

LONG RANGE FINANCIAL PLAN REPORT

2025



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INTRODUCTION

As stewards of the Potable Water, Recycled Water, and Wastewater Systems, the Board of Directors (Board) of the Moulton Niguel Water District (MNWD or District) has established financial policies and objectives to ensure the District maintains a strong financial position while also ensuring high quality service to its customers and appropriate investments in critical system infrastructure. To fund these investments, the Board adopted a 4-year schedule of rates effective February 1, 2022 with the final adjustment going into effect on January 1, 2025. In the time since the current rates were adopted, the District has seen significant increases above forecasts for external costs such as imported water and utilities and identified a need for increased investment in infrastructure. Staff have closely tracked these cost increases to evaluate their impact on the District's financial health and presented an updated 10-year financial projection alongside the FY 2025-26 Budget. This updated Long-Range Financial Plan (LRFP) incorporates those updated financial projections and identifies strategies and actions that ensure sufficient financial resources are available for MNWD to achieve its mission. The LRFP forecasts operating budgets and incorporates the 10-year capital infrastructure plan to determine the financial impact of future operating and infrastructure investment needs and develop strategies to address those needs.

The LRFP projects financial and operational data of key aspects for the District such as rate revenue, non-operating revenue, water purchases, utilities, staffing, other miscellaneous revenues and expenses, rate-funded capital infrastructure expenditures (PAYGO), long-term investments, and debt service payments. This detailed information is linked to a summarized pro-forma income statement and balance sheet to illustrate the impact of ongoing and future changes to MNWD's operating cash, assets, liabilities, and fund balances. The long-range financial planning model also monitors potential impacts to any of the District's key financial ratios whenever major policy decisions are considered. Finally, the proposed financial plan is aligned with the District's financial policies through the 10-year horizon with respect to its debt service coverage ratio (DSCR)¹ and reserve policies.

District staff, in consultation with the Board and the District's Financial Advisor, inputs the broad-based planning parameters into the Long-Range Financial Planning model. The proprietary Long-Range Financial Planning model (10-Year Cash Flow Model or Model) is District built, owned, and operated. Updates are regularly made to the Model to reflect changes in existing assumptions and future outlooks to create adaptive financial management strategies. The long-range planning and annual operating and capital budgeting processes are interrelated and form a single planning and budgeting system.

The availability of funds required to finance the capital construction and day-to-day operations of the District is tracked through the Model. Capital typically spans a long-time horizon; hence, a 10-year plan enables the District to plan out the financing needs for future investments in capital infrastructure through internal reserves, grants, state loans, revenues, or bond issuances. The LRFP identifies the projected rate revenue adjustments and bond issuances required to maintain the long-term financial health of the District. The report includes detailed assumptions, analyses and plans driving these results.

The District has historically maintained a strong financial position based on conservative planning and budgeting, maintenance of adequate cash balances and solid debt service coverage. The District's debt obligations were reaffirmed at "AAA" by both, Fitch Ratings and S&P Global Ratings in February 2025.

¹ Debt Service Coverage Ratio (DSCR) is a measure of the cash flow available to pay current debt obligations.

GOALS & POLICIES

The District is a community oriented, performance driven agency dedicated to serving its customers and the environment with reliable, affordable, and high-quality water and wastewater services. The LRFP furthers these goals by identifying a financial strategy to fund critical operations and capital infrastructure while meeting the District's financial goals and policies that are detailed below.

Managing Water District Debt

The District utilizes debt as a tool to provide intergenerational equity between past, present, and future customers and to smooth out future rate adjustments to provide customers with incremental rate adjustments. The District strives to maintain a strong financial position through targeting a debt service coverage ratio (DSCR) above 1.75, which is included in the District's Debt Management Policy and updated as needed and reviewed annually during the budget process.

Reserve Policies

The Policy for Maintaining Water District Cash Reserve Funds mitigates risks associated with revenue and expense volatility and reduces potential unexpected and significant rate adjustments. The policy helps in maintaining the District's creditworthiness by providing adequate safeguards against economic uncertainty, natural disasters, extraordinary costs, or other emergency conditions. Reserves can be utilized when there are fluctuations in revenues such as reductions in property tax receipts, disasters or catastrophic events, losses not covered by insurance, compliance with bond covenants, and funding designated infrastructure replacement and refurbishment. The Policy is updated as needed and reviewed annually during the budget process.

Reserves

The District currently maintains the following reserves:

1. General Operating Reserve
2. Self-Insurance Reserve
3. Rate Stabilization Reserve
4. Emergency Reserve

General Reserves:

1. *General Operating Reserve*

This reserve is established to provide funding for sufficient liquidity and cash flow for operations on a day-to-day basis. Maintaining this reserve is key to managing routine delays between the payment of expenses and the receipt of revenues. The target balance in the General Operating Reserve is equal to three months of budgeted operating expenses, consistent with industry best practices for agencies with monthly rate revenue. The General Operating Reserve is maintained in the General Fund (Fund 1).

2. *Self-Insurance Reserve*

This reserve is used to provide funding for expenses incurred by the District for the deductible amounts on insurance claims for repairs to facilities by outside contractors and expenses related to the State Unemployment Insurance for unemployment claims made against the District. The target level of the Self Insurance Reserve is equal to five times the current Joint Powers Insurance Authority (JPIA) property insurance deductible (the current deductible is up to \$50,000). The Self Insurance Reserve is maintained in the Self-Insurance Fund (Fund 4).

3. *Rate Stabilization Reserve*

This reserve is used to provide funding to smooth out potential fluctuations in water service rates of the District that may result from changes in wholesale water rates or unanticipated reductions in non-rate revenue. The Rate Stabilization Reserve target level is set equal to 50% of the District’s ad valorem property tax revenue. The Rate Stabilization Reserve is maintained in the Rate Stabilization Fund (Fund 52).

4. *Emergency Reserve*

This reserve enables the District to quickly repair critical assets in the event of a natural disaster or facility failure. The target balance of the Emergency Reserve is equal to 2 % of the anticipated replacement costs of the District’s critical assets as outlined in current guidelines from the Federal Emergency Management Agency (FEMA). The Emergency Reserve is maintained in the General Fund (Fund 1).

Table 1. MNWD FY 2025-26 Reserve Targets

Type	Target
General Operating	\$ 23,790,101
Self-Insurance	\$ 250,000
Rate Stabilization	\$ 18,024,408
Emergency	\$ 35,300,000
Total Reserves	\$ 77,364,509

Financial Policies Overview

This section includes a summary of the District's financial policies. All financial policies are adopted by the Board and authorizes the General Manager to execute the policies as part of day-to-day operations to ensure the District's financial goals are achieved. The financial policy review and adoption by the Board occurs annually within the budget process, or as needed to provide timely updates as public agency laws or conditions change. All accounting and financial reporting systems are maintained in conformance with all state and federal laws, Generally Accepted Accounting Principles (GAAP), and standards of the Governmental Accounting Standards Board (GASB). The District is a proud recipient of the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award and the California Society of Municipal Finance Officers (CSMFO) Award in Budgeting.

Financial Planning

The District will continue to effectively utilize internally developed short-term financial planning tools, while emphasizing long-range financial planning. Staff maintain a monthly cash flow model to forecast temporal distributions of cash inflows and outflows to ensure sufficient liquid funds are available for ongoing expenses throughout the year. The Financial Planning Department receives monthly capital expense projections from the Engineering Department and updates the monthly cash flow model to identify potential cash flow constraints and to coordinate portfolio restructuring with the District's Investment Advisor when necessary. This proactive communication between Departments has allowed the District to maximize investment earnings as cash reserves are expended between planned bond issuances.

The LRFP aims to identify strategies and actions to ensure sufficient financial resources are available for the District to achieve its mission. The LRFP includes financial projections for operations and incorporates the capital improvement program to project future needs and assist in the development of strategies to address those needs. The District operating budget serves as a critical input into the long-term financial outlook for the District. Additionally, the District's 10-year cash flow summary provides long-term context for making near-term financial decisions.

Enterprise Funds - Rates

The District calculates potable water, recycled water, and wastewater rates at levels which, in addition to other revenues and available cash balances, fully recover the total direct and indirect costs of providing these services – including operations and maintenance, capital infrastructure investments, and debt service. The District will review and adjust enterprise fee and rate structures as required to ensure that they remain appropriate, equitable and reflect the true cost of service.

Article XIII D of Proposition 218 in California requires that fees for water and wastewater services meet strict cost-of-service requirements, including:

1. Revenues for the fee cannot exceed the cost to provide the service;
2. Revenues for the fee cannot be used for something other than what the fee was imposed for; and
3. Property owners must be able to use or have service immediately available to them

In addition to meeting the requirements of Prop. 218, the District's budget-based water rate structure is designed to encourage beneficial use of water and prevent the unreasonable use of water, consistent with California Constitution Article X Section 2:

“It is hereby declared that because of the conditions prevailing in this State the general welfare requires that the water resources of the State be put to beneficial use to the fullest extent of which they are capable, and that the waste or unreasonable use or unreasonable method of use of water be prevented, and that the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and for the public welfare. [...]”

Capitalization & Surplus

The District maintains the Capitalization & Surplus policy to direct the types of costs that will be capitalized in accordance with GASB reporting requirements. This is also used as a guideline for budgeting purposes and the distinction of funding differences for operating and capital expenditures. Key policy specifications for capital assets include:

- The capital asset threshold is maintained at \$5,000 excluding service connections at \$3,000.
- Capital assets must have a minimum useful life of five years.
- Capital assets will be depreciated using the straight-line method and reported at historical value.
- Specific costs included in the reporting value, including fully burdened labor and indirect costs.
- Repairs and maintenance costs are classified as operating expenses.

Purchasing Services, Materials & Public Works Projects

The Purchasing Services, Materials & Public Works Projects Policy encourages transparency and sufficient fiscal controls on all purchases and sales to the extent required by law for Special Districts or as included in this policy. It delegates purchasing authority and maintains procurement limits and contract signature authority for the District.

Federal Grant Management

The Federal Grant Management Policy is intended to supplement the management and fiscal accountability of Federal Grants for the District. It requires procurement for services and materials included in Federal Grants to comply with the Uniform Guidance.

Maintaining Water District Investment Funds

The Investment Policy documents delegation and guidelines for the investment of public funds in accordance with California Government Code. The Board acts annually to delegate investments and cash management responsibilities and authority to the District Treasurer or designee. The District’s primary investment objective is to achieve a reasonable rate of return while minimizing the potential for losses arising from market changes or issuer default. Accordingly, the following factors are considered in determining individual investment placements:

1. Safety
2. Liquidity
3. Yield

MODELING ASSUMPTIONS

The District’s Ten-Year Cash Flow Model uses the most recent financial information, contract terms and the Board adopted budget to serve as the basis for future year projections. The District’s fiscal year (FY) starts July 1 of each year. For example, Fiscal Year 2025-26 goes from July 1, 2025 to June 30, 2026. The Model employs assumptions to calculate future year revenues, expenses, and cash balances. Model assumptions are reviewed as necessary and each time the Model is significantly updated. Unless more appropriate sources exist, the District utilizes inflation projections from the California Department of Finance for the Los Angeles region.

Staff and consultants reviewed and revised the Model assumptions for the 2025 Long-Range Financial Plan. The water purchase cost assumptions are detailed later in Table 5.

Inflation Assumptions – Expenses

Table 2: Inflation Factors – Expenses

Inflation Factors	FY 2025-26*	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Operating Costs										
General	-	6.2%	5.8%	4.3%	7.1%	4.2%	4.9%	4.1%	4.6%	4.2%
Utilities	-	6.3%	8.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Chemicals	-	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Insurance	-	2.0%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Capital Costs										
District	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

*FY 25-26 is based on the adopted budget and therefore not impacted by the inflationary assumptions used in the 2025 long-range financial planning methodology

Operating Costs Inflation Assumptions

Inflation assumptions for costs related to operating the Potable Water, Recycled Water, and Wastewater Systems have been grouped into four distinct categories to reflect the different nature of the underlying costs. Inflation assumptions for water purchase costs are discussed in detail in a subsequent section.

1. *Operations - General:*

As part of the annual budget process, District staff develop department-level cost projections based on their anticipated work activity, contract terms, and other sector-specific trends which are then aggregated into District-level budget forecasts. The inflationary factors shown in Table 2 represent the expected year-over-year change in costs associated with materials, regulatory compliance and reporting, consulting support, engineering studies, planned infrastructure maintenance and emergency repairs, as well as the staffing resources needed to support those functions. For other non-specific expenses, the general inflation assumption is based on blended Consumer Price Index (CPI) data for Commodities, Durables, and Non-Durables (less food & beverages) for the Los Angeles area provided by the California Department of Finance. District staff feel this level of inflation is appropriate given that other major or more volatile cost categories are specifically defined.

2. *Operations – Utilities:*

Electricity dominates the District's utility expenditure and electric utility rates are expected to rise approximately 5% based on the composite of the District's electricity providers. The higher 6.3% and 8.7% for FY 2026-27 and 2027-28, respectively, reflect additional utilities costs associated with new salinity management processes in recycled water production. Recognizing that utility rates in Southern California have risen substantially in recent years, the District actively seeks to explore opportunities for enhancing cost management. Multiple projects in the FY 25-26 Capital Improvement Plan (CIP) budget involve the replacement of mechanical equipment where the new equipment, such as pumps and generators, will have a higher efficiency factor than existing equipment and are expected to result in reduced electricity consumption associated with those assets. The test-year FY 25-26 budget included both the installation costs and the energy savings from the Micro-Hydro Turbine at Bridlewood FCF and Solar Panels at Headquarters Projects which will generate electricity to offset the impact of future electricity rate increases on total utilities' costs.

3. *Operations – Chemicals:*

The District has seen significant variability in chemicals costs associated with wastewater treatment at Plant 3A and the Regional Treatment Plant. Volatility in chemicals costs impacts the entire utility industry and given the exogenous nature of these costs, District staff have assumed a more conservative 5% annual inflationary rate.

4. *Operations – Insurance:*

Costs associated with *Operations – Insurance* consist of two categories:

- Premiums the District pays to insure its facilities and assets against damage or other loss. The District maintains several broad insurance policies through its membership with Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). A hard excess insurance market has driven consecutive ACWA/JPIA rate increases in recent years for District insurance plans ranging from 10-20% each year. As a result, the premiums for insurance have increased substantially industry-wide, contributing to a 250% increase for the study base year compared to the adopted FY 2023-24 budget. This increase is largely believed to be a market correction and given JPIA's large risk-sharing pool and premiums-based incentives for reducing claims, inflation assumptions for all future years have been set equal to the general inflation assumption based on blended CPI data for Commodities, Durables, and Non-Durables (less food & beverages) for the Los Angeles area provided by the California Department of Finance as any future rate increases would likely be tied to new asset purchases.

- District’s contribution to employee welfare and safety-net programs, such as: Workers’ Compensation, Medicare, Federal Insurance Contributions Act (FICA), short and long-term disability, and State Unemployment Insurance. Workers’ Comp. premiums for District employees are based on a formula that accounts for several operational factors that are intended to capture the relative claim risk among the ACWA/JPIA member agencies and allocates the total pool premium accordingly. The “Experience Modification Rate” or “E-Mod” reflects an agencies overall level of safety and is adjusted up or down annually based on the number and severity of claims. The District places significant emphasis on worksite safety and training for field staff and as a result, the District’s E-Mod is 0.80, paying only 80% of the standard premium.

Capital Cost Inflation Assumptions

Costs for projects in the 10-year CIP are based on planning-level estimates which include contingencies that are intended to address assumptions about future materials and labor costs. Additionally, District staff have found that many construction projects often result in cost savings. Recognizing this, projected capital costs are not additionally inflated above levels already assumed in the developed estimates.

Inflation Assumptions – Revenues

Table 3: Inflation Factors – Revenues

Inflation Factors	FY 2025-26*	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Revenue Assumptions										
General – Revenue	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property Tax	-	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Investment Income	-	3.7%	3.7%	3.8%	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%
Capacity Fees	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property Lease Revenue	-	3.7%	3.7%	3.7%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%

*FY 25-26 is based on the adopted budget and therefore not impacted by the inflationary assumptions used in the 2025 long-range financial planning methodology

General – Revenue

Non-rate-related operating revenues are assumed not to increase above present values over the planning horizon of the Model. Staff considers this assumption both appropriate and conservative as the majority of these revenue sources are related to either: daily operations activity (e.g. sale of scrap metal or other materials), for which increases in revenue would likely be offset by increased cost of the underlying activity; or user fees related to customer service, which would only increase as a result of customer base growth or an active policy decision to increase the dollar amount of user fees.

Property Tax

Revenues from property tax are assumed to increase annually over the planning horizon of the Model. Property tax revenue for the District has continued to increase over the past four years. This has been a key component of the District's non-rate revenue base and is directly distributed back to customer bills, helping to maintain some of the lowest water bills in South Orange County. Local property tax forecasts suggest an approximate 4% increase year over year; however, a more conservative estimate of future growth is assumed in the Model to reflect the use of property tax revenues in the development of the District's tiered rate structure. Also, the District maintains a Rate Stabilization Reserve which reduces the financial exposure resulting from a sudden reduction in property tax revenue that would otherwise warrant an even more conservative estimate of future revenue.

Investment Income

The District maintains a diverse portfolio of investments to meet short-term liquidity, midterm cash-funded Capital Improvement Programs and long-term earnings. The 3.7% - 3.9% increase in investment returns projected for FY 2025-26 through FY 2029-30 is a result of the growth in returns on unrestricted cash balances as a higher percentage of capital expenditures are reimbursed from restricted bond proceeds which are then reinvested in short-term securities to meet construction cashflow needs. Efficient coordination between the District's Financial Planning, Accounting, and Engineering Departments has increased the accuracy of short-term and long-term cash flow forecasts, which has allowed the District's Investment Advisor to confidently restructure the District's investment portfolio to meet short-term liquidity needs and cash funded Capital Improvement Program costs while maintaining long-term earnings. With efficient management and vigilant monitoring of market conditions, the District has successfully leveraged recent short-term strategies and seen opportunities for higher earnings rates of over 4% in recent months, reflecting the District's proactive approach to optimizing financial performance. Investment income growth is reduced to 3.5% in subsequent years as a more conservative expectation of portfolio performance over the remainder of the planning horizon.

Capacity Fees

Annual capacity fee inflation assumptions are based on development forecasts maintained by the District's private development group and reflect anticipated development within the service area over a ten-year period. The District's private development group actively works with the District's local cities to develop its ten-year forecast.

Property Lease Revenue

The main source of revenue is from cell site carriers placing antennas and equipment on reservoir properties and other District locations. These communications facilities are distributed among 18 sites. Many cell carriers are merging and no longer need duplicative sites. However, due to the changes in license fees, revenues are projected at \$2.3M for FY 2025-26 and escalating based on contractual obligations to \$2.7M by FY 2029-30 which are then conservatively held fixed through the end of the planning horizon. The Model accounts for the contracted amounts from retained sites and the decommissioning of sites as lease contracts expire.

Water Supply Assumptions

The water supply portfolio used to project the cost of the water is based on available water deliveries from Baker Water Treatment Plant (Baker) and Diemer Treatment Plant from Metropolitan Water District of Southern

California (MWDSC). In addition, as a part of its Long-Range Water Reliability Plan, the District has evaluated other long-term projects to further reduce District demand of imported supplies. In FY 2016-17, Baker started operations and ramped up to full capacity in FY 2017-18. The Baker Water Treatment plant can provide the District with approximately 8,908 AF annually from treating raw MWDSC water. The District projects a sustained 6% for water losses (non-revenue water). Non-revenue water consists of water used at District operations facilities, water used for operational purposes such as fire hydrant testing, and water loss due to leaks. As part of its efforts to reduce costs from non-revenue water, the District has implemented several water loss control programs including full-time water loss detection crew, robust meter testing program, pressure reduction studies, and Advanced Metering Infrastructure-driven apparent loss detection.

The test-year FY 25-26 potable water demand is maintained at 22,444 AF (inclusive of water loss). Though customer water usage continues to be lower in the last two “wet” years (20,274 in CY 2023 and 21,300 in CY 2024), the test-year budget conservatively assumes demands representative of a typical year in case weather begins to revert to “dry” conditions that have increased potable water demands as high as 25,000 AF as recently as FY 20-21.

Table 4: Water Supply Portfolio

Water Supply Usage	FY 2025-26	FY 2026-27	FY 2028-29	FY 2030-31
Usage (AF)	21,075	21,075	21,075	21,075
Non-Revenue Water	6.1%	6.1%	6.1%	6.1%
Total Demand w/ Water Loss (AF)	22,444	22,444	22,444	22,444
Supply Portfolio				
Diemer Treatment Plant (AF)	13,536	13,536	13,536	13,536
Baker Treatment Plant (AF)	8,908	8,908	8,908	8,908

Table 5 below shows the projected supply cost rates with annual escalation factors ranging from as high as 11.7% in FY 2026-27 compared to the 5.6% ten-year average. In the Management of Financial Risk section of this document, the Model evaluates the impacts of additional increases in imported water costs should MWDSC increase its rates beyond the forecasts published in its FY 2024-25 & 2025-26 biennial budget. These scenarios provide bounds on how volatile cost trends could impact District finances, absent policy tools.

Table 5: Projected Rates and Charges

Projected Rates and Charges	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
MWDSC Treatment Variable Rate (\$/AF)*	\$1,455	\$1,614	\$1,775	\$1,877	\$1,949
MWDSC Untreated Variable Rate (\$/AF)*	\$960	\$1,070	\$1,231	\$1,331	\$1,401
Baker Variable Costs (\$/AF)	\$122	\$128	\$135	\$142	\$149
Baker Fixed Costs	\$957,134	\$1,004,990	\$1,055,240	\$1,108,002	\$1,163,402
MWDSC Readiness-to-Serve Charge*	\$2,073,574	\$2,172,841	\$2,724,324	\$3,066,243	\$3,220,658
MWDSC Capacity Charge*	\$556,524	\$579,552	\$767,619	\$905,791	\$1,032,448
MWDSC Annual Connection Charge	\$806,333	\$835,185	\$865,069	\$896,022	\$928,082

*MWDSC rates and charges shown are adjusted to an effective fiscal year rate based on adopted 10-year forecasts of MWDSC calendar year rates.

Table 5 (continued): Projected Rates and Charges

Projected Rates and Charges	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
MWDSC Treatment Variable Rate (\$/AF)*	\$2,031	\$2,101	\$2,191	\$2,271	\$2,354
MWDSC Untreated Variable Rate (\$/AF)*	\$1,475	\$1,538	\$1,599	\$1,659	\$1,723
Baker Variable Costs (\$/AF)	\$156	\$164	\$172	\$181	\$190
Baker Fixed Costs	\$1,221,572	\$1,282,651	\$1,346,783	\$1,414,122	\$1,484,828
MWDSC Readiness-to-Serve Charge*	\$3,275,806	\$3,408,162	\$3,551,548	\$3,816,259	\$3,968,910
MWDSC Capacity Charge*	\$1,120,724	\$1,205,162	\$1,255,057	\$1,312,629	\$1,365,134
MWDOC Annual Connection Charge	\$961,288	\$995,682	\$1,031,305	\$1,068,203	\$1,106,420

*MWDSC rates and charges shown are adjusted to an effective fiscal year rate based on adopted 10-year forecasts of MWDSC calendar year rates.

Utilizing all the factors detailed above results in the annual operating revenue requirement projections shown in Table 6. FY 2026-27 and beyond are projected based on the FY 2025-26 budget.

Table 6: Revenue Requirements

Projected Revenue Requirements	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Potable	\$ 62,664,764	\$ 62,666,786	\$ 68,545,810	\$ 73,119,764	\$ 76,401,177
Recycled	\$ 8,313,604	\$ 8,703,702	\$ 9,210,765	\$ 9,759,155	\$ 10,186,455
Wastewater	\$ 31,416,125	\$ 32,760,778	\$ 35,017,281	\$ 37,097,021	\$ 38,679,077

Debt Financing Assumptions

In evaluating future financing needs, the Model makes assumptions on the initial and ongoing costs associated with issuing debt. Below in Table 7 are the projected terms for debt issuance mechanisms the District has historically implemented. These are based on conservative estimates of long-term trends. The District will work with its Financial Advisor and financing team to secure the optimum rates and terms at the time of issuance.

Table 7: Debt Mechanism

Debt Mechanism	Interest Rate	Term (Years)	Issuance Cost
Certificates of Participation	3.5%	30	\$250,000

REVENUE REQUIREMENTS & CURRENT REVENUE

Revenue Requirements

The revenue requirements for the District are composed of three components:

1. Annual operating costs that rise in proportion to specific inflators, outlined in Figure 1.
2. Capital infrastructure that are one-time expenses, such as new infrastructure or replacement of existing infrastructure; and,
3. Debt Service Payments.

Figure 1 below shows combined operating and capital revenue requirements for FY 2025-26, the first year of the model while Table 8 shows the summary of district-wide revenues, proposed debt issuances, and revenue requirements.

Figure 1: Current Revenue Requirements

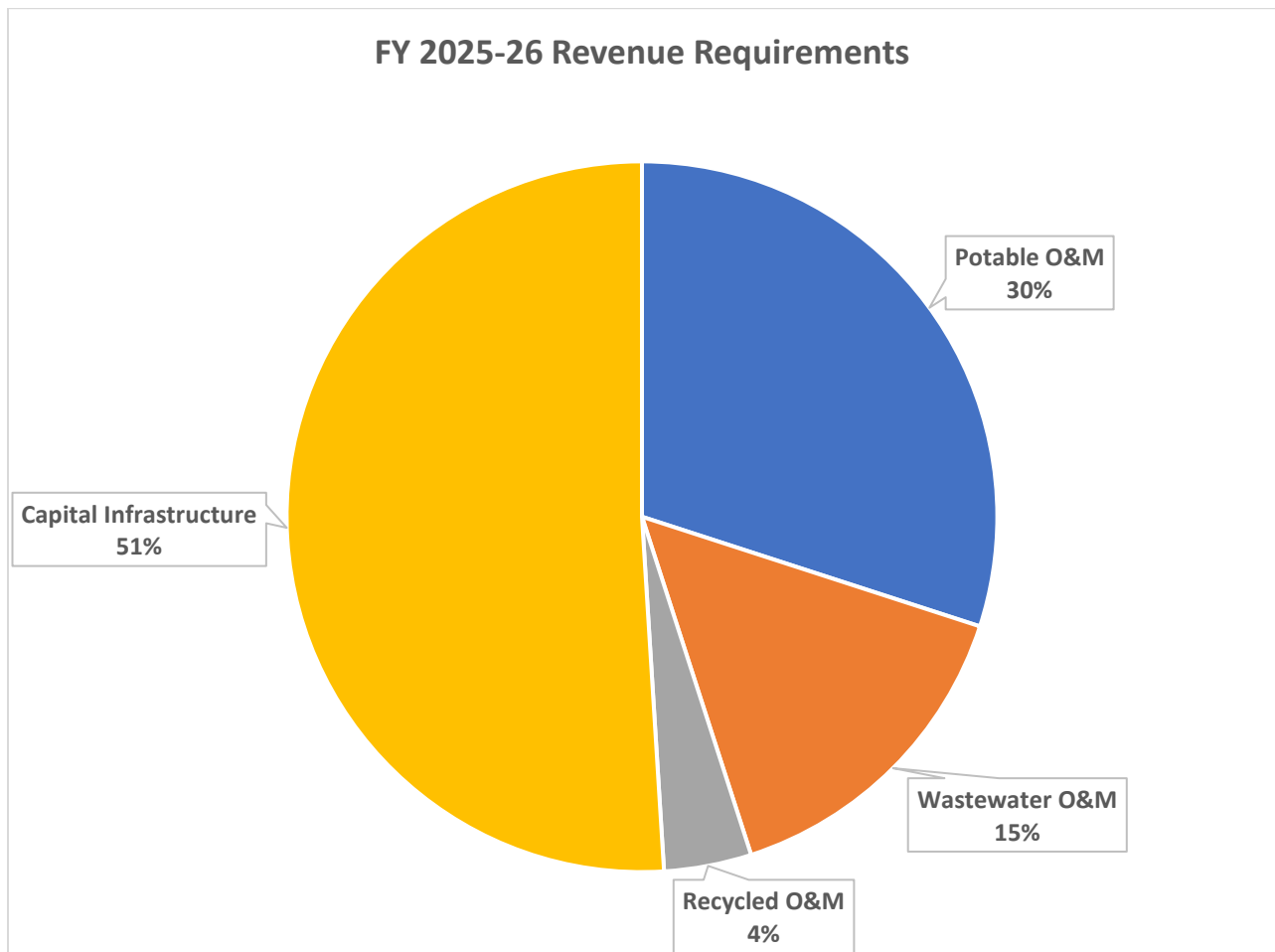


Table 8: Current Revenue and Revenue Requirements

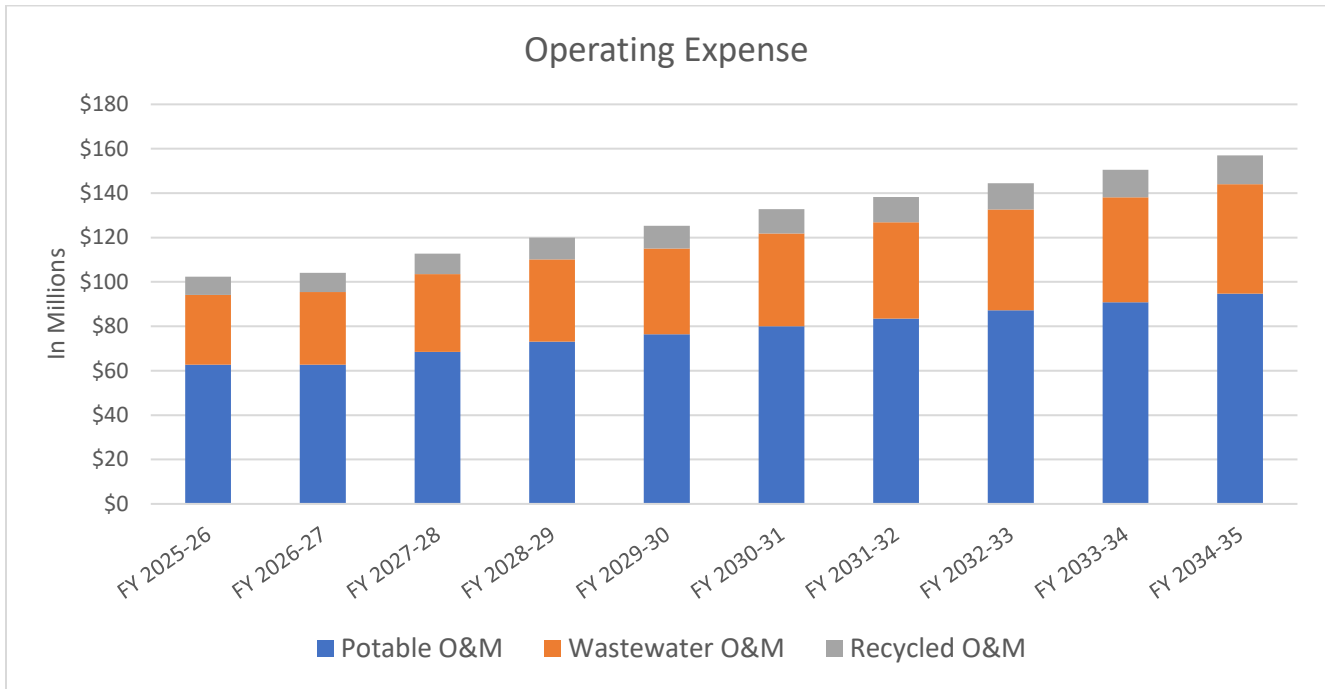
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Revenue					
Current Rate Revenue	\$74,672,959	\$74,740,026	\$74,807,093	\$74,874,161	\$74,941,228
Proposed Adjustments	\$3,775,208	\$3,540,358	\$3,909,949	\$4,326,635	\$4,797,141
Non-Rate Revenue	\$60,450,202	\$50,926,946	\$52,226,625	\$54,266,850	\$56,094,277
Bond Issuance	-	\$72,750,000	-	\$105,750,000	-
Revenue Requirements					
Debt Service	\$14,461,634	\$15,122,606	\$19,084,713	\$19,081,713	\$24,830,450
Operating Expenses	\$104,797,655	\$106,534,428	\$115,177,018	\$122,379,103	\$127,669,871
Capital Infrastructure Expenses	\$92,031,882	\$57,756,577	\$45,721,059	\$72,745,890	\$66,314,907

	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Revenue					
Current Rate Revenue	\$75,008,295	\$75,075,362	\$75,142,429	\$75,209,496	\$75,276,564
Proposed Adjustments	\$5,311,618	\$5,884,218	\$6,522,256	\$7,219,395	\$7,994,935
Non-Rate Revenue	\$56,946,025	\$58,690,047	\$60,031,097	\$61,901,622	\$64,176,723
Bond Issuance	\$74,750,000	-	-	-	-
Revenue Requirements					
Debt Service	\$24,828,325	\$28,900,549	\$28,915,524	\$28,911,615	\$28,899,756
Operating Expenses	\$135,122,550	\$140,713,889	\$146,877,685	\$152,884,085	\$159,412,623
Capital Infrastructure Expenses	\$71,817,446	\$51,935,957	\$41,330,022	\$47,095,400	\$47,781,369

The following figures and charts will break down the overall revenues and revenue requirements into their components and the next section will show the plan moving forward. Operations and maintenance expenses in the Long-Range Financial Plan use budgeted expenses for FY 2025-26. Operating expenses for FY 2026-27 through FY 2034-35 are projected based on the inflation factors discussed in Modeling Assumptions.

Figure 2 depicts a breakdown of operating costs over the next 10 years for each of the Systems.

Figure 2: Operating Expenses by System



Operations and maintenance of the potable water system increase by 51% by FY 2034-35. The largest operating expense is water purchases, projected to increase 60% by FY 2034-35. Currently, the District purchases all its potable water supply from MWDSC via MWDOC. The purchase of imported water from MWDSC via MWDOC will have the largest impact on the potable water operating expenses in the planning horizon. This report assumes increases in MWDSC costs based on recent projections, shown in Table 5. However, there are potential projects and activities that MWDSC is considering, such as funding for the Delta Conveyance Project or Sites Reservoir, that are currently not accounted for within the projected MWDSC rates. In response, the District is including expenses to study and evaluate alternative water supplies and to reduce water loss within the system. Additionally, the potable water operating expenses reflect necessary increases to operation and maintenance expenses to continue to provide reliable and efficient water and fire protection services to customers.

The wastewater system operating expenses increase by 53% by FY 2034-35. Regulatory requirements, biosolid disposal expenses, staffing resources, and increased power and chemical costs are the primary drivers for the increase in the wastewater system operation and maintenance costs. The Board remains committed to providing for the safe collection, treatment and disposal of wastewater to protect the public health and environment. Additionally, nearly 15% of the District’s wastewater is treated via a neighboring agency contract provider. It is imperative that the District monitor the safe treatment and disposal of wastewater through the contract services to ensure compliance with all regulations and financial accountability for those services on behalf of the District’s customers.

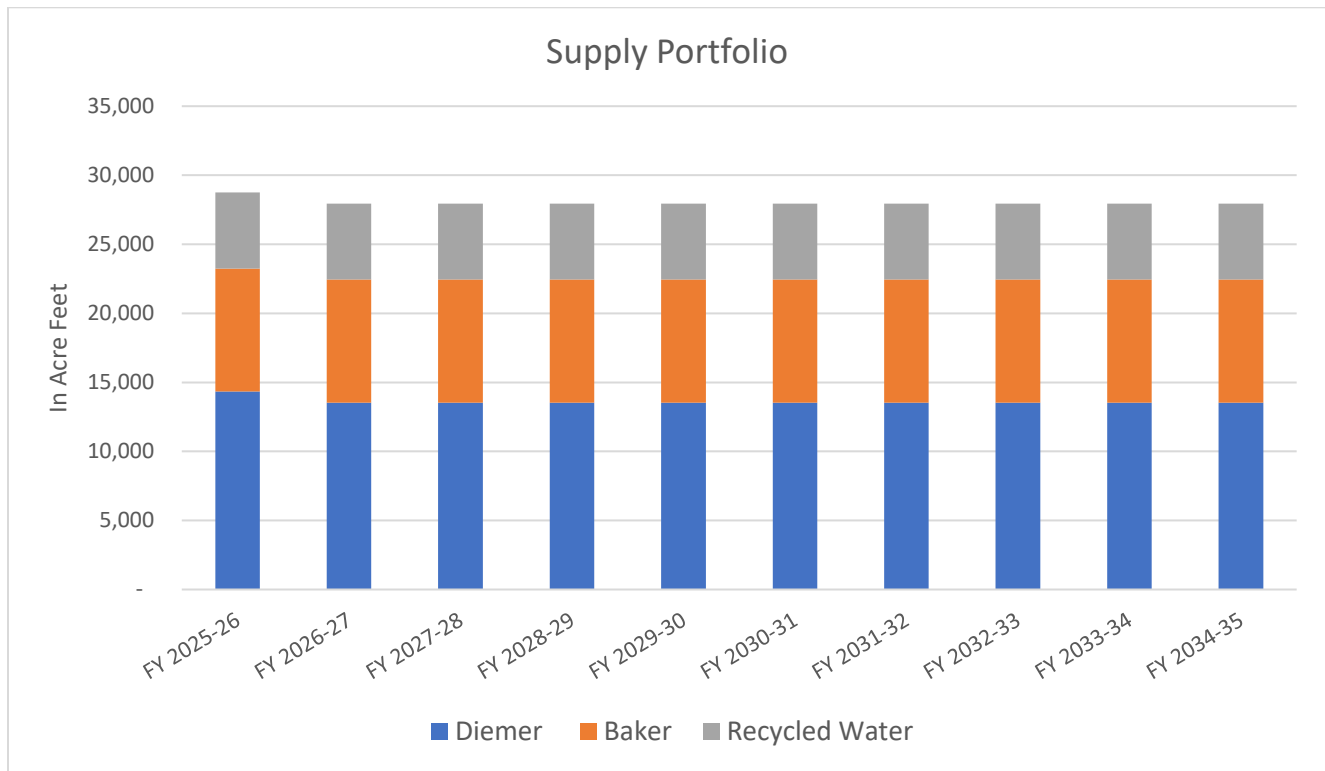
In FY 2025-26, Recycled water production is estimated to meet more than 20% of total water demand and is projected to remain constant through FY 2034-35. Operation and maintenance expenses of the recycled water system are expected to increase by 56% over that time frame. Increases to chemical costs will continue to be a key factor, as will increased power costs to meet regulatory requirements to produce recycled water.

The Model has the capability to analyze the financial impacts of a mixed portfolio with specified supply allocations based on projects such as expanded recycled water deliveries, emergency interconnections, or groundwater exchange programs as well as potential for direct portable reuse.

The supply portfolio presented below is the base case used unless specified in each scenario.

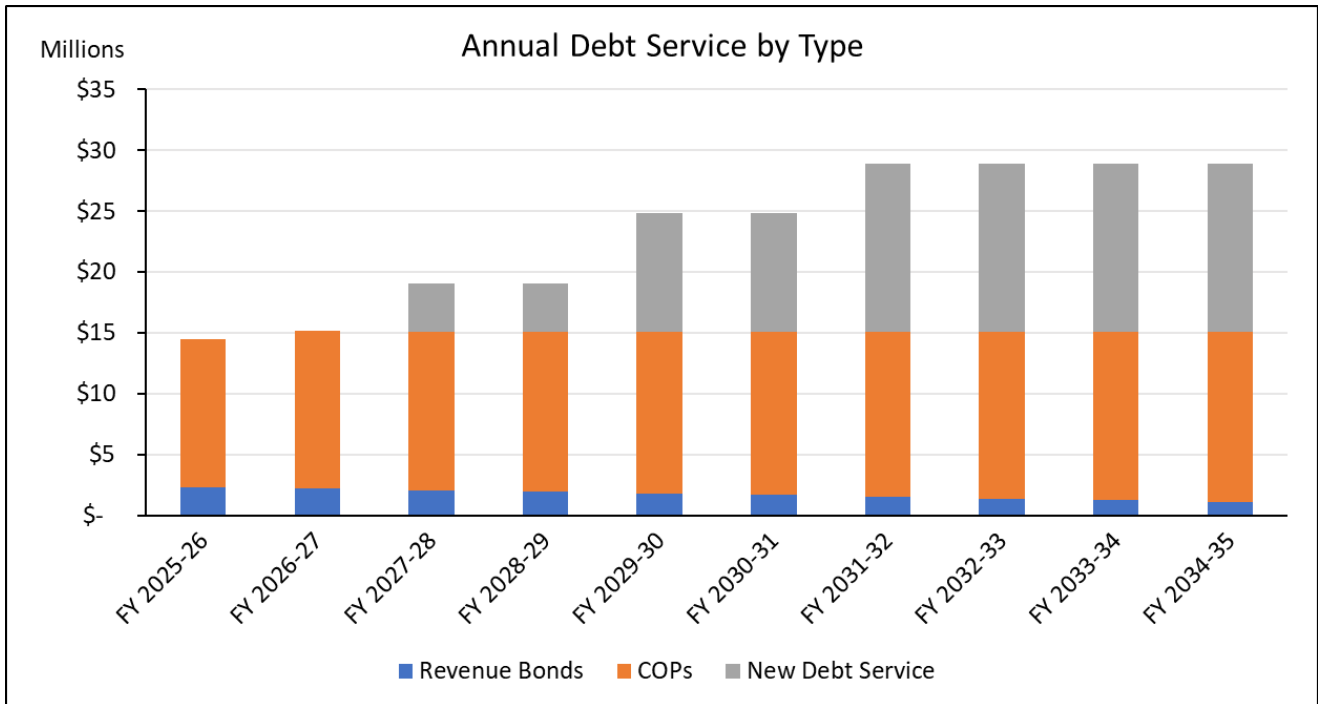
Figure 3 shows the base case forecast water supply portfolio. The overall demand will remain consistent at 28,000 AF beginning FY 26-27.

Figure 3: Supply Portfolio



The financial plan includes the existing debt service schedules and projected issuances intended to smooth out large, expected capital infrastructure project costs over the life of the assets. Figure 4 provides a breakdown of existing debt service by issuance type in addition to new debt service from the projected issuances of \$72.8 million in FY 2026-27, \$105.8 million in FY 2028-29, and \$74.8 million in FY 2030-31 to fund capital expenditures and smooth rate adjustments in the term.

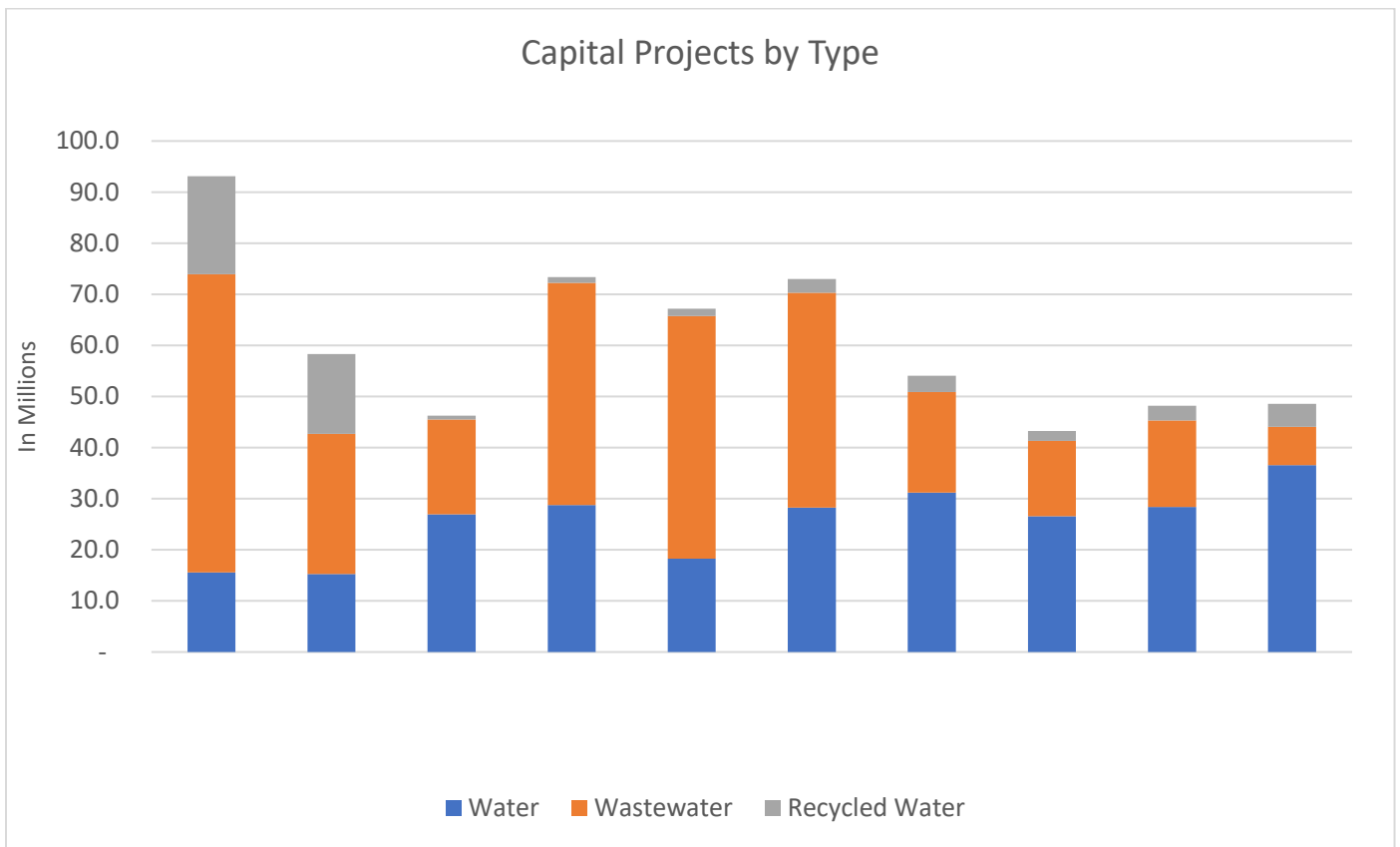
Figure 4: Debt Service Summary



Investments in critical infrastructure projected for Fiscal Years 2025-26 through 2034-35 are from the District’s Capital Financing Plan. Major upgrades are necessary for the District’s two primary wastewater treatment plants to replace critical equipment and ensure on-going regulatory compliance. Replacement and rehabilitation of key pump stations serving both the wastewater collection system and potable water system are necessary during the planning horizon. These facilities will protect public health by safely conveying wastewater to treatment facilities and ensure the reliable delivery of potable water for customers and fire protection. Additionally, the District is investing in large regional capital projects to enhance the reliability of the potable water system during emergencies and disasters. Over the next 10 years, the District has an expected CIP financing plan of approximately \$595 million. While the District reviews its 10 Year CIP annually, on-going operations, maintenance, and regular condition assessments of the District’s infrastructure may require updates to the CIP which may necessitate changes in the schedule of investments.

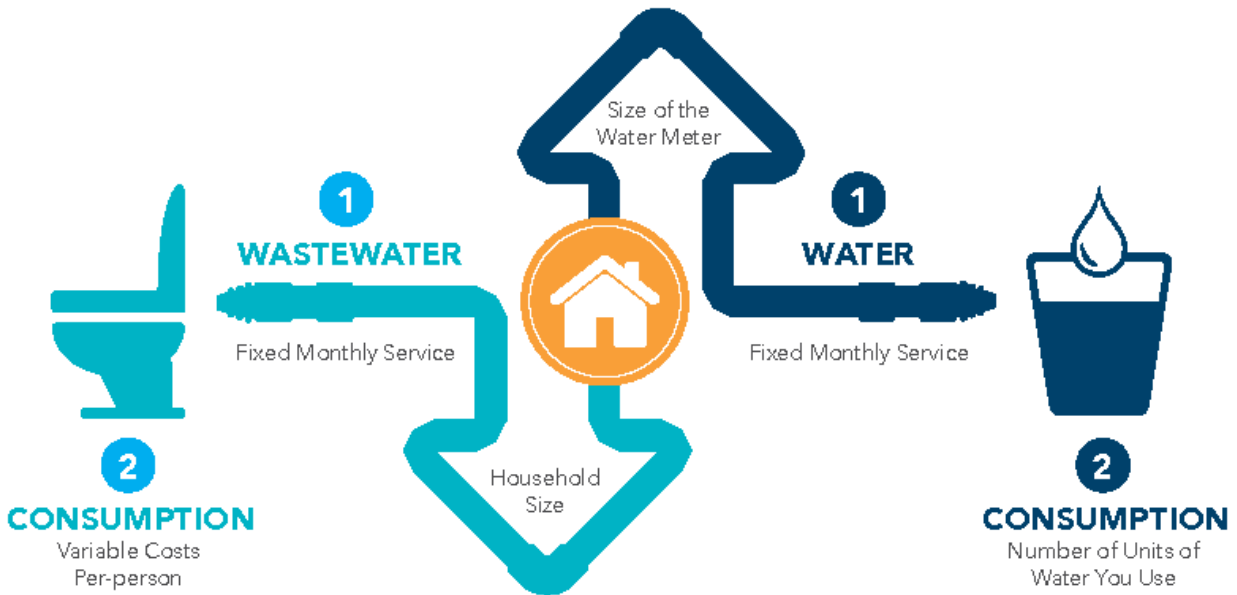
Figure 5 provides a summary of the major capital expenses in the District’s 2026 Capital Financing Plan.

Figure 5: Capital Projects Summary



Current Revenues

The two largest sources of revenue are rate revenues from the three systems (water, recycled water, and wastewater) and ad valorem property tax. Rate revenues for both water and wastewater are composed of fixed and variable charges (except Fire Protection, which is fixed charge only). Each type and class are defined below.



Water Rates

The fixed fee for providing water service to customers is based on the size of the water meter. Table 9 lists the fixed, monthly service charge for all account class in 2025.

Table 9: Fixed Monthly Water Service Charges Effective January 1, 2025 (\$/Meter)

Meter Size	Single-family Residential	Multi-family Residential	Commercial	Potable Irrigation	Recycled Irrigation	Fire Protection*
5/8"	\$10.54	\$10.97	\$3.98	\$17.03	\$17.03	\$5.95
3/4"	\$10.54	\$10.97	\$3.98	\$17.03	\$17.03	\$5.95
1"	\$10.54	\$10.97	\$3.98	\$17.03	\$17.03	\$5.95
1.5"	\$35.11	\$23.50	\$13.27	\$56.75	\$56.75	\$19.82
2"	\$56.18	\$34.24	\$21.24	\$90.80	\$90.80	\$31.71
2.5"	-	-	-	-	-	\$50.52
3"	\$122.92	\$68.26	\$46.46	\$198.64	\$198.64	\$69.36
4"	\$210.71	\$113.01	\$79.65	\$340.52	\$340.52	\$118.90
6"	\$438.98	\$229.37	\$165.94	\$709.42	\$709.42	\$247.71
8"	\$632.12	\$327.83	\$238.96	\$1,021.56	\$1,021.56	\$356.71
10"	\$1,018.42	\$524.75	\$384.99	\$1,645.85	\$1,645.85	\$574.70

Fire Protection Water Service Charges are only assessed as fixed charge, based on connection size

The variable fee is based on the amount of water used by the class type.

1. Residential: Single Family and Multi-Family

The current water volumetric rate structure is composed of five tiers. Table 10 shows the tiered rates for residential accounts, effective January 1, 2025.

Table 10: Residential Tier Width Rates Effective January 1, 2025 (\$/hcf)

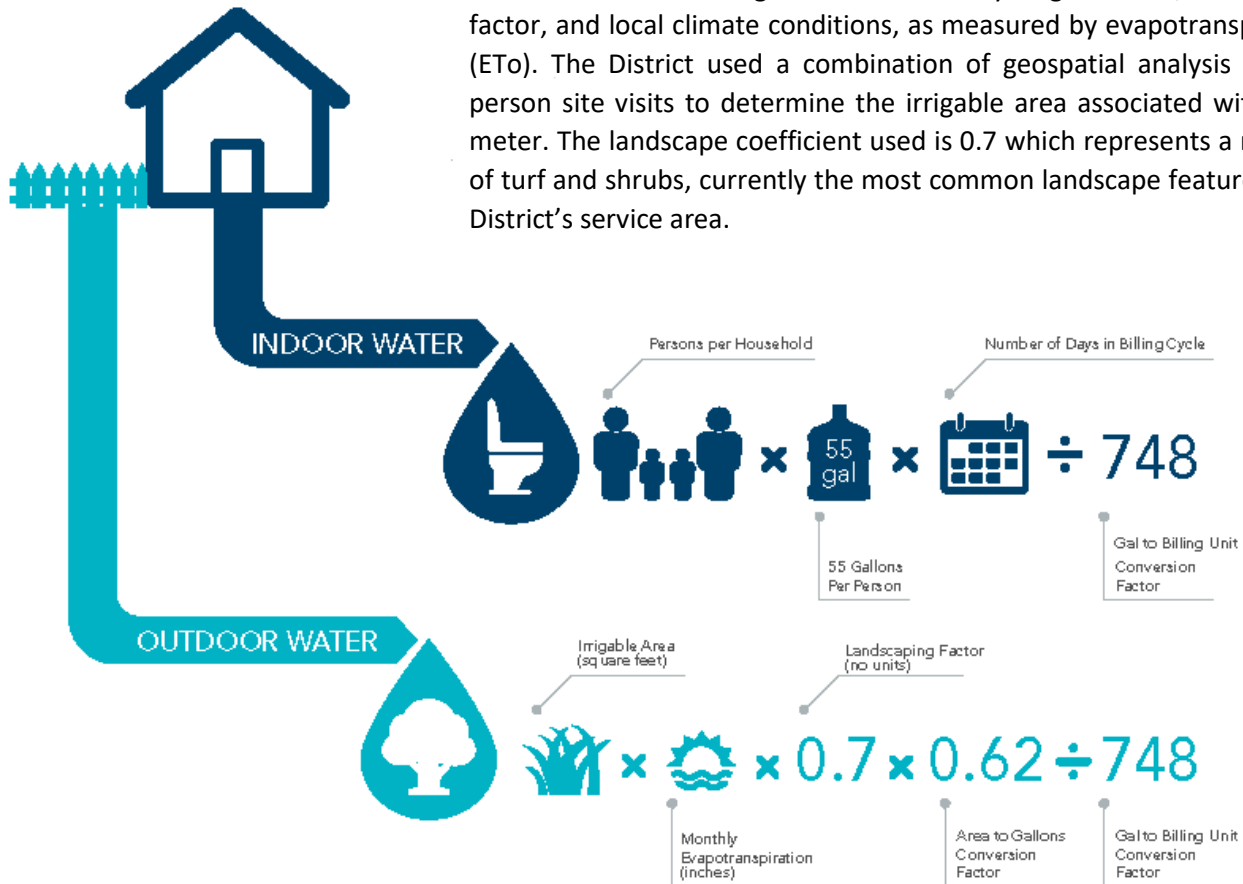
Tier	Allocation	Rate (per hcf)
1	Indoor Water Budget	\$2.38
2	Outdoor Water Budget	\$2.70
3	101-125% Total Water Budget	\$4.36
4	126-150% Total Water Budget	\$7.15
5	Over 150% Total Water Budget	\$11.04

Tier 1 = Indoor Water Budget

The indoor water budget is determined by first allocating 55 gallons per capita per day (GPCD) for efficient indoor use, multiplying that allocation by the number of days in the billing cycle and the number of people in the household. The conversion factor converts from gallons to hundred cubic feet (hcf), which is the billing unit (BU). Customers report the number of people in their household when activating an account, but the median household is 4 people for single family and 2-3 people for multi-family housing.

Tier 2 = Outdoor Water Budget

The outdoor water budget is determined by irrigable area, landscaping factor, and local climate conditions, as measured by evapotranspiration (ET_o). The District used a combination of geospatial analysis and in-person site visits to determine the irrigable area associated with each meter. The landscape coefficient used is 0.7 which represents a mixture of turf and shrubs, currently the most common landscape feature in the District's service area.



2. Commercial & Irrigation

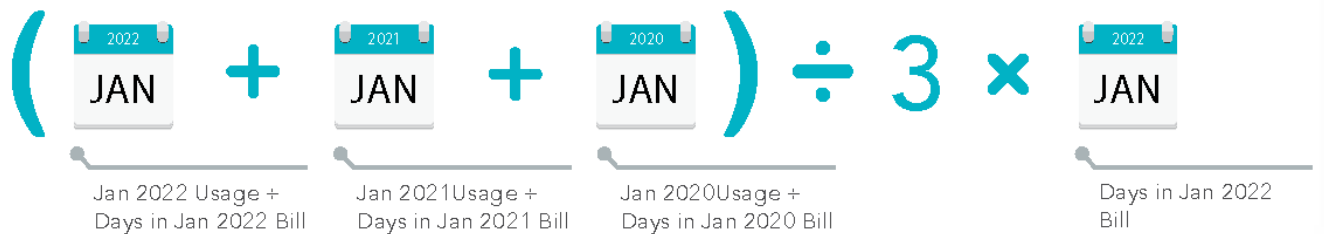
The current water volumetric rate structure for commercial and irrigation is composed of four tiers. Table 11 shows the tiered rates for commercial and irrigation accounts, effective January 1, 2025.

Table 11: Commercial and Irrigation Tier Width Rates Effective January 1, 2025 (\$/hcf)

		Commercial	Potable Irrigation	Recycled Irrigation
Tier	Allocation			
1	Total Water Budget	\$2.70	\$2.70	\$1.89
2	101-125% Total Water Budget	\$4.36	\$4.36	\$3.37
3	126-150% Total Water Budget	\$7.15	\$7.15	\$6.16
4	Over 150% Total Water Budget	\$11.04	\$11.04	\$10.05

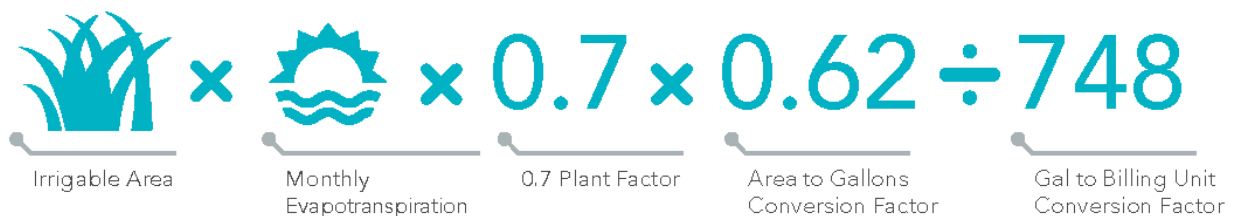
Commercial Accounts

To determine the total water budget for commercial meters, the District uses a rolling average of the current month's usage and the respective monthly usage from the past two years to determine the total water budget (with a minimum budget of one billing unit). This 3-year rolling monthly average accounts for typical monthly usage for commercial customers as well as for potential increases in business activity or recent efficiency improvements that may have occurred within the current month.



Irrigation Accounts (Potable and Recycled Water)

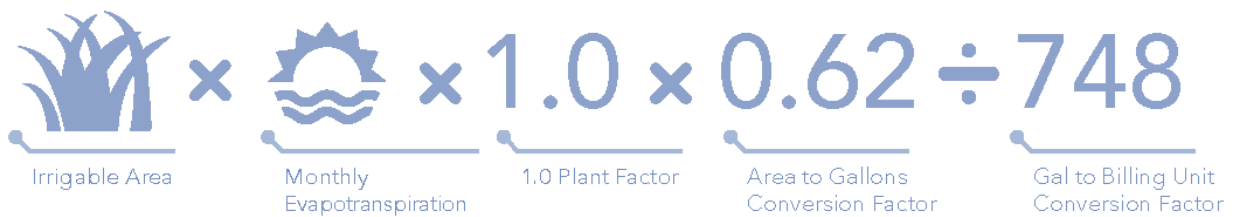
For all **potable water** irrigation meters, total water budget is calculated as follows:



Total water budgets for areas irrigated with **recycled water** are calculated similarly to potable irrigation budgets; however, budgets for recycled irrigation have a higher landscape factor to account for the additional salinity of recycled water.



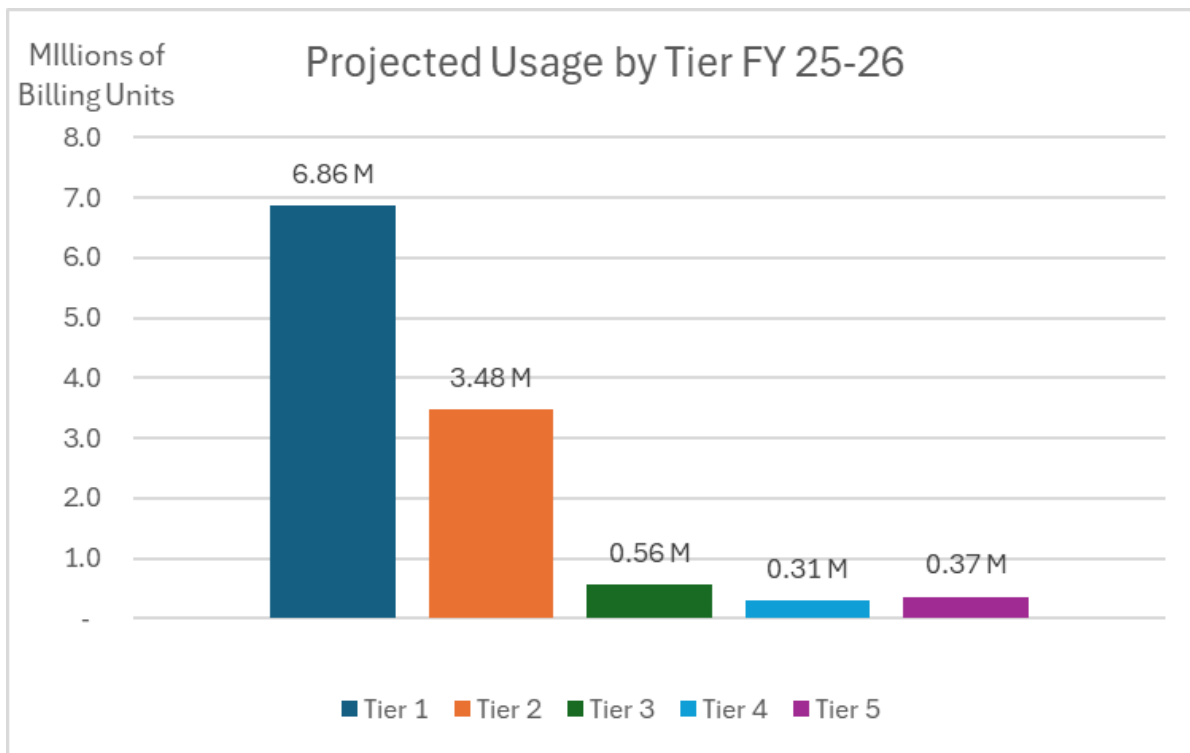
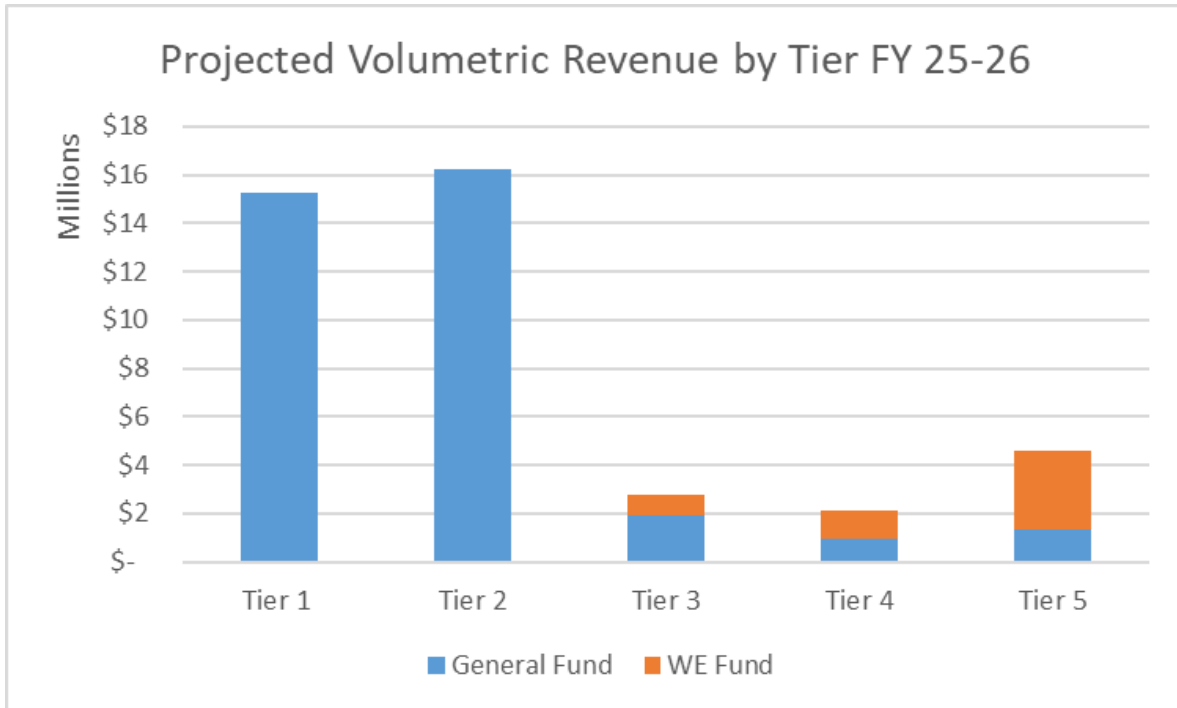
The same calculation applies to total water budgets for potable water **and** recycled water for areas defined as public spaces which includes public parks, but with a landscape factor of 1.0.



Using water in excess of a customer’s individually calculated water budget results in higher rates, increasing up to \$11.04 per hcf in the highest tier. For Recycled customers, usage above the basic use allocation results in an increase up to \$10.05 in the highest tier. The revenue derived from out-of-budget usage goes to fund conservation and water efficiency programs, education, outreach, and program administration. In addition, the water efficiency revenue can be used to study and/or construct new water supply projects.

Figure 6 presents the projected revenue share and usage for FY 2025-26 that will be received from each of the water budget tiers based on FY 2024-25 baseline usage levels and no assumed rate structure changes.

Figure 6: Projected Volumetric Revenue and Usage by Tier



Wastewater Rates

The wastewater system has two customer groupings: residential customers and commercial customers. Residential customers are billed per person, and a monthly charge of \$22.37 and multi-family customers are billed based on meter size as shown in Table 12.

Table 12: Monthly Wastewater Service Charges Effective January 1, 2025 (\$/Meter)

	Residential	Multi-Family	Commercial 1	Commercial 2	Commercial 3	Commercial 4
Per Person	\$5.97	\$5.97	-	-	-	-
5/8"	\$22.37	\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
3/4"		\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
1"		\$25.62	\$29.11	\$67.68	\$146.70	\$166.18
1.5"		\$77.32	\$88.95	\$217.50	\$480.86	\$545.80
2"		\$121.63	\$140.24	\$345.93	\$767.33	\$871.24
3"		\$261.98	\$302.68	\$752.67	\$1,674.57	\$1,901.90
4"		\$446.62	\$516.39	\$1,287.77	\$2,868.13	\$3,257.82
6"		\$926.72	\$1,072.07	\$2,679.13	\$5,971.57	\$6,783.43
8"		\$1,332.94	\$1,542.25	\$3,856.39	\$8,597.47	\$9,766.54
10"		\$2,145.40	\$2,482.62	\$6,210.98	\$13,849.41	\$15,732.92

Commercial customers are assigned to one of the four classes below based on the type of commercial activity and the strength of the wastewater that they discharge into the system. Typical users within the four subclasses generally include, but are not limited to, the following:

COMMERCIAL CLASS 1	COMMERCIAL CLASS 2
banks, car washes, churches, department & retail stores, laundromats, professional offices, schools and colleges	beauty and barber shops, hospital and convalescent facilities, repair shops, service stations and veterinary hospitals
COMMERCIAL CLASS 3	COMMERCIAL CLASS 4
hotels with dining facilities, markets with garbage disposals, mortuaries, and fast-food restaurants	restaurants, automobile steam-cleaning facilities, and bakeries

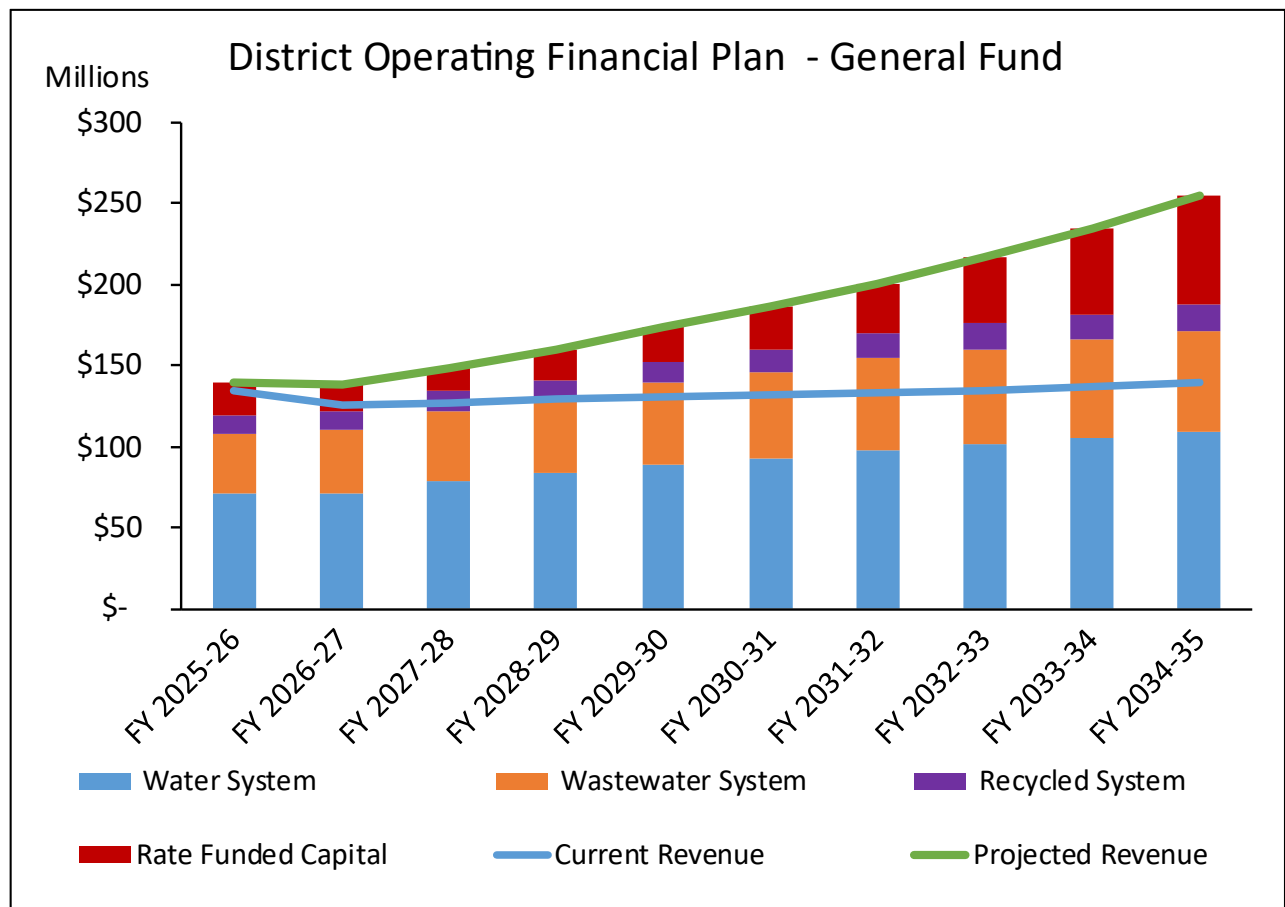
PROPOSED FINANCIAL PLAN

The LRFPI incorporates both the test year (FY 2025-26) revenue requirements and assumed inflationary factors for projecting future operating costs as well as the proposed capital infrastructure plan. The District is currently planning to draw down cash reserves to target reserve levels adopted in the District’s Reserve Policy in order to fund capital improvement projects in the near future while structuring rate adjustments and debt financing to maintain cash balances at targeted reserve levels in the future.

General Fund Summary

Figure 7 is the operating financial plan that breaks down the major component costs and compares the proposed revenue stream to the status quo.

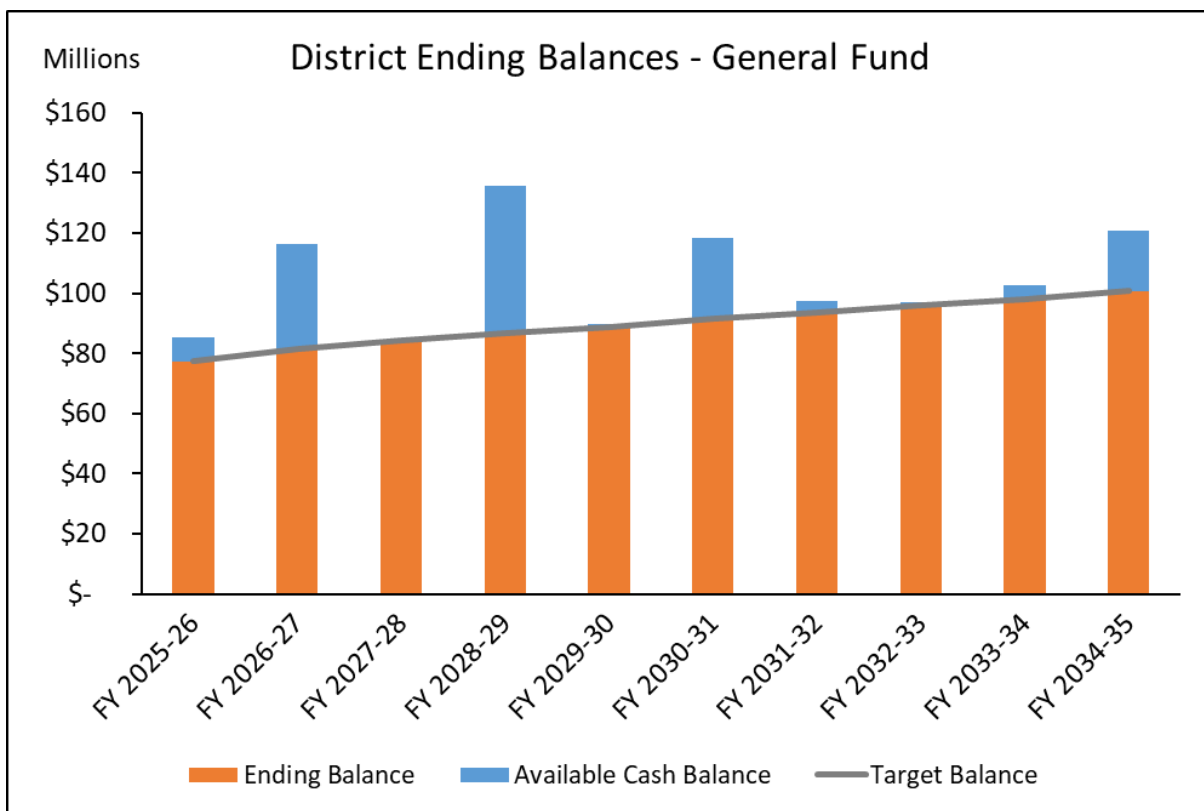
Figure 7: General Fund – District Operating Plan



Rate Funded Capital is total revenue, net of operating and debt-service related expenses that are largely used to cash-fund the Capital Improvement Plan. These funds can also be used to replenish reserve funds if they drop below target levels, either because the reserves were utilized or the reserve targets were increased. The proposed revenue requirements equate to a 12% revenue adjustment on January 1, 2026 and 10% for each subsequent year through 2035. If the proposed revenue adjustments are not implemented, current revenue would fail to meet operating costs by FY 2027-28. When structuring future rate adjustments and debt issuance, the District should be cognizant of the impacts to the debt coverage ratio relative to the Board-adopted policy minimum of 1.75x.

In addition, the proposed rate revenue adjustments along with proposed bond issuances provide adequate cash balances to meet the current reserve policy cash requirements. Projected available cash balances and reserve cash balances are shown in Figure 8. Available cash balances will be used to cash fund capital projects and provide additional policy options and the ability to meet unforeseen risks.

Figure 8: Gen. Fund – District Ending Balances



As shown in Figure 9, timing anticipated debt issuances driven by the construction of various capital projects and historically lower interest rates presents a unique opportunity for the District to minimize financing costs over the life of the issuance.

The proposed 2025 financial plan proposes an average 10% rate adjustment to make critical investments for future operational continuity while providing for inter-generational equity amongst today’s customers and the rate payers of tomorrow. The District also maintains debt coverage ratios above the Board approved 1.75x for all ten years.

Figure 9: Gen. Fund – District Revenue Adjustments

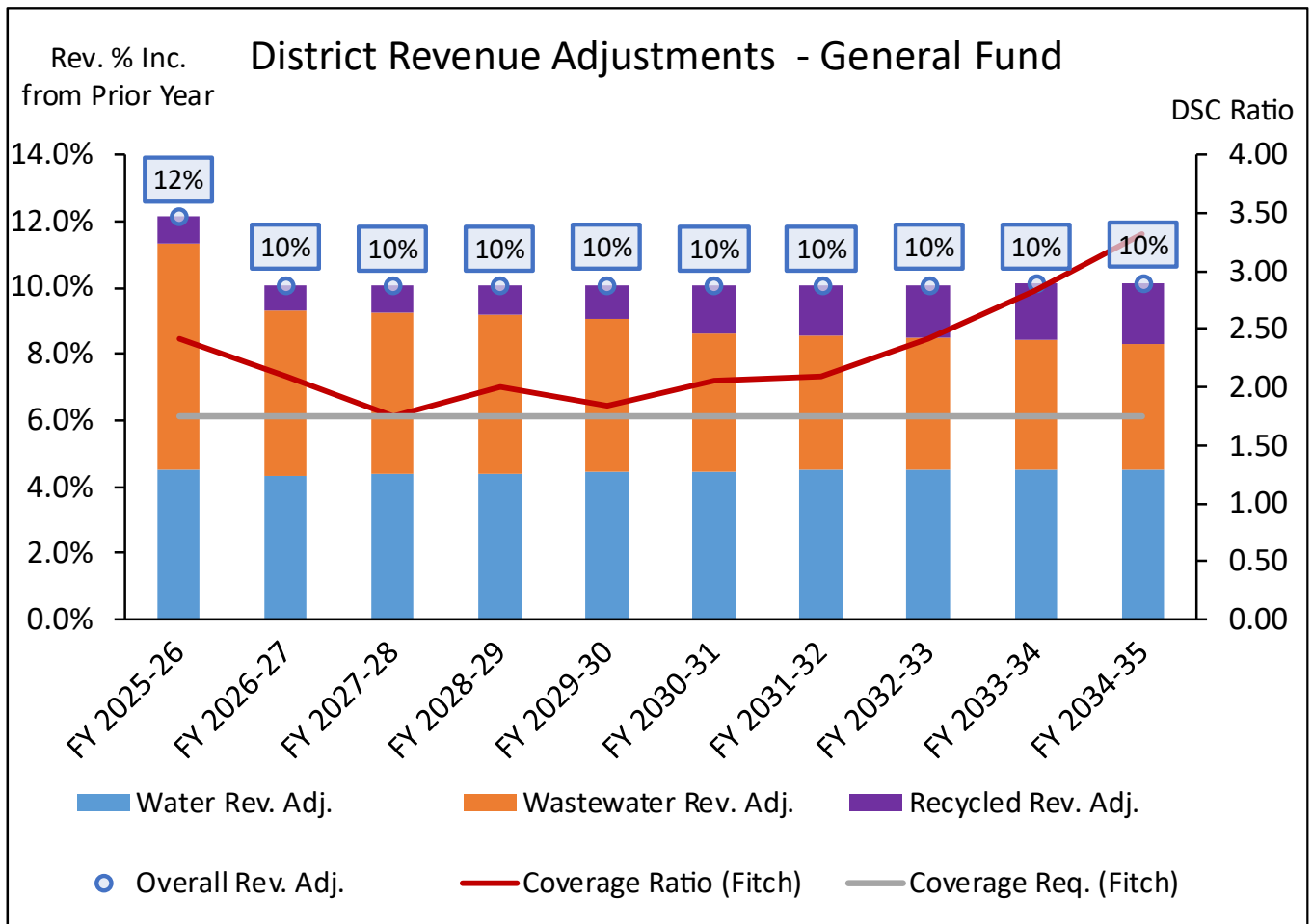


Table 13 below, the Pro-Forma, shows the overall revenues, operating expenses, debt service, capital infrastructure expenses, and fund balances for the General Fund. Ending cash balances are broken down by funds allocated to meet specific reserve requirements per the District’s reserve policy and available cash for capital projects.

Table 13: Proforma

MNWD Overall General Fund Pro-Forma										
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
General Fund Revenues - District										
Potable Water Sales	\$ 37,871,128	\$ 40,490,403	\$ 44,122,219	\$ 48,058,918	\$ 52,322,814	\$ 56,938,835	\$ 61,946,054	\$ 67,393,597	\$ 73,320,187	\$ 79,767,947
Sewer Sales	\$ 34,892,924	\$ 39,734,063	\$ 44,374,480	\$ 49,556,709	\$ 55,343,999	\$ 61,561,225	\$ 68,133,474	\$ 75,407,183	\$ 83,457,199	\$ 92,366,355
Recycled Water Sales	\$ 6,510,322	\$ 7,125,946	\$ 7,805,162	\$ 8,581,122	\$ 9,489,041	\$ 10,711,180	\$ 12,344,635	\$ 14,227,192	\$ 16,396,839	\$ 18,897,357
Other Operating Revenue	\$ 337,393	\$ 495,013	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950	\$ 558,950
Property Tax	\$ 37,100,874	\$ 38,396,908	\$ 39,815,023	\$ 41,208,548	\$ 42,650,848	\$ 44,143,627	\$ 45,688,654	\$ 47,287,757	\$ 48,942,829	\$ 50,655,828
Investment Income	\$ 4,398,261	\$ 3,664,050	\$ 3,663,265	\$ 4,115,749	\$ 4,315,197	\$ 3,580,485	\$ 3,712,787	\$ 3,342,407	\$ 3,429,090	\$ 3,844,374
Property Lease	\$ 2,333,568	\$ 2,420,691	\$ 2,511,159	\$ 2,605,100	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650	\$ 2,702,650
Misc. Non-Operating Revenue	\$ 16,256,095	\$ 4,993,797	\$ 5,171,372	\$ 5,271,646	\$ 5,359,776	\$ 5,451,909	\$ 5,511,316	\$ 5,606,725	\$ 5,706,392	\$ 5,809,368
Connection Fees	\$ 24,012	\$ 956,487	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857	\$ 506,857
Total Revenues	\$ 139,724,576	\$ 138,277,357	\$ 148,528,486	\$ 160,463,600	\$ 173,250,132	\$ 186,155,719	\$ 201,105,377	\$ 217,033,318	\$ 235,020,992	\$ 255,109,685
District General Fund Revenue Requirements										
Operating Expenses										
Potable O&M	\$ 62,664,764	\$ 62,666,786	\$ 68,545,810	\$ 73,119,764	\$ 76,401,177	\$ 80,072,417	\$ 83,542,948	\$ 87,262,823	\$ 90,884,225	\$ 94,780,948
Recycled O&M	\$ 8,313,604	\$ 8,703,702	\$ 9,210,765	\$ 9,759,155	\$ 10,186,455	\$ 10,891,870	\$ 11,377,495	\$ 11,900,634	\$ 12,409,640	\$ 12,973,541
Wastewater O&M	\$ 33,819,288	\$ 35,163,940	\$ 37,420,443	\$ 39,500,183	\$ 41,082,239	\$ 44,158,263	\$ 45,793,446	\$ 47,714,227	\$ 49,590,220	\$ 51,658,134
Subtotal O&M Expense	\$ 104,797,655	\$ 106,534,428	\$ 115,177,018	\$ 122,379,103	\$ 127,669,871	\$ 135,122,550	\$ 140,713,889	\$ 146,877,685	\$ 152,884,085	\$ 159,412,623
Debt Service										
Existing	\$ 14,461,634	\$ 15,122,606	\$ 15,115,606	\$ 15,112,606	\$ 15,097,981	\$ 15,095,856	\$ 15,090,231	\$ 15,105,206	\$ 15,101,297	\$ 15,089,438
Proposed	\$ -	\$ -	\$ 3,969,107	\$ 3,969,107	\$ 9,732,468	\$ 9,732,468	\$ 13,810,318	\$ 13,810,318	\$ 13,810,318	\$ 13,810,318
Subtotal Debt Service Expense	\$ 14,461,634	\$ 15,122,606	\$ 19,084,713	\$ 19,081,713	\$ 24,830,450	\$ 24,828,325	\$ 28,900,549	\$ 28,915,524	\$ 28,911,615	\$ 28,899,756
Total Revenue Requirement (Non-CIP)	\$ 119,259,289	\$ 121,657,034	\$ 134,261,732	\$ 141,460,816	\$ 152,500,321	\$ 159,950,874	\$ 169,614,438	\$ 175,793,209	\$ 181,795,700	\$ 188,312,379
Net Change in General Fund before CIP	\$ 20,465,287	\$ 16,620,323	\$ 14,266,754	\$ 19,002,783	\$ 20,749,811	\$ 26,204,844	\$ 31,490,939	\$ 41,240,109	\$ 53,225,291	\$ 66,797,307
Capital and Ending Balances										
Capital Expenses (CIP + Outlays)	\$ 92,911,882	\$ 58,256,577	\$ 46,221,059	\$ 73,245,890	\$ 66,814,907	\$ 72,317,446	\$ 52,435,957	\$ 41,830,022	\$ 47,595,400	\$ 48,281,369
Bond Proceeds	\$ -	\$ 72,750,000	\$ -	\$ 105,750,000	\$ -	\$ 74,750,000	\$ -	\$ -	\$ -	\$ -
Beginning Balance	\$ 157,616,487	\$ 85,169,891	\$ 116,283,637	\$ 84,329,332	\$ 135,836,225	\$ 89,771,129	\$ 118,408,528	\$ 97,463,509	\$ 96,873,596	\$ 102,503,488
Ending Balance (Includes Interest)	\$ 85,169,891	\$ 116,283,637	\$ 84,329,332	\$ 135,836,225	\$ 89,771,129	\$ 118,408,528	\$ 97,463,509	\$ 96,873,596	\$ 102,503,488	\$ 121,019,426
Reserve Balance	\$ 77,364,509	\$ 81,382,061	\$ 84,251,766	\$ 86,749,050	\$ 88,792,892	\$ 91,402,451	\$ 93,572,799	\$ 95,913,300	\$ 98,242,436	\$ 100,731,070
Future Capital Improvement Projects	\$ 7,805,382	\$ 34,901,576	\$ 77,566	\$ 49,087,175	\$ 978,238	\$ 27,006,076	\$ 3,890,710	\$ 960,297	\$ 4,261,052	\$ 20,288,356
Debt Coverage Ratio	2.42	2.10	1.75	2.00	1.84	2.06	2.09	2.43	2.84	3.31

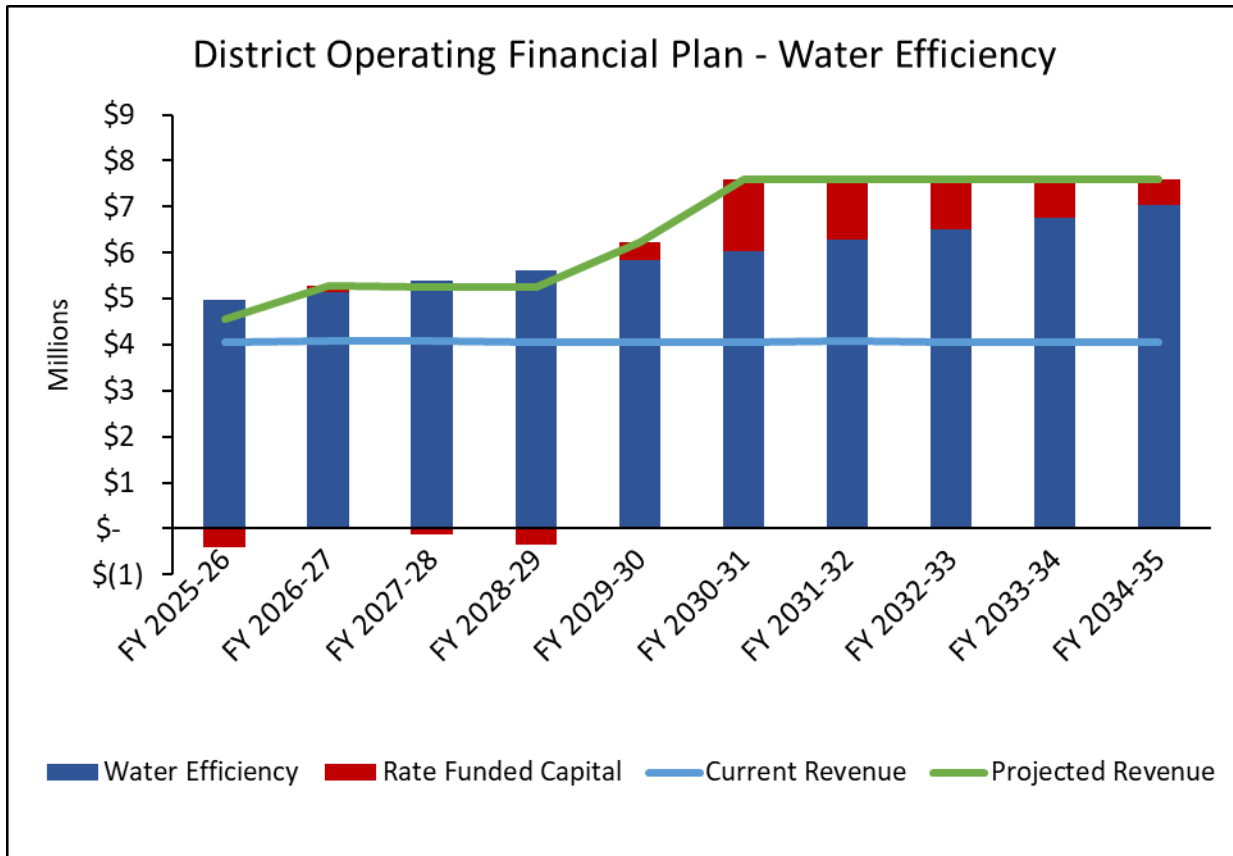
Water Efficiency (WE) Fund Summary

Since its implementation in 2011, the District's water budget-based rate structure has served as a critical component of its demand management efforts and ultimately its expanded supply reliability. The underlying rationale of any water budget-based rate structure is that customers who use water inefficiently (i.e., in excess of their calculated water budgets) place greater demands on the District's water and recycled water systems and supplies than those customers who use water efficiently (i.e., within their calculated water budgets). Due to the higher demand, and consequently higher cost, that inefficient usage places on the District's water and recycled water systems, water usage in excess of a customer's allocated budget is subject to higher rates. The District maintains a strong cost nexus between increasing marginal supply costs and increasing rates by investing the incremental rate difference in alternative water supply programs, rebates, and demand management measures to increase efficient uses of water and offset supply reliability impacts from inefficient water use.

By establishing the Water Efficiency Fund (Fund 6), the District can clearly delineate the costs associated with providing continued service to its customers from those costs that could have otherwise been avoided had all customers stayed within budget. The resulting tiered rate structure creates a strong price signal to customers who may have inadvertently exceeded their budgets, and any revenues collected are immediately reinvested in programs and rebates to help those same customers get back into budget. Throughout historic droughts, the District has maintained that "it's not about using less water, it's about wasting less water", and customers have responded not only by becoming more efficient, but also by an unprecedented level of rebate program participation. The test year budget for water efficiency rebates has been reduced to reflect an adjustment in scope for the NatureScape turf removal program. This program has been transformed into the Residential NatureScape Garden Design Program to better align with the evolving needs of our customers. This strategic change was prompted by the District's remarkable achievement of surpassing the goals set by the previous turf removal program, which saw the removal of 7 million square feet of turf and the installation of 130 California native landscapes. It is important to emphasize that this budget reduction does not signify a decrease in our commitment to water use efficiency. Rather, it signifies a strategic realignment of the program to cater to customers who have not yet participated, ensuring that our efforts remain aligned with our overarching objectives. The financial plan for Fund 6 has been adjusted accordingly.

Figure 10 below is the Water Efficiency operating financial plan that breaks down the major cost components and compares the proposed revenue stream to the status quo.

Figure 10: WE – District Operating Plan

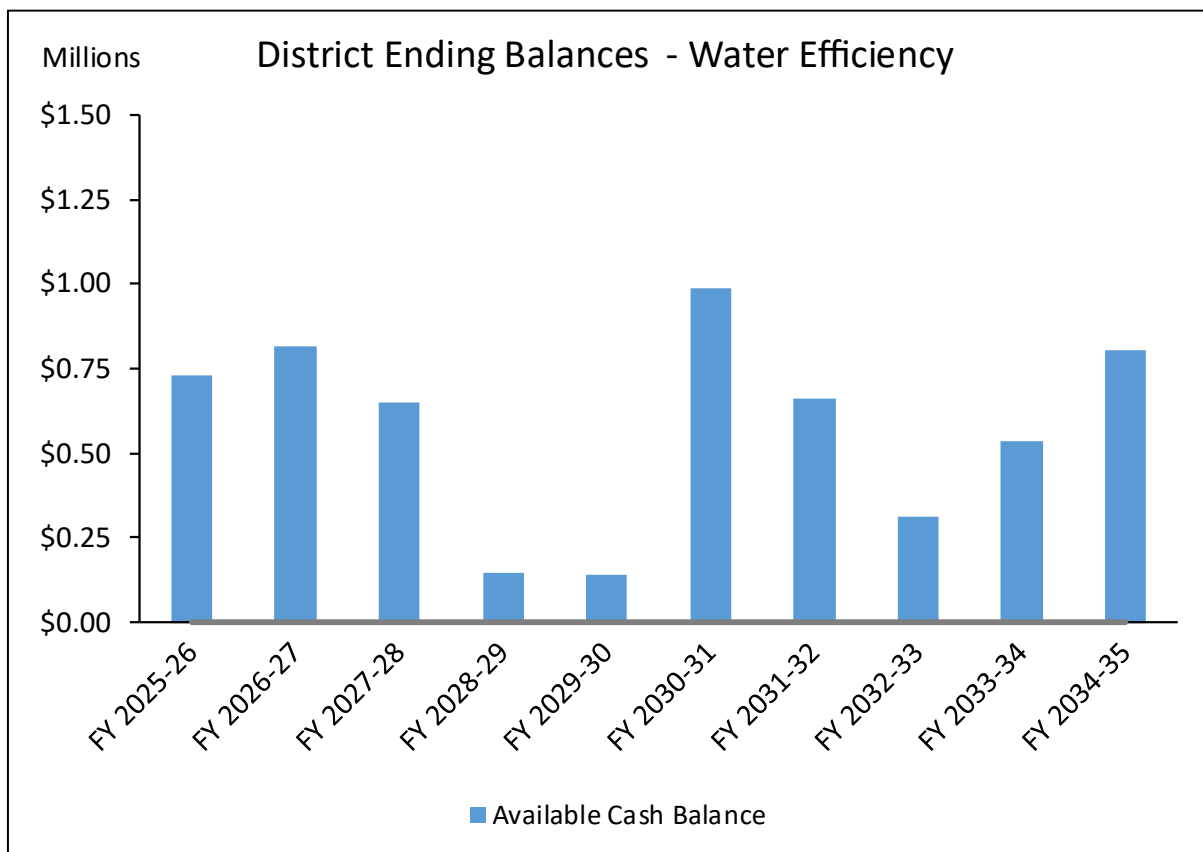


In addition to the costs associated with the ongoing management of the District’s water efficiency programs, a portion of the capital costs associated with future water supply reliability enhancement projects have been allocated to the Water Efficiency Fund. There is a natural nexus between efficient water use and long-term supply reliability, as any reductions in inefficient water use decrease the size, and ultimately cost, of future supply reliability projects. Conversely, continued inefficient water use would otherwise necessitate more costly reliability projects: the costs of which should be recovered from inefficient usage. The District has identified \$7.4 million in total capital projects costs in the next ten years, including:

- Low Resolution Meter Replacement
- Recycled Water Retrofit Program
- Recycled Water Main Pipeline Replacements:
 - Cabot Road to Galvin pump station
 - Crown Valley Reservoir to Cabot Rd.

The District’s continued investment in efficiency efforts and rebate programs and its future supply reliability investments will draw down current Water Efficiency fund balances within a year without an adjustment in rate revenue or a new bond issuance. Based on the revenue requirements and increased spenddown rate of Water efficiency fund balances, District staff is proposing a one-time adjustment to its Water Efficiency surcharges as part of the recommended four-year rate structure, specifically a total annual increase of \$0.93 per average billing unit in additional revenue requirements. This strategy is sufficient to avoid a negative fund balance in any one year of the financial planning period but will require a similar adjustment in the first year of the next rate cycle (FY 2029-30) and will draw the fund down over the 10-year planning horizon. Staff consider the proposed funding strategy optimal as FY 2028-29 would coincide with the District’s 2029 Long-Range Financial Plan at which point Fund 6 revenue requirements would be re-evaluated. The proposed plan addresses program changes that have occurred since the development of the 2021 Long-Range Financial Plan.

Figure 11: WE – District Ending Balances



MANAGEMENT OF FINANCIAL RISK

In evaluating the robustness of the District's proposed financial plan, the Model may be used to test the sensitivity of the key assumptions. Two assumptions were tested:

- Scenario 1:
Assume MWDSC rate increases beyond what is planned in the 2025 Long Range Financial Plan and understand the sensitivity for every additional 5% increase
- Scenario 2:
Assume an additional \$150M in CIP expenditure beginning in FY 2030-31 through FY 2034-35

Scenario 1: Increased Cost of Water

Due to the District's reliance on imported water to meet potable water demands, increases in the MWDSC rates necessitate a proportionate increase in the District's rate revenue requirements. Historically, the District has included pass-through provisions for wholesale cost increases in its rate notices; however, these provisions have only recently been utilized in response to abrupt increases in MWDSC rates which would have otherwise had a significant impact on the District's finances. It should be noted that the most recent rate forecast increases from MWDSC were largely attributable to unanticipated operational costs increases and below-forecasted levels of water sales. The increased rate forecasts also did not include potential construction costs for multiple large-scale reliability projects, including PURE Water and the Delta Conveyance Project, either of which would further increase MWDSC rate forecasts, absent changes to its rate structure. Given the large share of revenue requirements that imported water costs account for, District staff performed a sensitivity analysis to illustrate the impacts of additional MWDSC rate increases on the MNWD financial plan. Table 14 assumes MWDSC's rates increase an additional 5% above forecast each year for Treated and Untreated imported water

Table 14: Sensitivity of 5% Increase on Treated and Untreated Water

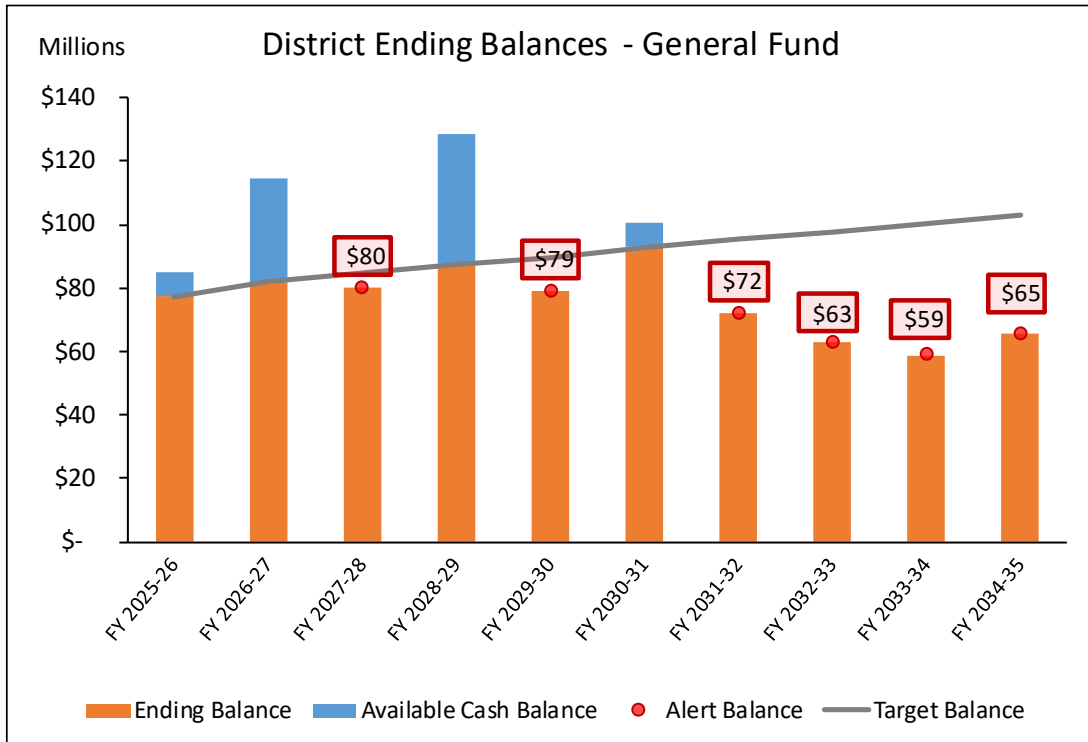
	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35
Treated Water Expense (in Millions)										
Current	\$ 24.2	\$ 25.2	\$ 27.9	\$ 29.6	\$ 30.8	\$ 32.0	\$ 33.2	\$ 34.5	\$ 35.8	\$ 37.1
Assumed	\$ 24.8	\$ 26.5	\$ 29.4	\$ 31.4	\$ 32.8	\$ 34.3	\$ 35.8	\$ 37.4	\$ 39.1	\$ 41.5
Incremental Cost	\$ 0.6	\$ 1.3	\$ 1.5	\$ 1.8	\$ 2.0	\$ 2.3	\$ 2.6	\$ 2.9	\$ 3.2	\$ 4.4
Untreated Water Expense (in Millions)										
Current	\$ 14.6	\$ 15.8	\$ 17.6	\$ 18.8	\$ 19.7	\$ 20.5	\$ 21.3	\$ 22.1	\$ 22.9	\$ 23.7
Assumed	\$ 15.0	\$ 16.4	\$ 18.4	\$ 19.8	\$ 20.8	\$ 21.8	\$ 22.8	\$ 23.7	\$ 24.8	\$ 26.2
Incremental Cost	\$ 0.3	\$ 0.6	\$ 0.8	\$ 0.9	\$ 1.1	\$ 1.3	\$ 1.4	\$ 1.6	\$ 1.9	\$ 2.5
Total Imported Water Incremental Expense (in Millions)	\$ 0.9	\$ 1.9	\$ 2.3	\$ 2.7	\$ 3.1	\$ 3.5	\$ 4.0	\$ 4.5	\$ 5.1	\$ 6.9

Table 15: 10-Year Imported Water Cost Increases per 5% MWDSC Rate Increase

Additional Annual Increase in MWDSC Rates	Increase in 10-Year Water Purchase Costs (In Millions)
5%	\$ 34.9
10%	\$ 69.9
15%	\$ 104.8
20%	\$ 139.8
25%	\$ 174.7

Table 15 shows the incremental increase in 10-Year imported water purchase costs for every 5% increase in MWDSC rates above published forecasts. Considering only an additional 5% increase above forecasted MWDSC rates, the District’s costs for imported water increases \$34.9 million over the planning horizon. To account for this increase in supply costs, the District must effectively offset the extra expense with an increase in revenues. One recommendation to make the District’s LRFPP more robust to fluctuations in supply costs is for the Board of Directors to re-adopt the pass-through provision currently in place to account for any MWDSC rate increases or newly imposed charges in excess of those currently forecasted. AB 3030 allows water and wastewater agencies to adjust rates based on changes to wholesale or inflation in future years outside of the Prop. 218 process, subject to 30 days of notice to all customers.

Figure 12: General Fund – District Ending Balances (Increased Supply Costs)



This shortfall could potentially be offset using the District’s rate stabilization reserve, though doing so would reduce the District’s ability to respond to other unexpected crises and would trigger replenishment provisions required by the District’s bond covenants.

Scenario 2: Increased CIP Spending

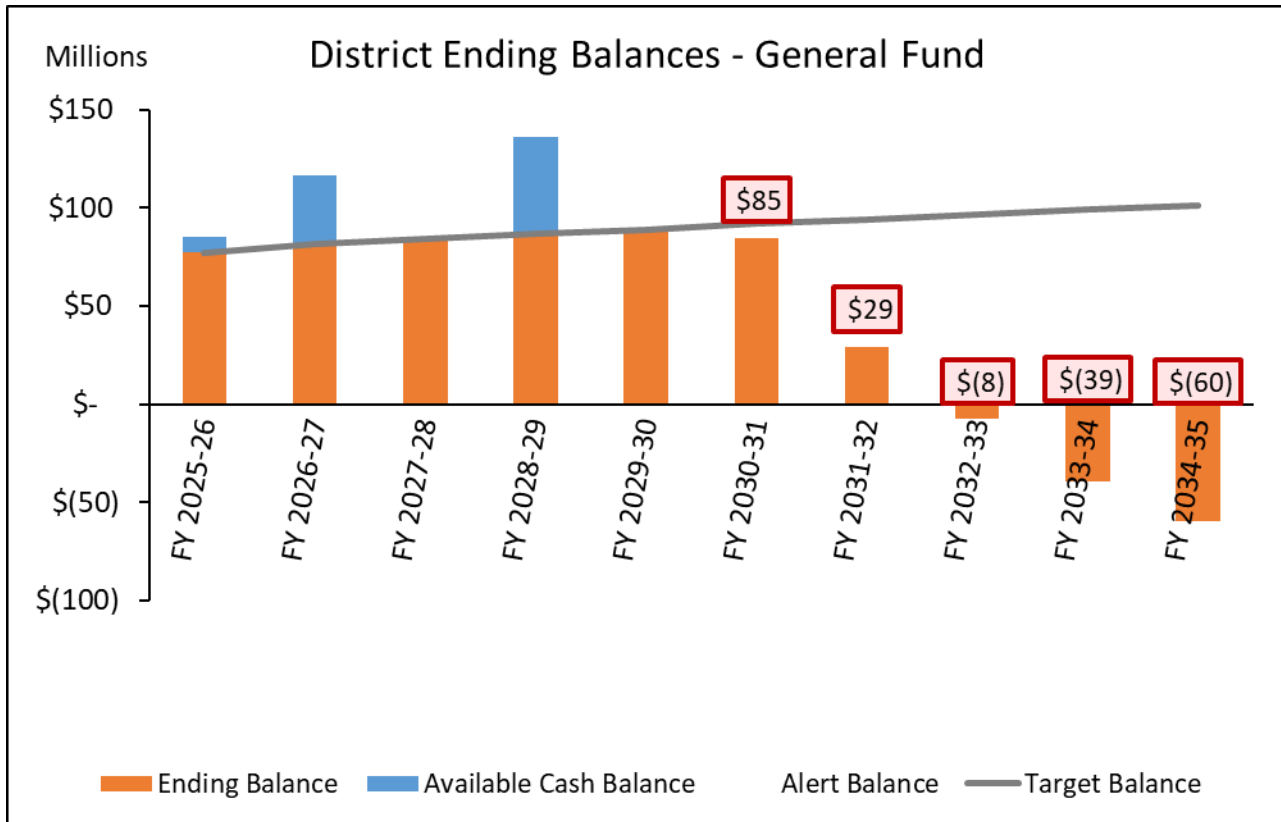
Repair and replacement cost contained in the CIP represents \$510 million out of the \$594 million adopted 10-year CIP budget. The District has been proactive in the maintenance of its infrastructure and developed its 10-year CIP budget to continue that trend; however, given potential changes to regulatory requirements or increased needs to address replacement and rehabilitation programs, there may be additional infrastructure costs that were not previously identified. To better understand the District’s ability to absorb potential infrastructure costs, a scenario was evaluated in which an additional \$150 million of project costs were added to the 10-year CIP budget.

The status quo scenario retains the following adjustments as identified in the General Fund Financial Plan but assumes that no other corrective actions are taken:

- Proposed 12% annual revenue adjustments in FY 2025-26 and 10% for each subsequent year (2027-2035)
- Bond issuances of \$73 million in FY 2026-27, \$106 million in FY 2028-29, and \$75 million in FY 2030-31

The additional CIP and impacts to ending fund balances can be seen in Figure 13 and 14, respectively.

Figure 13: Additional CIP Impacts to Ending Balances



Without corrective action, the District’s General Fund ending balances would drop below reserve targets by FY 2030-31. The District could address this deficit by issuing additional debt. By increasing the proposed issuance in FY 2030-31 to \$145 million and issuing an additional \$81 million in debt in FY 2032-33, ending balances will stay above identified reserve targets through FY 2033-34 as seen in Figure 15. This response complies with the District’s policy of a 1.75 debt service coverage ratio, which is maintained above the 1.25 debt service coverage ratio that is required by existing bond covenants.

Figure 14: Additional General Fund CIP

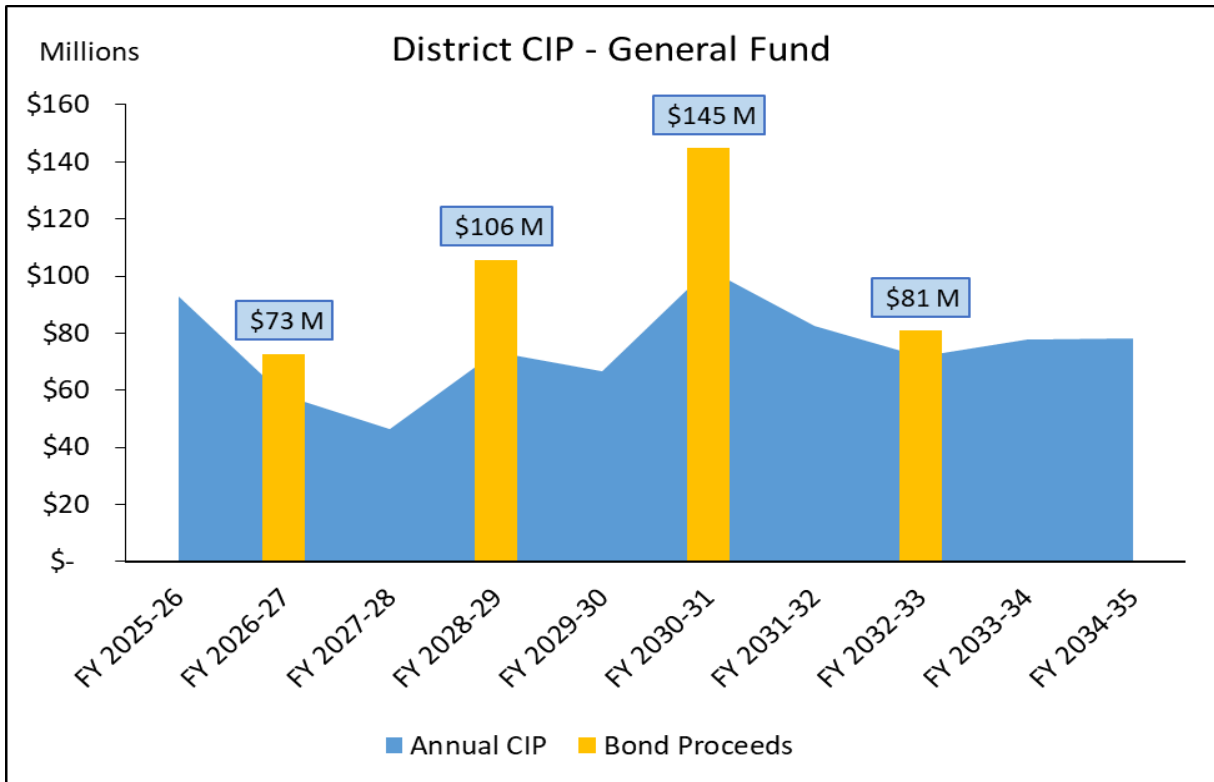
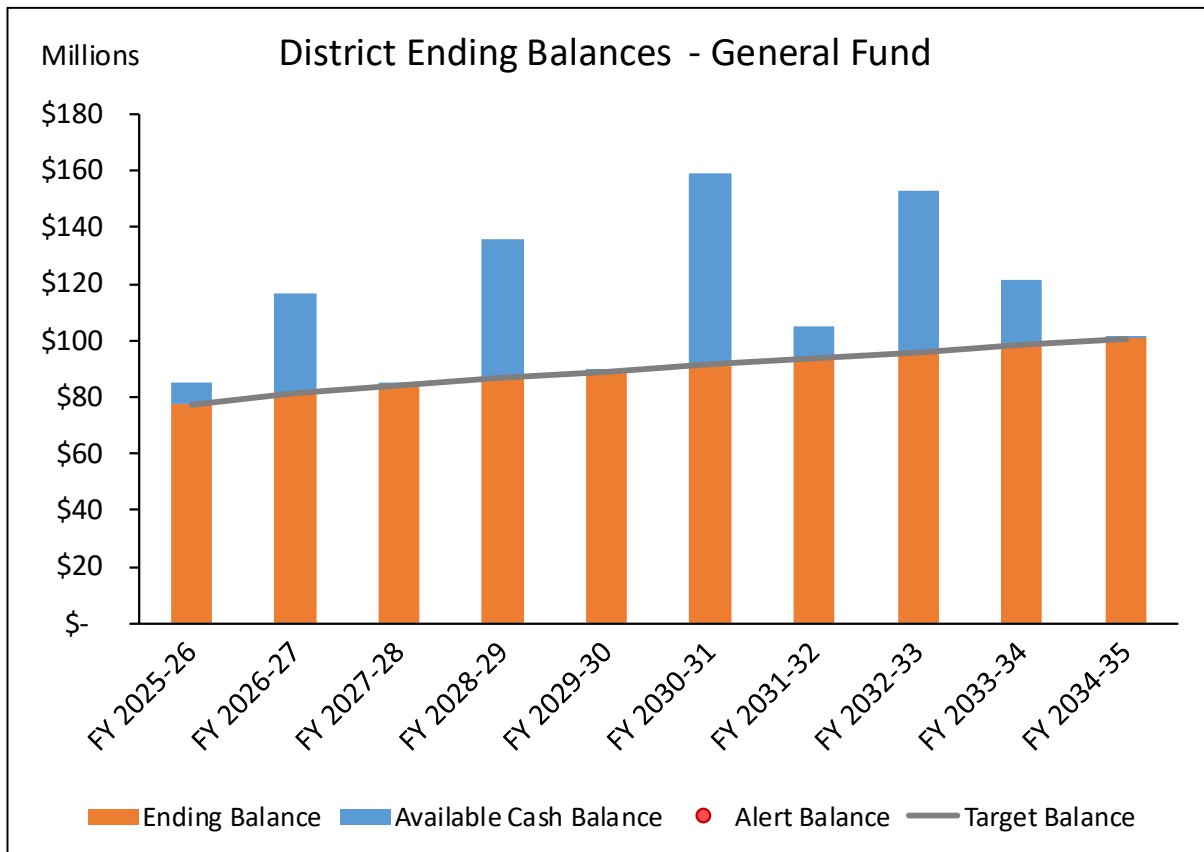


Figure 15: Additional Debt Issuance Impact on Ending Balance



FINANCIAL MANAGEMENT TOOLS

The District has several tools that it may utilize when considering revenue requirements and the need to periodically adjust rate revenues. Each of the components outlined below are reviewed on a periodic basis and updated, if necessary, to reflect changes to District operations, the economy, or the environment.

Financial Policies

The District proactively manages its financial policies as part of its ongoing fiduciary responsibility. Any revision to current financial policies will change the District's cash and investments portfolios which will result in adjustments to future revenue requirements.

Operational Efficiencies

The District is continually looking for ways to create operational efficiencies while maintaining a high level of service. An effort is underway to integrate the District's numerous data streams into a single unified framework to drive efficient management of resources. The Building a Leading Utility Ecosystem (BLUE) initiative will help to inform water loss control programs, energy management, condition-based maintenance, and asset management tools intended to maximize the value of District resources. An example use case is pairing water system supply data from SCADA with water delivery data from AMI to create targeted areas to prioritize our proactive water loss detection team's efforts.

Energy Management

Recognizing that utility rates in Southern California have risen substantially in recent years, the District actively seeks to explore opportunities for enhancing cost management. Multiple projects in the FY 25-26 CIP budget involve the replacement of mechanical equipment where the new equipment, such as pumps and generators, will have a higher efficiency factor than existing equipment and are expected to result in reduced electricity consumption associated with those assets. The test-year FY 25-26 budget included both the installation costs and the energy savings from the Micro-Hydro Turbine at Bridlewood FCF and Solar Panels at Headquarters Projects which will generate electricity to offset the impact of future electricity rate increases on total utilities' costs.

Cooperative Agreements

The District continually looks for ways to save rate payers money by mitigating the effects of future cost increases. This can be achieved in part by seeking out cooperative agreement opportunities for both capital and operational needs. The District coordinates with neighboring agencies on capital projects that may bring additional regional water reliability benefits and cost sharing. The District also looks to find operational cost savings by participating in shared service opportunities with other local agencies. Additionally, the District regularly engages with regional, statewide, and international partners to share information and improve operational best management practices to increase operational efficiencies and effective project implementation.

Outside Funding Sources

The District is continually monitoring markets and the industry to identify any applicable outside funding sources that may be relevant to District capital improvements or operations, such as grant funding opportunities or low-rate debt. For example, the District recently received over \$11 million in grants awarded by FEMA through its Hazard Mitigation program to fund the replacement of the Regional Lift Station pipelines and Building Resilient Infrastructure and Communities program to support the OASIS Water Resources Center planning studies. The District is also frequently monitoring economic markets to realize savings on current debt obligations.

Rates And Fees

The District can use its rate structure to determine if sufficient revenues are generated from each system and if cost recovery from variable or fixed revenue components remains aligned with variable or fixed costs. In addition to system rate revenue, staff anticipate conducting a study to update the District's capacity and demand offset fees. While the District is substantially built-out, the District has noted an increased interest from developers in converting commercial properties to higher-density residential housing. An updated capacity and demand offset fee study will ensure the District's customers are recovering the appropriate fees that are reflective of the use and potential demand placed on the existing system infrastructure. The District will also periodically review its miscellaneous fees and charges to determine applicability and adjustments needed to recover the cost of operation applicable to the fees.

CONCLUSIONS & RECOMMENDATIONS

As the District continues its focus on investing in critical system infrastructure to ensure reliable and effective service to its customers, the LRFP, in conjunction with other long-term planning efforts, identifies future resource needs and provides a roadmap for actions that can be taken to meet those needs. Cost increases to purchase imported water from MWDSC via MWDOC and the District’s investment in crucial infrastructure to provide reliable water, wastewater, and fire protection services are driving the increasing revenue requirements in this updated LRFP. Currently, the District is evaluating the rate structures for all three enterprise systems. The updated Model provides the ability to evaluate the outputs of these operational drivers in addition to changes in financial determinants such as usage. By integrating the multitude of long-term planning efforts with current financial information, the Model serves as a tool for the District to create adaptive management strategies as major assumptions fluctuate.

To maintain District financial stability based on expected future expenditures and revenues, the following overall adjustments to General Fund rate revenue are suggested in Table 16:

Table 16: Gen. Fund Revenue Adjustments

General Fund Revenue Adjustments		
Implementation Day & Month	Implementation Year	Revenue Adjustment
January 1	FY 2025-26	12%
January 1	FY 2026-27	10%
January 1	FY 2027-28	10%
January 1	FY 2028-29	10%
January 1	FY 2029-30 – FY 2034-35	10%*

*Projected adjustment outside of the 2025 Cost of Service Rate Study period (FY2025-26 to FY2028-29)

The revenue adjustments in Table 16 represent needed additional revenues to collect through rates; however, these adjustments could be offset by growth in non-rate revenues beyond baseline assumptions. The District will diligently monitor the major variables that impact recommendations such as Capital Improvement Plan (budgeting and spending), credit markets, water usage (distribution and conservation), and MWDSC and MWDOC wholesale rate adjustments.

The proposed revenue adjustments maintain the District’s debt coverage ratio above the Board-adopted 1.75x coverage ratio target. In addition, the revenue generated meets funding requirements of the Ten-Year Capital Financing Plan with the caveat that the Financial Plan assumes a \$73 million debt issuance in FY 2026-27, a \$106 million issuance in FY 2028-29, and a \$75 million issuance in FY 2030-31. Lastly, the Financial Plan fully fund reserves at target levels and maintains available cash balances to hedge risk exposure for the District.