

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION 9203

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING WATER RATES
TO BE EFFECTIVE JANUARY 1, 2017 AND 2018**

WHEREAS, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”), pursuant to Sections 133 and 134 of the Metropolitan Water District Act (the “Act”), is authorized to fix such rate or rates for water that, so far as practicable, will result in revenue which, together with revenue from any water standby or availability service charge or assessment, will pay the operating expenses of Metropolitan, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by Metropolitan, and provide for the payment of the interest and principal of its bonded debt; and

WHEREAS, on October 16, 2001, the Board approved a rate structure proposal described in Board Letter 9-6 dated October 16, 2001.

WHEREAS, on March 12, 2002, the Board adopted Resolution 8805, “Resolution Of The Board Of Directors Of The Metropolitan Water District Of Southern California Fixing And Adopting Rates And Charges For Fiscal Year 2002/03 And To Direct Further Actions In Connection Therewith”, adopting a new structure for Metropolitan’s water rates and charges in order to enhance Metropolitan’s fiscal stability and ability to ensure the region’s long-term water supply while reasonably and fairly allocating the cost of providing service to its member agencies; and

WHEREAS, the rate structure adopted by Resolution 8805 was the product of a three-year process that included a strategic planning process commenced by the Board in July 1998, discussions with member agencies, retail agencies and other stakeholders and numerous meetings of Metropolitan’s Board, Audit, Budget and Finance Committee, Budget, Finance and Investment Committee and Subcommittee on Rate Structure Implementation; and

WHEREAS, development of the rate structure adopted by Resolution 8805 included Strategic Plan Policy Principles adopted by the Board on December 14, 1999 to provide a framework for the development of a revised rate structure; a Composite Rate Structure Framework adopted by the Board on April 11, 2000 (the “Rate Structure Framework”); a Rate Structure Action Plan adopted by the Board on December 12, 2000; and study of (i) a detailed rate design proposal presented in December 2000 (the “December 2000 Proposal”) developed

from the Rate Structure Framework and (ii) an alternative rate structure proposal presented in September 2001 (the "Proposal") that addressed concerns which were raised about the December 2000 Proposal; and

WHEREAS, by Resolution 8774, "Resolution Of The Board Of Directors Of The Metropolitan Water District Of Southern California To Approve Rate Structure Proposal And To Direct Further Actions In Connection Therewith," adopted October 16, 2001, the Board approved the Proposal, which unbundled water rates and charges to reflect the different service functions provided by Metropolitan, and determined that the Proposal (i) was consistent with the Board's Strategic Plan Policy Principles, (ii) addressed issues raised during the consideration of the December 2000 Proposal, (iii) furthered Metropolitan's strategic objectives of ensuring the region's long term water supply reliability through encouragement of sound and efficient water resources management, water conservation, and accommodating a water transfer market, and (iv) enhanced the fiscal stability of Metropolitan; and

WHEREAS, by Resolution 8774, the Board directed the General Manager to (i) prepare a report on the Proposal describing each of the rates and charges and the cost of service process used to develop the rates and charges and (ii) utilize the Proposal as the basis for determining Metropolitan's revenue requirements and recommending rates to become effective January 1, 2003, in accordance with Metropolitan's annual rate-setting procedure under the Administrative Code; and

WHEREAS, on January 7, 2002, the General Manager presented to the Budget, Finance and Investment Committee (formerly the Audit, Budget and Finance Committee and today, the Finance and Insurance Committee) a detailed report describing each of the rates and charges and the supporting cost of service process, dated December 2001 (the "Cost of Service Report"), that (i) described the rate structure process and design; (ii) identified revenue requirements; (iii) showed the costs of major service functions that Metropolitan provides to its member agencies, (iv) classified these service function costs based on the use of and benefit from the Metropolitan system to create a logical nexus between the costs and the revenues required from each of the rates and charges; and (iv) set forth the rates and charges necessary to defray such costs; and

WHEREAS, by Resolution 8805 the Board found and determined that the cost of service process reasonably and fairly: (i) identified revenue requirements; (ii) allocated costs to the service functions that Metropolitan provides to its member agencies; (iii) classified service function costs based upon use of and benefit from Metropolitan's system, and (iv) allocated costs to rates and charges based upon customary water industry standards; and

WHEREAS, by Resolution 8805 the Board found and determined that the water rates and charges were supported by the cost of service process and that such rates and charges reasonably and fairly allocated the costs of providing service of Metropolitan's water system to its member agencies and third-party transporters of water, if any; and

WHEREAS, the Board received the Final Report on Rates and Charges, dated June 28, 2002, that (i) described the rate structure process and design; (ii) identified revenue requirements; (iii) showed the costs of major service functions that Metropolitan provides to its member agencies, (iv) classified these service function costs based on the use of and benefit of

the Metropolitan system to create a logical nexus between the costs and the revenues required from each of the rates and charges; and (iv) set forth the rates and charges necessary to defray such costs; and

WHEREAS, Metropolitan's water rates approved by the Board thereafter (on March 11, 2003, March 9, 2004, March 8, 2005, March 14, 2006, April 10, 2007, March 11, 2008, April 14, 2009, April 13, 2010, April 10, 2012, and April 8, 2014) have utilized the unbundled water rate elements in the rate structure approved by Resolution 8774 and implemented by Resolution 8805; and

WHEREAS, the cost of service process supporting Metropolitan's water rates approved by the Board on March 11, 2003 and in following years is consistent with the cost of service process described in the Cost of Service Report. Raftelis Financial Consultants, Inc. ("RFC"), the firm engaged in 1998 to perform a comprehensive cost of service study and assist in the development of the rate structure, confirmed to the Board in a report dated April 6, 2010, that the fiscal year 2010/11 cost of service report presented to the Board in January 2010 was accurate and consistent with the Cost of Service Report and that the fiscal year 2010/11 cost of service report and rate methodology was consistent with water industry best practices and complies with cost of service and rate guidelines in the American Water Works Association's Manual M-1, *Principles of Water Rates, Fees and Charges*; and

WHEREAS, in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, San Francisco Superior Court Case Nos. CPF-10-510830 and CPF-12-512466 (the "2010 and 2012 Cases," collectively), the San Diego County Water Authority challenged Metropolitan's water rates adopted on April 13, 2010 and April 10, 2012, and Metropolitan is defending such challenges; and

WHEREAS, Metropolitan maintains that its rate structure and such rates are appropriate. The trial court entered a judgment on November 18, 2015 in both cases, which Metropolitan is currently appealing in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, First District, California Court of Appeal, Case No. A146901. Metropolitan does not anticipate a final decision by the Court of Appeal in the near term; and

WHEREAS, San Diego County Water Authority filed a lawsuit also challenging Metropolitan's water rates adopted on April 8, 2014, also titled *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, San Francisco Superior Court Case No. CPF-14-514004, and the Court has ordered the case stayed pending the appeal of the 2010 and 2012 Cases; and

WHEREAS, on January 28, 2016, the General Manager and Chief Financial Officer provided to the Board and the public a board letter describing the proposed biennial budget for fiscal years 2016/17 and 2017/18, identifying key assumptions, addressing key circumstances such as current state water supply conditions, use of projected water rate stabilization reserves over the reserve target and continued suspension of the ad valorem rate restrictions under Section 124.5 of the MWD Act to allow Metropolitan to maintain the current ad valorem tax rate, incorporating a ten-year financial forecast, determining anticipated total revenues and revenues anticipated to be derived from water sales and firm revenue sources required during fiscal years

2016/17 and 2017/18, identifying revenue requirements for that period and recommending rates and charges consistent with cost of service principles to be effective January 1, 2017 and January 1, 2018, and explaining that costs and revenues may be at variance with forecasts and variations will be addressed, for example by contributions to, or withdraws from, financial reserves maintained for this purpose; and

WHEREAS, the recommended rates were developed using the same unbundled water rate elements in the rate structure approved by Resolution 8774 and implemented by Resolution 8805; and

WHEREAS, the January 28, 2016, board letter included a summary of the proposed biennial budget for fiscal years 2016/17 and 2017/18, a ten-year financial forecast, estimated revenue requirements for fiscal years 2016/17 and 2017/18 to support the proposed biennial budget, and provided estimated rates and charges, developed using Metropolitan's existing cost of service methodology, and set forth the estimated rates and charges necessary to defray such costs; and

WHEREAS, the detailed proposed departmental biennial budget for fiscal years 2016/17 and 2017/18 was distributed to the Board and the public on January 28, 2016; and

WHEREAS, on February 5, 2016, the capital investment plan appendix to the detailed proposed departmental biennial budget for fiscal years 2016/17 and 2017/18 was provided to the Board and the public, providing detailed information on proposed capital projects and capital improvement costs; and

WHEREAS, on February 8, 2016, the Chief Financial Officer presented to the Finance and Insurance Committee of Metropolitan's Board the proposed biennial budget for fiscal years 2016/17 and 2017/18, ten-year financial forecast, determination of anticipated total revenues and of revenues anticipated to be derived from water sales and firm revenue sources required during fiscal years 2016/17 and 2017/18, and his recommended rates to be effective January 1, 2017 and January 1, 2018, and charges for fiscal years 2016/17 and 2017/18; and

WHEREAS, Board workshops and discussions regarding the proposed budget and future water rates and charges were held on February 8, 2016 and March 7, 2016 at the regularly scheduled Finance and Insurance Committee meetings, and on February 23, 2016 and March 22, 2016 at the Finance and Insurance Committee; and

WHEREAS, on February 23, 2016, the Chief Financial Officer presented to the Finance and Insurance Committee further detail regarding the estimated revenue requirements in the proposed biennial budget, provided an overview of Metropolitan's existing rate structure and the process of determining rate components under Metropolitan's existing rate structure, and addressed questions previously raised by the Board. A presentation was also made to the Committee by Raftelis Financial Consultants, Inc., an independent financial and rate consultant, presenting alternatives to the current 100% volumetric Treatment Surcharge, consisting of a partial fixed charge; and

WHEREAS, on March 7, 2016, the Chief Financial Officer proposed water rates and charges, consistent with the estimated rates and charges recommended on January 28, 2016, and made a presentation addressing further questions from the Board. Raftelis also made a presentation to the Committee addressing questions raised by the Board regarding the partial fixed charge alternatives to the 100% volumetric Treatment Surcharge; and

WHEREAS, on March 22, 2016, the Chief Financial Officer presented to the Finance and Insurance Committee a summary of the proposed Capital Investment Plan budget, updated on March 16, 2016, an overview of the cost of service report provided to the Board on March 16, 2016, and addressed additional questions raised by the Board. Raftelis also provided a presentation to the Committee summarizing the options for the partial fixed charge alternatives to the 100% volumetric Treatment Surcharge; and

WHEREAS, the Board conducted a public hearing at its regular meeting on March 8, 2016, at which interested parties were given the opportunity to present their views regarding the proposed water rates and charges; and

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

WHEREAS, Metropolitan received oral and written comments regarding the proposed water rates and charges, which have been provided to the Board and made available to the public; and

WHEREAS, on March 16, 2016 the Chief Financial Officer provided to the Board and the public the cost of service report for the proposed rates and charges to be effective January 1, 2017 and January 1, 2018, which (i) describes the rate structure process and design, (ii) identifies revenue requirements; (iii) shows the costs of major service functions that Metropolitan provides to its member agencies, (iv) allocates these service function costs based on the use of and benefit from the Metropolitan system to create a logical nexus between the costs and the revenues required from each of the rates and charges, and (v) sets forth the specific rates and charges necessary to defray such costs; and on March 30, 2016 the Chief Financial Officer provided to the Board and the public an updated cost of service report with minor revisions; and

WHEREAS, on March 30, 2016, the General Manager and Chief Financial Officer provided to the Board and the public a board letter describing the recommendations for the biennial budget for fiscal years 2016/17 and 2017/18; determination of total revenues and of revenues to be derived from water sales and firm revenue sources required during fiscal years 2016/17 and 2017/18, and recommended rates to be effective January 1, 2017 and January 1, 2018, and charges to be imposed in fiscal years 2016/17 and 2017/18; and

WHEREAS, the March 30, 2016 board letter also described two proposed options for a fixed charge alternative to the 100 percent volumetric Treatment Surcharge to recover treated water costs to be effective January 1, 2017 and January 1, 2018; and

WHEREAS, the March 30, 2016 board letter included the biennial budget summary, ten-year financial forecast and detailed cost of service report on the rates and charges; and

WHEREAS, on April 11, 2016, the Chief Financial Officer presented to the Finance and Insurance Committee of Metropolitan's Board the proposed biennial budget for fiscal years 2016/17 and 2017/18 and ten-year financial forecast, determination of total revenues and of revenues to be derived from water sales and firm revenue sources required during fiscal years 2016/17 and 2017/18, and the recommended rates to be effective January 1, 2017 and January 1, 2018, and charges to be imposed in fiscal years 2016/17 and 2017/18, explaining that actual revenues and expenses may vary from budgeted amounts for a variety of reasons, and that Administrative Code Section 5202(e) contemplates variation in actuals to budget and provides policy guidance to the Board, and that Metropolitan's financial obligations may include liabilities and future commitments, such as retiree obligations and debt service, that are not reflected in the budget but that can be addressed in a fiscally prudent manner to reduce future obligations and keep future rate increases reasonable within the policy guidance provided by Administrative Code Section 5202(e); and

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

WHEREAS, all board letters, reports, presentations and other documents referred to in this Resolution may be viewed by Board members and the public on Metropolitan's web page at <http://www.mwdh2o.com> or in the office of the Board Executive Secretary;

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

Section 1. That the Board of Directors of The Metropolitan Water District of Southern California hereby fixes and adopts Option #2 of the following options for water rates and charges, to be effective on January 1, 2017 and January 1, 2018 as shown in the table below, in order to enhance Metropolitan's fiscal stability and ability to ensure the region's long-term water supply while reasonably and fairly allocating the cost of providing service to its member agencies and other users of Metropolitan's system:

Table 1. Rates and Charges by Option

Rates and Charges Effective January 1st	2016	Option #1a		Option #1b		Option #2	
		2017	2018	2017	2018	2017	2018
Tier 1 Supply Rates (\$/AF)	\$156	\$201	\$209	\$201	\$209	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295	\$295	\$295	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299	\$289	\$299	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55	\$52	\$55	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132	\$124	\$132	\$124	\$132
Full Service Untreated Volumetric Cost (\$/AF)							
Tier 1	\$594	\$666	\$695	\$666	\$695	\$666	\$695
Tier 2	\$728	\$760	\$781	\$760	\$781	\$760	\$781
Treatment Surcharge (\$/AF)	\$348	\$195	\$197	\$195	\$197	\$313	\$320
Full Service Treated Volumetric Cost (\$/AF)							
Tier 1	\$942	\$861	\$892	\$861	\$892	\$979	\$1,015
Tier 2	\$1,076	\$955	\$978	\$955	\$978	\$1,073	\$1,101
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140	\$135	\$140	\$135	\$140
Capacity Charge (\$/cfs)	\$10,900	\$8,000	\$8,700	\$8,000	\$8,700	\$8,000	\$8,700
Treated Water Fixed Charge (\$M)		\$98	\$102	\$98	\$102		

Section 2. The Board finds and determines that the rates specified in Section 1 utilize the unbundled water rate and charge elements of the rate structure approved by Resolution 8774 and implemented by Resolution 8805, and that the cost of service process supporting the rates and charges specified in Section 1 is the cost of service process described in the FY 2016/17 and 2017/18 cost of service report.

Section 3. The Board finds and determines that the cost of service process reasonably, fairly and proportionately: (i) identifies revenue requirements; (ii) shows the costs of major service functions that Metropolitan provides to its member agencies, (iii) assigns costs to the service functions that Metropolitan provides to its member agencies and other users of Metropolitan’s system; (iv) allocates service function costs based upon use of and benefit from Metropolitan’s system, and (v) distributes costs to rates and charges based upon customary water industry standards. Accordingly, the Board finds that the cost of service process supports the rates and charges by creating a logical nexus between the costs and the revenues required and the rates and charges necessary to defray Metropolitan’s costs of providing its services and for use of its water system.

Section 4. The Board finds and determines that the rates specified in Section 1 are fixed by the Board pursuant to Sections 133 and 134 of the Act, and, so far as practicable, will result in revenue which, together with revenue from water standby or availability service charges or assessments, will pay the operating expenses of Metropolitan, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by Metropolitan, and provide for the payment of the interest and principal of its bonded debt. Actual revenues and expenses may vary from budgeted amounts for a variety of reasons, and Administrative Code Section 5202(e) contemplates variation in actuals

to budget and provides policy guidance to the Board, and the Board finds and determines that Metropolitan's financial obligations may include liabilities and future commitments, such as retiree obligations and debt service, that are not reflected in the budget but that can be addressed in a fiscally prudent manner to reduce future obligations and keep future rate increases reasonable within the policy guidance provided by Administrative Code Section 5202(e).

Section 5. The Board finds and determines that each of the rates specified in Section 1 does not exceed the reasonable and necessary cost of providing the product or service for which the rate is charged and that the per-acre-foot rates fairly apportion such costs among member agencies and other users of Metropolitan's system according to their burden on or benefit from Metropolitan's water system.

Section 6. The Board finds and determines that the respective per-acre-foot rates specified in Section 1 are paid for the corresponding products or services and use of its water system, that Metropolitan provides such products or services directly to the member agencies or other users of Metropolitan's system that pay such rates, and that such products or services are not provided to those not charged.

Section 7. The Board finds and determines that each of the rates specified in Section 1 is imposed for the purpose of paying said cost of service and is not levied for general revenue purposes.

Section 8. The General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 9. This Board finds that approval of the rates and charges as provided in this Resolution is not defined as a Project under the California Environmental Quality Act (CEQA), because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

Section 10. If any provision of this is held invalid, that invalidity shall not affect other provisions of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on April 12, 2016.


Secretary of the Board of Directors
of The Metropolitan Water District
of Southern California