MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

- **Board of Directors**

June 12, 2001 Board Meeting

9-2

Subject

Approve fiscal year 2001-02 Annual Budget

Summary

	1999-00 Actual	2000-01 Budget Estimates	2000-01 Projected Actual	2001-02 Proposed Budget	Change 2000-01 Budget to 2001-02 Proposed
Operations & Maintenance	$200.5 Million	$200.4 Million	$192.1 Million	$207.1 Million	$6.7 Million
CRA/SWP Power	$75.7 Million	$94.6 Million	$174.2 Million	$220.4 Million	$125.8 Million
Capital Investment Plan	$364.3 Million	$249.6 Million	$236.8 Million	$288.0 Million	$38.4 Million
Positions	2,073	2,110	1,958	2,068	(42)
Consultants (O&M and Capital)	$76.6 Million	$47.3 Million	$37.9 Million	$42.1 Million	($5.2 Million)
Water Sales (Million Acre-Feet)	2.076 MAF	1.913 MAF	2.110 MAF	1.968 MAF	.055 MAF
Water Sales Revenue	$776.4 Million	$731.6 Million	$787.2 Million	$752.7 Million	$21.1 Million

Description

I am pleased to submit for your review and consideration the proposed annual budget financial summary for fiscal year 2001-02 (**Attachment 1**). The budget reflects the Group Managers' and my work plans to support and implement Board policies. This budget emphasizes Metropolitan Water District's (Metropolitan) ability to provide value to our customers and meet the changes that are occurring in the water industry.

Fiscal Year 2000-01 was a transitional year. The Board of Directors successfully restructured itself from 51 to 37 members; two of our member agencies merged so there are now 26 members rather than 27; and with the support of all bargaining units, a sweeping staff reorganization was implemented. The transition was also evident in the progress we have made to provide choices to our members through the strategic planning process. The conceptual rate structure framework, which supports the regional provider objectives and guidelines, was adopted by the Board; and it is anticipated that a review of the Integrated Resource Plan will be completed by year-end. Numerous water transfer and banking proposals on both the State Water Project (SWP) and the Colorado River Aqueduct have been evaluated and presented to the Board for consideration. Additionally, 18 proposals from member agencies for groundwater storage programs have been evaluated. The groundwater programs selected by the Board will be funded with $45 million of Proposition 13 Water Bond funds approved by the electorate in March 2000.

We also advanced a Board-approved strategy to implement the California Colorado River Water Use Plan, including the Key Terms of Quantification Settlement and favorable surplus and shortage river operating criteria. As a result of the Interim Surplus guidelines and other factors, the Secretary of Interior provided for a full

Colorado River Aqueduct for calendar year 2001. Additionally, an increase of $100 million in federal funding to control the salinity of the Colorado River was approved by the President.

On the State Water Project/CALFED, progress has been made to assure supply reliability through the Environmental Water Account and CALFED Ecosystem Restoration Plan. Settlement principles were adopted with Sacramento Valley upstream interests, and a stay of the State Water Resources Control Board's Phase 8 Water Rights Hearings is pending. The proposed settlement would focus on projects and actions that protect Delta water standards and supply benefits to upstream and export water users. Additionally, Metropolitan has begun implementing water quality exchanges that will improve source water quality.

Major accomplishments were also achieved in Business Management/Water Services. First and foremost, Metropolitan's storage, conveyance, treatment and distribution facilities were operated and maintained to meet all customer water demands while maintaining 100 percent compliance with primary drinking water quality regulations and achieving our goal of a salinity concentration of 500 milligrams per liter or less. We transitioned into full operations of the Diamond Valley Lake. Additionally, four pump-motor units at the Wadsworth Pumping Plant at Diamond Valley Lake have been converted to turbine-generators to take advantage of power production capabilities.

We successfully negotiated new labor contracts with ASFCME Local 1902 and the Supervisors Association and concluded renegotiations with the Management and Professional Association (MAPA). With the completion of contract negotiations, management has the flexibility to roll out the remaining major initiatives of the reorganization. Two Career Days were conducted at all sites to provide information on the application and interviewing process and introduce a change management philosophy. It is anticipated that all Unit Manager positions will be filled by the end of the fiscal year. Concurrently, a cross-functional work team has been established to develop the multi-skilled work program which is a cornerstone of our workforce philosophy.

The basic commodity rates for water will not increase for the sixth consecutive year. Debt management strategies that reduce Metropolitan's debt service costs have been implemented. A cash defeasance was conducted in August that reduces debt service costs by about $20 million per year for the next five years. A revenue and general obligation bond refunding was completed in March which resulted in total net present value savings of $16.9 million, an average of $1.2 million per year. It is anticipated that by year-end, another refunding bond issue will be completed that will produce net present value savings of $13 million - $14 million. Additionally, it is expected that Metropolitan's investment portfolio will be pooled and then segmented into short- and long-term portfolios before the end of the year to enhance investment return.

In 2001-02, we will continue to meet customer needs and conduct Metropolitan's business consistent with Board policies. Key objectives are:

1. **Develop a diversified water resource portfolio to meet water reliability and water quality goals**

   Establish a cross-functional team to negotiate contracts for dry-year supplies and water quality exchanges on the California Aqueduct. Begin implementing water transfer programs with San Bernardino Valley Municipal Water District and Kern Delta Water District. The team will also evaluate and develop water transfer opportunities on the Colorado River Aqueduct.

   Begin funding construction of conjunctive use groundwater storage programs that will be funded from $45 million of Proposition 13 water bond funds, identify additional projects needed to meet the storage needs identified in the Integrated Resource Plan, and pursue additional funding sources.

   Continue negotiations and begin implementing off-aqueduct storage and cooperative water supply programs on the Colorado River. Programs under development include storing water in the Hayfield groundwater basin with potential additional storage from the proposed Cadiz, Chuckwalla, and Coachella programs. There is also the potential for a cooperative water supply program with Palo Verde Irrigation District and an interstate Colorado River off-stream banking program in Arizona.

   Update Metropolitan's resource strategies for the next 25 and 50 years and review incentives for local resource development that support the Strategic Plan.

2. Ensure financial stability and fairness

Complete rate structure discussions.

Update Metropolitan's Long-Range Finance Plan, with emphasis on asset-liability management and a renewed focus on the balance sheet. The new plan will include measurable financial goals established by the Board for a five-year planning period.

Complete an asset replacement reserve study to determine the appropriate level of reserves necessary to maintain Metropolitan's conveyance, distribution and treatment facilities.

Work with other State Water Project Contractors and the Department of Water Resources to ensure that power resources of the State Water Project are effectively managed, that power purchases are cost-effective, and that Federal Energy Regulatory Commission relicensing does not adversely affect Metropolitan's State Water Project investment or expectations.

Continue to execute forward contracts for power to reduce the spot market costs of pumping on the Colorado River Aqueduct.

Begin generating power at the Wadsworth Pumping Plant at Diamond Valley Lake.

3. Meet member agency operational demands with 100 percent compliance with drinking water quality standards

Begin implementing the multi-skilled work program to more efficiently maintain Metropolitan's conveyance, treatment, and distribution system. Tasks include developing classifications, a compensation structure, skills inventory, and establishing an apprentice program. Thirty apprentice positions are included in the 2001-02 budget, along with one position to administer the program.

Continue with the implementation of the Competitiveness Action Team recommendations to streamline business processes.

Proceed with design and construction of critical infrastructure reliability rehabilitation projects.

Maintain emergency readiness.

Update the System Overview Study to identify facilities and distribution system improvements to meet the future water needs of our customers.

Proceed with projects included in the Capital Investment Plan within budget and on schedule.

4. Continue to provide consistent, clear and proactive outreach with member agencies, the public, and legislative bodies

Create a consistent level of customer service bolstered by two-way communication and collaboration in creating education events, materials and outreach with member and retail agencies.

Provide clear and direct communication of Metropolitan's operations, policies and programs, consistent with our regional water management priorities of water quality, reliability and fairness through broad-based media coverage.

Work with state and federal legislators to protect the operational interests of Metropolitan and its member agencies.

5. Business Outreach and Ethics

Implement a revised Business Outreach policy specifically with the intent to develop a diversified contractor base.

Establish an Ethics Office and program to ensure that the highest standards of ethics, personal honesty and fairness are employed in conducting Metropolitan's business.

Budget Estimates

The budget is presented using the accrual basis Statement of Operations as approved by the Board in April 2000. This is the same format used last fiscal year.

Statement of Operations

Operating revenues for fiscal year 2001-02 are estimated to be $856.9 million. This estimate is based on water sales of 1.968 million acre-feet (MAF). Metropolitan's basic commodity rates for water remain unchanged at $349 per acre-foot for untreated water and $431 per acre-foot for treated water.

Operating expenses are projected to be $706.3 million. This is $47.8 million more than in 2000-01. Cost of Water Delivered is projected to be $282.1 million which is $45.8 million more that the current year. The increase is due to higher power costs on the Colorado River Aqueduct and State Water Project.

Operations and maintenance (O&M) costs are budgeted at $207.1 million. This is $6.7 million (3.4 percent) more than the 2000-01 budget and $15.0 million (7.8 percent) more than estimated actual expenditures for 2000-01. A large portion of the increase is associated with filling vacancies. Many of these vacancies are Unit and Team manager positions. There are also 30 proposed apprentice positions and one position in Human Resources to support the apprentice program. This budget also includes funding requests to support CALFED, reliability projects on the Colorado River, implementation of the new rate structure, and water transfer and exchange opportunities. The budget reflects higher chemical and utility costs and provides for needed facility maintenance. Detail on operating expenses is included in the Financial Summary.

Operating income coupled with other income and expenses produce a net amount of $159.7 million that will be used to fund principal payments on outstanding debt, pay a portion of the State Water Contract capital costs, fund the Pay-As-You-Go (PAYG) Construction Program, fund equipment purchases and reserve adjustments.

Cash Outlays and Payments to the Water Transfer Fund

Cash outlays and payments to the Water Transfer Fund for fiscal year 2001-02 are projected to be $1.3 billion. This is approximately $34.3 million more than projected actual expenditures for 2000-01. Construction expenditures are projected to total $288 million, $51.2 million more than projected expenditures in 2000-01. Projects with substantial expenditures during 2001-02 include Inland Feeder, Lake Mathews Outlet Facilities, Jensen/Mills Oxidation Retrofit projects, Diamond Valley Lake Recreation, Chlorine Containment and Handling Facilities, San Diego Bypass 3, Local Groundwater Storage programs and Infrastructure Reliability and Protection Plan projects. State Water Contract costs and pumping costs on the Colorado River Aqueduct are projected to increase $28.6 million due to higher power costs. As noted earlier, O&M expenses are also estimated to be higher than the estimated 2000-01 expenditures. These increases are offset by lower debt service costs due to recent refundings and the fact that $84.6 million in debt was cash defeased in 2000-01.

Use of the Water Transfer Fund

We are proposing to use the Water Transfer Fund to accrue monies to be used for supply reliability projects on the Colorado River Aqueduct and the State Water Project, including projects such as Cadiz, Chuckwalla, Coachella, Palo Verde, Arizona Groundwater Storage, and Kern-Delta/Arvin-Edison programs. The proposed deposit to this fund is $45 million in fiscal year 2001-02.

Reserve Levels

It is estimated that the Water Rate Stabilization Fund will be over the maximum reserve level by about $70 million at June 30, 2001. (This amount could vary between $50 million and $80 million, depending on the actual amount of credits received from the Department of Water Resources.) In December 2001, the Board approved the rate structure action plan, which included establishing "transition funds" as follows:

> Metropolitan will reserve funds in excess of the maximum reserve level available at the end of fiscal year 2000-01 and 2001-02 in accounts for each member agency to use for purposes of mitigating impacts of the change in rate structure, to fund local capital projects in each member agency's service area or to be credited against the member agency's water bill. The allocation of funds for each member agency will be based on the member agency's relative share of basic water sales, less any treatment surcharge revenues, during the relevant fiscal year.

The proposed budget includes establishing this interim transition account. It is recognized that Metropolitan could also utilize these funds, rather than raising rates, in the event that costs were greater than projected due to unanticipated power costs, emergencies or similar events. Board approval would be required prior to using or distributing funds from the interim transition account.

The maximum reserve level for June 30, 2002 is projected to be $297.1 million. Based on projected receipts and cash outlays, it is estimated that reserves will be approximately $36.5 million below the maximum level.

A more detailed discussion on the budget estimates is included in the Financial Summary.

Staffing

The proposed personnel complement for 2001-02 is 2,068 positions. The personnel complement is broken down as follows:

	1999-00 Budget	2000-01 Budget	2001-02 Budget	Change from 2000-01
Regular Full Time Positions	1,879	1,855	1,960	105
District Temporary Positions	133	105	75	(30)
Agency Temporary Positions	243	150	33	(117)
Total	**2,255**	**2,110**	**2,068**	**(42)**

Of this total, 1,608 positions are dedicated to Operations and Maintenance activities and 460 will be working on the Capital Investment Plan. In keeping with our commitment to have regular positions performing core functions, 109 temporary positions are proposed to be converted to regular positions in 2001-02. Approximately one-third of the conversions are being absorbed into existing vacancies. Additionally, there are 31 new positions associated with the apprentice program, including one position in Human Resources to administer the program. Currently more than 100 skilled trades persons are eligible for retirement. This number will increase over the next two to three years. The apprentice program will ensure that we have a properly trained workforce to operate and maintain the conveyance and distribution system and treatment facilities in the future.

Policy

Metropolitan Water District Administrative Code Section 5107, Annual Budget.

CEQA

Options #1 and #2

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA), because the proposed action involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). In addition, the proposed action deals with continuing administrative activities such as personnel-related actions, general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines).

The CEQA determination for Options #1 and #2 is: Determine that the proposed action is not subject to CEQA per Section 15378(b)(4) and Section 15378(b)(2) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

a. Adopt the CEQA determination and approve the 2001-02 Annual Budget;

b. Appropriate $695.3 million for the projected annual cash outlays for Metropolitan O&M, including power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; water management programs; and O&M costs associated with water transfer programs;

c. Appropriate as continuing appropriations, $218.4 million for debt service on Metropolitan general obligation and revenue bonds;

d. Appropriate, as continuing appropriations, $8.4 million for operating equipment, computers and inventory supplies;

e. Authorize the use of $85.0 million in Pay-As-You-Go funds to finance a portion of the Capital Investment Plan during fiscal year 2001-02;

f. Authorize $45 million to be deposited into the Water Transfer Fund; and

g. Establish a Rate Structure Transition Account and authorize that funds over the maximum reserve level at June 30, 2001 be deposited into this account. The allocation of funds for each member agency will be based on the member agency's relative share of basic water sales, less any treatment surcharge revenues during fiscal year 2000-01, subject to final review and approval of allocation of the deposited sums by the Board in August 2001.

Option #2

Adopt the CEQA determination and approve the 2001-02 Annual Budget with changes as recommended by the Board.
Fiscal Impact: Indeterminate at this time.

Staff Recommendation

Option #1

5/22/2001	
Brian G. Thomas	*Date*
Chief Financial Officer	
	5/22/2001
President & Chief Executive Officer	*Date*

Attachment 1 – 2001-02 Annual Budget Financial Summary

BLA #1075

2001-02 ANNUAL BUDGET FINANCIAL SUMMARY

This year's budget reflects the implementation of Metropolitan's staff reorganization. Last year's budget reflected the elimination of divisions and the combining of functions within groups. Sections within groups were identified but their structure was not fully defined. As part of the 2001-02 budget process, the organizational structure at the section, unit and team level was refined. Because of this restructuring, the 1999-00 actual and the 2000-01 budget amounts by section may indicate significant fluctuations.

The budget is presented using the accrual basis Statement of Operations as approved by the Board in 2000 and used last fiscal year. Information on the Capital Investment Plan, cash outlays, payments to the Water Transfer Fund, and projected fund balances and reserve levels is also included.

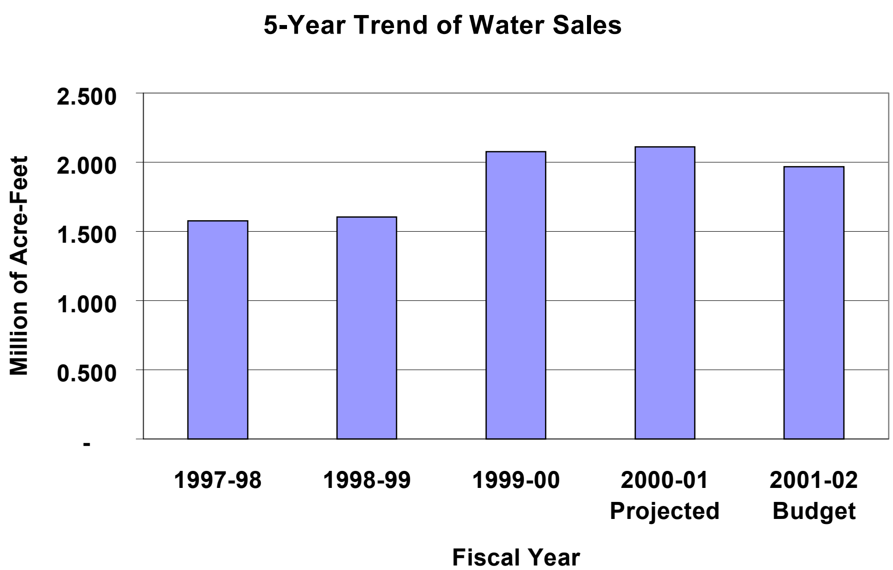
Statement of Operations

OPERATING REVENUES

Estimated operating revenues from water sales, readiness-to-serve charges, and power recoveries are projected to be $856.9 million. This is $32.3 million less than projected actual due to lower water sales projections for 2001-02.

Revenues from water sales for 2001-02 are estimated to be $752.7 million based on water sales of 1.968 MAF. Water sales for 2000-01 are projected to be 2.110 MAF generating $787.2 million. For the first half of 2000-01, the region continued to experience warm, dry weather and an expanding economy that pushed up water demands. This resulted in high sales for the second year in a row. The 2001-02 sales estimate of 1.968 MAF was developed from input from the member agencies on their projected demands and an assumption that weather conditions (both precipitation and temperature) will be within a normal range.

The graph below shows the five-year trend of water sales.



The 2001-02 water sales mix includes 1.595 MAF of full service sales, approximately 274,000 acre-feet of seasonal sales, and 99,000 acre-feet of agricultural sales. Treated sales are estimated to be 1.245 MAF. Water rates, as adopted by the Board for fiscal year 2001-02, are:

2001-02 COMMODITY WATER RATES

	Untreated	Treated
Basic Service	$349	$431
Agriculture	$236	$294
Seasonal Storage – Shift (7/01/01 – 12/31/01)	$277	$334
Seasonal Storage – Shift (1/01/02 – 6/30/02)	$288	$345
Seasonal Storage – Long-Term	$266	$290

Income from Readiness-to-Serve (RTS) charges for 2001-02 is estimated to be $80 million, which is unchanged from 2000-01. The RTS is set to recover a portion of the principal and interest payments on non-tax supported debt service that has been or will be issued to fund capital investments necessary to meet the continuing reliability and water quality needs associated with current demands.

Revenues from power recoveries and the connection maintenance charge is estimated to be approximately $24.2 million, of which $1.3 million is expected to be from power generated at the Diamond Valley Lake Wadsworth Pumping Plant. Power generation at this facility is estimated to be 18 gigawatt-hours. Total power generation from all 16 hydroelectric power plants (including Wadsworth) is estimated to be 447 gigawatt-hours in fiscal year 2001-02. With the exception of Wadsworth, the power sales are under contract to the Department of Water Resources, Southern California Edison (SCE) and Pacific Gas and Electric (PG&E). Given recent events in the power market and PG&E's filing for Chapter 11 bankruptcy, it is not certain that Metropolitan will receive 100 percent payment for power sales.

Operating Expenses

OPERATIONS AND MAINTENANCE

The 2001-02 operations and maintenance (O&M) budget totals $207.1 million. This is $6.7 million more than the current year budget of $200.4 million and $15.0 million more than the 2000-01 projected actual.

O&M labor costs are $5.9 million, or 4.2 percent, higher than projected actual. This reflects salary and benefit adjustments associated with recently negotiated labor contracts with ASFCME 1902, the Supervisors Association, and Management and Professional Association, the addition of the 31 positions for the apprentice program, and filling of over 150 vacancies. Many of the vacancies are unit and team manager positions. There has also been an $8 million labor shift from O&M to the Capital Investment Plan (CIP) for 2001-02 as work begins on projects identified through the Infrastructure Reliability and Protection Plan (IRPP). This is a plan that was identified as a priority in the 2000-01 budget. Staff from Water System Operations partnered with Engineering Services to identify critical rehabilitation projects that need to be undertaken. As part of this year's evaluation, more than $50 million in IRPP projects have been identified and included in the CIP. These projects are explained in more detail in the CIP appendix.

The operating budget for Diamond Valley Lake has increased from $5.3 million to $6.6 million. The increase is based on the experience gained during the first year of operation. Additionally, it is necessary to refurbish some of the equipment in the Special Services Shop, increase preventative maintenance work along the aqueduct and at the pumping plants, perform badly needed roads and airport runway repairs, replace the filter media at Weymouth filtration plant and the coal at the Mills filtration plant, and have Garvey Reservoir cleaned. These projects are estimated to cost slightly more than $1.2 million. It should be noted that there will also be major repair work on the Colorado River Aqueduct system; however, that work will be capitalized and is included on the CIP.

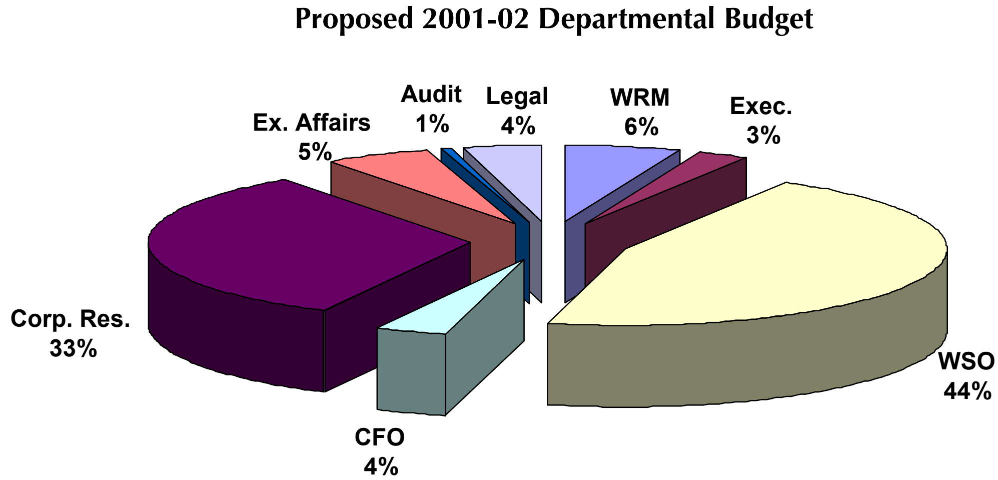
Chemical, utility, and facility maintenance costs are estimated to increase $2.6 million. The cost of chemicals has increased dramatically. For example, caustic soda has increased from $217 per ton to $520 per ton. The balance of the increase is primarily associated with higher utility costs at the treatment plants and pumping plants for sludge removal, power, sewer, gas, and facility maintenance.

Approximately $1.5 million is included in the budget to enhance Metropolitan's public communications. Targeted areas include Diamond Valley Lake Museum development and the Diamond Valley Lake docent program, implementation of a water quality outreach program, web site redesign and maintenance, and expanded distribution of "Straight from the Tap" videos, and development of educational pilot programs and partnerships with member agencies.

Other increases include $550,000 for training and employee development and expert advice in the planning/implementation of a new employee classification system, $400,000 for development of an Information Technology Strategic Plan, $300,000 for Supervisory Control and Data Management (SCADA) software maintenance, $200,000 for assistance in development of the growth charge component of the rate structure and feasibility work on a new water billing system, $200,000 for feasibility and environmental studies for the Kern Delta Water District agreement, and $100,000 for the procurement of investment/debt management software.

Additionally, debt administrative fees are anticipated to increase by approximately $400,000 as more variable rate debt is issued. These fees are more than offset by lower debt service costs. There is also a State Water Contractor Fund special assessment of $502,000 for Monterey Amendment litigation and power issues.

An overview of O&M expense is shown in Table 2.



Cost of Water Delivered

The estimate for cost of water delivered for 2001-02 totals $282.1 million. This is $45.8 million more than in 2000-01 and reflects higher power costs. Diversions from the Colorado River are estimated to be 1.25 MAF for 2001-02. Deliveries from the State Water Project are estimated to be 1.052 MAF. Cost of water delivered is based on a moving average unit cost of acre-feet in storage and not current year cash outlays.

A discussion on power costs is included under cash outlays.

WATER MANAGEMENT COSTS

Metropolitan provides financial assistance to its Member Agencies for the development of local water recycling and groundwater recovery projects under the Local Projects Program (LPP) and the Groundwater Recovery Program (GRP) as part of the Local Resources Program. Metropolitan also provides financial assistance to its member agencies for the development of their conservation programs under the Conservation Credits Program (CCP).

Metropolitan has entered into agreements to provide financial assistance to 53 water recycling projects. Thirty-six of these projects are in operation and the remaining 17 projects are under design or construction. Recycling projects that receive Metropolitan contributions are expected to produce about 76,000 acre-feet of recycled water, principally for landscape irrigation, nurseries, groundwater recharge and industrial uses in 2001-02 at a cost to Metropolitan of about $14.6 million.

Metropolitan has entered into agreements to provide financial assistance to 21 projects that recover contaminated groundwater. Operating groundwater recovery projects are expected to produce about 27,000 acre-feet of mostly municipal water supplies in 2001-02 at a cost to Metropolitan of about $4.4 million.

Metropolitan's CCP provides financial assistance to local agency conservation programs. The budget for 2001-02 totals $13.3 million, and it is expected that over 200,000 low-flow toilets will be installed. In addition, program funds will continue to support commercial, industrial, and landscape conservation efforts by local agencies.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense is estimated to be $184.7 million. This is $14.9 million less than in 2000-01. Amortization of State Water Contract participation rights is based on water deliveries. Deliveries for fiscal year 2001-02 are projected to be about 400,000 acre-feet less than in 2000-01 as the Department of Water Resources has only authorized a 30 percent State Water Project entitlement water allocation for calendar year 2001. As a result of the lower water delivery schedule, amortization expense will be less.

OTHER INCOME/EXPENSE

Revenues from ad valorem property taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the State Water Contract, are estimated to be $103 million. The ad valorem property tax revenues are based on the maximum tax rate allowable under Section 124.5 of the Metropolitan Water District Act.

Interest earnings are estimated to total $42.0 million. This is $8.0 million less than 2000-01. Higher power costs are anticipated to contribute to lower fund balances available for investment. Interest expense is estimated to be $135.9 million, slightly higher than in 2000-01. Interest expense does not include interest payments that are capitalized and recorded as a cost of the asset being constructed.

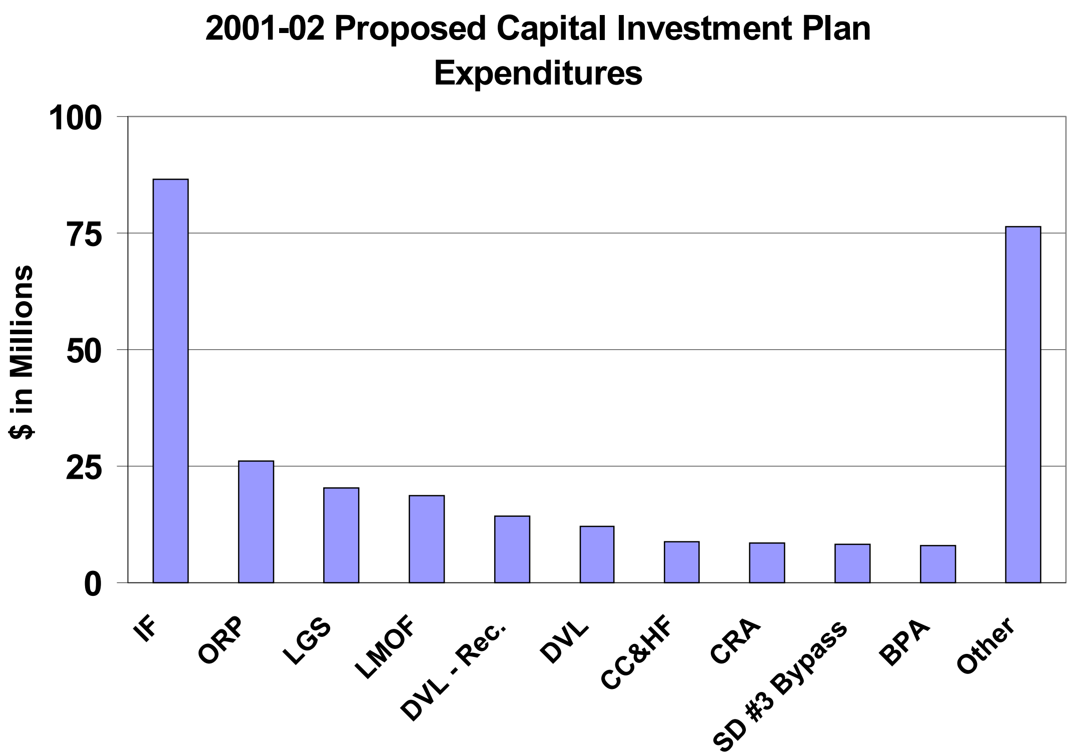
NET INCOME

Net income is projected to be $159.7 million, $96.4 million less than projected for 2000-01. Net income is used to fund capitalized interest and principal payments on outstanding bonds, fund PAYG construction, fund equipment purchases, and pay a portion of the State Water Contract capital costs. The decrease in net income is largely attributed to higher power costs and lower sales.

The Comparative Statements of Operations are shown on Table 1.

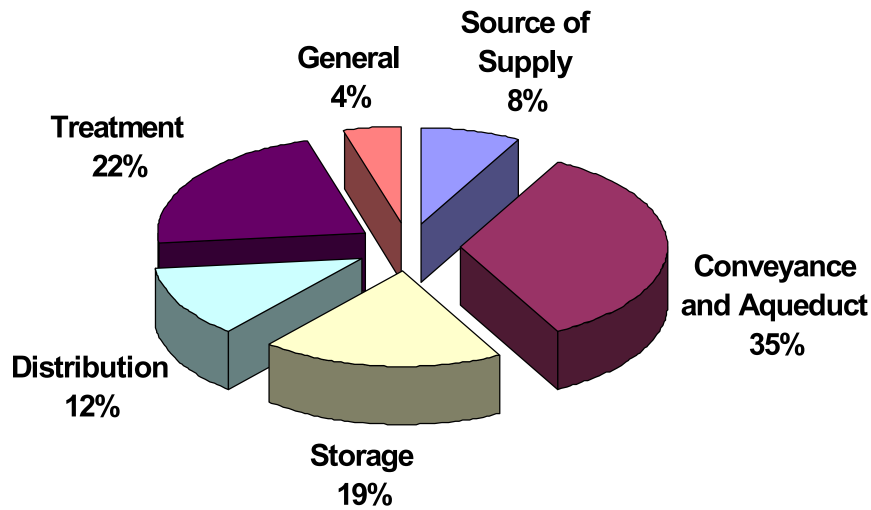
Capital Investment Plan

The CIP for fiscal year 2001-02 totals $288.0 million. Major projects in design and/or construction include the Inland Feeder, Jensen/Mills Oxidation Retrofit Program, Local Groundwater Storage Programs, Lake Mathews Outlet Facilities, Diamond Valley Lake Recreation, wrap up work on Diamond Valley Lake, Chlorine Containment and Handling Facilities, Backflow Prevention Assemblies, San Diego Pipeline No. 3 Bypass, and CRA Conveyance Reliability Program. These ten projects account for almost 75 percent of the total CIP expenditures.



Programs are categorized as source of supply, conveyance and aqueduct, storage, treatment, distribution, and general. The 2001-02 expenditure plan by category is shown on the pie chart on the next page. Information on all capital projects can be found in the CIP Appendix.

Capital Investment Plan for 2001-02

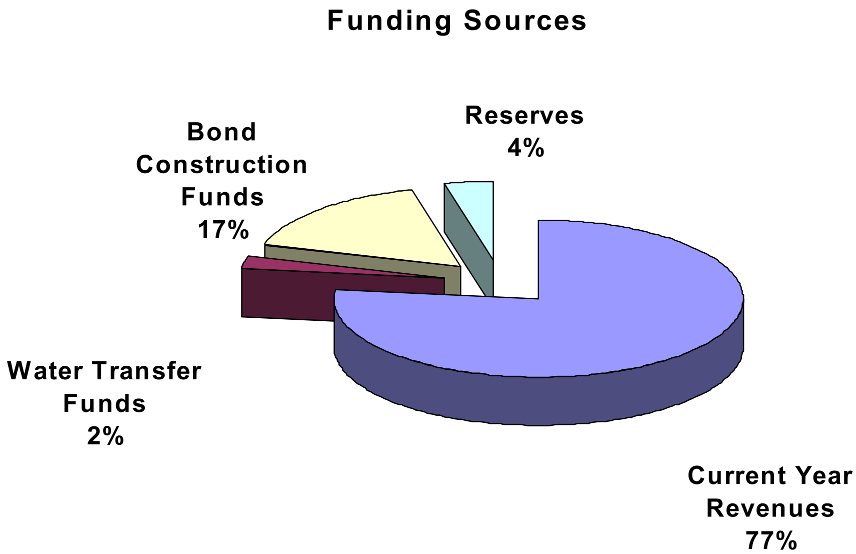


Expenditures for the proposed CIP will be funded from proceeds in Revenue Bond Construction Funds, the General Fund, and PAYG as approved by the Board.

Funding Sources and Cash Outlays

Cash outlays and payments to the Water Transfer Fund for fiscal year 2001-02 total $1.275 billion. Expenditures to be funded from current year receipts total about $990 million. Approximately $34 million from the Water Transfer Fund will be used to cover the power costs of filling Diamond Valley Lake and water transfer payments. Bond construction funds will provide $203.0 million. Approximately $48 million will be drawn from reserves.

The pie chart on the next page shows the funding sources for 2001-02.



Cash outlays for fiscal years 1999-00, 2000-01 and 2001-02 are shown on the table below.

	$ in Millions			
Category	**1999-00 Actual**	**2000-01 Projected Actual**	**2001-02 Estimates**	**Change Projected 2000-01 To 2001-02**
State Water Contract	$272.7	$317.1	$295.9	$(21.2)
Debt Service	236.9	233.0	218.4	(14.6)
Bond Defeasance	0.0	84.6	19.9	(64.7)
Operations & Maintenance	200.5	192.1	207.1	15.0
Wadsworth Pumping Plant	1.9	6.4	2.8	(3.6)
Equipment Purchases	3.5	3.5	8.4	4.9
Colorado River Aqueduct Power	26.5	92.5	141.1	48.6
Water Management Programs	29.1	30.5	32.4	1.9
Water Transfers	20.1	21.6	15.9	(5.7)
Capital Construction from Bond Proceeds	168.1	161.8	203.0	41.2
Pay-As-You-Go Construction	117.2	75.0	85.0	10.0
Subtotal	**1,076.5**	**1,218.1**	**1,229.9**	**11.8**
Payments to Water Transfer Fund	10.0	22.5	45.0	22.5
Total	**1,086.5**	**1,240.6**	**1,274.9**	**$ 34.3**

As shown above, cash outlays and payments to the Water Transfer Fund for fiscal year 2001-02 are projected to be $34.3 million more than the current year. The differences, by category, between the 2000-01 projected actual and 2001-02 estimates are explained below.

CASH OUTLAYS

State Water Project expenditures of $295.9 million are projected to be $21.2 million less than the current year. The reduction reflects higher credits for next year. It is anticipated that approximately $12 million in credits that were budgeted for in 2000-01 will not be received until 2001-02. Estimates for 2001-02 also include an additional $9 million in credits associated with variable power charges from calendar year 2000. This estimate also assumes that PG&E and SCE make payments owed to the California Independent System Operator for fiscal year 2001 costs. Otherwise, SWP costs could be $17 million higher.

Debt service payments are projected to be $14.6 million less than in 2000-01 reflecting the savings associated with the bond defeasance and two bond refundings. Although the annual savings associated with these actions total about $20 million, this number is reduced by new debt service associated with a proposed $180 million revenue bond sale scheduled for fall 2001. The budget assumes that $19.9 million in debt will be defeased in 2001-02.

Changes in operations and maintenance expense are explained on pages 2 and 3.

In order to put water into DVL, water must be pumped through the Wadsworth Pumping Plant into the reservoir. The pumping costs for 2001-02 are estimated to be $2.8 million. This is $3.6 million less than in 2000-01 as less water will be delivered into DVL during 2001-02 than 2000-01 for the initial fill.

Equipment purchases total $8.4 million. This is $4.9 million more than 2000-01. Approximately $2.6 million is for replacement desktop/laptop computers (PCs). We are proposing to replace all PCs over a two-year period beginning with fiscal year 2001-02. Metropolitan imposed a “freeze” on the replacement of PCs in 1999. The last major replacement program started in 1996 and concluded in 1998. The vast majority of the existing PCs do not have sufficient processor speeds and disk space to effectively run Windows 2000. In addition, PCs must be upgraded to support planned upgrades to our maintenance management system and financial applications. The replacement project is expected to satisfy Metropolitan’s PC needs for the next four years. Also included in this year’s budget is a replacement airplane for patrolling the Colorado River Aqueduct and replacement cranes, backhoes, and heavy duty trucks that are no longer cost effective to maintain. Additionally, two new ion trap mass spectrometers are in the budget to perform analyses for N-nitrosodimethylamine, a known carcinogen, as well as taste and odor compounds.

Colorado River Aqueduct pumping costs are projected to be $141.1 million. This is $48.6 million more than in 2000-01. The assumption for supplemental power rates is 130 mills per kilowatt-hour

The costs for Water Management Programs are explained on page 4.

Water transfer payments and options are estimated to be $15.9 million, which is $5.7 million less than in 2000-01. Expenditures for 2001-02 include $1.9 million for the Arvin-Edison agreement, $2.0 million for the Semitropic agreement, and $3.5 million for the San Bernardino Valley Municipal Water District agreement. Estimated expenditures associated with the Imperial Irrigation District I agreement total $8.4 million, based on the projected funding calls. The reduction from 2000-01 projected expenditures reflects approximately $6 million spent on the 2001 Dry Year Purchase Program authorized by the Board in February 2001, which are not anticipated in 2001-02.

Capital construction from bond proceeds is up $41.2 million from the current year and reflects increased expenditures on the Jensen/Mills Oxidation Retrofit Program, Lake Mathews Outlet Facilities, Diamond Valley Lake Recreation, and Distribution and Colorado River Reliability programs. Major programs with lower expenditures for 2001-02 than in 2000-01 include Diamond Valley Lake, Inland Feeder, and Lake Mathews Watershed – Drainage Water Quality Management Plan.

PAYG construction is estimated to be $85 million, $10 million more than in 2000-01, and is calculated in accordance with Board policy.

PAYMENTS TO THE WATER TRANSFER FUND

In order for Metropolitan to ensure reliability and quality, it will be necessary to invest in a variety of water transfer, banking, and other cooperative agreements. Programs that are under consideration and could be funded from the Water Transfer Fund include in-basin conjunctive use programs such as North Las Posas and Raymond Basin; Colorado River programs such as Hayfield, Cadiz, Arizona Groundwater Banking, Palo Verde Land Fallowing, All American Canal Lining, and Coachella Canal Lining; and Northern California programs such as the existing Arvin-Edison and Semitropic programs, and new programs like the Kern-Delta/Arvin-Edison and San Bernardino Valley Municipal Water District proposals.

In order to fund these programs while providing stable and predictable water rates, it is proposed that the Water Transfer Fund be utilized to accrue funds for these activities. Each year deposits would be made to the fund from operating revenues as appropriate. Operating revenue deposits are expected to range from $35 million to $75 million per year. Annual expenditures from this fund could range from $15.9 million up to $182 million per year. Making regular payments to the fund helps to avoid rate spikes. The Transfer Fund would fund operating expenses (including payments for water), while debt would be used to fund capital or participation rights. By establishing the Water Transfer Fund and making annual deposits to it for several years, Metropolitan has been able to fill Diamond Valley Lake without the need to increase rates.

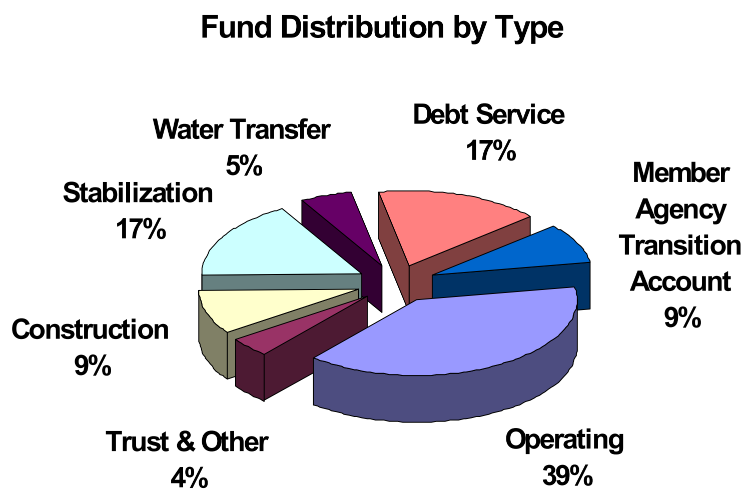
FUND BALANCES AND RESERVE LEVELS

Fund balances at June 30, 2001 are projected to be $889.8 million. Restricted funds account for $490.1 million and the PAYG Fund accounts for $42.5 million. The Revenue Remainder Fund balance is projected to be $119.1 million and rate stabilization fund balances are estimated to be $238.1 million. The minimum and maximum reserve levels at June 30, 2001 are projected to be $119.1 million and $285.7 million, respectively. It is estimated that the Water Rate Stabilization Fund will be over the maximum reserve level by about $70 million at June 30, 2001. (This amount could vary between $50 and $80 million, depending on the actual amount of credits received from the Department of Water Resources.) In December 2001, the Board approved the rate structure action plan, which included establishing "transition funds" as follows:

> Metropolitan will reserve funds in excess of the maximum reserve level available at the end of fiscal year 2000-01 and 2001-02 in accounts for each member agency to use for purposes of mitigating impacts of the change in rate structure, to fund local capital projects in each member agency's service area or to be credited against the member agency's water bill. The allocation of funds for each member agency will be based on the member agency's relative share of basic water sales, less any treatment surcharge revenues, during the relevant fiscal year.

The proposed budget includes establishing this interim transition account. It is recognized that Metropolitan could also utilize these funds, rather than raising rates, in the event that costs were greater than projected due to unanticipated power costs, emergencies or similar events. Board approval would be required prior to using or distributing funds from the interim transition account.

Fund balances at June 30, 2002 are projected to be $826.1 million at June 30, 2002. Of that total, $540.5 million is restricted by either bond covenants or board policy, and $285.6 million is unrestricted. The following table shows a breakdown of reserves by fund type.



PROJECTED FUND BALANCES AT JUNE 30, 2002

	$ in Millions			
		Restricted	Unrestricted	Total
	Bond Covenant	**Board**		
Operating Funds	$103.6	$96.7	$121.0	$321.30
Debt Service Funds	128.3	8.4	0.0	136.7
Construction Funds	52.4	0.0	25.0	77.4
Stabilization Funds	0.0	0.0	139.6	139.6
Water Transfer Fund	0.0	47.8	0.0	47.8
Member Agency Interim Transition Account	0.0	70.0	0.0	70.0
Trust and Other Funds	0.0	33.3	0.0	33.3
Total	**$284.3**	**$256.2**	**$285.6**	**$826.1**

The minimum and maximum reserve levels are projected to be $121.0 million and $297.1 million, respectively, at the end of fiscal year 2001-02. Based on estimated receipts and expenditures, reserves are projected to be $36.5 million less than the maximum amount. It should be noted that if water sales were return to the 1998-99 level or power costs continue to escalate, reserves could be below the maximum level by as much as $190 million.

Table 1

Metropolitan Water District of Southern California

2001-02 Proposed Annual Budget

Comparative Statements of Operations - Accrual Basis

($ in Millions)

	1999-00 Actual	2000-01 Adopted Budget	2000-01 Projected Actual	2001-02 Proposed	Change from Projected to Proposed
Operating Revenues:					
Water Sales	$ 776.4	$ 731.6	$ 787.2	$ 752.7	$ (34.5)
RTS	80.1	80.0	80.0	80.0	–
Hydroelectric Power and Other	17.1	16.5	22.0	24.2	2.2
Subtotal	**873.6**	**828.1**	**889.2**	**856.9**	**(32.3)**
Less Interim Cost of Service Credit	–	(37.6)	–		–
Total Operating Revenues	**873.6**	**790.5**	**889.2**	**856.9**	**(32.3)**
Operating Expenses:					
Operations & Maintenance	200.5	200.4	192.1	207.1	15.0
Cost of Water Delivered	186.7	225.7	236.3	282.1	45.8
Water Management Programs, Net	29.1	31.8	30.5	32.4	1.9
Depreciation & Amortization	159.5	164.6	199.6	184.7	(14.9)
Total Operating Expenses	**575.8**	**622.5**	**658.5**	**706.3**	**47.8**
Operating Income	**297.8**	**168.0**	**230.7**	**150.6**	**(80.1)**
Other Income (Expense):					
Net Taxes/Annexations	98.8	100.2	103.2	103.0	(0.2)
Interest Income	49.9	55.0	50.0	42.0	(8.0)
Bond Interest Expense	(81.2)	(114.1)	(132.0)	(135.9)	(3.9)
Miscellaneous Income (Expense)	4.8	–	4.2	–	(4.2)
Total Other Income - Net	**72.3**	**41.1**	**25.4**	**9.1**	**(16.3)**
Net Income	**$ 370.1**	**$ 209.1**	**$ 256.1**	**$ 159.7**	**$ (96.4)**
Water Sales (MAF)	**2.076**	**1.913**	**2.110**	**1.968**	**(0.142)**

Table 2

Operations & Maintenance Budget Summary

2001-02 Fiscal Year

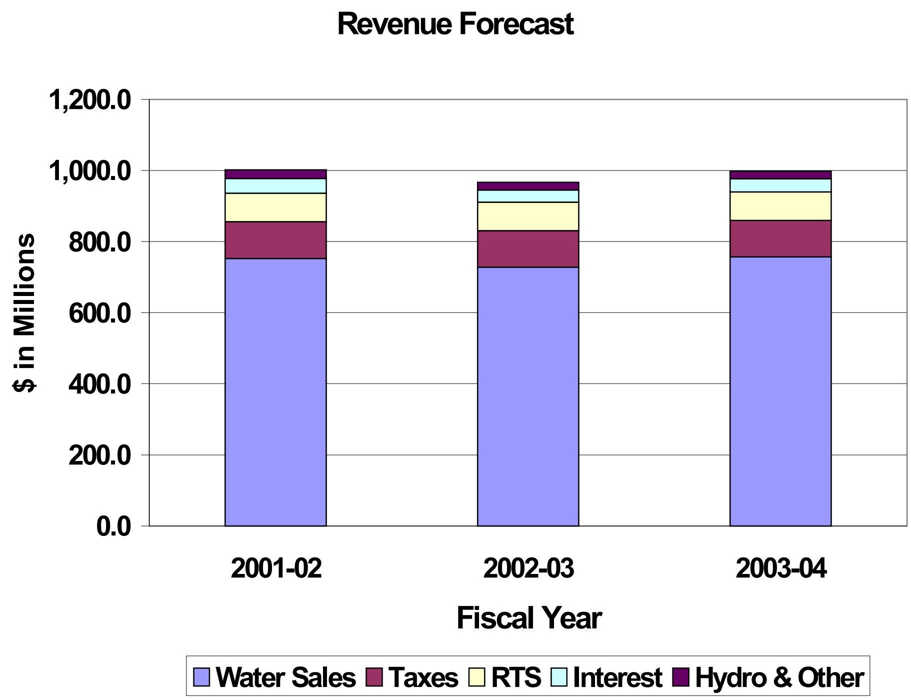
Departmental Units	2000-01 Budget	2000-01 Projected Actual	2001-02 Proposed	Change Proposed to Budget	%	Change Prop to Proj. Actual	%
Executive Offices	4,544,600	4,849,300	5,575,700	1,031,100	22.7	726,400	15.0
Water Systems Operations	93,174,000	92,179,700	97,556,600	4,382,600	4.7	5,376,900	5.8
Water Resource Management	12,049,200	10,399,200	12,506,100	456,900	3.8	2,106,900	20.3
Corporate Resources	70,811,000	67,914,000	70,786,300	(24,700)	0.0	2,872,300	4.2
External Affairs	10,715,300	9,530,900	11,378,100	662,800	6.2	1,847,200	19.4
Office of the Chief Financial Officer	7,647,100	7,034,800	7,759,100	112,000	1.5	724,300	10.3
Subtotal - General Manager's Department	**198,941,200**	**191,907,900**	**205,561,900**	**6,620,700**	**3.3**	**13,654,000**	**7.1**
General Counsel	7,309,300	7,227,100	8,133,300	824,000	11.3	906,200	12.5
Audit	1,580,100	1,192,100	1,254,700	(325,400)	(20.6)	62,600	5.3
Total Departmental Budget	**207,830,600**	**200,327,100**	**214,949,900**	**7,119,300**	**3.4**	**14,622,800**	**7.3**
Other:							
Rents/Leases/Lease Payments	750,000	797,000	730,000	(20,000)	(2.7)	(67,000)	(8.4)
EDMS Conversion Project	200,000	0	0	(200,000)	(100.0)	0	n/a
Agency Dues	1,133,100	1,126,100	1,504,000	370,900	32.7	377,900	33.6
Insurance	1,344,800	1,025,200	1,093,300	(251,500)	(18.7)	68,100	6.6
Debt Administrative Fees	1,800,000	2,087,000	2,423,100	623,100	34.6	336,100	16.1
Contingency	2,273,100	0	2,149,500	(123,600)	(5.4)	2,149,500	n/a
Overhead Credit from Construction	(14,900,100)	(13,225,900)	(15,688,000)	(787,900)	5.3	(2,462,100)	18.6
Subtotal – Other	**(7,399,100)**	**(8,190,600)**	**(7,788,100)**	**(389,000)**	**5.3**	**402,500**	**(4.9)**
Total Operations & Maintenance	**200,431,500**	**192,136,500**	**207,161,800**	**6,730,300**	**3.4**	**15,025,300**	**7.8**
Operating Equipment	3,495,100	3,495,000	5,734,100	2,239,000	64.1	2,239,100	64.1
Desktop/ Laptop Computers	0	0	2,633,500	2,633,500	n/a	2,633,500	n/a
Total Equipment Purchases	**3,495,100**	**3,495,000**	**8,367,600**	**4,872,500**	**139.4**	**4,872,600**	**139.4**
Grand Total	**203,926,600**	**195,631,500**	**215,529,400**	**11,602,800**	**5.7**	**19,897,900**	**10.2**

THREE-YEAR FORECAST

This section provides a three-year forecast of projected operating revenues and expenses, Capital Investment Plan projections, and staffing projections. Additionally, fund balances and reserve levels are addressed and financial indicators are provided.

Revenues

Revenues are projected to remain flat at about $1.0 billion over the three-year period. It should be noted that these projections are based on the current rate structure and assume no increase in the basic water rate and charges over this period. A $6 acre-foot increase in the treatment surcharge is assumed for 2003-04 to cover higher treatment costs.



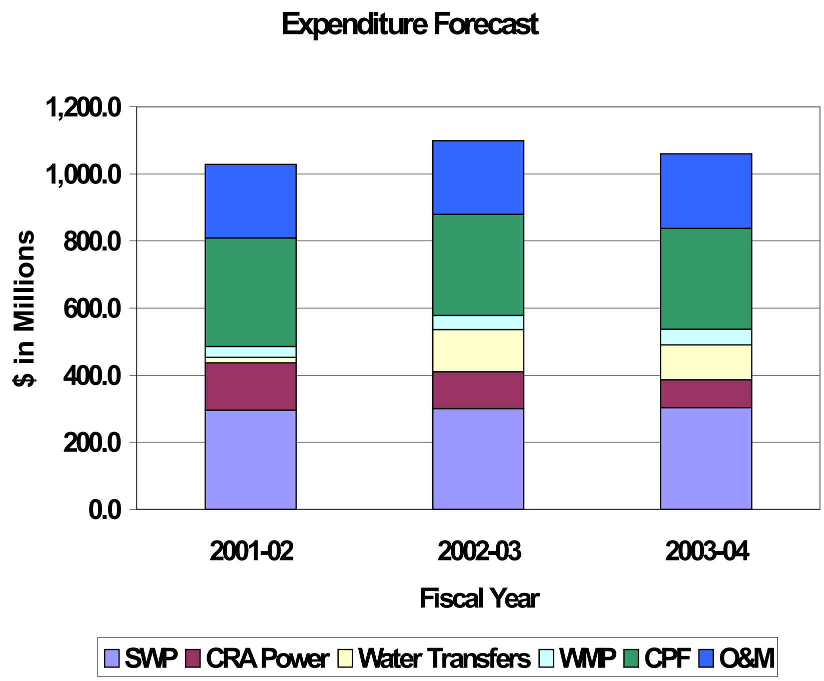
In Fiscal Year 2001-02, water sales are estimated to be $752.7 million based on sales of 1.968 MAF. This estimate is projected to remain relatively flat over the three years. Revenue from water sales in fiscal year 2003-04 is projected to produce $757.6 million based on sales of 1.987 MAF. These estimates are based on input from the member agencies and normal weather and hydrology. Additionally, Readiness-to-Serve Charge income will remain level at $80 million per year. Interest income is projected to decrease from $42.0 million in 2001-02 to $36.6 million in 2003-04 as reserves are drawn down resulting in lower cash balances available for investment.

Ad valorem property taxes are projected to remain at approximately $103.0 million over this period. This is based on the maximum tax rate allowable under Section 124.5 of the Metropolitan Water District Act. Depending on increases in assessed valuation, the tax rate could be reduced from the current rate of .0088 percent.

Sales from Metropolitan's 16 hydroelectric power recovery plants are projected to decrease from $24.2 million to $22.2 million. This is based on projected flows through the plants and the contracted power rates at the plants.

Expenditures

Expenditures are projected to increase from $1.027 billion in fiscal year 2001-02 to $1.098 million in 2002-03, then decline to $1.061 billion in 2003-04. There are six major categories of expenditures: State Water Project (SWP), Colorado River Aqueduct power (CRA Power), Water Transfer Expenditures, Water Management Programs (WMP), Capital Program Financing, including debt defeasance (CPF), and Operations and Maintenance (O&M).



State Water Project

Expenses on the State Water Project are projected to increase from $295.9 million in 2001-02 to $303.6 million in 2003-04. In 2001-02 diversions are scheduled to be 1.052 MAF. This estimate is projected to decline to 952,000 acre-feet in fiscal year 2003-04 based on water demand forecasts and the Board's policy of maintaining a salinity level of 500 milligrams per liter or less. Power costs could vary substantially from these estimates. The power estimates are based on net billing rates (after credit for power sales) for variable power of 20 mills/kWh in 2002, 18 mills/kWh, and 16 mills/kWh in 2004.

Colorado River Aqueduct Power Costs

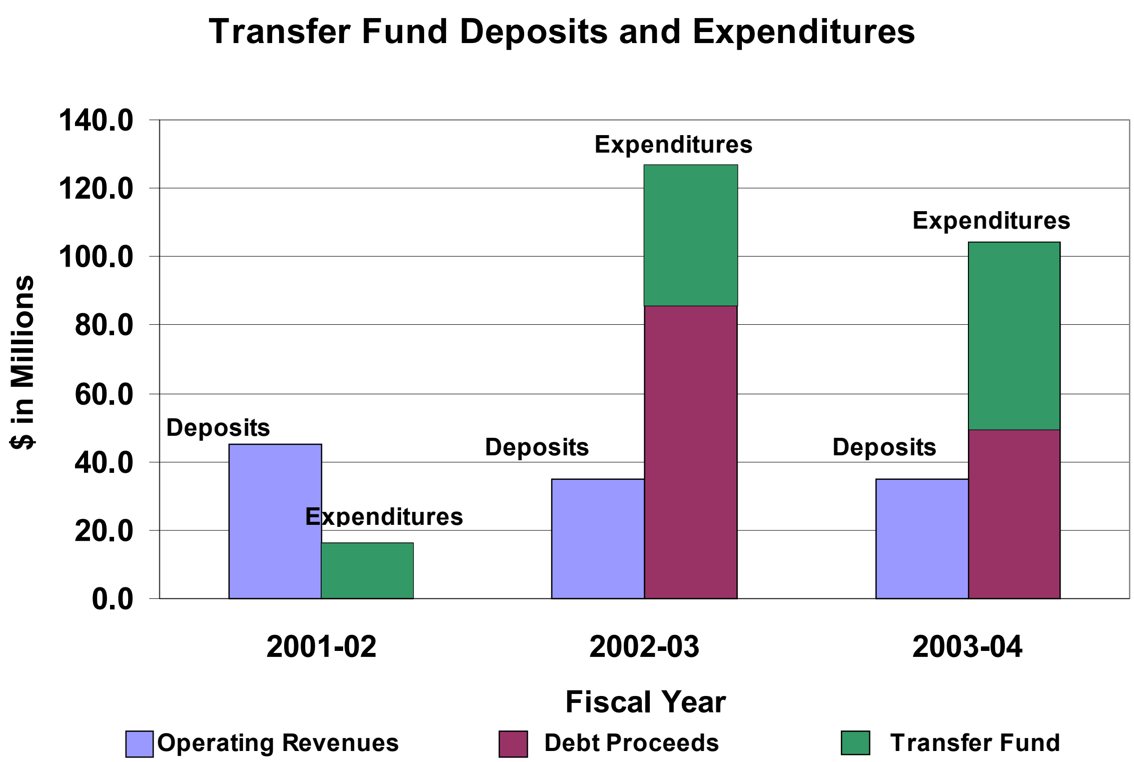
Pumping costs on the Colorado River Aqueduct are projected to decline from $141.1 million in 2001-02 to $82.7 million in 2003-04. It is assumed that supplemental power rates will decline from current estimates of 130 mills/kWh in 2001-02 to 90 mills/kWh in 2003-04. Additionally, Metropolitan will continue to work with the Bureau of Reclamation and Western Area Power Administration to schedule Hoover and

Parker power as efficiently as possible; and we will continue to purchase forward contracts as necessary to avoid extremely high-priced spot market purchases.

WATER TRANSFER FUND

Payments from operating revenues to the Water Transfer Fund are projected to be $45 million in 2001-02 and $35 million each year in 2002-03 and 2003-04. At the same time, about $160 million in variable rate debt will be sold to provide funding for capital and participation rights. It is estimated that annual project outlays could range from $15.9 million to $126.5 million over the next three years. Programs that could have major expenditures in this window include Cadiz, Palo Verde Land Fallowing, and Arizona Groundwater Banking.

The graph below shows deposits from operating revenues and expenditures from the transfer fund and debt proceeds over the three-year period.



WATER MANAGEMENT PROGRAMS

Water Management costs are projected to increase from $32.4 million in 2001-02 to $46.8 million in 2003-04. Conservation costs are projected to be relatively flat at $13.3 million per year. The increase reflects additional investment in the Local Resource Programs. Thirteen projects are scheduled to come on line during the period. The yield from the Local Resources Programs is expected to increase from 119,600 acre-feet in 2001-02 to 186,200 acre-feet in 2003-04.

CAPITAL PROGRAM FINANCING

Capital program financing costs are projected to decrease from $303.4 million to $279.7 million over the three-year period. The reason for the decrease is that PAYG expenditures will be $85 million in 2001-02, $50.0 million in 2002-03 and $40 million in 2003-04. These PAYG amounts are calculated in accordance with Board policy. At the completion of the Asset Replacement Study, the PAYG policy will be revised to reflect Metropolitan's ongoing replacement needs. Debt service costs, on the other hand, are projected to increase from $218.4 million in 2001-02 to $239.7 million in 2003-04. Future debt sales include a $180 million variable rate debt (VRDO) sale in 2001-02, a $315 million combination fixed rate/VRDO sale in 2002-03, and a $270 million combination fixed rate/VRDO sales in 2003-04. Based on this forecast, variable rate debt is estimated to increase from 24 percent to 32 percent of outstanding revenue bond debt. This forecast includes cash defeasance of debt amounting to $19.9 million in fiscal year 2001-02, $21.0 million in fiscal year 2002-03, and $21.9 million in fiscal year 2003-04. This is consistent with the Board's action in July 2000 to defease $84.6 million in August 2000 and then use the savings to defease additional debt in subsequent years. As an alternative, the Board could elect to utilize these funds to reduce the amount of debt issued in future years by funding capital projects with these funds or utilize the funds to establish an asset replacement fund.

OPERATIONS AND MAINTENANCE

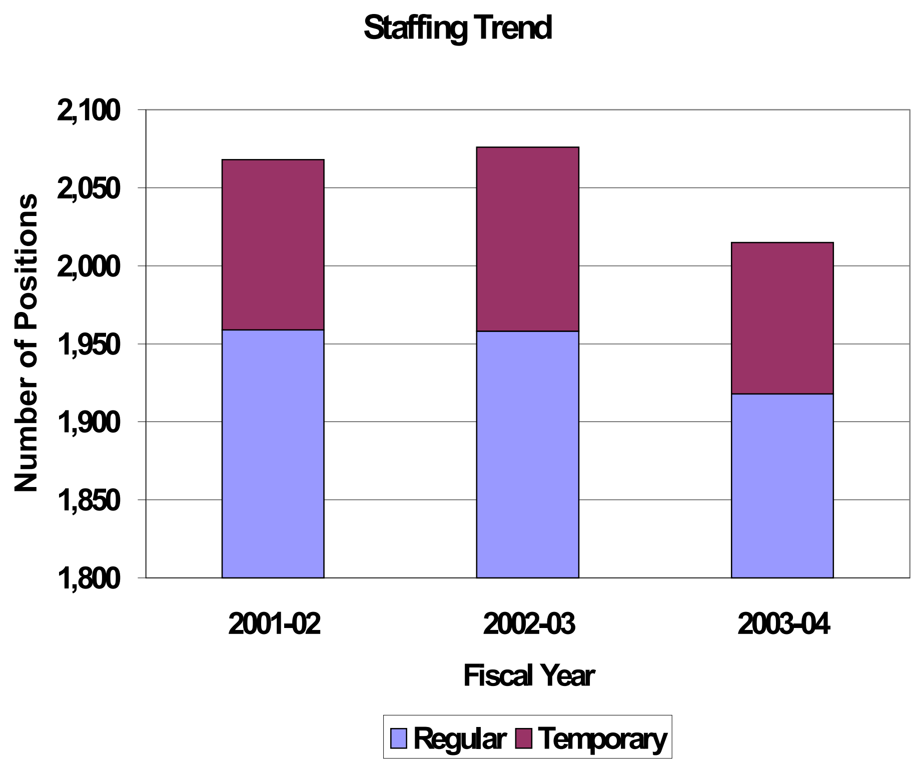
O&M costs for 2003-04 are projected to be approximately $218 million. This represents an average two and one-half percent increase per year. We are projecting that we will be able to absorb a portion of the increases associated with the negotiated Memoranda of Understandings and also bring ozone on-line at the Mills filtration plant with only modest increases in O&M because of productivity gains. These gains in productivity will be achieved through continued business process improvement and streamlined maintenance practices advanced by self-directed teams made up of multi-skilled workers.

Capital Investment Plan

CIP expenditures are projected to be $288.0 million in 2001-02, $362.2 million in 2002-03, and $307.9 million in 2003-04. Projects with major expenditures during this period include Inland Feeder, Lake Mathews Outlet Facilities, the Oxidation Retrofit Program, Local Groundwater Storage Agreements, Colorado River Banking Programs, Chlorine Containment and Handling Facilities, Diamond Valley Lake Recreation and various rehabilitation projects identified through the IRPP process.

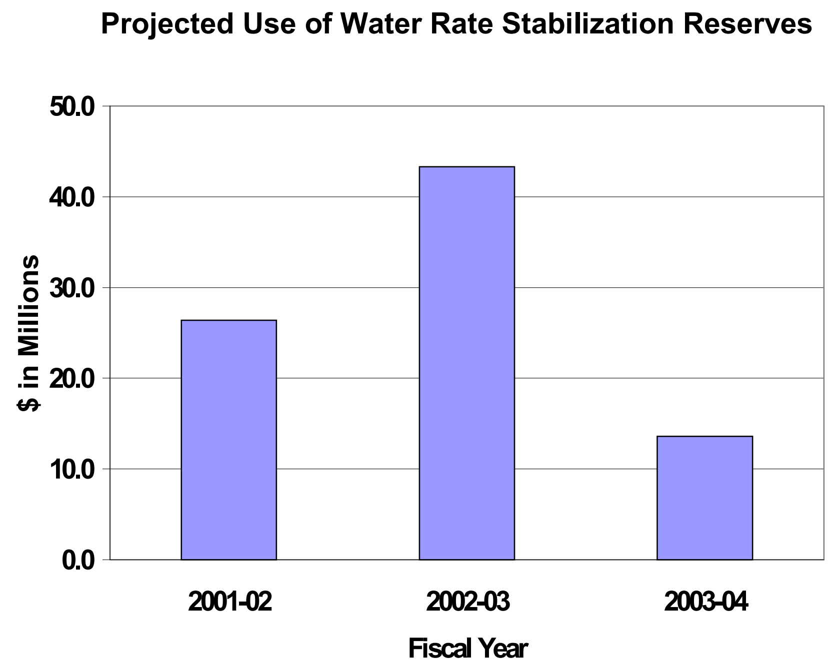
Staffing

Based on operating plans and the Capital Investment Plan, it is estimated that staff will decrease from 2,068 positions in 2001-02 to 2,014 positions in 2003-04. There is a slight increase in temporary help in 2002-03 to keep the Capital Investment Plan on schedule. In 2003-04, the estimated number of regular positions decreases, as the first class of apprentices is able to assume journey-level positions. The projected regular staffing complement for 2003-04 is 1,918 regular positions, a decrease of 42 positions from 2001-02. Temporary positions are also projected to be reduced from 108 in 2001-02 to 97 temporary positions in 2003-04.



Fund Balances and Reserves

Over the next three years, it is anticipated that total fund balances will decrease from $826.1 million at the end of 2001-02 to $726.3 million at the end of 2003-04 as reserves are utilized to meet projected expenditures. Unrestricted fund balances are projected to be $285.6 million at the end of 2001-02, $245.1 million at the end of 2002-03, and $238.1 million at the end of 2003-04. Use of Water Rate Stabilization Fund reserves is projected to be about $26.4 million in fiscal year 2001-02, $43.3 million in fiscal year 2002-03, and $13.6 million in fiscal year 2003-04. The use of these funds is driven by the need to implement water transfer/banking programs on the Colorado River Aqueduct and California Aqueduct to ensure water reliability and quality to our member agencies and higher power costs. At the same time, the minimum reserve level is projected to increase from $121.0 million to $135.3 million. The maximum reserve level increases from $297.1 million to $329.0 million.



Current estimates indicate that reserves at June 30, 2004 will be $110.9 million under the maximum reserve level but $63.1 million over the minimum reserve level. As noted earlier, Metropolitan will be revising its reserve policy to ensure consistency with the Asset Replacement Reserve Study. This may alter the existing minimum and maximum.

Financial Ratios

The junior lien revenue bond coverage ratio is projected to decline from 2.16 times to 1.88 times. While this ratio is trending down, the levels are sufficient to maintain Metropolitan's credit ratings of Aa2 for fixed rate bonds and VMIG 1 for variable rate bonds from Moody' Investment Service, AA and A-1+ (fixed rate bonds and variable rate bonds, respectively) from Standard & Poor's corporation, and AA from Fitch over this period. Staff will continue to implement cost savings measures and explore financing options to enhance this coverage ratio to 2.0 times or better.

Fixed charge coverage measures the amount by which net operating revenues "cover" all recurring fixed costs. This is a broader ratio than the junior lien revenue bond coverage ratio and is one measure used to gauge Metropolitan's overall financial strength. For fiscal year 2001-02, the fixed charge coverage is projected to be 1.21 times. Like the junior revenue bond coverage ratio, this ratio is also projected to decline. At the end of fiscal year 2003-04, this ratio is projected to be 1.16 times. Ratios over 1.0 times are considered adequate. As noted earlier, it is anticipated that Metropolitan will have $63.1 million more than the minimum reserve level at June 30, 2004.

Metropolitan's variable rate debt as a percentage of total revenue bond debt is projected to increase from 24 percent to the Board's adopted target of 32 percent. Increasing variable rate borrowing to finance the Capital Investment Plan is one debt management strategy adopted by the Board in April 2000 to reduce Metropolitan's overall cost of debt.

Three-Year Forecast
Fiscal Years 2002 - 2004
(in Millions)

Revenue Projections	**2001-02**	**2002-03**	**2003-04**
Water Sales	$ 752.7	$ 727.9	$ 757.6
Taxes	103.0	103.0	103.0
RTS	80.0	80.0	80.0
Interest	42.0	33.8	36.6
Hydroelectric Power & Other	24.2	22.1	22.2
Total	**$ 1,001.9**	**$ 966.8**	**$ 999.4**
Water Sales Projections (MAF)	1.968	1.910	1.987
Expenditure Projections[1]			
State Water Project	$ 295.9	$ 300.4	$ 303.6
Colorado River Aqueduct Power	141.1	109.7	82.7
Water Transfer Programs	15.9	126.5	104.2
Water Management Programs	32.4	41.4	46.8
Capital Program Financing	303.4	279.8	279.7
Debt Defeasance	19.9	21.0	21.9
Operations & Maintenance[2]	209.9	211.3	217.4
Equipment Purchases	8.3	8.3	5.0
Subtotal	**$ 1,026.8**	**$ 1,098.4**	**$ 1,061.3**
Payments to Water Transfer Fund	45.0	35.0	35.0
Reserve Changes	(21.4)	10.4	19.2
Total	**$ 1,050.4**	**$ 1,108.8**	**$ 1,080.5**
Reserve Levels			
Minimum Reserve Level	$ 121.0	$ 128.8	$ 135.3
Maximum Reserve Level	$ 297.1	$ 314.9	$ 329.0
Fund Balances			
Restricted	$ 540.5	$ 486.7	$ 488.2
Unrestricted			
Revenue Remainder Fund	121.0	128.8	135.3
Water Rate Stabilization Funds	139.6	96.3	82.8
PAYG Fund	25.0	20.0	20.0
Total	**$ 826.1**	**$ 731.8**	**$ 726.3**
Amount over/(under) the Maximum	$ (36.5)	$ (89.7)	$ (110.9)
Ratios			
Jr. Lien Revenue Bond Coverage	2.16	1.94	1.88
Fixed Charge Coverage	1.21	1.13	1.16
Variable Rate Debt as a % of Total Revenue Bond Debt	24%	32%	32%

1 Excludes CIP expenditures funded from bond proceeds

2 Includes pumping costs at Wadsworth Pumping Plant (2001-02)