
BIENNIAL BUDGET SUMMARY

FY 2016/17 & 2017/18

PROPOSED APPROPRIATIONS

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

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

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

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

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

FUND SUMMARY

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

FY 2016/17 Fund Summary, \$ millions

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

Totals may not foot due to rounding.

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

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

(3) Not affected by treatment rate structure

FY 2017/18 Fund Summary, \$ millions

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

Totals may not foot due to rounding.

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

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

(3) Not affected by treatment rate structure

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

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

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

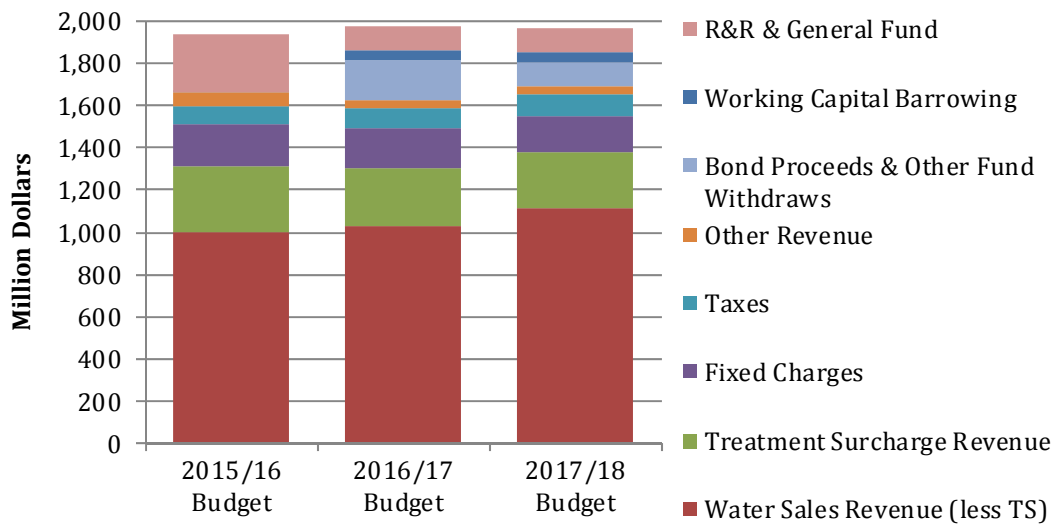
Totals may not foot due to rounding.

* Not affected by treatment rate structure

OPERATING REVENUE

Estimated revenues from water sales, fixed charges (readiness-to-serve charge and capacity charge), taxes and annexation fees, and other miscellaneous income (interest income, power recovery, etc.) are projected to be \$1.63 billion for FY 2016/17 and \$1.69 billion for FY 2017/18. For FY 2016/17, this is \$30.7 million less than the FY 2015/16 budget, and for FY 2017/18, this is \$68.1 million more than FY 2016/17. The decrease in revenues for FY 2016/17 is due to decreased sales volumes. For FY 2017/18, the revenue is higher due to higher water rates and charges in calendar year 2017 and calendar year 2018. In addition, the forecast assumes the ad valorem tax rate is maintained at .0035 percent of assessed valuations. A description of each revenue source is included in the Glossary of Terms.

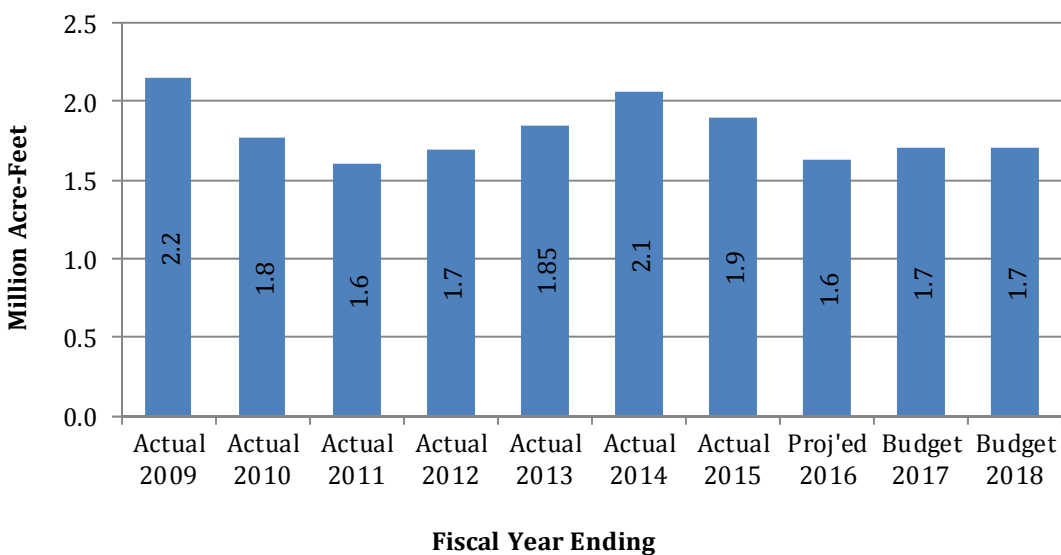
Sources of Funds FY 2016/17 and FY 2017/18, \$ millions



Water Sales

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

Water Sales Trend, MAF



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

Taxes and Annexation Fees

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

Fixed Charges

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

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

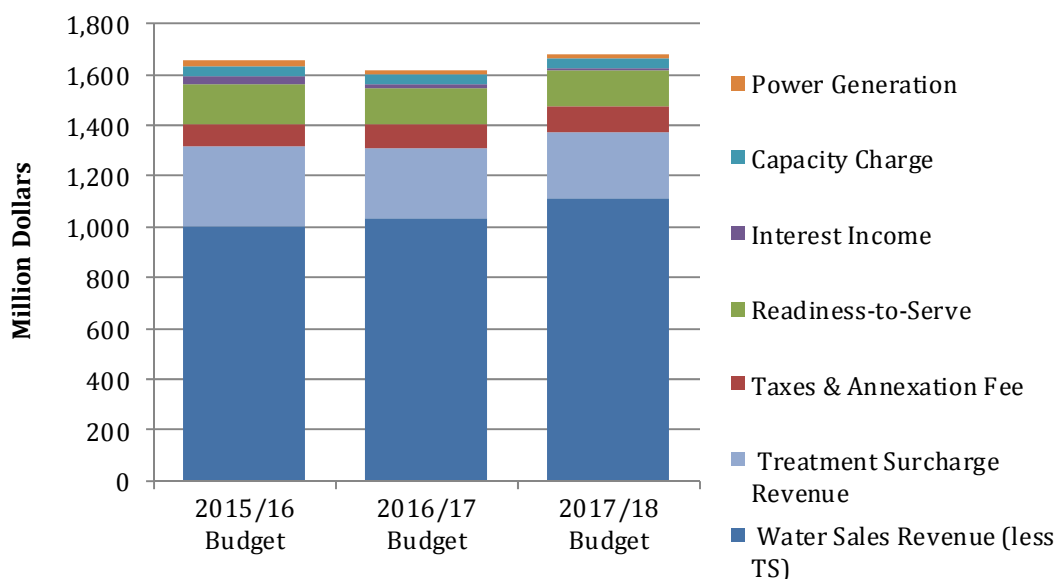
All Other Revenue

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

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

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

Operating Revenues, \$ millions



CAPITAL FUNDING

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

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

Capital Funding Source Descriptions

New Bond Issues

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

Revenue Funded Capital

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

OTHER SOURCES

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

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

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

USES OF FUNDS

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

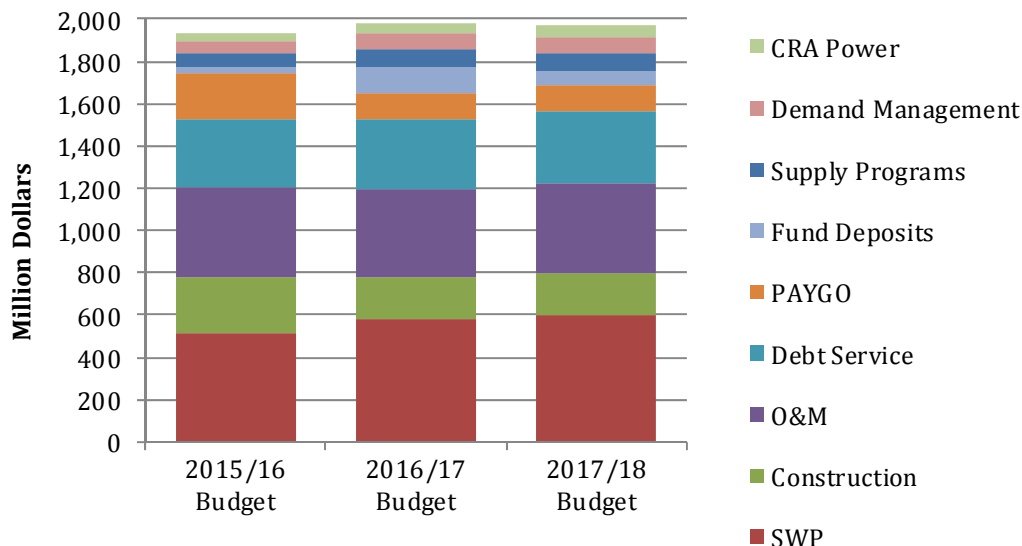
Total Uses of FY 2016/17 and 2017/18 Funds, \$ millions

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

Totals may not foot due to rounding.

* Not affected by treatment rate structure

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



Colorado River Aqueduct Power

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

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

State Water Project

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

The forecasted amount for SWP expenditures reflects incorporation of rate management credits into the forecast. Rate management credits result from a provision of the State Water Contract that provides for the reduction of capital charges based on differences between the Department of Water Resources' collections from the SWP contractors and the actual amounts paid for capital-related charges.

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

Demand Management Costs

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

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

Supply Programs

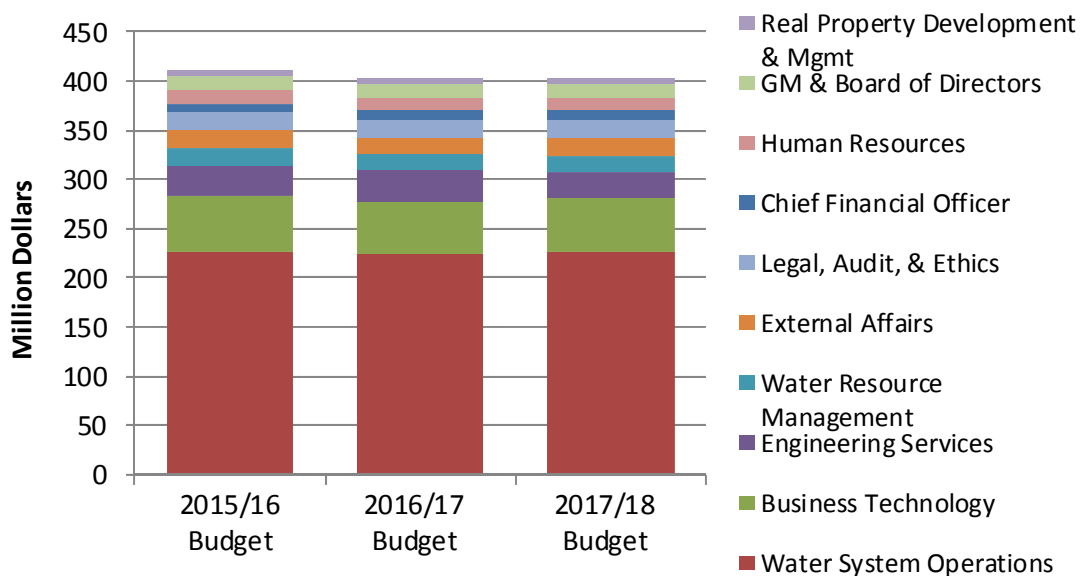
Metropolitan's two principal sources of supply draw from two different watersheds. This has allowed Metropolitan to draw more heavily on one source in the event the other is experiencing a drought. To further ensure regional supply reliability, Metropolitan has developed a portfolio of additional supply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

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

OPERATIONS AND MAINTENANCE

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

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



Operations and Maintenance Budget by Organization, \$ thousands

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

Totals may not foot due to rounding

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

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

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

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

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

Totals may not foot due to rounding

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

(2) Costs associated with treatment only.

(3) Without chemicals associated with treatment plants.

FY 2016/17 O&M Budget

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

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

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

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

FY 2017/18 O&M Budget

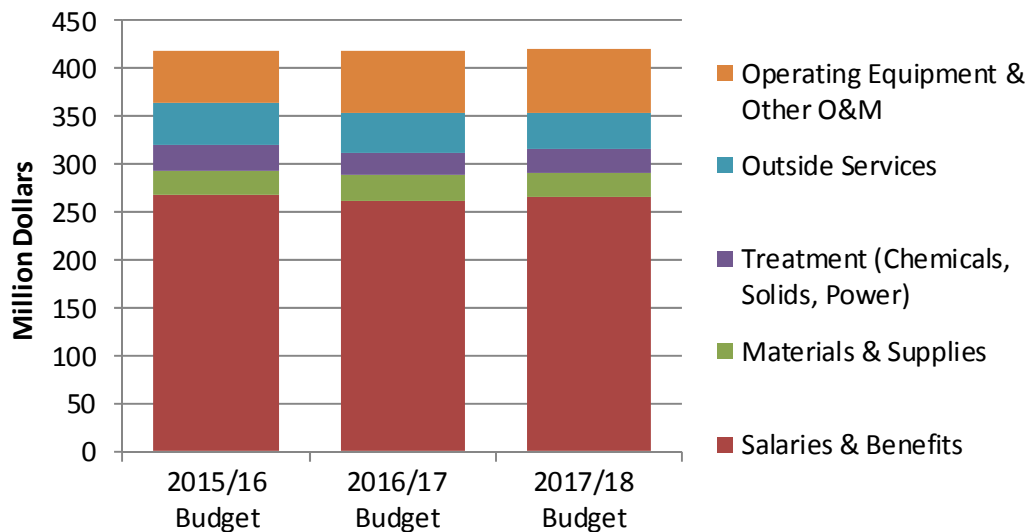
The proposed FY 2017/18 O&M budget is \$419.8 million, an increase of \$2.1 million, or 0.5 percent, compared to the FY 2016/17 budget. This increase is primarily due to merit increases for qualified employees, an increase in labor additive costs, and slight increase in chemical and power costs to operate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

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

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

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

Departmental Budget by Expenditure Type, \$ millions



The figure above summarizes the total departmental O&M budget by expenditure type, of which about 65 percent is for salaries and benefits in both FY 2016/17 and 2017/18.

STAFFING PLAN

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

Regular and Temporary Positions

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

Totals may not foot due to rounding.

O&M and Capital Staffing Levels

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

Totals may not foot due to rounding.

CAPITAL INVESTMENT PLAN

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

The two largest areas of expenditures in the FY 2016/17 and FY 2017/18 CIP are Infrastructure Reliability and Water Quality. It is currently anticipated that infrastructure expenditures will continue to grow as more facilities reach the end of their service life and require rehabilitation and refurbishment.

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

Cash Funded Capital

Overall, the CIP is proposed to be funded 60 percent by current operating revenues (budgeted PAYGo). The PAYGO funding for FY 2016/17 and FY 2017/18 is budgeted at \$120 million in each fiscal year.

Debt Funded Capital

Overall, the CIP is proposed to be funded 40 percent by revenue bond proceeds. New debt issues are planned in FY 2016/17 in the amount of \$90 million, and in FY 2017/18 in the amount of \$80 million. Given construction funds expected to be available at the beginning of the biennial budget period and planned PAYGo amounts, these bond issues should provide sufficient funds to meet CIP expenditures over the two years.

Debt Service

For FY 2016/17 and FY 2017/18, Metropolitan plans to issue new revenue bond debt as described above. Debt service payments in FY 2016/17 are budgeted at \$328.5 million and \$344.1 million in FY 2017/18.

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

FUND BALANCES AND RESERVES

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

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

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

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

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

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

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

Projected Fund Balances, \$ millions

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

Totals may not foot due to rounding.

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

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

(3) includes exchange agreement set-aside