisory committee to the General Manager to implement IT policies and strategies in alignment with Metropolitan's business goals and priorities. In addition, the establishment of an Operation Technology Governance Committee will provide executive leadership, oversight and collaboration for SCADA OT/IT operations, maintenance, and enhancements. Emerging technology in the business environment will continue to be evaluated and prioritized to determine their application for Metropolitan.

Key areas of focus within Metropolitan's cyber security capabilities include continuous enforcement of security standards to ensure protection against evolving threats and participation in local and national efforts aimed at enhancing security for water utilities.

Information Systems Upgrades and Projects

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

Engineering and Water System Operations

The Water Systems Control Master Plan aims to fully coordinate and further protect the operational and business investments of Metropolitan's SCADA systems. The master plan includes multi-phased projects already underway starting with

preliminary investigations to achieving final design and construction of a new control system.

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

AMR System RTUs and Radio Modem Upgrade - Project phases include the upgrade of the Automatic Meter Reader (AMR) system and replacement of the Remote Terminal Units (RTUs) and supporting radio equipment.

Maximo Mobile Computing Upgrade aims to replace existing mobile hardware devices that are past their service life and cannot be integrated with current versions of software used for WSO maintenance management.

Energy Management System (EMS) Upgrade - The project's objective is to replace the current system software which is no longer being supported and its functionality is compromised due to the system's age (10+ years).

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

Engineering Information System Upgrades - This project involves the installation and configuration of the latest version of ProjectWise software featuring additional modules and the ability to integrate with other Metropolitan systems.

Fuel Management System Upgrade seeks to upgrade the system at 13 Metropolitan facilities as a continuation of the refurbishment initiative.

Hydraulic Model Water Quality Calibration Project and Analysis Toolkit Development Project - These projects aim to enable and optimize the use of software that will support hydraulic modeling analysis more efficiently.

Flow Scheduler (WSO) project includes the development of a software tool that will streamline member agency flow change requests and also save Metropolitan operators time when logging flow demand data.

Office of the CAO

Continue to partner with Administrative Services on phase I of the Enterprise Content Management (ECM) project for the design of an ECM application and for the optimization of digital assets on Metropolitan's network storage devices.

Initiate Phase II of the ECM system to 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.

Upgrade Metropolitan's Disaster Recovery Data Center. This project upgrades key information technology disaster recovery infrastructure components for continued reliability of systems that support core business applications.

Board Room Technology Upgrade - 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.

Deploy upgrades 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).

Initiate replacement of the Learning Management System to provide enhanced functionality and access to information and reports in support of Human Resources.

CFO, External Affairs, Legal and Risk Management

The Budget System Replacement Project will support the capital & O&M budget process and Board deliverables. The current system has reached end of life and cannot be upgraded.

The MWDH2o.com Redesign will update Metropolitan's current external-facing website with an improved website that is optimized for integration with current technology and social media.

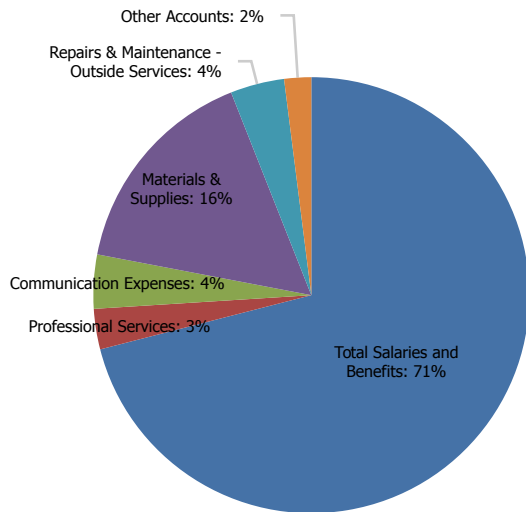
The Incident Reporting System Project will reevaluate the current incident tracking and reporting process to determine requirements for a new system. The current system has reached end of life.

O&M FINANCIAL SUMMARY

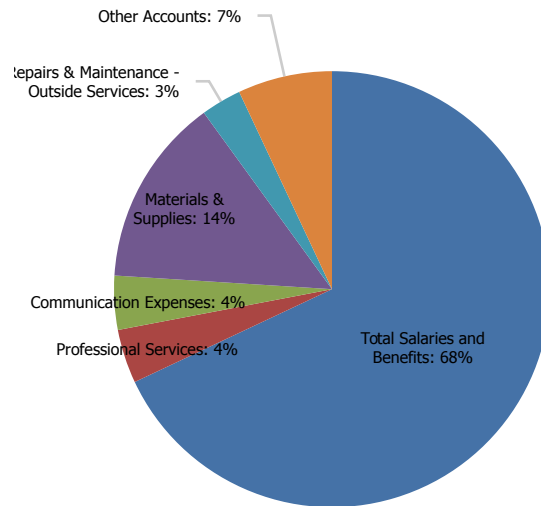
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 25,194,400 | 24,818,200 | 28,334,100 | 3,515,900 | 30,810,000 | 2,475,900 |
| Direct Charges to Capital | (1,211,100) | (1,363,100) | (1,375,300) | (12,200) | (1,400,800) | (25,500) |
| Total Salaries and Benefits | 23,983,300 | 23,455,100 | 26,958,800 | 3,503,700 | 29,409,200 | 2,450,400 |
| % Change | | (2.2%) | | 14.9% | | 9.1% |
| Professional Services | 286,400 | 483,200 | 1,283,200 | 800,000 | 1,841,000 | 557,800 |
| Communication Expenses | 1,620,200 | 1,470,100 | 1,609,500 | 139,400 | 1,609,500 | — |
| Equipment Expensed | 16,000 | 57,400 | 116,000 | 58,600 | 2,306,600 | 2,190,600 |
| Materials & Supplies | 4,234,700 | 4,444,000 | 6,092,700 | 1,648,700 | 6,163,700 | 71,000 |
| Repairs & Maintenance - Outside Services | 514,000 | 888,500 | 1,332,500 | 444,000 | 1,310,500 | (22,000) |
| Other Accounts | 319,800 | 561,500 | 616,500 | 55,000 | 621,100 | 4,600 |
| Total O&M | 30,974,400 | 31,359,800 | 38,009,200 | 6,649,400 | 43,261,600 | 5,252,400 |
| % Change | | 1.2% | | 21.2% | | 13.8% |
| Operating Equipment | 698,749 | 627,800 | 1,631,200 | 1,003,400 | 748,400 | (882,800) |
| Total O&M and Operating Equipment | 30,974,400 | 31,987,600 | 39,640,400 | 7,652,800 | 44,010,000 | 4,369,600 |
| % Change | | 3.3% | | 23.9% | | 11.0% |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE



FY 2019/20 BUDGET BY EXPENDITURE



PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Regular | Total | 118 | 130 | 130 | — | 134 | 4 |
| | O&M | 114 | 123 | 123 | 0 | 127 | 4 |
| | Capital | 4 | 7 | 7 | 0 | 7 | — |
| Temporary | Total | 6 | 1 | 2 | 1 | 2 | 0 |
| | O&M | 5 | — | — | — | — | — |
| | Capital | 1 | 1 | 2 | 1 | 2 | 0 |
| Total Personnel | Total | 124 | 131 | 132 | 1 | 136 | 4 |
| | O&M | 119 | 123 | 123 | 0 | 127 | 4 |
| | Capital | 5 | 8 | 9 | 1 | 9 | 0 |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

At the General Manager’s direction, Information Technology was reorganized from section to group. This biennial O&M budget reflects the following:

- Establishment of Office of IT Group Manager
- Alignment of the organization and functions
- Strategic IT initiatives and operational expenses (i.e., enterprise software) related to new capital investments

Information Technology’s biennial O&M and Operating Equipment budget is \$39.6 million in FY 2018/19 and \$44.0 million in FY 2019/20, or an increase of 23.9% and 11.0% respectively from the prior budget years. The increase is due to the following key factors:

- Salaries and Benefits reflect negotiated labor increases and the increase of four positions in FY 2019/20 with the formation of a new Business Analysis Team.
- The PC Replacement Project will take a phased approach at replacing aging PCs and related equipment. The estimated project cost of \$5.1 million will be spread over three fiscal years. The approximate cost over the two years of this biennial budget is \$3.6 million.
- As part of the Headquarters Seismic Retrofit project, IT will be responsible for coordinating the move of IT equipment (e.g., PCs) during the temporary relocation of staff. Costs are estimated at approximately \$0.4 million for the two fiscal years combined.
- Software maintenance cost increases for new corporate/business applications, escalating industry costs and operating expenses related to new capital projects.

The following are the significant changes by budget year

FY 2018/19

Personnel–related matters

Total Personnel count remains flat with FY 2017/18 budget.

Salaries and Benefits reflect negotiated labor increases.

Capital labor budget remains flat in scheduled demands for ongoing rehabilitation and upgrades of IT facilities and application systems. These include upgrades to the DVL Controls at the Wadsworth Pumping Plant, the Water Systems Control Master Plan, Cyber Security Enhancements and Communications Infrastructure Upgrade.

Professional Services

The budget reflects IT support for the PC Replacement project, seismic relocation, on-call

services for application enhancements, and other strategic IT priorities.

Materials and Supplies

The budget reflects increased levels of software licensing/support agreements as a result of projects associated with Enterprise Content Management, Emergency Radio Communications, Cyber Security, IT infrastructure, and cost escalations associated with agreements for enterprise software.

Outside Services – Non Professional and Repairs/Maintenance

The budget reflects an increase within this category due to maintenance associated with new and existing IT equipment.

FY 2019/20

Personnel-related issues

Total regular personnel for O&M increased from 130 to 134 FTE, reflecting the formation of a Business Analysis Team. The capital work remains flat from the FY 2018/19 budget.

Salaries and Benefits reflect negotiated labor increases for 134 FTEs and the refunding of one position from the FY 2018/19 budget.

Professional Services

The budget reflects IT support for the PC Replacement project and seismic relocation.

Equipment Expensed

The budget reflects IT equipment for the PC Replacement project.

Operating Equipment – FY 2018/19 and FY 2019/20

The operating equipment budget reflects the critical replacement of IT load balancers, servers, storage devices, service vehicles, unmanned aerial vehicles (Drone), 3D printer, and video conferencing monitors used for Metropolitan applications.

The operating equipment budget is decreasing between budget years FY 2018/19 and FY 2019/20 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 management; prepare to meet future workforce challenges; partner with customers on solutions; and provide excellent HR services that ensure compliance to numerous HR laws, regulations, and responsibilities.

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

HR accomplishes its mission through the following programs or sections:

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

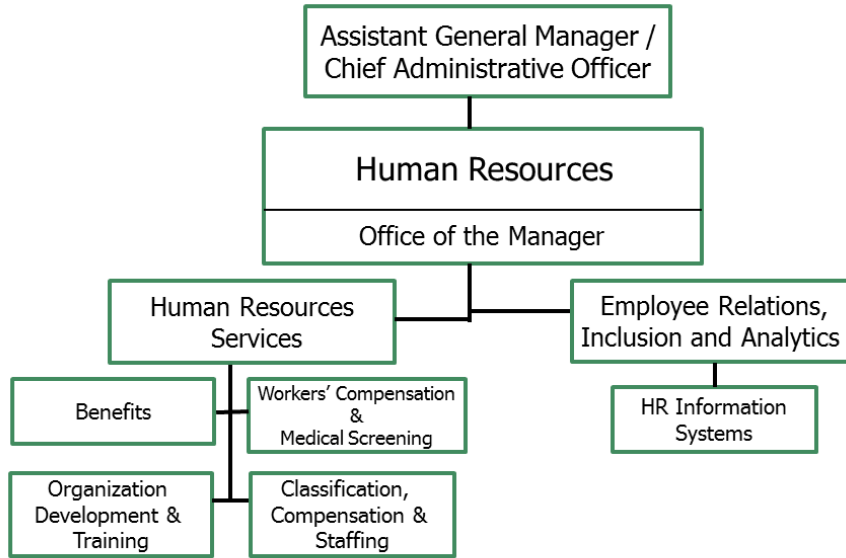
Employee Relations is responsible for fostering harmonious labor relations between Metropolitan and its four certified bargaining units, and plays a key role in contract negotiations, including working as a partner with senior management in developing Metropolitan's collective bargaining strategy. The 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, interview witnesses, and issue 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.

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

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



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/20, 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 management.

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

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

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

Strengthen Partnerships with HR Customers

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

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

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

Prepare to Meet Challenges of Future Workforce Changes

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

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

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

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

Provide Excellent Human Resources Services

HR provides a wide range of services and support from pre-hire to retirement 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.

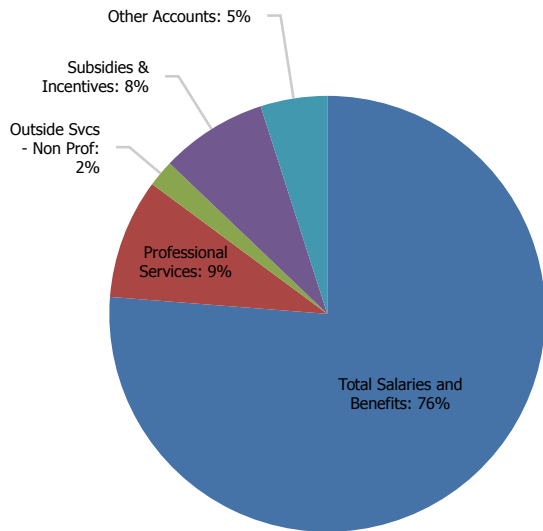
HR will maintain fiduciary responsibilities in the management of financial and retirement programs and comply with the Affordable Care Act and with all privacy and data security requirements.

O&M FINANCIAL SUMMARY

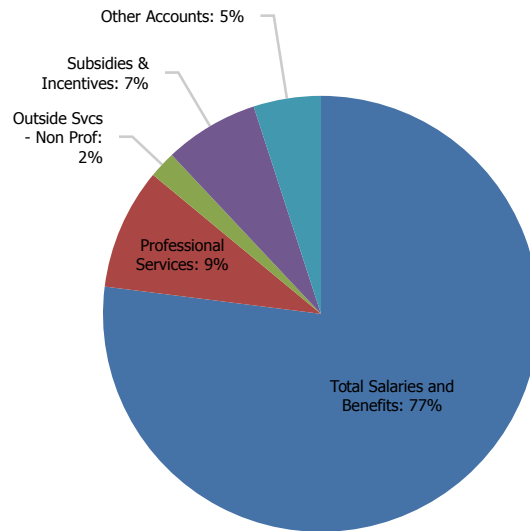
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|---|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 8,120,500 | 7,829,300 | 9,445,100 | 1,615,800 | 9,973,600 | 528,500 |
| <i>Direct Charges to Capital</i> | — | — | — | — | — | — |
| Total Salaries and Benefits | 8,120,500 | 7,829,300 | 9,445,100 | 1,615,800 | 9,973,600 | 528,500 |
| % Change | | (3.6%) | | 20.6% | | 5.6% |
| Professional Services | 578,400 | 885,400 | 1,104,100 | 218,700 | 1,126,700 | 22,600 |
| Advertising | 117,800 | 150,000 | 140,000 | (10,000) | 140,000 | — |
| Outside Services - Non Professional / Mainte | 313,600 | 202,000 | 231,500 | 29,500 | 231,500 | — |
| Subsidies & Incentives | 772,300 | 687,300 | 960,300 | 273,000 | 961,500 | 1,200 |
| Training & Seminars Costs | 222,400 | 158,200 | 177,800 | 19,600 | 177,700 | (100) |
| Other Accounts | 297,200 | 309,100 | 283,500 | (25,600) | 270,500 | (13,000) |
| Total O&M | 10,422,200 | 10,221,300 | 12,342,300 | 2,121,000 | 12,881,500 | 539,200 |
| % Change | | (1.9%) | | 20.8% | | 4.4% |

Note - Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

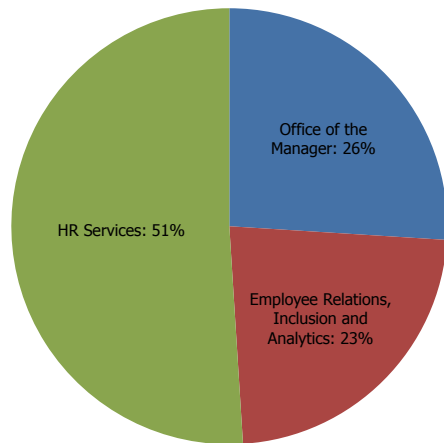


FY 2019/20 BUDGET BY EXPENDITURE

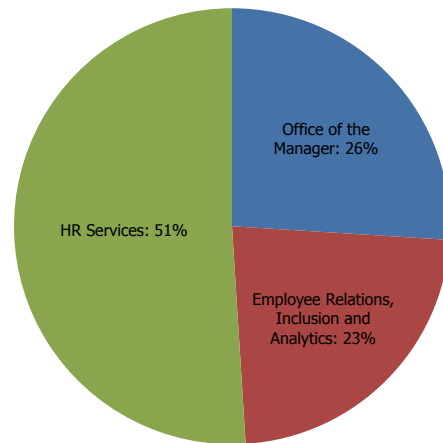


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|---|-------------------|-------------------|---------------------|-------------------|---------------------|------------------|-----------|-----------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Office of the Manager | 2,039,600 | 3,225,000 | 1,185,300 | 3,312,500 | 87,500 | 18 | 7 | 7 |
| Employee Relations, Inclusion and Analytics | 1,717,200 | 2,795,700 | 1,078,500 | 2,951,100 | 155,400 | 7 | 11 | 11 |
| HR Services | 6,464,400 | 6,321,800 | (142,700) | 6,618,000 | 296,200 | 13 | 24 | 24 |
| Total O&M | 10,221,300 | 12,342,400 | 2,121,200 | 12,881,500 | 539,100 | 38 | 42 | 42 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|----------------|----------------|------------------|---------------------|------------------|---------------------|
| | | Regular | Total | 38 | 38 | 42 | 4 |
| | O&M | 38 | 38 | 42 | 4 | 42 | — |
| | Capital | 0 | 0 | 0 | 0 | 0 | — |
| Temporary | Total | 2 | — | 0 | 0 | 0 | 0 |
| | O&M | 2 | — | — | — | — | — |
| | Capital | — | — | 0 | 0 | 0 | 0 |
| Total Personnel | Total | 39 | 38 | 42 | 4 | 42 | 0 |
| | O&M | 39 | 38 | 42 | 4 | 42 | — |
| | Capital | 0 | 0 | 0 | 0 | 0 | 0 |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

HR's Biennial Budget is \$12.3 million in FY 2018/19 and \$12.9 million in FY 2019/20 or an increase of 20.8% and an increase of 4.4% respectively from the prior budget years. The changes are due primarily to the following factors:

- Increase in staffing by four positions to accommodate increased recruitment and classification workload, succession planning for future vacancies and new initiatives such as the Wellness program.
- Professional services increase in both years due to General Manager Initiatives such as the Wellness and Recognition Programs and increased organizational and employee development training and programs. Additionally, there were increases in our Workers' Compensation third party Contract.
- Subsidies and Incentives increased in both years due to MOU contractual agreements as well as increasing the Tuition Reimbursement budget to accurately reflect the five year usage trends.

The following are the significant changes by budget year.

FY 2018/19

Personnel–related issues

Personnel count increased by four from the FY 2017/18 budget with the addition of a Business Support Team Manager and three HR Analysts in the Office of the Group Manager, Class Compensation and Recruitment and Human Resources Information Systems Team.

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

Professional Services

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

Subsidies & Incentives

The budget reflects increases as a result of MOU contractual agreements as well as increasing the Tuition Reimbursement budget to accurately reflect the five year usage trends.

FY 2019/20

Personnel–related issues

Personnel count remains flat from FY 18/19. Salaries and Benefits reflect negotiated labor increases.

Professional Services

The budget is anticipated to increase due to Workers' Compensation and Organization and Development Program contractual increases.

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REAL PROPERTY

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

PROGRAMS

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

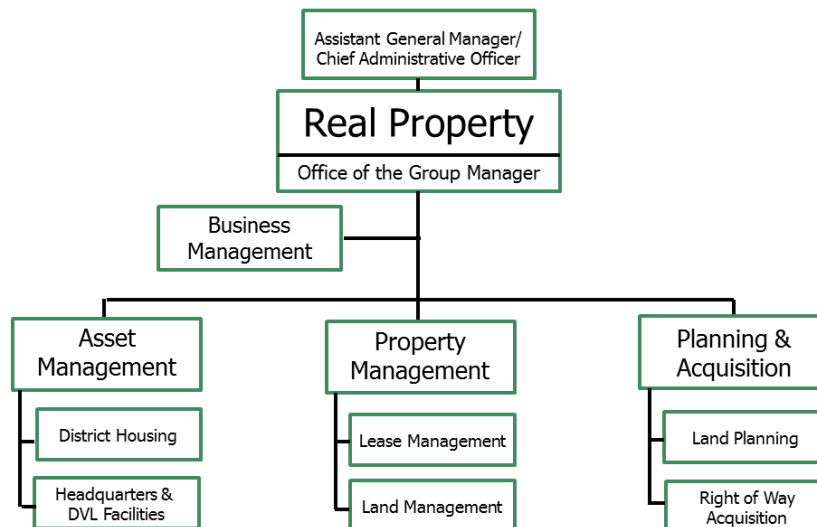
Office of the Group Manager includes Business Management, Planning & Acquisition, Property Management, and Asset Management. The Group Manager directs the group's efforts in planning acquiring, and managing Metropolitan's real property assets; is responsible for the development of real property policies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

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

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

Property Management is responsible for managing Metropolitan's real property assets, processing requests for secondary uses of real property and handling surplus property disposition. In addition, the Unit is responsible for the protection of Metropolitan's real property including site inspections, trespass and encroachment resolution.

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



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/20, Real Property will focus on the following key issues:

Centralized Management of Metropolitan's Real Property Assets

Metropolitan's properties have traditionally been maintained by various Groups within the organization. A centralized management approach will ensure properties are regularly maintained, secured and protected for present and future needs.

Transition the managerial responsibility of employee housing to the Real Property Group.

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

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

Provide facility management direction and logistical support throughout Metropolitan Headquarters Building Improvement Project.

Real Property Asset Protection & Stewardship

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

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

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

Continue to improve processes to monitor financial compliance with terms and conditions of licensing and leasing agreements such as invoicing, insurance coverage, accounts receivable.

Develop an implementation plan to detect and address right-of-way encroachments upon Metropolitan properties with a collaborative cross-

functional approach to prioritize and remediate the highest risk conditions.

Develop a qualitative/quantitative approach to identify properties that are surplus to Metropolitan's needs.

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

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

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

Bay Delta Properties

Develop a specific comprehensive Land Management Plan to optimize use and best land owner management practices.

Maximize utilization of the 20,400 acres of agricultural lands/revenue-leases purchased in the Delta to offset costs of land ownership.

Provide support to the California Water Fix and Eco Restore efforts.

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

Palo Verde Valley Properties

Develop a specific comprehensive Land Management Plan to optimize use and best land owner management practices.

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

Ensure Palo Verde Irrigation District water tolls,

local property taxes, and coalition fees are paid by the farmers/lease-holders on time.

Diamond Valley Lake Recreation and Management

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

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

Identify additional DVL land for surplus.

Property & Right of Way Acquisition

Provide real property and right-of-way acquisition, negotiations, and relocation services for the Right of Way and Infrastructure Protection and the Conveyance and Distribution System Rehabilitation projects.

Conduct real property valuation, feasibility and cost studies for proposed and planned infrastructure and water reliability projects such as the Prestressed Concrete Cylinder Pipe (PCCP) Rehabilitation and the Regional Recycled Water Program.

Facility & Energy Management

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

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

Initiate a plan to paint, carpet, and replace cubicle/modular furniture on all floors of the Headquarters Facility.

Prepare the wing space and manage employee relocations during the construction phase of Metropolitan Headquarters Building

Improvements Project. Also, develop an alternative plan for food service options while the cafeteria is out of service during the retrofit.

Initiate a multi-year plan to replace asphalt and pavement at the Diamond Valley Lake Recreation areas and roads.

Workforce Development & Succession Planning

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

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

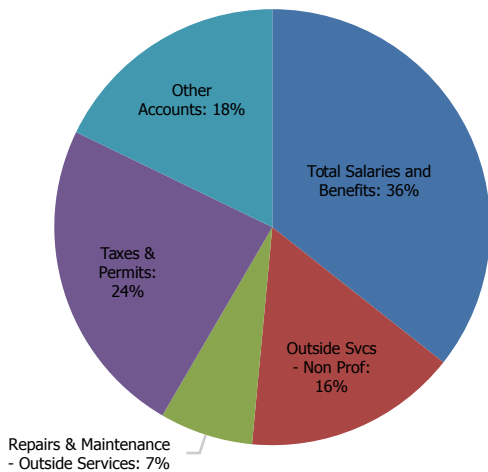
Collaborate with public agencies to identify areas where consistent real property best practices can be applied.

O&M FINANCIAL SUMMARY

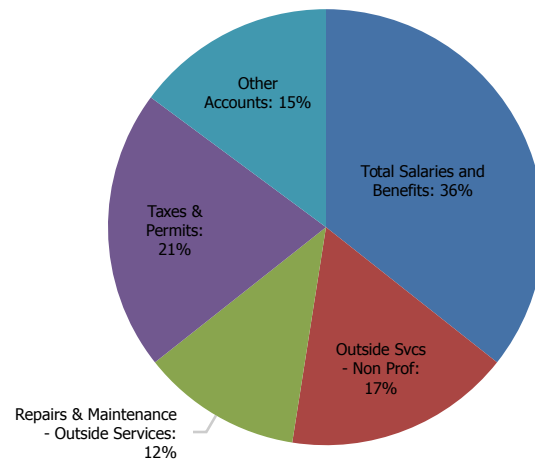
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 6,178,800 | 7,356,900 | 9,482,200 | 2,125,300 | 10,165,300 | 683,100 |
| Direct Charges to Capital | (300,800) | (596,300) | (108,700) | 487,600 | (117,900) | (9,200) |
| Total Salaries and Benefits | 5,878,000 | 6,760,600 | 9,373,500 | 2,612,900 | 10,047,400 | 673,900 |
| % Change | | 15.0% | | 38.6% | | 7.2% |
| Professional Services | 372,500 | 354,600 | 934,600 | 580,000 | 934,600 | — |
| Outside Services - Non Professional / Mainte | 3,120,900 | 2,608,500 | 4,120,500 | 1,512,000 | 4,782,100 | 661,600 |
| Rent & Leases | 709,700 | 749,200 | 916,700 | 167,500 | 950,900 | 34,200 |
| Repairs & Maintenance - Outside Services | 504,700 | 558,000 | 1,904,700 | 1,346,700 | 3,311,200 | 1,406,500 |
| Taxes & Permits | 4,107,100 | 5,288,300 | 6,214,000 | 925,700 | 5,796,000 | (418,000) |
| Utilities Charges | 1,178,300 | 1,356,100 | 1,411,100 | 55,000 | 1,464,800 | 53,700 |
| Other Accounts | 666,300 | 587,400 | 1,463,200 | 875,800 | 922,200 | (541,000) |
| Total O&M | 16,537,500 | 18,262,700 | 26,338,300 | 8,075,600 | 28,209,200 | 1,870,900 |
| % Change | | 10.4% | | 44.2% | | 7.1% |
| Operating Equipment | — | — | 20,200 | 20,200 | — | (20,200) |
| Total O&M and Operating Equipment | 16,537,500 | 18,262,700 | 26,358,500 | 8,095,800 | 28,209,200 | 1,850,700 |
| % Change | | 10.4% | | 44.3% | | 7.0% |

Note - Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE



FY 2019/20 BUDGET BY EXPENDITURE



PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Regular | Total | 34 | 40 | 50 | 10 | 50 | — |
| | O&M | 32 | 37 | 49 | 12 | 49 | — |
| | Capital | 2 | 3 | 1 | (2) | 1 | — |
| Temporary | Total | 1 | 1 | 1 | 0 | 1 | — |
| | O&M | 1 | 1 | 1 | 0 | 1 | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 35 | 41 | 51 | 10 | 51 | — |
| | O&M | 33 | 38 | 50 | 12 | 50 | — |
| | Capital | 2 | 3 | 1 | (2) | 1 | — |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

Real Property's O&M and Operating Equipment Biennial Budget is \$26.4 million in FY 2018/19 and \$28.2 million in FY 2019/20 or an increase of 44.3% and an increase of 7.0% respectively from the prior budget years. The Biennial Budget includes property taxes and rents & leases previously budgeted in Other O&M. As a result of significant increases in security, trespassing, dumping, illegal land use and increased risk and liability exposure, the Biennial Budget reflects a strategic, centralized, and structured approach to managing Metropolitan's property assets. A centralized approach ensures properties are regularly maintained, secured, and protected for Metropolitan's present and future needs. As a result of this proactive approach, the most significant factors contributing to the overall increase in the budget are outlined below.

- Six new staff positions are required to manage property surveillance and security presence for all vacant properties, property clean-up efforts, landscaping maintenance, roadway development and maintenance, directional signage, marketing plans for surplus properties, encroachment identification/remediation and other miscellaneous items.
- In addition to new staffing requests, four vacant positions are being transferred from Water System Operations to transition the management and maintenance of employee desert housing.
- Additional outside vendors, services, and supplies will be required in the following areas:
 - Support transition of employee housing from Water System Operations;
 - Weed abatement, maintenance of emergency and environmental systems, general repairs and paving for DVL buildings and recreation areas;
 - Services for encroachment assessments and abatement/remediation, fencing, signage, and engaging local law enforcement where required;
 - Planned maintenance and repairs at the Metropolitan's Headquarters Facility;
 - Office relocation services during the Metropolitan Headquarters Building Improvements;
 - Services for maintenance of vacant farmland in Palo Verde;
 - General appraisal and marketing services for the surplus property program.
- Additional taxes and water reclamation district assessments will be incurred as a result of land purchases outside Metropolitan's service area.

The following are the significant changes by budget year.

FY 2018/19

Personnel–related issues

Total personnel count reflects an addition of ten regular positions from FY 2017/18. Six are newly planned for property management and land acquisition and four are transfers to start transitioning the management of employee housing from WSO to Real Property.

Salaries and Benefits are increasing due to new position requests and negotiated labor increases.

Taxes & Permits

The budget reflects an increase associated with the land purchases outside Metropolitan's service area. There are new costs for additional property taxes, assessments from water reclamation districts, and a special one-time assessment to pay down bridge loans of the districts.

Repairs and Maintenance - Outside Services

The budget reflects increases for DVL Recreation, Headquarters, and housing facilities. At DVL, repairs and maintenance are required for fire, life, environmental safety, solar power, and HVAC systems. Also at DVL, a three-year program for repaving at the marina, viewpoint, and roadways will be initiated. At Headquarters, repairs and maintenance is required for the data center, fire, life and environmental safety and building automation systems. Employee housing requests will require general repairs and maintenance services.

Professional and Non Professional Services

The budget reflects an increase in professional consulting services anticipated for architectural/space planning, appraisal services for surplus property, and law enforcement for trespassing and encroachment remediation.

Non-professional services will be required for scheduled weed abatement at the DVL recreation basin, encroachment remediation projects, and non-capital components of the Metropolitan Headquarters Building Improvement project.

Other

The budget for other accounts include logistical support contracts, equipment and supplies necessary for the relocation of employees in the wings of the headquarter facility during the Metropolitan Headquarters Building Improvements project.

FY 2019/20

Personnel-related issues

Personnel count remains flat from FY 2018/19 budget.

Salaries and Benefits reflect negotiated labor increases.

Professional Services

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

Non Professional Services

The budget reflects an increase for physically moving employee offices in and out of the wing section of the headquarters facility during the seismic retrofit.

Repairs and Maintenance - Outside Services

The budget reflects a planned effort for painting and replacing of carpet, and cubicle/modular furniture for one floor of the headquarters facility. Staff's strategy is to refurbish all the floors at headquarters over a ten-year period.

Taxes & Permits

The budget reflects a decrease due to the special one-time Bay Delta reclamation districts' assessment in FY 2018/19.

Other

The budget for other accounts reflects a decrease due to completion of repairs and maintenance projects at DVL and headquarters in FY 2018/19.

Operating Equipment – FY 2018/19 and FY 2019/20

FY 2018/19 reflects the replacement of Headquarters Building equipment at end of life.

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OFFICE OF CHIEF FINANCIAL OFFICER

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

PROGRAMS

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

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

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

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

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.

Business Continuity Management Program ensures that Metropolitan takes the necessary steps to identify potential business impacts, mitigation strategies, and effectively recover critical operations following a major emergency or business disruption. This is accomplished through the development of recovery plans and strategies along with ongoing maintenance, testing, training

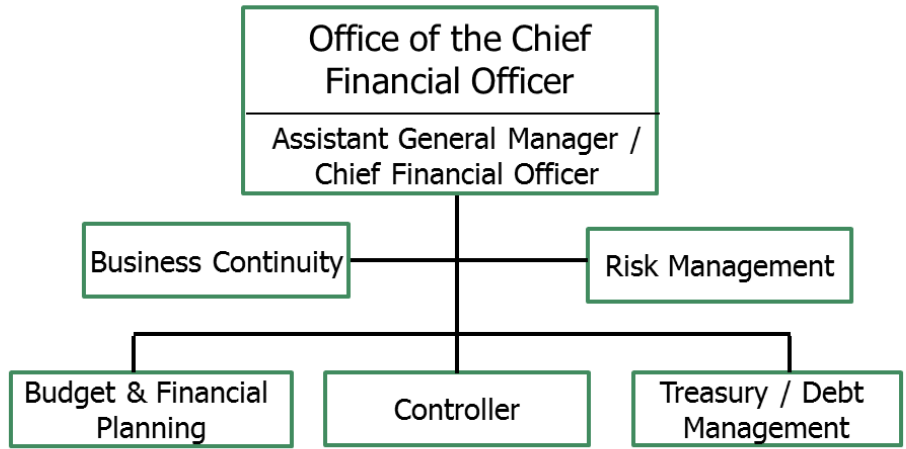
and awareness. In addition, emergency communications are also spearheaded using the MIR3 mass notification system.

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

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

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

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



GOALS AND OBJECTIVES

In FY2018/19 and FY 2019/2020 the Office of the CFO will focus on the following key issues:

Cost of Service and Budget

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

Financial Forecasts and Analysis

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

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

Analyze the funding of financial initiatives as identified.

Annexation/Tax Levy

Complete the annual annexation calculation and tax levy assessment.

Rates and Charges

Manage and effectively administer rates and charges to recover costs consistent with Board policy and objectives.

Financial Reporting/Internal Controls

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

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

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

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

Capital Financing

Update capital financing plans and work with rating agencies and investors to communicate financial needs and capabilities, ensure cost-effective access to capital markets, and maintain long-term bond ratings of AA or better.

Work with Metropolitan's underwriting team, financial advisors, and swap advisors to identify financing opportunities to prudently manage the overall cost of financing Metropolitan's capital investment program. Manage investor relations to ensure clear communications, accuracy of information, and integrity.

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

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

Investment

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

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

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

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

Risk Management

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

Business Continuity

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

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

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

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

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

Workforce Development & Succession Planning

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

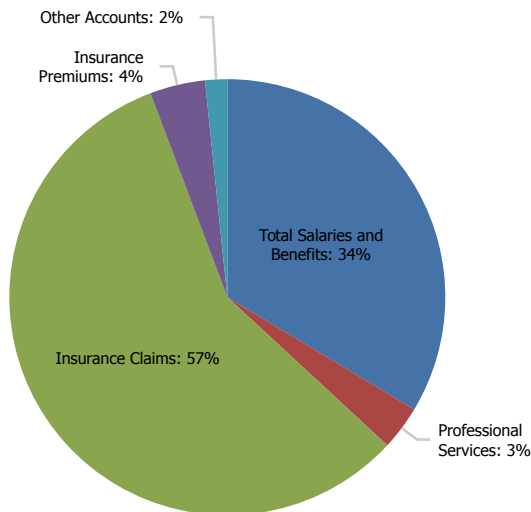
Work with each section within the Office of the CFO to establish staff back-up responsibilities for various work processes.

O&M FINANCIAL SUMMARY

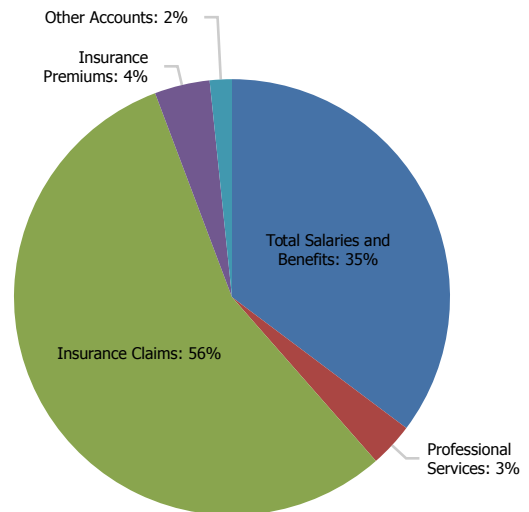
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 8,911,600 | 8,770,400 | 10,153,100 | 1,382,700 | 10,763,100 | 610,000 |
| <i>Direct Charges to Capital</i> | — | — | — | — | — | — |
| Total Salaries and Benefits | 8,911,600 | 8,770,400 | 10,153,100 | 1,382,700 | 10,763,100 | 610,000 |
| % Change | | (1.6%) | | 15.8% | | 6.0% |
| Professional Services | 1,250,500 | 1,234,100 | 1,076,600 | (157,500) | 1,076,600 | — |
| Insurance Claims | (3,180,400) | 11,537,300 | 11,529,000 | (8,300) | 11,547,600 | 18,600 |
| Insurance Premiums | 1,116,100 | 1,300,000 | 1,300,000 | — | 1,300,000 | — |
| Other Accounts | 272,600 | 240,600 | 502,700 | 262,100 | 510,900 | 8,200 |
| Total O&M | 8,370,400 | 23,082,400 | 24,561,400 | 1,479,000 | 25,198,200 | 636,800 |
| % Change | | 175.8% | | 6.4% | | 2.6% |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

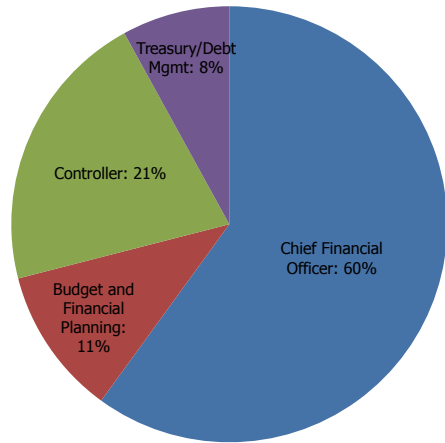


FY 2019/20 Budget by Expenditure

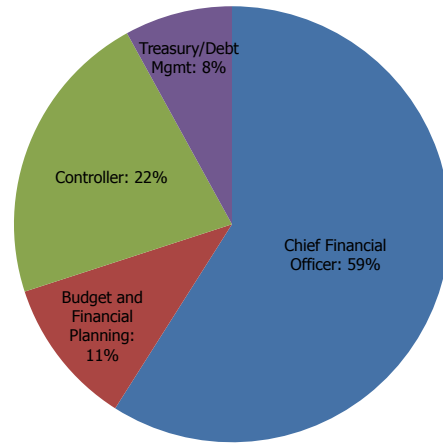


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 | Personnel Budget | | |
|-------------------------------|-------------------|-------------------|---------------------|-------------------|---------------------|------------------|-----------|-----------|
| | | | | | | 17/18 | 18/19 | 19/20 |
| Chief Financial Officer | 14,403,300 | 14,734,300 | 331,000 | 14,847,600 | 113,400 | 6 | 6 | 6 |
| Budget and Financial Planning | 1,931,800 | 2,670,600 | 738,800 | 2,822,600 | 152,000 | 8 | 10 | 10 |
| Controller | 4,602,700 | 5,184,300 | 581,600 | 5,487,800 | 303,500 | 28 | 28 | 28 |
| Treasury/Debt Mgmt | 2,144,500 | 1,972,200 | (172,200) | 2,040,100 | 67,900 | 7 | 5 | 5 |
| Total O&M | 23,082,300 | 24,561,400 | 1,479,100 | 25,198,100 | 636,700 | 49 | 49 | 49 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|----------------|----------------|------------------|---------------------|------------------|---------------------|
| Regular | Total | 46 | 49 | 49 | — | 49 | — |
| | O&M | 46 | 49 | 49 | — | 49 | — |
| | Capital | 0 | 0 | — | — | — | — |
| Temporary | Total | 0 | — | — | — | — | — |
| | O&M | 0 | — | — | — | — | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 46 | 49 | 49 | — | 49 | — |
| | O&M | 46 | 49 | 49 | — | 49 | — |
| | Capital | 0 | 0 | — | — | — | — |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the CFO's O&M and Operating Equipment Biennial Budget is \$24.6 million in FY 2018/19 and \$25.2 million in FY 2019/20 or an increase of 4.5% and an increase of 2.6% respectively from the prior budget years.

The change is primarily due to the following factors:

- The increase in Salaries and Benefits is a result of three positions being funded, negotiated labor increases, promotions and merit increases for qualified employees.
- Professional Services and other non-labor costs excluding insurance increased by 0.9% over the biennium.

The following are the significant changes by budget year.

FY 2018/19

Personnel-related issues

Total personnel count remains flat with the FY 2017/18 budget.

Salaries and Benefits reflect the funding of three positions, promotions, negotiated labor increases and merit increases for qualified employees.

Professional Services

The decrease in the budget is the result of the realignment of some of the budget from professional services to memberships and subscriptions. The result is a \$80K increase in the budget for professional services and memberships & subscriptions combined from the FY 2017/18 budget.

Insurance Claims

Third party liability claims budget is anticipated to remain relatively flat.

FY 2019/20

Personnel-related issues

Total personnel count remains flat from the FY 2018/19 budget.

Salaries and Benefits reflect negotiated labor increases.

Insurance Claims

Third party liability claims budget is anticipated to remain relatively flat.

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EXTERNAL AFFAIRS

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

PROGRAMS

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

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

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

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

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

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

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

The Education Unit supports comprehensive, standards-based water education curriculum and works with educational associations, institutions and teachers to provide water education resources for elementary and secondary schools, colleges and universities.

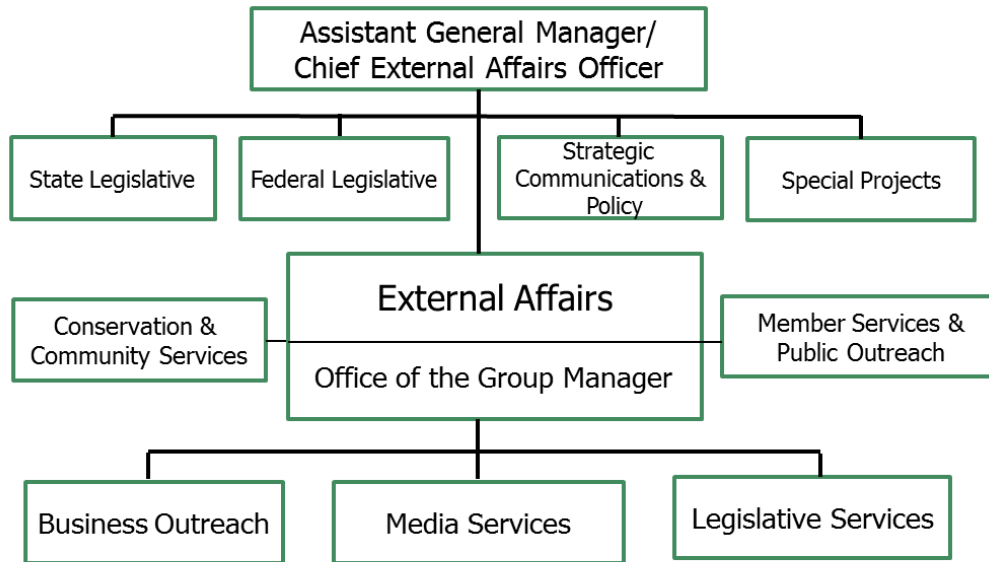
Member Services and Public Outreach

provides support services to Metropolitan’s member agencies and manages outreach efforts for Metropolitan’s facility operations, construction activities and other water resource initiatives. The section works with and supports local government, business, agriculture and community organizations, and directs research efforts to support Metropolitan programs.

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

Media Services

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



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/20, External Affairs will continue to focus on the following key issues and objectives:

Communications and Outreach Efforts

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

Update content and informational resources on current websites, develop new microsites as needed, and manage the mwdh2o.com website redesign project to improve the functionality, content management, security and end-user experience.

Develop in-house management of social media activities, search engine optimization and marketing functions to meet business and outreach goals.

Strengthen the capacity of sponsorship and partnership programs, including the Community Partnering Program, legislative sponsorships and memberships, and business outreach sponsorships, to enhance information-sharing on water issues and stewardship and relationships with non-governmental organizations, business groups, local elected officials, community organizations and other stakeholder groups throughout Southern California.

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

Water Supply Reliability, Conservation and Sustainability

Develop and implement an effective and well-managed multimedia, multilingual advertising and outreach campaign to increase public awareness of water supply conditions, Metropolitan and member agency rebate programs, and support for long-term conservation strategies.

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

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

Promote public awareness of climate change impacts on water supply conditions and reliability using a range of community and outreach tools to support Metropolitan's current and future initiatives with climate change adaptation and actions.

Bay-Delta and Local Supply Initiatives

Provide information and secure support of stakeholders, the public and legislators for Metropolitan's positions on policies that promote water supply reliability and an environmentally sustainable Bay-Delta. This includes programs and policies related to the California WaterFix, California EcoRestore and Metropolitan-owned properties in the Delta.

Ensure strong coordination and consistent messaging with state and federal agencies, State Water Contractors, JPA participating agencies, and member agencies on activities related to California WaterFix.

Provide communication and community outreach to increase public awareness of and support for new and proposed projects to advance local supply development, including the Regional Recycled Water Project demonstration facility.

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, Delta solutions, regional water resources projects, and sustainable water and energy management.

Conduct briefings, presentations and tours for elected officials and government leaders, and community-based environmental and business organizations to increase understanding of key water infrastructure systems and investments and key legislative and regulatory policies.

Member Agency Support

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

Effectively manage the inspection trip program to educate the public, business and community leaders, elected officials, news media, members of the public about Metropolitan and encourage a dialogue about the state's water supply and infrastructure, environmental issues and climate change impacts, agriculture and urban water interface and future challenges.

Provide primary support to the Communications and Legislation Committee and the Agriculture and Industry Relations Committee, and ensure that committee presentations, board letters and associated activities provide timely, accurate and relevant information on programs, trends and activities to help inform board actions and ensure transparency.

Business Outreach

Maintain an effective Business Outreach program for regional small businesses and veterans to ensure broad participation while achieving board-adopted goals of 25 percent or better for

contracting dollars to small business and 3 percent to disabled veteran-owned enterprises.

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

Provide leadership and collaborate with Metropolitan's member agencies, other public agencies and innovative programs to identify, develop and promote emerging water technologies.

Educational Programs

Update and expand distribution of Metropolitan's comprehensive K-12 water education curriculum in the areas of science, math, language arts and social studies.

In coordination with member agencies and the educational community, explore opportunities to expand educational services through the use of new technologies to reach more students, teachers and classrooms, including underserved and culturally diverse populations.

Support and manage Metropolitan's unique educational programs, including Solar Cup competition, World Water Forum and the Student Art Contest.

Emergency Management and Crisis Communication

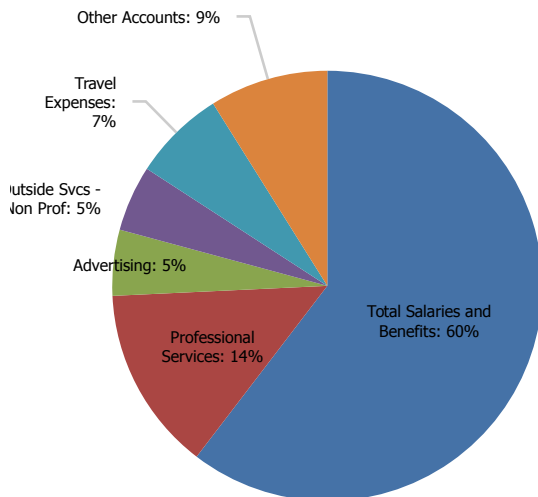
Support Metropolitan's emergency preparedness with a responsive crisis communications plan, well-trained staff, and the use of social media and other communications technologies to provide essential services during times of emergency and in response to disasters.

O&M FINANCIAL SUMMARY

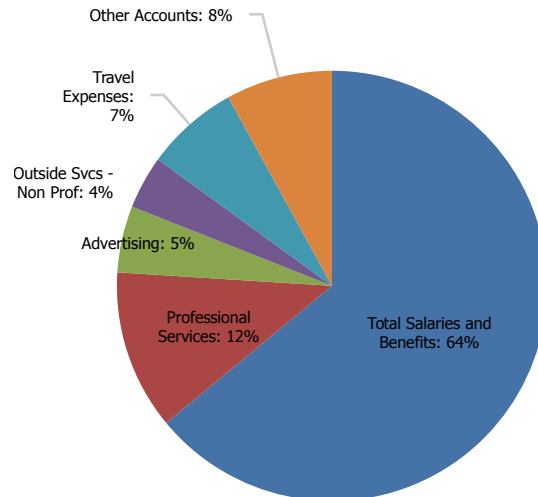
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 14,861,500 | 14,816,600 | 16,756,100 | 1,939,500 | 17,783,900 | 1,027,800 |
| <i>Direct Charges to Capital</i> | — | — | — | — | — | — |
| Total Salaries and Benefits | 14,861,500 | 14,816,600 | 16,756,100 | 1,939,500 | 17,783,900 | 1,027,800 |
| % Change | | (0.3%) | | 13.1% | | 6.1% |
| Professional Services | 2,123,700 | 2,921,700 | 3,828,700 | 907,000 | 3,306,300 | (522,400) |
| Advertising | 3,175,800 | 2,200,000 | 1,312,200 | (887,800) | 1,320,800 | 8,600 |
| Community Outreach Activities | 289,200 | 220,000 | 400,000 | 180,000 | 400,000 | — |
| Memberships & Subscriptions | 347,600 | 440,600 | 459,100 | 18,500 | 474,100 | 15,000 |
| Outside Services - Non Professional / Mainte | 579,300 | 631,200 | 1,511,700 | 880,500 | 1,178,200 | (333,500) |
| Sponsorships | 386,800 | 411,300 | 559,300 | 148,000 | 559,300 | — |
| Travel Expenses | 1,448,000 | 1,726,900 | 1,840,400 | 113,500 | 1,831,400 | (9,000) |
| Other Accounts | 909,300 | 966,900 | 937,100 | (29,800) | 898,100 | (39,000) |
| Total O&M | 24,121,200 | 24,335,200 | 27,604,600 | 3,269,400 | 27,752,100 | 147,500 |
| % Change | | 0.9% | | 13.4% | | 0.5% |
| Operating Equipment | 37,210 | — | 30,800 | 30,800 | 32,300 | 1,500 |
| Total O&M and Operating Equipment | 24,121,200 | 24,335,200 | 27,635,400 | 3,300,200 | 27,784,400 | 149,000 |
| % Change | | 0.9% | | 13.6% | | 0.5% |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE

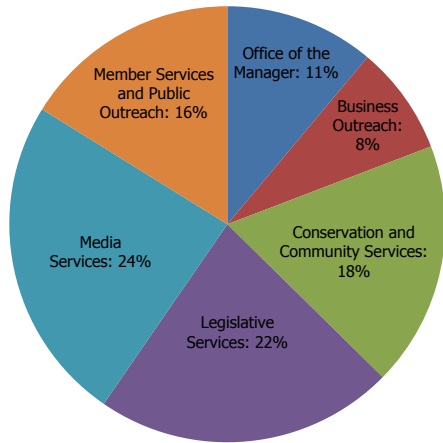


FY 2019/20 BUDGET BY EXPENDITURE

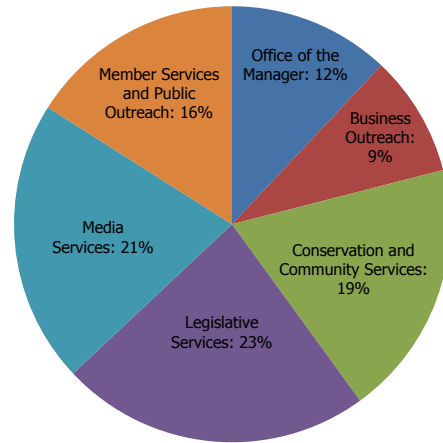


O&M BUDGET BY SECTION

FY 2018/19 BUDGET BY SECTION



FY 2019/20 BUDGET BY SECTION



| | 2017/18 | 2018/19 | Change from | 2019/20 | Change from | Personnel Budget | | |
|-------------------------------------|-------------------|-------------------|------------------|-------------------|----------------|------------------|-----------|-----------|
| | Budget | Proposed | 2017/18 | Proposed | 2018/19 | 17/18 | 18/19 | 19/20 |
| Office of the Manager | 2,979,700 | 3,089,100 | 109,400 | 3,213,800 | 124,700 | 10 | 9 | 9 |
| Business Outreach | 1,874,800 | 2,332,000 | 457,200 | 2,421,400 | 89,300 | 7 | 7 | 7 |
| Conservation and Community Services | 5,789,000 | 5,055,300 | (733,700) | 5,275,400 | 220,000 | 11 | 11 | 11 |
| Legislative Services | 5,828,200 | 6,118,600 | 290,400 | 6,351,900 | 233,300 | 14 | 14 | 14 |
| Media Services | 3,948,300 | 6,571,100 | 2,622,800 | 5,963,700 | (607,400) | 18 | 20 | 20 |
| Member Services and Public Outreach | 3,915,100 | 4,438,500 | 523,400 | 4,526,200 | 87,600 | 10 | 10 | 10 |
| Total O&M | 24,335,100 | 27,604,600 | 3,269,500 | 27,752,200 | 147,700 | 70 | 71 | 71 |

Note - Totals may not foot due to rounding.

PERSONNEL SUMMARY

| | | 2016/17 | 2017/18 | 2018/19 | Change from | 2019/20 | Change from |
|------------------------|--------------|-----------|-----------|-----------|-------------|-----------|-------------|
| | | Actual | Budget | Proposed | 2017/18 | Proposed | 2018/19 |
| Regular | Total | 67 | 70 | 71 | 1 | 71 | — |
| | O&M | 67 | 70 | 71 | 1 | 71 | — |
| | Capital | — | — | — | — | — | — |
| Temporary | Total | 1 | — | 0 | 0 | — | 0 |
| | O&M | 1 | — | 0 | 0 | — | 0 |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 67 | 70 | 71 | 1 | 71 | 0 |
| | O&M | 67 | 70 | 71 | 1 | 71 | 0 |
| | Capital | — | — | — | — | — | — |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

External Affairs' O&M and Operating Equipment Biennial Budget is \$27.6 million in FY 2018/19 and \$27.8 million in FY 2019/20 or an increase of 13.6% and an increase of 0.5%, respectively from the prior budget years. In an effort to achieve budget savings, advertising and outreach efforts have been reexamined and redistributed with the following impacts:

- Advertising: External Affairs will manage a new three-year multi-media multilingual advertisement campaign in continued efforts to promote conservation as a way of life for Southern California. In FY 2018/19, the board authorized \$5.5 million for the campaign. For FY 2019/20 the campaign will be funded in coordination with WRM from the water conservation budget and will include enhanced research, optimization and program benchmark measurement. Management has redirected previously budgeted advertising funds to in-house social media and search-engine optimization/marketing; innovation-directed studies, Colorado River exhibition, capital project outreach and legislative and business outreach efforts and retains adequate funding for future outreach and advertising on policy initiatives and key issues.
- Capital Projects Outreach: External Affairs will continue to provide communications and public outreach support for capital improvements and other major initiatives, including California WaterFix, the Regional Recycled Water Program demonstration and visitors center, construction, and refurbishment of existing infrastructure, such as Colorado River, Second Lower Feeder, and other pipe rehabilitation projects, with funding from the capital projects.
- The Board and Executive Management have identified website redesign as a priority to keep up with electronic media needs for Metropolitan's service area and all potential site visitors. To meet this priority, \$1.2 million has been budgeted in FY 2018/19 and \$500,000 in FY 2019/20 to redesign the mwdh2o.com website.
- Diamond Valley Lake: External Affairs has budgeted \$25,000 for various exhibit restoration and maintenance costs in FY 2018/19 and FY 2019/20 to bring the exhibits at the DVL Visitors Center to a level of quality consistent with Metropolitan's standards and to provide cutting-edge innovation and information that engages audiences to discover more about the history and future of water supply management in Southern California.

The following are the significant changes by budget year:

FY 2018/19

Personnel-related issues

The budget for Salary and Benefits reflects negotiated labor increases somewhat offset by anticipated vacancies from retirements and unfilled positions. One additional regular position has been added to provide support for capital projects outreach and communications and succession planning for the Member Services and Public Outreach Section.

Fiscal years 2016/17 and 2017/18 budget was restated to reflect movement of the Inspection Trip and Graphic Design teams and the Business Outreach Section to External Affairs as directed by the General Manager.

The Inspection Trip Team was assigned with Customer Service Unit under the newly formed Member Service and Public Outreach Section.

Other

The budget reflects reductions in funding for rents and leases, which will be managed by Real Property; and advertising, which reflects the Board-approved coordination with WRM. 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 reflects increases consistent with Board and General Manager initiatives and priorities for website and electronic media

enhancements, community outreach efforts, and innovation and research-related professional and non-professional services. The budget redirects existing advertising funding for new research and related activities that provide accurate and timely information on public opinions, consumer and customer attitudes and awareness to help inform future outreach activities with member agencies, stakeholders and the public.

FY 2019/20

Personnel–related issues

Total Personnel count remains flat with the FY 2018/19 budget. Salaries and Benefits reflect negotiated labor increases.

Other

The budget reflects a decrease across materials and supplies, professional and non-professional services based on completion of the initial stages of the website and electronic media enhancement projects.

Operating Equipment – FY 2018/19 and FY 2019/20

The budget reflects replacement vehicles for Director- and GM-sponsored inspection trips and Metropolitan special events and activities.

GENERAL COUNSEL DEPARTMENT

The Legal Department provides a full range of legal services in a professional, timely, cost-effective, and creative manner.

PROGRAMS

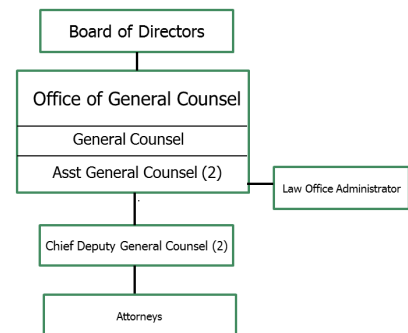
The General Counsel is the chief legal spokesperson for Metropolitan and the Board of Directors and oversees the Legal Department's administrative functions.

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 2017/18 and FY 2018/19, 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 and implementation of the California WaterFix and the California EcoRestore, including the associated environmental documentation and implementing agreements in a manner supportive of Metropolitan's goals and objectives.

Provide legal advice regarding implementation, financing, and governance of the California WaterFix including agreements with the Department of Water Resources and others.

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 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 group in the negotiation and documentation of real property acquisitions and the surplus 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 .

Technology

Collaborate on Information Governance Policies with Business Technology Group, External Affairs, and Human Resources.

Energy Costs and Management

Assist with implementation of the Energy Management Plan, including providing advice on wholesale energy transactions, renewable energy projects and energy-related contracts and legislation.

Provide legal support to ensure that SWP energy needs are met in a cost-effective and sustainable manner.

Legal Department Administration

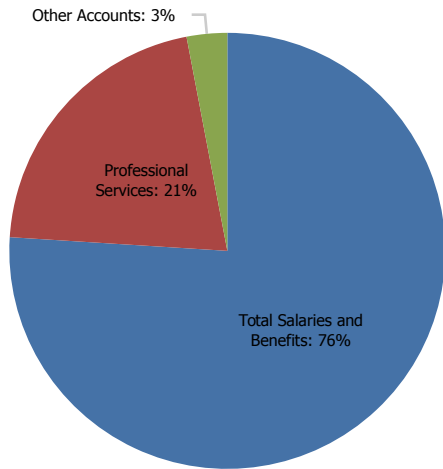
Continue to aggressively manage outside counsel costs, while obtaining effective representation to protect Metropolitan's interests. Provide on-going training opportunities and develop and implement succession planning.

O&M FINANCIAL SUMMARY

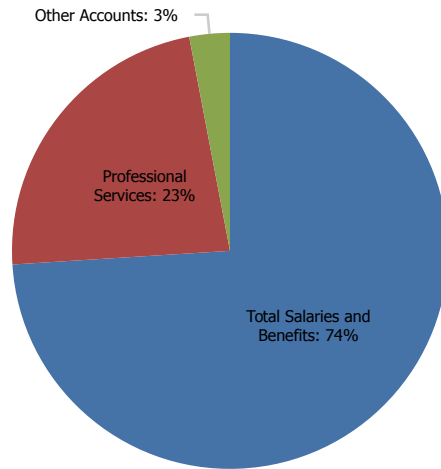
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 9,790,900 | 9,744,000 | 10,767,000 | 1,023,000 | 11,308,300 | 541,300 |
| <i>Direct Charges to Capital</i> | — | — | — | — | — | — |
| Total Salaries and Benefits | 9,790,900 | 9,744,000 | 10,767,000 | 1,023,000 | 11,308,300 | 541,300 |
| % Change | | (0.5%) | | 10.5% | | 5.0% |
| Professional Services | 821,300 | 3,625,000 | 3,010,000 | (615,000) | 3,460,000 | 450,000 |
| Materials & Supplies | 56,300 | 50,000 | 55,000 | 5,000 | 55,000 | — |
| Memberships & Subscriptions | 103,100 | 100,000 | 110,000 | 10,000 | 110,000 | — |
| Outside Services - Non Professional / Mainte | 29,300 | 30,000 | 35,000 | 5,000 | 35,000 | — |
| Subsidies & Incentives | 48,800 | 55,000 | 55,000 | — | 55,000 | — |
| Travel Expenses | 97,000 | 120,000 | 120,000 | — | 120,000 | — |
| Other Accounts | 47,500 | 53,000 | 59,000 | 6,000 | 59,000 | — |
| Total O&M | 10,994,200 | 13,777,000 | 14,211,000 | 434,000 | 15,202,300 | 991,300 |
| % Change | | 25.3% | | 3.2% | | 7.0% |

Note - Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE



FY 2019/20 BUDGET BY EXPENDITURE



PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Regular | Total | 34 | 36 | 36 | — | 36 | — |
| | O&M | 34 | 36 | 36 | — | 36 | — |
| | Capital | — | — | — | — | — | — |
| Temporary | Total | 2 | 2 | 2 | — | 2 | — |
| | O&M | 2 | 2 | 2 | — | 2 | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 36 | 38 | 38 | — | 38 | — |
| | O&M | 36 | 38 | 38 | — | 38 | — |
| | Capital | — | — | — | — | — | — |

Note - Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Office of the General Counsel's Biennial Budget is \$14.2 million in FY 2018/19 and \$15.2 million in FY 2019/20 or an increase of 3.2% and 7.0% respectively from the prior budget years. The increase is primarily due to the following factors:

- Professional services costs increase reflects anticipated expenses for Bay Delta legal costs, water quality litigation, employment litigation and water rates litigation.
- Salaries and Benefits costs reflect negotiated labor increases and merit increases for qualified employees.

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GENERAL AUDITOR DEPARTMENT

The Audit Department provides independent, professional, and objective assurance and consulting services designed to add value to and improve Metropolitan's operations.

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 2018/2019 and FY 2019/20, 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.

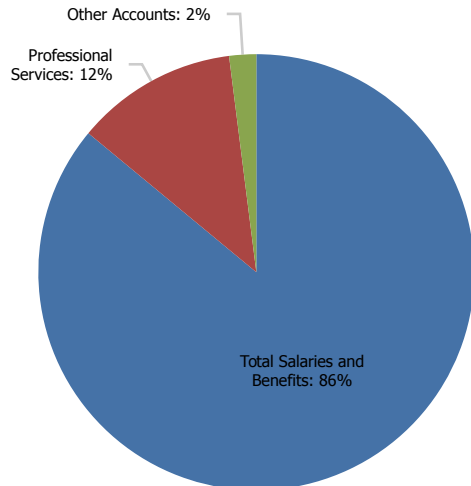
Uphold the mission, roles, and responsibilities of the Audit Department.

O&M FINANCIAL SUMMARY

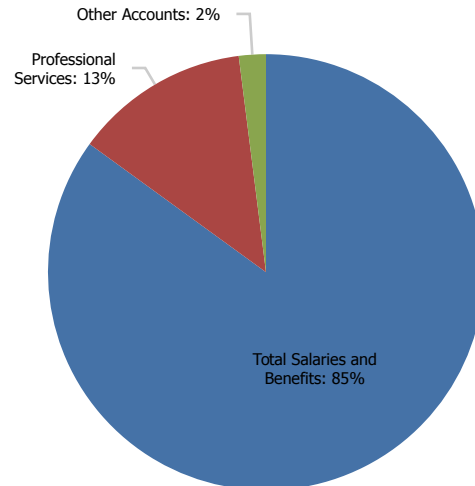
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 2,434,900 | 2,721,300 | 3,100,300 | 379,000 | 3,283,500 | 183,200 |
| <i>Direct Charges to Capital</i> | — | — | — | — | — | — |
| Total Salaries and Benefits | 2,434,900 | 2,721,300 | 3,100,300 | 379,000 | 3,283,500 | 183,200 |
| % Change | | 11.8% | | 13.9% | | 5.9% |
| Professional Services | 380,100 | 350,000 | 450,000 | 100,000 | 500,000 | 50,000 |
| Materials & Supplies | 13,400 | 15,000 | 16,000 | 1,000 | 16,000 | — |
| Memberships & Subscriptions | 4,600 | 5,500 | 5,500 | — | 5,500 | — |
| Rent & Leases | 3,700 | 5,500 | 4,500 | (1,000) | 4,500 | — |
| Subsidies & Incentives | 16,600 | 15,000 | 15,000 | — | 15,000 | — |
| Training & Seminars Costs | 3,500 | 15,000 | 16,000 | 1,000 | 17,000 | 1,000 |
| Travel Expenses | 3,000 | 5,000 | 5,000 | — | 5,000 | — |
| Other Accounts | 1,400 | 8,500 | 8,500 | 0 | 8,500 | — |
| Total O&M | 2,861,200 | 3,140,800 | 3,620,800 | 480,000 | 3,855,000 | 234,200 |
| % Change | | 9.8% | | 15.3% | | 6.5% |

Note – Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE



FY 2019/20 BUDGET BY EXPENDITURE



PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Regular | Total | 10 | 12 | 12 | — | 12 | — |
| | O&M | 10 | 12 | 12 | — | 12 | — |
| | Capital | — | — | — | — | — | — |
| Temporary | Total | — | — | — | — | — | — |
| | O&M | — | — | — | — | — | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 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 \$3.6 million in FY 2018/19 and \$3.9 million in FY 2019/20 or an increase of 15.3% and 6.5% respectively from the prior budget years.

- Salaries and Benefits costs reflect negotiated labor increases and merit increases for qualified employees.
- Professional Services reflects a recently negotiated agreement with external auditors.

ETHICS OFFICE

The Ethics Office promotes an ethical culture at Metropolitan by administering and advising Metropolitan's ethics policies and reviewing potential ethics violations.

PROGRAMS

Metropolitan's Ethics Office was established by special legislation enacted in 2000. In doing so, it was with a conviction that a strong ethical culture is the foundation of good governance. Moreover, it was based on the belief that an ethical culture is created through a robust ethics program that sets clear expectations for conducting business within the organization and with external parties.

An ethical culture is based on the following: effective board oversight, strong tone-at-the-top, senior management involvement, organization-wide commitment, a customized code of conduct, ethics training, communications, and ongoing monitoring system.

It also involves the administration of financial disclosure reports, an anonymous incident reporting system, timely investigation of reported incidents, publication of summary investigation findings, and, where appropriate, referrals to Department managers for consistent disciplinary action.

These processes promote transparency and accountability, allowing the public insight into how the district conducts its business and holding district officials accountable for meeting internal and state ethics standards. The Ethics Office Accomplishes its mission through the following programs and services, each of which is critical to achieving the ultimate goal of internal ethics and compliance - maintaining an ethics-centered culture.

Ethics Compliance The Ethics Office services as the filing officer for state-mandated financial interest disclosure reports for directors and employees. These filings are required for individuals who make or participate in making

decisions in their official capacity that could affect their personal financial interests. To date, all Directors and over 600 employees have been identified as mandatory filers.

The Ethics Office also maintains and updates Metropolitan's conflict of interest code, designating employee reporting positions and disclosure categories. These requirements are tailored to the unique responsibilities of each designated position and are reviewed on a periodic basis for compliance with evolving standards.

Advice and Education The Ethics Office advises employees, directors, and contractors on Metropolitan's ethic policies and standards. These include the areas of conflicts of interest and proper use of authority. Advice and education are provided through consultations, training programs, and reference materials. The Ethics Office addresses requests for advice and training and recommends consultations where appropriate.

The Ethics Office also facilitates state-mandated AB1234 and sexual harassment training for directors and provides orientations for new directors and employees about Metropolitan's internal ethic provisions.

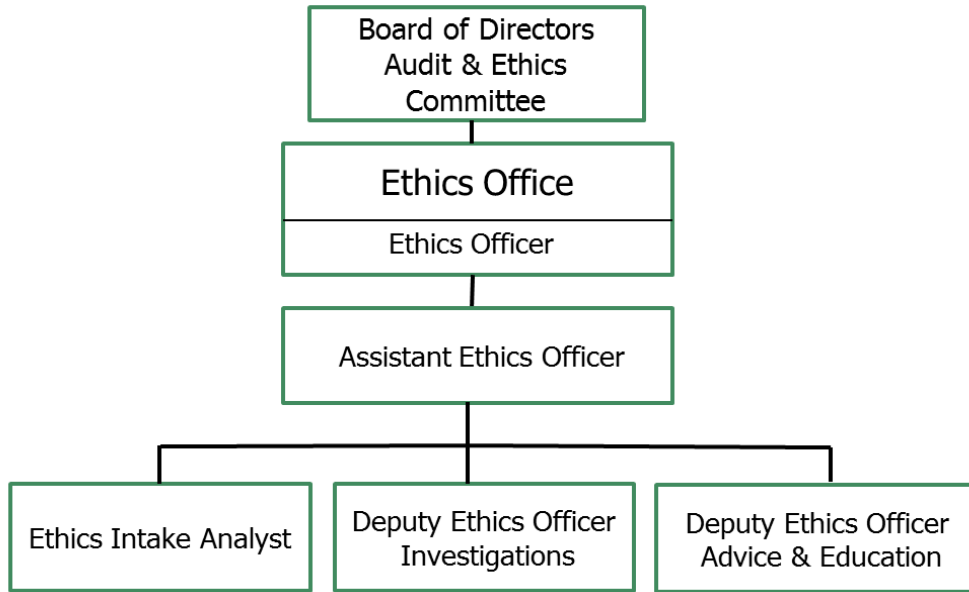
Policy Analysis and Program Development The Ethics Office proposes ethic rules and modifications to existing rules, performs risk assessment, and analyzes investigation procedure to maintain best practices in the field.

Investigation Investigations are undertaken both to promote accountability and to identify systematic changes needed in order to avoid further missteps. Performing comprehensive investigations, including investigation planning,

gathering of evidence, document review, witness interviews, comparative analysis of facts, drafting of reports, and organization and indexing of evidence.

occurred, and makes recommendations to executive management.

The Ethics Officer reviews the investigation findings, determines whether ethics violations



GOALS AND OBJECTIVES

In FY 2018/19 and FY 2019/20, the Ethics Office will focus on the following key issues and initiatives:

Ethics Consultation

Provide ethics risk perspective and advisory services to directors, officers, and employees needing input on ethics related issues. In specific requests for assistance, provide thorough analysis and prompt responses. Continue to review board agendas and prepare memorandum for directors to help identify potential sources of conflicts of interest in matters coming before them. Review conflict of interest disclosures from potential contractors for the professional services contracting unit and make recommendations for resolving potential conflicts. Perform outreach to Group Managers to proactively engage in the program and project process to help maintain ethics-centered decision-making.

Policy Development

Continue to assess the scope and content of Metropolitan's ethics policies and provisions. Develop new ideas for improvements and work to achieve consensus among stakeholders.

Follow developments in legislation and Fair Political Practices Commission proceedings to identify emerging issues that may affect the Metropolitan community.

Ethics Office performs objective and comprehensive investigations of ethics complaints, which entails investigation planning, gathering evidence, document review, witness interviews, comparative analysis of facts, drafting of reports, and organization and indexing of evidence.

The Ethics Officer reviews the investigation findings, determines whether ethics violations occurred, and makes recommendations to executive management.

Investigations

Evaluate opportunities to streamline the investigation process. These efforts include establishing reasonable guidelines to ensure that inquiries proceed in an efficient and responsible

manner. Improve the effectiveness and timeliness of communication to interested parties on the progress of investigations. Define accountability standards for investigations that address the need to discontinue or close inquiries when substantiating evidence cannot be obtained within a reasonable time period. Survey best practices in the field and recommend improvements to Investigation Guidelines.

Education and Outreach

Design accessible and understandable ethics education programs focused on needs of different work groups. Increase number of in-person presentations.

Update employee orientation materials, website content, and online training program and create new fact sheets and pamphlets on the most common ethics topics facing Metropolitan.

Workforce Development

Encourage training opportunities for Ethics Department staff to enhance competencies in governmental ethics and to broaden knowledge of Metropolitan operations. Utilize this knowledge in fine-tuning Ethics consultation, policy development and outreach efforts.

Management and Leadership

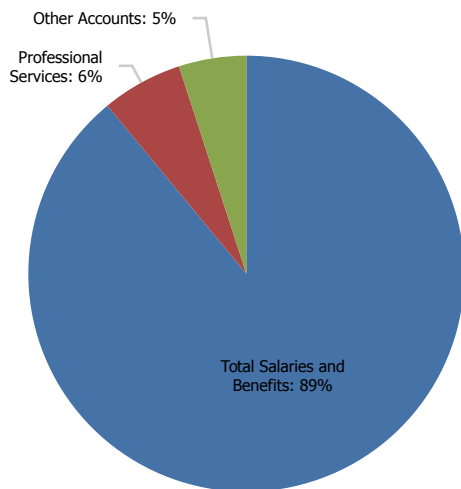
Efficiently manage the Ethics Office's budget for maximum effectiveness. Uphold the missions, roles, and responsibilities of the Ethics Office.

O&M FINANCIAL SUMMARY

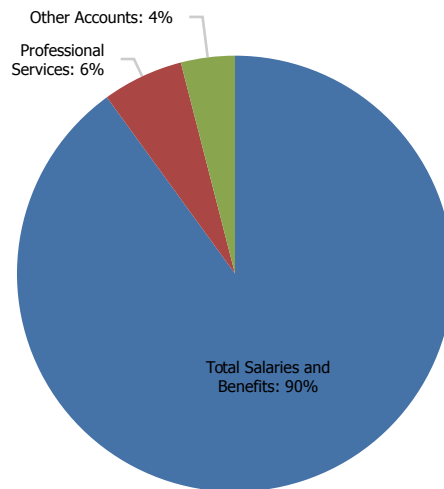
| | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|--|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Total Salaries and Benefits | 1,167,700 | 1,227,900 | 1,247,300 | 19,400 | 1,299,700 | 52,400 |
| <i>Direct Charges to Capital</i> | — | — | — | — | — | — |
| Total Salaries and Benefits | 1,167,700 | 1,227,900 | 1,247,300 | 19,400 | 1,299,700 | 52,400 |
| % Change | | 5.2% | | 1.6% | | 4.2% |
| Professional Services | 47,400 | 85,000 | 85,000 | — | 85,000 | — |
| Memberships & Subscriptions | 13,400 | 15,000 | 15,000 | — | 15,000 | — |
| Outside Services - Non Professional / Mainte | — | 15,000 | 16,700 | 1,700 | 16,700 | — |
| Rent & Leases | 2,700 | 3,500 | 3,500 | — | 3,500 | — |
| Subsidies & Incentives | 10,000 | 13,000 | 13,000 | — | 13,000 | — |
| Training & Seminars Costs | 2,600 | 6,000 | 6,000 | — | 6,000 | — |
| Travel Expenses | 4,700 | 6,000 | 6,000 | — | 6,000 | — |
| Other Accounts | 16,900 | 4,600 | 3,500 | (1,100) | 3,500 | — |
| Total O&M | 1,265,400 | 1,376,000 | 1,396,000 | 20,000 | 1,448,400 | 52,400 |
| % Change | | 8.7% | | 1.5% | | 3.8% |

Note - Totals may not foot due to rounding.

FY 2018/19 BUDGET BY EXPENDITURE



FY 2019/20 BUDGET BY EXPENDITURE



PERSONNEL SUMMARY

| | | 2016/17 Actual | 2017/18 Budget | 2018/19 Proposed | Change from 2017/18 | 2019/20 Proposed | Change from 2018/19 |
|------------------------|--------------|-------------------|-------------------|---------------------|------------------------|---------------------|------------------------|
| Regular | Total | 4 | 5 | 5 | 0 | 5 | — |
| | O&M | 4 | 5 | 5 | 0 | 5 | — |
| | Capital | — | — | — | — | — | — |
| Temporary | Total | 1 | — | — | — | — | — |
| | O&M | 1 | — | — | — | — | — |
| | Capital | — | — | — | — | — | — |
| Total Personnel | Total | 5 | 5 | 5 | 0 | 5 | — |
| | O&M | 5 | 5 | 5 | 0 | 5 | — |
| | Capital | — | — | — | — | — | — |

Note – Totals may not foot due to rounding.

BUDGET HIGHLIGHTS

The Ethics Office’s Biennial Budget is \$1.4 million in FY 2018/19 and \$1.4 million in FY 2019/20 or an increase of 1.5% and 3.8% respectively from the prior budget years. The increase is due primarily to the following:

- Salaries and Benefits reflect negotiated labor increases and merit increases for qualified employees.
- Professional Services and non-labor budgets remain flat over the biennium.

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OPERATING EQUIPMENT SUMMARY

| Classification | 2018/19 Quantity | 2018/19 Amount | 2019/20 Quantity | 2019/20 Amount |
|-------------------------------|---------------------|-------------------|---------------------|-------------------|
| Aircraft | 0 | 0 | 1 | 2,700,000 |
| Audio Visual | 0 | 0 | 19 | 130,772 |
| Automobiles | 3 | 98,112 | 4 | 129,199 |
| Boats | 0 | 0 | 1 | 39,330 |
| Communication Equipment | 4 | 393,300 | 0 | 0 |
| Construction/Shop/Maint Equip | 27 | 509,914 | 7 | 803,761 |
| CPU's, Laptops & Servers | 26 | 790,680 | 23 | 542,973 |
| Heavy Equipment | 12 | 2,271,732 | 7 | 855,013 |
| Lab Equipment | 13 | 601,203 | 3 | 358,551 |
| Monitoring Equipment | 28 | 767,084 | 0 | 0 |
| Office Equipment | 3 | 33,167 | 0 | 0 |
| Other Equipment | 11 | 468,573 | 2 | 479,967 |
| Printers | 5 | 186,455 | 0 | 0 |
| Trucks | 53 | 2,401,857 | 19 | 915,850 |
| Grand Total | 185 | 8,522,076 | 86 | 6,955,417 |

Note – Totals may not foot due to rounding.

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STATE WATER PROJECT

OVERVIEW

The State Water Project (SWP), which is 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 39.2 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

| | 2017/18 Budget | 2018/19 Budget | Change from 2017/18 | 2019/20 Budget | Change from 2018/19 |
|------------------------------|-------------------|-------------------|------------------------|-------------------|------------------------|
| Delta Water Charge: Capital | \$39.4 | \$38.1 | (\$1.3) | \$38.7 | \$0.6 |
| Delta Water Charge: OMP&R | 105.3 | 91.6 | (13.7) | 96.2 | 4.6 |
| Transportation Capital | 139.8 | 130.9 | (8.9) | 125.3 | (5.6) |
| Transportation OMP&R | 184.0 | 175.3 | (8.7) | 195.4 | 20.1 |
| Power, Variable | 162.8 | 163.7 | 0.9 | 172.4 | 8.7 |
| Power, OAPF | 5.8 | 3.6 | (2.2) | 2.4 | (1.2) |
| Credits | (37.9) | (40.2) | (2.3) | (41.0) | (0.8) |
| CA WaterFix | — | \$3.6 | \$3.6 | \$13.0 | \$9.5 |
| SWP Total¹ | \$599.2 | \$566.7 | (\$32.6) | \$602.5 | \$35.9 |
| SWC Dues | \$4.4 | \$4.7 | \$0.3 | \$4.7 | \$0.1 |
| Acre-feet delivered | 767,675 | 907,920 | 140,245 | 906,675 | (1,245) |

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 2018 is supported by Appendix B to Bulletin 132-17). 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 2018 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 2016, 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 \$12.2 billion through fiscal year 2016/17. 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 2013 DWR | CY 2014 DWR | CY 2015 DWR | CY 2016 DWR | CY 2017 Revised | CY 2018 Estimated | CY 2019 Estimated |
|-------------|------------------------|------------------------|------------------------|------------------------|----------------------------|------------------------------|------------------------------|
| East Branch | \$230.27 | \$280.07 | \$241.17 | \$186.21 | \$158.55 | \$168.05 | \$179.64 |
| West Branch | \$215.61 | \$270.03 | \$226.58 | 175.85 | \$168.75 | \$179.55 | \$191.50 |

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, through Calendar Year 2016, Metropolitan has paid about 60 percent of the total payments to DWR by all State Water Contractors.

BUDGET HIGHLIGHTS

The budget for the SWP is decreasing in FY 2018/19 compared to the FY 2017/18 budget due to efforts by DWR to better forecast expenditures for fish restoration and mitigation, and Delta Compliance program costs as well as capital improvements. Power costs are projected to be slightly higher due to higher water deliveries. FY 2019/20 projects an increase in O&M related costs, while Transportation Capital costs continue on a downward trend. The costs of the California WaterFix are incorporated in the Biennial Budget, and contribute to the increase in SWP costs in FY 2019/20.

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 switching station, 4 regulating reservoirs, and 242 miles of aqueducts, siphons, canals, conduits and pipelines terminating at Lake Mathews in Riverside County. Metropolitan first delivered CRA water in 1941 to its member agencies.

Metropolitan owns, operates, and manages the 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

| | 2017/18 Budget | 2018/19 Budget | Change from 2017/18 | 2019/20 Budget | Change from 2018/19 |
|-----------------------|-------------------|-------------------|------------------------|-------------------|------------------------|
| CRA Power | \$54.4 | \$45.8 | (\$8.6) | \$52.9 | \$7.1 |
| CRA Dues ² | \$0.7 | \$0.7 | — | \$0.7 | — |
| Acre–feet | 1,040,976 | 837,900 | (203,076) | 915,550 | 77,650 |

¹Does 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 System Operations support services and management supervision, as well as Administrative and General activities of Metropolitan. Metropolitan finances past, current and future capital improvements on the CRA, and capitalizes those improvements as assets. The costs of Metropolitan’s capital financing activities are apportioned to service functions, such as the CRA.

The costs of the CRA supply portfolio developed by Metropolitan are paid by Metropolitan. The CRA supply portfolio is supported by Water Resource Management labor, materials and supplies. The CRA supply portfolio activities benefit from Water Resource Management support services and management supervision, as well as Administrative and General activities of Metropolitan. Metropolitan finances past, current and future capital improvements associated with the CRA supply portfolio capital assets and has capitalized these investments as Participation Rights.

Accordingly, the CRA costs for transportation and supply are reflected in the Departmental and General District Requirements budgets.

CRA COST FOR POWER

Metropolitan currently has three basic sources of power available to meet CRA energy requirements: Hoover Power, Parker Power, and wholesale purchases from entities in the Western United States. Each source is obtained at different unit prices.

Cost of CRA Power Sources, \$ per Megawatt-hour (MWh)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|-----------------------------|---------|---------|---------|---------|---------|
| Hoover ¹ | \$18.60 | \$29.74 | \$15.84 | \$15.36 | \$17.86 |
| Parker ¹ | \$9.33 | \$12.41 | \$13.55 | \$12.58 | \$15.40 |
| SP15, off-peak ² | \$33.15 | \$40.24 | \$33.15 | \$24.97 | \$26.48 |
| SP15, on-peak ³ | \$45.38 | \$50.90 | \$40.68 | \$30.13 | \$33.46 |

¹Information from Annual Reports for years 2013, 2014, 2015, 2016, and 2017

²SP15, off-peak price, described below, is used to determine Metropolitan’s off-peak energy costs.

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 250 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 1,227 megawatt-hours (MWh), which is about 27 percent of the total Boulder Canyon Project (Hoover) firm energy allocations. 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'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. 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, 2,032 kilowatt-hours (or 2.032 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 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, and is reflective of Southern California market energy prices.

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 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 on 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 on 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 2013 | CY 2014 | CY 2015 | CY 2016 | CY 2017 |
|-----------|---------|---------|---------|---------|---------|
| January | \$46.15 | \$49.53 | \$35.70 | \$30.14 | \$36.22 |
| February | \$46.45 | \$71.85 | \$31.88 | \$24.47 | \$28.52 |
| March | \$51.39 | \$52.06 | \$30.73 | \$19.61 | \$23.97 |
| April | \$56.34 | \$51.19 | \$29.03 | \$18.92 | \$26.71 |
| May | \$51.49 | \$51.85 | \$28.11 | \$23.06 | \$32.08 |
| June | \$47.77 | \$50.90 | \$37.01 | \$33.41 | \$38.14 |
| July | \$51.74 | \$53.18 | \$39.27 | \$39.03 | \$41.49 |
| August | \$45.44 | \$50.47 | \$39.02 | \$38.57 | \$54.96 |
| September | \$48.91 | \$51.49 | \$38.00 | \$35.55 | \$43.18 |
| October | \$42.82 | \$49.06 | \$35.55 | \$35.45 | \$47.86 |
| November | \$44.13 | \$49.28 | \$30.22 | \$30.67 | \$44.82 |
| December | \$52.14 | \$41.80 | \$29.83 | \$36.40 | \$44.21 |

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

Metropolitan has an obligation to acquire and surrender emissions allowances for the fossil-fuel energy generated out-of-state and imported into California through its 230,000 volt transmission system. Alternatively, Metropolitan can purchase power in California, which already incorporates any necessary emissions allowances, but must pay to use the California Independent System Operator transmission network. Metropolitan has contracted with Arizona Electric Power Cooperative (AEP) to provide energy management and scheduling services on a per Megawatt-hour basis. AEP also provides operational services for Metropolitan's CRA transmission system, assuring compliance with federal reliability requirements. Finally, Metropolitan's CRA power system is within the Balancing Authority Area of the CAISO; Metropolitan incurs Grid Management Charges from the CAISO on a per Megawatt-hour basis, and may realize a Resource Adequacy obligation depending on its pumping load and available firm resources.

BUDGET HIGHLIGHTS

The budget for the CRA power is decreasing in FY 2018/19 and FY 2019/20 compared to FY 2017/18 due to lower diversions at Intake. In FY 2019/20, costs are slightly higher due to the increase in diversions over FY 2018/19 and higher projected wholesale 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

| | 2017/18 Budget | 2018/19 Budget | Change from 2017/18 | 2019/20 Budget | Change from 2018/19 |
|--|-------------------|-------------------|------------------------|-------------------|------------------------|
| PVID Program | \$18.0 | \$12.6 | (\$5.4) | \$6.2 | (\$6.4) |
| IID/MWD Conservation | 11.0 | 9.2 | (1.8) | 9.5 | 0.3 |
| Other CRA | 23.6 | 10.8 | (12.8) | 9.3 | (1.5) |
| In Basin | 1.6 | 1.6 | 0.0 | 1.6 | 0.0 |
| SWP Programs | 27.5 | 27.0 | (0.5) | 27.8 | 0.8 |
| Total Supply Programs¹ | \$81.7 | \$61.2 | (\$20.5) | \$54.4 | (\$6.8) |

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 diversions on the CRA of 838 to 916 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.

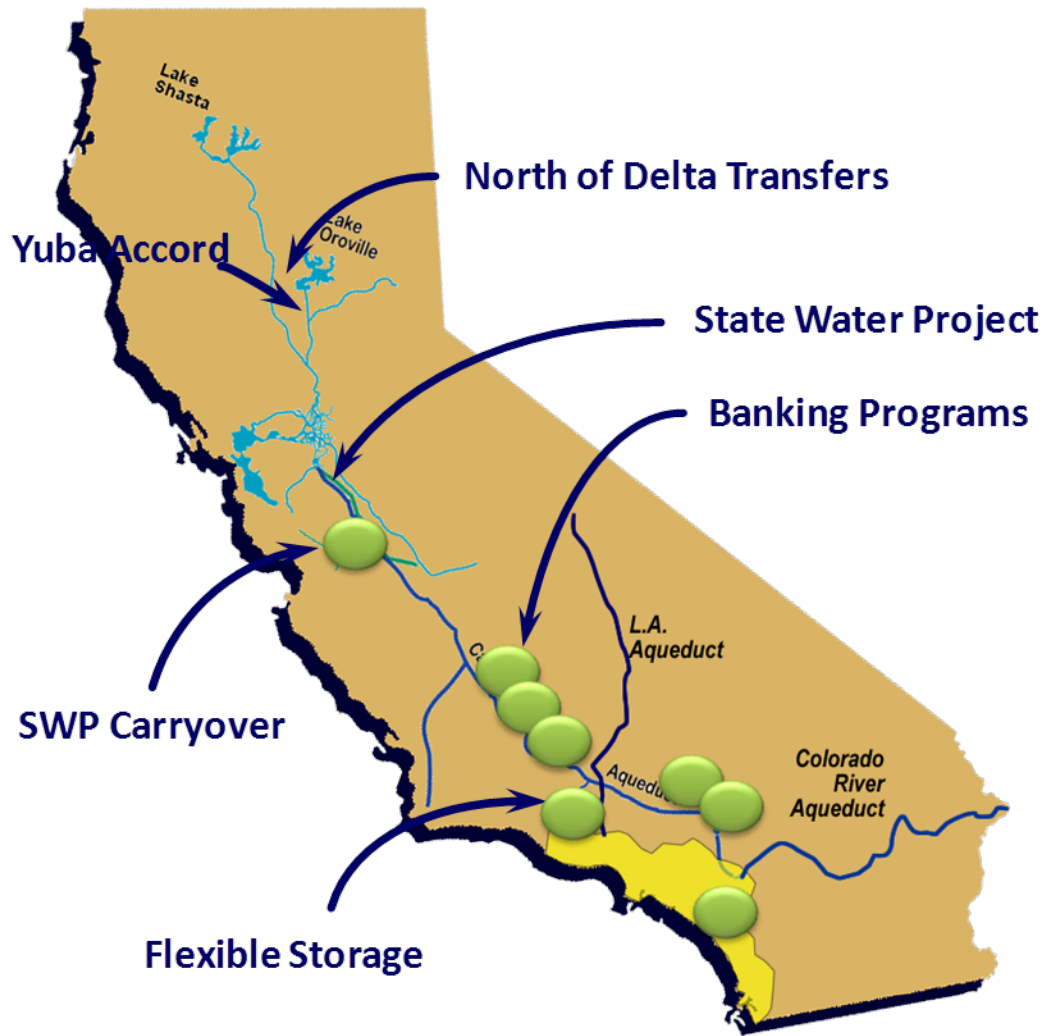
These amendments, approved by Metropolitan's Board in 1995, offered the means for individual Contractors to increase supply reliability through water transfers, and storage outside their service areas.

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.

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, 2012, or 2016 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.

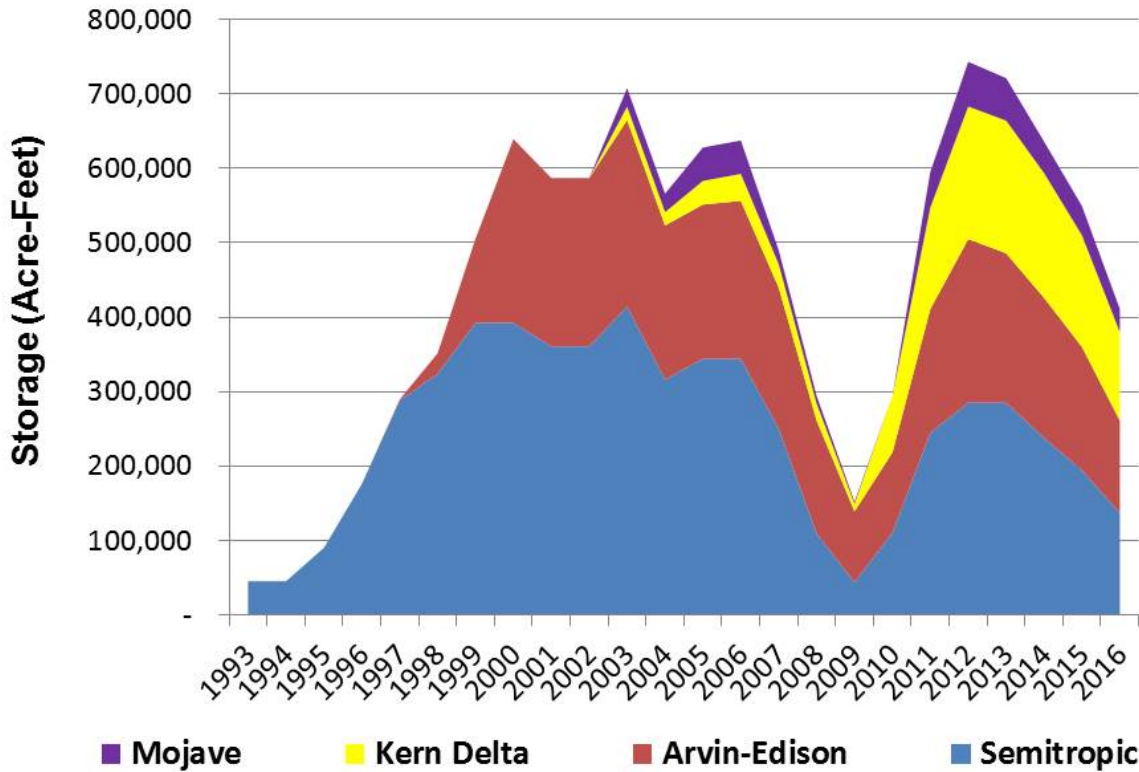
In addition to the one-year water transfers, Metropolitan purchases long-term water transfer supplies through the Yuba Accord. The Yuba Accord has provided water to enhance SWP and CVP water supply reliability by offsetting Delta export reductions and providing dry year water supplies for participating 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.

California Aqueduct Portfolio of Supplies



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.

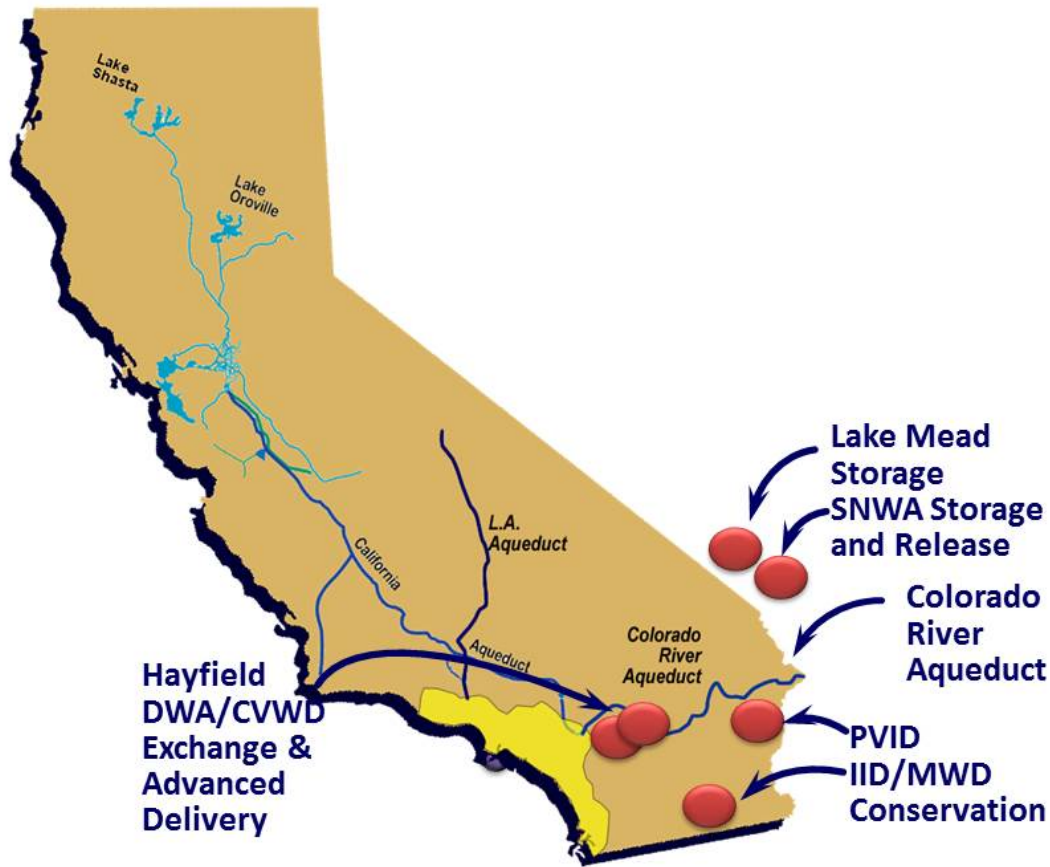
Metropolitan has developed exchanges and transfers with other Contractors to enhance supply flexibility. Some of these agencies have extensive groundwater supplies and are willing to exchange their SWP supplies.

- San 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 has historically taken delivery of 16,000 acre-feet of water annually as a result of the All-American and Coachella Canal Lining Projects. Under the San Luis Rey Indian Water Rights Settlement Agreement, 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. Beginning in 2018, the settlement parties will receive 16,000 acre-feet of water under the agreement.
- 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 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 decreases over the budget period compared to FY 2017/18, primarily due to lower expenditures for Supply Programs on the Colorado River. This reflects the assumption of a 50 percent allocation on the SWP and approximately 838 to 916 TAF of deliveries on the CRA.

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DEMAND MANAGEMENT

OVERVIEW

Demand Management costs are Metropolitan’s expenditures for funding local water resource development programs 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 and avoid 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 approximately \$2.9 billion in 2017 dollars. 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

| | 2017/18 Budget | 2018/19 Budget | Change from 2017/18 | 2019/20 Budget | Change from 2018/19 |
|------------------------------|-------------------|-------------------|------------------------|-------------------|------------------------|
| Conservation Credits Program | \$32.0 | \$43.0 | \$11.0 | \$43.0 | — |
| Local Resources Program | \$41.9 | \$44.1 | \$2.2 | \$40.8 | (\$3.3) |
| Future Supply Actions | \$2.0 | \$2.0 | — | \$2.0 | — |

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, conservation messaging, and maintaining the financial incentives for existing contracts under the Local Resources Program.

In addition to Metropolitan’s own objectives, Metropolitan also pursues local water resource development because it has uniquely been directed to do so by the state Legislature. In 1999, then Governor Davis signed Senate Bill (SB) 60 (Hayden) into law. SB 60 amended the Metropolitan Water District Act to direct Metropolitan to increase conservation and local resource development. No other water utility in California, public or private, has been specifically identified by the state Legislature and directed to pursue water conservation and local water resource development.

Metropolitan’s Demand Management programs also support the region’s compliance with the requirements of 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 in 2004, 2010, and 2015 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

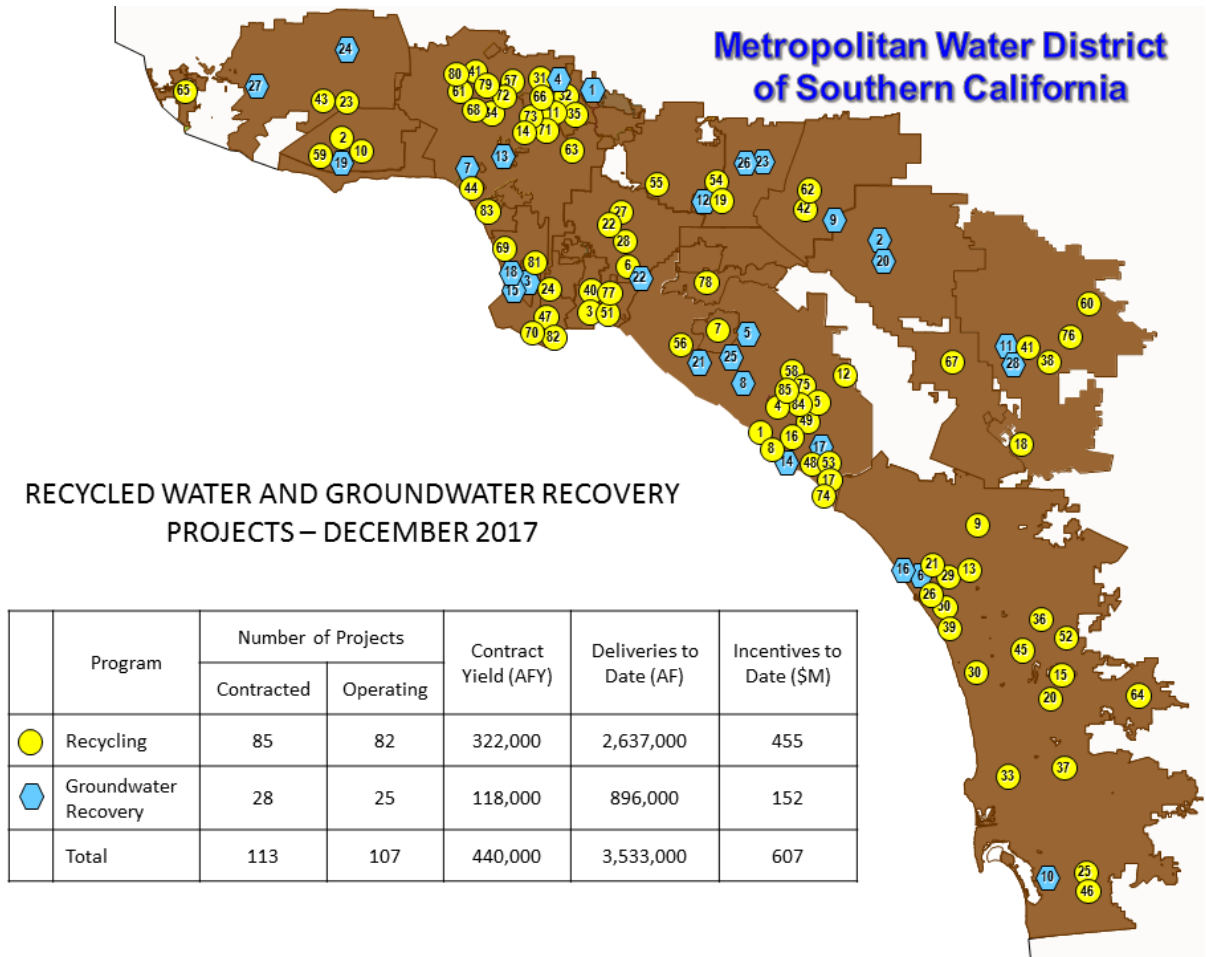
In September 1999, Governor Gray Davis signed SB 60 (Hayden) into law. SB 60 amended the Metropolitan Water District Act to direct Metropolitan to increase “sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures.” SB 60 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 2016/17 alone, Metropolitan’s service area achieved 1.6 million acre-feet of water savings from conservation, recycled water and groundwater recovery programs. The 1.6 million acre-feet of water savings from water management activities in fiscal year 2016/17 exceeded actual water transactions in the same period of 1.54 million acre-feet. These savings derived from programs for which Metropolitan paid incentives, as well as code-based conservation achieved through legislation, building and plumbing codes and ordinances, and reduced consumption resulting from changes in water pricing. Cumulatively, since 1982 Metropolitan has invested almost \$1.4 billion and Metropolitan's service area has achieved 6.1 million acre-feet of 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 2016/17, the Conservation Credits Program achieved 1.0 million acre-feet of saved water through new and existing conservation initiatives funded with incentives and maintained through plumbing codes. Cumulatively, through fiscal year 2016/17 the Conservation Credits Program has achieved over 2.6 million acre-feet of water savings.

Metropolitan provides financial incentives through its Local Resources Program for the development and use of recycled water and recovered groundwater. The Local Resources Program consists of 85 recycling projects and 28 groundwater recovery projects located throughout Metropolitan’s service area, of which 107 projects are in operation. From the Local Resources Program’s inception in 1982 through FY 2016/17, Metropolitan has paid out about \$488 million in incentives to produce about 2.6 million acre-feet of recycled water. Metropolitan also provided approximately \$151 million to produce 893,000 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 when comparing the Biennial Budget to FY 2017/18, due primarily to increased expenditures for the Conservation Credits Program and conservation messaging.

CAPITAL FINANCING

OVERVIEW

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

The budgeted costs for capital financing are as follows:

Capital Financing Cost Summary, \$ millions

| | 2017/18 Budget | 2018/19 Budget | Change from 2017/18 | 2019/20 Budget | Change from 2018/19 |
|---|-------------------|-------------------|------------------------|-------------------|------------------------|
| Debt Service, net of BABs Reimbursement | \$318.1 | \$311.1 | (\$7.0) | \$309.6 | (\$1.5) |
| GO Bond Debt Service | 18.8 | 14.4 | (4.4) | 14.3 | 0.0 |
| SRF Loan | 1.3 | — | (1.3) | — | — |
| Debt Administration | 5.9 | 6.5 | 0.6 | 6.9 | 0.4 |
| PAYGo | 120.0 | 120.0 | — | 120.0 | — |
| Total¹ | \$464.1 | \$452.0 | (\$12.1) | \$450.9 | (\$1.1) |

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 PAYGo amounts to support the Capital Investment Plan. Metropolitan generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. Revenue supported debt can be authorized by Metropolitan’s Board of Directors.

CAPITAL INVESTMENT PLAN

The Capital Investment Plan (CIP) expenditures for FY 2018/19 and FY 2019/20 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 2018/19 CIP expenditures are unchanged from the FY 2017/18 Adopted budget, as is the FY 2019/20 CIP expenditures. The largest areas of expenditures in the Biennial Budget are infrastructure refurbishment and replacement and infrastructure upgrades.

The CIP planned spending as developed by Engineering Services and presented in the Capital Expenditures section of the budget is estimated to be \$500 million over the biennium. Over the last several years, actual expenditures have been about 20% below planned spending. In keeping with that trend, the current proposal for the two years is about 80% of planned engineering spending or \$200 million in each fiscal year.

PAYGo Percentage of Funding, \$ millions

| | 2017/18 Budget | 2018/19 Budget | 2019/20 Budget |
|------------------------------------|---------------------------|---------------------------|---------------------------|
| Capital Investment Plan expenses | \$200.0 | \$200.0 | \$200.0 |
| Project Funding: | | | |
| New Bond Issues | 80.0 | 80.0 | 80.0 |
| Prior Bond Funds/Construction Fund | | | |
| Grants and Loans Funds | | | |
| Operating Revenues (PAYGo) | 120.0 | 120.0 | 120.0 |
| PAYGo Percentage of Funding | 60.0% | 60.0% | 60.0% |

In FY 2018/19 and FY 2019/20, the percentage of capital that is funded by debt will be set at 40 percent, consistent with the FY 2016/17 and FY 2017/18 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 debt outstanding of \$4.3 billion as of December 31, 2017. Metropolitan's debt issues are summarized below and discussed in detail thereafter.

Outstanding Debt, \$'s, as of December 31, 2017

| Issue | Debt Outstanding |
|--|------------------------|
| 1993 Series A, Water Revenue Refunding Bonds | 21,840,000 |
| 1993 Series A, Water Revenue Refunding Bonds | 27,300,000 |
| 2000 Series B-3, Authorization Water Revenue Bonds (1) | 88,800,000 |
| 2008 Series A, Authorization Water Revenue Bonds | 174,530,000 |
| 2008 Series B, Authorization Water Revenue Bonds | 7,905,000 |
| 2008 Series B, Water Revenue Refunding Bonds | 112,345,000 |
| 2008 Series C, Authorization Water Revenue Bonds (2) | 78,385,000 |
| 2008 Series C, Water Revenue Refunding Bonds | 19,470,000 |
| 2008 Series D, Authorization Water Revenue Bonds (2) | 250,000,000 |
| 2009 Series B, Water Revenue Refunding Bonds | 106,690,000 |
| 2009 Series C, Water Revenue Refunding Bonds | 91,165,000 |
| 2009 Series D, Water Revenue Refunding Bonds | 40,740,000 |
| 2009 Series E, Water Revenue Refunding Bonds | 9,730,000 |
| 2010 Series A, Authorization Water Revenue Bonds (2) | 250,000,000 |
| 2010 Series B, Water Revenue Refunding Bonds | 69,155,000 |
| 2011 Series B, Water Revenue Refunding Bonds | 3,885,000 |
| 2011 Series C, Water Revenue Refunding Bonds | 138,280,000 |
| 2012 Series A, Water Revenue Refunding Bonds | 181,180,000 |
| 2012 Series C, Water Revenue Refunding Bonds | 104,930,000 |
| 2012 Series F, Water Revenue Refunding Bonds | 59,335,000 |
| 2012 Series G, Water Revenue Refunding Bonds | 111,890,000 |
| 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds (1) | 87,445,000 |
| 2014 Series A, Water Revenue Refunding Bonds | 95,935,000 |
| 2014 Series B, Water Revenue Refunding Bonds | 10,575,000 |
| 2014 Series C-1, Water Revenue Refunding Bonds | 13,505,000 |
| 2014 Series C-2, Water Revenue Refunding Bonds | 14,020,000 |
| 2014 Series C-3, Water Revenue Refunding Bonds | 2,810,000 |
| 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds (1) | 38,465,000 |
| 2014 Series E, Water Revenue Refunding Bonds | 86,060,000 |
| 2014 Series G-3, Water Revenue Refunding Bonds | 11,165,000 |
| 2014 Series G-4, Water Revenue Refunding Bonds | 11,605,000 |
| 2014 Series G-5, Water Revenue Refunding Bonds | 6,205,000 |
| 2015 Series A, Authorization Water Revenue Bonds | 208,255,000 |
| 2015 Series A-1, Special Variable Rate Water Revenue Refunding Bonds (1) | 94,450,000 |
| 2015 Series A-2, Special Variable Rate Water Revenue Refunding Bonds (1) | 94,450,000 |
| 2016 Series A, Water Revenue Refunding Bonds | 239,455,000 |
| 2016 Series A, Authorization Subordinate Water Revenue Bonds (Taxable) (1) | 175,000,000 |
| 2016 Series B-1, Special Variable Rate Water Revenue Refunding Bonds (1) | 51,835,000 |
| 2016 Series B-2, Special Variable Rate Water Revenue Refunding Bonds (1) | 51,835,000 |
| 2017 Series A, Authorization Water Revenue Bonds (1) | 80,000,000 |
| 2017 Series A, Subordinate Water Revenue Refunding Bonds | 238,015,000 |
| 2017 Series B, Subordinate Water Revenue Refunding Bonds | 178,220,000 |
| 2017 Series C, Subordinate Water Revenue Bonds (1) | 80,000,000 |
| 2017 Series D, Subordinate Water Revenue Refunding Bonds (1) | 95,630,000 |
| 2017 Series E, Subordinate Water Revenue Refunding Bonds (1) | 95,625,000 |
| Total Revenue Bonds | 4,008,115,000 |
| 2009 Series A, WaterWorks General Obligation Refunding Bonds | 27,000,000 |
| 2010 Series A, WaterWorks General Obligation Refunding Bonds | 18,735,000 |
| 2014 Series A, WaterWorks General Obligation Refunding Bonds | 29,170,000 |
| Total General Obligation Bonds | 74,905,000 |
| 2016 Series B-2, Tax-Exempt Flexible Rate Revolving Notes (1) | 198,265,000 |
| Total Revolving Note Program | 198,265,000 |
| Total Debt: | \$4,281,285,000 |

(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 2018/19 are budgeted at \$332.0 million and includes \$14.4 million in General Obligation bond debt service, \$311.1 million in revenue bond debt service, and \$6.5 million for debt administration costs.

Debt Service payments in FY 2019/20 are budgeted at \$330.9 million and include \$14.3 million in General Obligation bond debt service, \$309.6 million in revenue bond debt service, and \$6.9 million for debt administration costs. Total debt service costs in FY 2019/20 are expected to be \$1.0 million less than the FY 2018/19 payments as principal on existing debt is paid down and less new obligations are issued. 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 1.70 percent for FY 2018/19 and FY 2019/20.

Outstanding variable rate debt on December 31, 2017 was approximately \$1,231.8 million, including bonds bearing interest in the Index Mode, special variable rate bonds initially designated as self-liquidity bonds, variable rate demand obligations supported by standby bond purchase agreements between Metropolitan and various liquidity providers, and direct purchase obligations. Of the \$1,231.8 million, \$493.6 million are treated by Metropolitan as fixed rate debt by virtue of interest rate swap agreements. The remaining \$738.2 million of variable rate obligations represent approximately 17.5 percent of total outstanding water revenue bonds and revolving notes.

Going forward, Metropolitan will finance its construction program through a combination of fixed-rate debt and variable rate debt. Metropolitan intends to issue approximately \$80 million of new debt in FY 2018/19 and FY 2019/20.

DEBT RATINGS

Credit risk is the risk that a financial loss will be incurred if a counterparty to a transaction does not fulfill its financial obligations in a timely manner. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Strong credit ratings provide tangible benefits to ratepayers in the form of reduced debt service cost. A strong credit rating provides better access to capital markets, lower interest rates and better terms on debt, and access to a greater variety of debt products. Prudent financial management policies have resulted in Metropolitan's senior lien bond ratings of AAA from Standard & Poor's, Aa1 from Moody's, and AA+ from Fitch.

DEBT POLICY AND COVERAGE

Metropolitan is subject to limitations on additional revenue bonds. Resolution 8329 (the "Master Revenue Bond Resolution"), adopted by Metropolitan's Board in 1991 and subsequently supplemented and amended, provides for the issuance of Metropolitan's revenue bonds. The Master Revenue Bond Resolution limits the issuance of additional obligations payable from Net Operating Revenues, among other things, through the requirement that Metropolitan must meet an Additional Bonds Test, as defined in the Master Revenue Bond Resolution. Metropolitan's Master Subordinate Bond Resolution, Resolution 9199, adopted by the Board in March 2016, and subsequently supplemented and amended, also incorporates limitations on additional revenue bonds.

The Metropolitan Act also provides two additional limitations on indebtedness. The Act provides for a limit on general obligation bonds, water revenue bonds and other indebtedness at 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of December 31, 2017, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.3 billion represented approximately 0.16 percent of the FY 2017/18 taxable assessed valuation of \$2,741 billion. The second limitation under the Act specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of the bonds equals at least 100 percent of the aggregate amount of revenue bonds

outstanding following the issuance of the bonds. The net position of Metropolitan at June 30, 2017 was \$6.8 billion. The aggregate amount of revenue bonds outstanding as of December 31, 2017 was \$4.0 billion.

Metropolitan has also established its own policy regarding debt management. The purpose is to maintain a balance between current funding sources and debt financing to retain Metropolitan's financing flexibility. Flexibility allows Metropolitan to use a variety of revenue or debt-financing alternatives, including issuing low-cost variable rate and other revenue supported obligations.

Metropolitan's debt management policy is to:

- Maintain an annual senior/subordinate lien revenue bond debt coverage ratio of at least 2.0 times coverage;
- Maintain an annual fixed charge coverage ratio of at least 1.2 times coverage;
- Limit debt-funded capital to no more than 40 percent of the total capital program over the ten-year planning period; and
- Limit variable rate debt such that the net interest cost increase due to interest rate changes is no more than \$5 million, and limit the maximum amount of variable rate bonds to 40 percent of outstanding revenue bond debt (excluding variable rate bonds associated with interest rate swap agreements).

In order to comply with the debt management policy, Metropolitan has taken the following measures:

Revenue Bond Debt Coverage Ratio

This policy ensures that Metropolitan has sufficient annual operating revenues to pay its operating expenses and meet its debt service obligations on its revenue bonds and other senior debt. The revenue bond debt coverage ratio is defined as Metropolitan's net operating revenue (current year's operating revenue less the current year's operating expenses) divided by the current year's senior/subordinated lien debt service on all revenue bonds and other senior debt. The target is 2.0 times. In FY 2018/19 and FY 2019/20, the projected debt coverage ratio is 1.6 and 1.9 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 2018/19 and FY 2019/20, the projected debt coverage ratio is 1.5 and 1.7, respectively. These levels help maintain strong credit ratings and access to the capital markets at low cost.

BUDGET HIGHLIGHTS

The FY 2018/19 and FY 2019/20 Capital Financing budget is decreasing from the FY 2017/18 budget due to lower debt service expenditures overall. Lower overall Capital Financing costs provide increased financial flexibility and resiliency.

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, Local 1902.

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

Bay Delta — An environmentally sensitive area of the Sacramento/San Joaquin River Delta through and from which water flows to reach portions of California from the San Francisco Bay Area to San Diego. Moving water across the delta during the high-demand summer months is becoming more difficult as additional water is set aside to mitigate for environmental impacts.

Budget — A report of all anticipated expenditures and required reserves and the source of moneys to be used to meet such expenditures and provide such reserves.

Budgeted Position — A staff position approved by the Board of Directors for the fiscal year.

California WaterFix (CA WaterFix) — California WaterFix is a comprehensive science-based solution proposed by the state to modernize critical water delivery infrastructure of the State Water Project. The California WaterFix proposes construction of new water intakes in the north Delta and two 40-foot diameter tunnels under the Delta terminating at a forebay in the South Delta. This would fulfill the requirement of the 2009 Delta Reform Act to contribute toward meeting the coequal goals of providing a more reliable water supply for California and protecting, restoring and enhancing the Delta ecosystem.

Capital Investment Plan (CIP) — Metropolitan's CIP is designed to refurbish existing facilities needed to ensure a reliable distribution system, expand treatment facilities to meet current and future water quality regulations, and expand storage and conveyance facilities to meet current and future storage requirements.

Capital Project — A project that results in a new asset (e.g., a facility, betterment, replacement, equipment, etc.) that has a total cost of at least \$50,000 and a useful life of at least five years. Computer software can be capitalized if it costs \$250,000 or more and has a useful life of at least three years.

The California Environmental Quality Act (CEQA) — A statute that requires state and local agencies to identify the significant environmental impacts of their actions, and to avoid or mitigate those impacts, if feasible.

Colorado River Aqueduct (CRA) — The 242-mile-long water conveyance system built by Metropolitan to carry water from the Colorado River to its Southern California service area.

Conservation Credits Program (CCP) — A program where Metropolitan provides financial assistance for the development of conservation programs at the local level (e.g. energy efficient washing machines, low flush toilets, etc.).

CUWCC — California Urban Water Conservation Council, a non-profit 501c3 formed as a partnership of water suppliers, environmental groups, and others interested in conserving California's greatest natural resource, water.

Debt Service — The annual cost of repaying outstanding debt.

Department of Water Resources (DWR) — A department within the California Resources Agency which is responsible for the state's management and regulation of water usage.

Distribution System — Refers to the network of pipelines and canals used for the conveyance of water from Metropolitan's terminal reservoirs to member agency service connections.

DVL — Diamond Valley Lake. A reservoir built by Metropolitan with a capacity of 800,000 AF.

EIR — Environmental Impact Report.

EMS — Energy Management System.

Endangered Species Act (ESA) — An act of the federal government enacted in 1973 that provides for the conservation of species that are endangered or threatened and the conservation of the ecosystems on which they depend. A species is considered endangered if it is in danger of extinction throughout all or a significant portion of its range. A species is considered threatened if it is likely to become an endangered species within the foreseeable future.

Enterprise Fund — To account for operations that are financed and operated where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Ethics Program — State law (SB 60) mandates that Metropolitan maintain a program to address and seek to avoid potential ethical abuses relating to business relationships, solicitation and/or receipt of campaign contributions, and public notice and approval procedures for contracts of \$50K or more. This program includes on-going training for board members and employees regarding ethics in the workplace.

FERC — Federal Energy Regulatory Commission.

Fund — A self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objective in accordance with special regulations, restrictions, or limitations.

Fund Balance — Created from excess revenues over expenditures. This can be a combination of collections/revenues being higher than budget and actual expenditures being lower than budget.

IID/Metropolitan Conservation Agreement — Water conservation agreement with the Imperial Irrigation District (IID) that allows for the development of certain water conservation capital structures by Metropolitan in the Imperial Valley. Metropolitan, in turn, gets the quantity of water conserved during the term of this agreement, four years during construction, and 35 years after completion. It encompasses both the operating

and maintenance, in direct, and capital cost of developing and implementing the program. This agreement is renewable.

IRWMP — Integrated Regional Water Management Plan.

Integrated Resources Plan (IRP) — An open and participatory planning process that takes a broad view of all water resource options available to the region and searches for the right combination of investments to achieve water supply objectives in a cost-conscious and environmentally responsible manner.

Local Resources Program (LRP) — A program in which Metropolitan provides financial assistance to its member agencies for the development of local groundwater recycling and groundwater recovery projects.

MAPA — Management and Professional Employees Association, Local 1001.

Member Agency — Refers to any of the 26 cities or public water agencies that comprise the Metropolitan Water District and whose representatives constitute the Board of Directors of Metropolitan.

MAF (million acre-feet) — A unit measure of water.

Minute 319 — Agreement that amends the 1944 Treaty between Mexico and the United States by establishing new rules in sharing Colorado River water and provides immediate plans to address current challenges. Parties to the agreement include Metropolitan Water District of Southern California, Southern Nevada Water Authority, Central Arizona Water Conservation District. Minute 319 allows Mexico to store water in Lake Mead as Intentionally Created Mexican Apportionment for future delivery and environmental flows. Stored water will be exchanged among the parties to the agreement.

MWDOC — Municipal Water District of Orange County; one of 26 member agencies that comprise Metropolitan.

MOU (Memorandum of Understanding) — Legal agreements entered into between Metropolitan and any of the four employee bargaining units that dictate terms and conditions of employment.

Operating Equipment — Any portable equipment costing \$5,000 or more and having a useful life of five years or more.

Operations Maintenance Power & Recovery (OMP&R) — A component of the State Water Contract that is billed to the contracting agencies to maintain the system.

OPEB — Other Post Employment Benefits.

ORP — Oxidation Retrofit Program.

Ozone — It is an unstable form of oxygen composed of three-atom molecules that break down readily to normal oxygen and nascent oxygen. The latter is a powerful oxidizing agent and has germicidal action. Ozone is usually produced with on-site generators by passing high-voltage electricity through dry atmospheric air or pure oxygen between stationary electrodes. This process converts a small percentage of the oxygen in the air into ozone. It is usually injected into the water to be treated in a highly baffled mixing chamber.

PAYGO — The practice of funding construction expenditures from current operating revenues in lieu of using debt proceeds.

PVID — Palo Verde Irrigation District.

Palo Verde Land Management and Water Supply Program — Calls for the development of a flexible water supply of between 25,000 and 111,000 acre-feet per year for 35 years through a land management and crop

rotation program to be implemented by participating farmers in the Palo Verde Valley. The maximum water supply that could be developed would be about 3.63 million acre-feet during the 35-year term while the minimum water supply required to be developed would be 1.76 million acre-feet.

Performance Measure — An indicator of progress toward completing an initiative, achieving a goal, or implementing a strategy. Performance measures are quantifiable and tracked over time. Measures can indicate problem areas that need attention or be a guide for continual performance improvement through specific initiatives and actions.

PCCP — Pre-stressed Concrete Cylinder Pipe.

Power Recovery — Energy generated from the operation of sixteen Metropolitan-owned hydroelectric generating facilities. The term "recovery" derives from the capture of potentially wasted electrical energy from Metropolitan's water distribution system.

Quagga Mussel — A destructive non-native species of mussel from the Ukraine region that could clog pipes and water line.

Quantification Settlement Agreement (QSA) — The Quantification Settlement Agreement (QSA), executed by Coachella Valley Water District (CVWD), Imperial Irrigation District (IID) and Metropolitan in October 2003, establishes Colorado River water use limits for IID and CVWD, and provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years. The QSA and related agreements provide a framework for Metropolitan to enter into other cooperative Colorado River supply programs and set aside several disputes among California's Colorado River water agencies.

Regional Recycled Water Program (RRWP) — An advanced water treatment demonstration facility that will take treated wastewater and purify it through various advanced treatment technologies to produce a safe, high-quality water source; the project is a partnership between Metropolitan and the Sanitation Districts of Los Angeles County.

Replacement and Refurbishment (R&R) — Capital projects that invest in Metropolitan's aging infrastructure by restoring them to optimal operating status.

Reserves — Funds set aside to comply with bond covenants, working capital policy, or other board policies as part of a prudent financial strategy.

Revenue Remainder Fund — See Financial Policies for description.

SCADA — Supervisory Control and Data Acquisition; automated systems that are used to monitor, operate, and control Metropolitan's water conveyance, treatment, and distribution systems.

SDCWA — San Diego County Water Authority; one of 26 member agencies that make up Metropolitan.

Senate Bill 60 (SB 60) — This bill requires Metropolitan to place increased emphasis on sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures and, commencing February 1, 2001, to prepare and submit to the Legislature a prescribed annual report relating to water conservation.

State Water Contract (SWC) — State Water Contracts are the basis for all SWP construction and ongoing operations. As the largest of the now 29 contractors, Metropolitan is entitled to slightly less than half of all SWP supplies. Water supplies from the SWP are conveyed to Metropolitan via the SWP's 444-mile California Aqueduct, which was made possible pursuant to Metropolitan's State Water Contract.

State Water Project (SWP) — The SWP is the largest state-built, user-financed water supply and transportation project in the country. The SWP serves urban and agricultural agencies from the San Francisco Bay area to Southern California. Its facilities were constructed with several general types of financing, the repayment of which is made by the 29 agencies and districts that participate in the SWP through long-term contracts (the State Water Contractors). The State Water Contractors also pay for the operations, maintenance, power, and replacement costs of the SWP.

System Overview Study — An analysis of Metropolitan's current delivery and treatment capacities versus projected needs during the planning horizon. The System Overview Study, coupled with the Integrated Area Study, analyzes various portfolios of projects that could be used to meet future demand and then develops a potential CIP. Finally, the System Overview Study analyzes the potential impact to rates from the proposed facilities.

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

Total Dissolved Solids (TDS) — Refers to the total organic carbon concentration in water. Measurement of TDS removal is used as a surrogate for disinfection by-product precursor removal.

Treatment Plants — Facilities used by Metropolitan for the treatment of water to remove contaminants or total dissolved solids thus ensuring that such water is potable before it is distributed to member agencies.

U.S. Department of the Interior, Bureau of Reclamation (USBR) — Largest wholesaler of water and second largest supplier of hydroelectric power in the American West. Promotes water conservation, recycling, and reuse.

Vacancy Factor — A calculated reduction to the O&M labor budget that attempts to account for vacancies that occur within organizations throughout the year. Budgeted labor dollars assume that budgeted positions will be filled for the entire fiscal year (2,080 hours). However, positions routinely become vacant throughout Metropolitan for part of the year as staff transfer to other positions or leave employment in the company and time elapses during the recruitment period to refill the vacated positions.

WRSF — Water Rate Stabilization Fund. See Financial Policies for description.

WRM — Water Resource Management (group); an organization within Metropolitan that focuses on water resource planning and management, including conservation.

WSF — Water Stewardship Fund. See Financial Policies for description.

Water Supply Allocation Plan (WSAP) — This plan is intended to be implemented during periods of regional water shortages to promote conservation of scarce water supplies. The WSAP was created to approach limiting supplies in a manner that is regionally fair and minimizes impacts by establishing accurate and fair baselines for each of Metropolitan's 26 member agencies.

Water Supply Programs — Water transfer and storage programs that supplement Colorado River and State Water Project supplies.

Water Surplus Drought Management Plan (WSDM Plan) — This plan directs Metropolitan's resource operations to help attain the region's reliability goal. The WSDM Plan recognizes the interdependence of surplus and shortage actions and is a coordinated plan that utilizes all available resources to maximize supply reliability. The overall objective is to ensure that shortage allocation of Metropolitan's imported water supplies is minimized.

Working Capital — A measure of both a company's efficiency and its short-term financial health. The working capital ratio is calculated as: Working Capital = Current Assets - Current Liabilities.

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

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

