

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION 9265

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING WATER RATES
TO BE EFFECTIVE JANUARY 1, 2021 AND 2022**

The Board of Directors of The Metropolitan Water District of Southern California (the “Board”) hereby finds that:

1. 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

2. 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

3. 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

4. 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

5. 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 undertaken 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

6. 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

7. 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 “2001 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

8. 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

9. 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

10. 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 undertakes, (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

11. 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 14, 2010, April 10, 2012, April 8, 2014, April 12, 2016, and April 10, 2018) have utilized the unbundled water rate elements in the rate structure approved by Resolution 8774 and implemented by Resolution 8805; and

12. 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 2001 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 2001 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

13. 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

14. on June 21, 2017, the Court of Appeal entered a decision in the 2010 and 2012 Cases in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, 12 Cal.App.5th 1124, holding that Metropolitan may recover its State Water Project transportation costs through its transportation rates and that based on the administrative record before it the rates in CYs 2011 through 2014 did not support Metropolitan's Water Stewardship Rate allocation to its transportation rates, and on September 27, 2017, the California Supreme Court denied SDCWA's Petition for Review, making the decision final; and

15. San Diego County Water Authority has filed lawsuits also challenging Metropolitan's water rates adopted on April 8, 2014, April 12, 2016, and April 10, 2018, each also titled *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, pending in the San Francisco Superior Court under Case Nos. CPF-14-514004, CPF-16-515282, and CPF-18-516389, and the Court has ordered the cases stayed pending the 2010 and 2012 Cases; and

16. Pursuant to Resolution 8329, adopted by the Board on July 9, 1991 and Resolution 9199, adopted by the Board on March 8, 2016, and as each is thereafter amended and supplemented, proceeds of the rates and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds and to the payment of

Metropolitan's outstanding subordinate revenue bonds and to revenue bonds and subordinate bonds to be issued pursuant to Resolution 8329 and Resolution 9199; and

17. On January 31, 2020, 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 2020/21 and 2021/22, identifying key assumptions, addressing key circumstances such as current state water supply conditions, and continued maintenance of the current ad valorem tax rate, incorporating a ten-year financial forecast; determining anticipated total revenues and revenues anticipated to be derived from water transactions and firm revenue sources required during fiscal years 2020/21 and 2021/22, identifying revenue requirements for that period and recommending rates and charges consistent with cost of service principles to be effective January 1, 2021 and January 1, 2022, 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

18. 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, as detailed in the FYs 2020/21 and 2021/22 Cost of Service Report for Proposed Water Rates and Charges (the "2020 Cost of Service Report") provided to the Board and the public on January 31, 2020; and

19. The detailed proposed departmental and non-departmental biennial budget for fiscal years 2020/21 and 2021/22 (the "Proposed Biennial Budget") was distributed to the Board and the public on January 31, 2020; and

20. On January 31, 2020, the capital investment plan (CIP) appendix to the detailed Proposed Biennial Budget for fiscal years 2020/21 and 2021/22 was also provided to the Board and the public, providing detailed information on proposed capital projects and capital improvement costs; and

21. Board workshops and discussions regarding the Proposed Biennial Budget and future water rates and charges were held on February 10, 2020, March 9, 2020, and April 13, 2020 at the regularly scheduled Finance and Insurance Committee meetings, and on February 25, 2020 at a special meeting of the Finance and Insurance Committee; and

22. The Board conducted a public hearing at its regular meeting on March 10, 2020, at which interested parties were given the opportunity to present their views regarding the proposed water rates and charges; and

23. Notice of the public hearing was published prior to the hearing in various newspapers of general circulation within Metropolitan's service area; and

24. Metropolitan received written comments regarding the proposed water rates and charges, which, together with Metropolitan's responses, have been provided to the Board and the public; and

25. After the Board completed Workshop #3 on March 10, 2020, COVID-19 spread throughout the United States and the World. The World Health Organization declared a COVID-19 pandemic on March 11, 2020. Stay-at-home orders, other social distancing directives, and state-of-emergency orders went into effect within Metropolitan's service area, throughout California, and throughout the nation. Utility retailers, including some member agencies of Metropolitan and agencies that purchase water from them, anticipate their customers are likely to be adversely impacted financially. Those impacts may result in the inability to pay utility bills, which would also create financial stress on Metropolitan's member agencies. The extent of the financial impact to be caused by the COVID-19 pandemic is unknown at this time, as is the relief measures the federal and state governments may provide to assist in such impacts. But it is clear that the financial impact to our region and beyond will be significant and far reaching. For example, the rate of CIP expenditures is anticipated to decrease based on delays in projects. Additionally, staff updated the projections in treated and untreated water demands based on the anticipated impacts of PFAS and PFOS on groundwater basins. Accordingly, staff provided the Board with updated recommendations for the biennial budget, rates, and charges; and

26. Before the April 2020 Board meeting, the General Manager and Chief Financial Officer provided to the Board and the public a board letter describing the modifications to the Proposed Biennial Budget for fiscal years 2020/21 and 2021/22 (updated with minor revisions since the version distributed on January 31, 2020); updates to the determination of total revenues and of revenues to be derived from water transactions and firm revenue sources required during fiscal years 2020/21 and 2021/22, and updates to the proposed rates to be effective January 1, 2021 and January 1, 2022, and charges to be effective January 1, 2021; and

27. 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

28. 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 the following water rates, to be effective on January 1, 2021 and January 1, 2022 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

Rates & Charges Effective January 1st	Current 2020	Proposed 2021	% Change	Proposed 2022	% Change
Tier 1 Supply Rate (\$/AF)	\$208	\$243	17%	\$243	0%
Tier 2 Supply Rate (\$/AF)	\$295	\$285	(3%)	\$285	0%
System Access Rate (\$/AF)	\$346	\$373	8%	\$389	4%
Water Stewardship Rate (\$/AF)*	\$65	-	(100%)	-	
System Power Rate (\$/AF)	\$136	\$161	18%	\$167	4%
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$755	\$777	3%	\$799	3%
Tier 2	\$842	\$819	(3%)	\$841	3%
Treatment Surcharge (\$/AF)	\$323	\$327	1%	\$344	5%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,078	\$1,104	2%	\$1,143	4%
Tier 2	\$1,165	\$1,146	(2%)	\$1,185	3%
Readiness-to-Serve Charge (\$M)	\$136	\$130	(4%)	\$140	8%
Capacity Charge (\$/cfs)	\$8,800	\$10,700	22%	\$12,200	14%
Overall Rate Increase			3.0%		4.0%

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 2020 Cost of Service report. The adopted rates and charges and cost of service reports will be on file and available for review by interested parties at Metropolitan’s headquarters.

Section 3. The Board finds and determines that the cost of service process reasonably, fairly and proportionately: (i) identifies revenue requirements; (iii) shows the costs of major service functions that Metropolitan undertakes, (iii) assigns costs to the service functions; (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 the rates specified in Section 1, together with other revenues from Metropolitan's charges, ad valorem property taxes, and other miscellaneous revenue, do not exceed the reasonable and necessary cost of providing Metropolitan's water services for which the rates and charges are made, or of conferring the benefit provided, and is fairly apportioned to each member agency as specified in Section 6 below.

Section 6. The Board finds and determines that the respective per-acre-foot rates and charges specified in Section 1 are paid for the corresponding products or services and use of Metropolitan's 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 charges, 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 are set for Metropolitan's services and are not levied for separate general revenue purposes.

Section 8. No later than its September 2020 meeting, the Board will review the biennial budget for fiscal years 2020/21 and 2021/22 that it adopted at its April 14, 2020 meeting and the rates in Section 1 to consider the impacts resulting from the COVID-19 crisis;

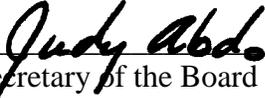
Section 9. Staff is directed to revisit and consider the following issues for the biennial budget cycle of fiscal years 2020/21 and 2021/22 by August 31, 2020:

- a. factor for unrealized staffing levels;
- b. consider revisiting advance recruitment for overlapping staffing positions, as part of succession planning;
- c. match CIP appropriations to the slowdown in expenditures;
- d. suspend the director inspection trip program;
- e. suspend fleet vehicle purchases; and
- f. plan for strategic use of reserves and financing.

Section 10. 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 11. 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 14, 2020.



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