

- **Board of Directors**  
**Business and Finance Committee**

March 11, 2008 Board Meeting

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8-1

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**Subject**

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Approve proposed 2008/09 fiscal year budget

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**Description**

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**SUMMARY**

The General Manager's Business Plan outlines the strategic priorities and initiatives to be carried out from one fiscal year to the next. The current year's Business Plan is based on the Board's priorities as discussed during the April 2007 Board Retreat. The General Manager's Business Plan for fiscal year 2008/09 will be updated over the next few months and subsequently submitted for board approval. The proposed budget includes funding for the following major areas:

- Sustainability** - Sustainability requires that Metropolitan meets the needs of the present by providing a secure and reliable water supply to the southland without compromising the ability of future generations to meet their needs. Faced with continuous change and new emerging issues within our communities, economy, and environment, ensuring a sustainable water supply will require Metropolitan and its member agencies to work together with regulatory, wastewater, storm water, and other agencies in the watershed to ensure that water is used efficiently and effectively throughout the water cycle.
- Energy** - Energy currently accounts for about 24 percent of the expenditure budget, not including the Capital Investment Plan (CIP). As energy costs become a more significant part of the overall budget, managing market risk and rising costs is an increasingly important activity. In addition, legislation regarding greenhouse gas emissions and renewable resources, along with expiring contracts, will require new ways to secure reliable, cost-effective supplies of energy.
- Water** - Metropolitan's mission to supply a safe, reliable supply of high quality water will be supported as Metropolitan updates its Integrated Water Resources Plan, emphasizing the need for local resources and conservation.
- Communications Technology** - Effective automation and interactive technology are keys to increasing the efficiency of Metropolitan's business processes and communications with the Board, member agencies, and internal, as well as external, communications with legislators, media, and the public.
- Workforce** - Metropolitan will continue to invest in its employees to prepare for changes in the workforce as long-term employees begin to retire and new employees are hired. Training and recruitment will be critical as the water supply, treatment, and delivery system become more complicated.
- Business Processes** - Metropolitan is committed to minimizing its resource use and environmental impacts associated with its day-to-day business functions. Metropolitan will continue to seek ways to use renewable energy resources at its facilities, reduce the waste stream associated with Metropolitan's activities, and implement water-use efficiency measures at all of its facilities.
- Finance** - The foundation for Metropolitan's success in securing water supplies is its strong financial standing. As has been noted over the past several months, the next two years will be especially challenging. As described in Board Letter 8-2, which includes the General Manager's recommended rates and charges, water rates and charges will have to rise in the next three years to cover rising energy costs, higher water supply costs, additional treatment costs, and the increasing debt service associated with funding Metropolitan's ongoing CIP.

In 2008/09, Metropolitan will face many of the same challenges it faces today, including continued challenges to Colorado River supplies; an uncertain outlook for State Water Project (SWP) supplies, especially in light of below-average precipitation and restrictions on Bay-Delta pumping beginning in 2008 resulting from the court ruling on California ESA litigation; regional support for ongoing member agency efforts to develop conservation, recycling, groundwater recovery, and seawater desalination; managing Metropolitan’s extensive CIP supporting continued water supply reliability and quality for Southern California; managing Metropolitan’s real property assets; and providing necessary training and support for our workforce.

**FY 2008/09 BUDGET SUMMARY**

The proposed 2008/09 budget reflects input from the Board and member agencies since the January letter and, as summarized in Table 1, totals \$1.93 billion, including capital expenditures of \$468.9 million. This is \$88.1 million greater than the 2007/08 budget. Metropolitan has lost a substantial portion of its SWP water allocation because of the critically dry conditions and the court-imposed cutback in SWP deliveries from the Sacramento-San Joaquin Delta. In addition, with the Colorado River watershed having endured its eighth year of drought, Colorado River surplus supplies will not be made available to Metropolitan in 2008. Metropolitan must continue to work creatively with its member agencies to manage these challenges as well as the rising cost of energy, implementing and financing the capital investment program, and operating and maintaining new infrastructure.

In trying to meet the challenge of providing reliable, high quality water at reasonable rates, projects in the CIP were prioritized and scheduled with resources applied toward those deemed most critical. As a result, the 2008/09 \$468.9 million CIP includes approximately 20 major construction contracts planned to be underway, dozens more projects at various levels of completion by Metropolitan forces, and over 300 active projects in 66 programs. In addition, almost \$40 million of capital expenditures were deferred or eliminated from the three-year forecast period between 2007/08 and 2009/10.

In the area of operations and maintenance (O&M), the 2008/09 budget is \$8.9 million or 2.7 percent higher than the \$334.1 million 2007/08 budget. This compares to a 3.2 percent increase in 2007/08, an 11.6 percent increase in 2006/07, a 2.6 percent increase in 2005/06, and a flat budget in 2004/05. The O&M budget has increased at an annual average rate of about 3.9 percent per year since 2003/04. This information is discussed more fully later in this letter and in the 2008/09 Proposed Budget Summary ([Attachment 1](#)).

**Table 1. Budget Summary – Total Expenditures**

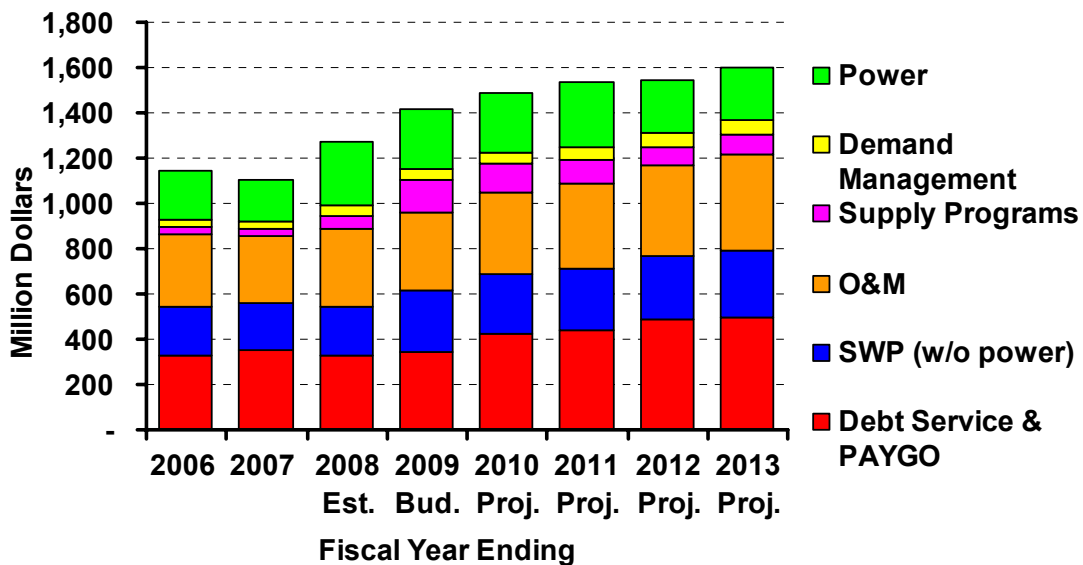
	2006/07 Actual	2007/08 Budget	2007/08 Projected	2008/09 Budget	2008/09 Budget	
					2007/08 Budget	2007/08 Projected
<b>Expenditures</b>						
State Water Contract	\$ 370.1	\$ 448.0	\$ 479.0	\$ 488.6	\$ 40.6	\$ 9.6
Supply Programs	38.3	58.5	76.5	147.2	88.6	70.6
Colorado River Power	21.5	27.2	22.4	45.9	18.7	23.5
Debt Service	258.8	281.7	279.5	315.7	34.0	36.2
Demand Management	36.5	42.9	44.2	53.7	10.7	9.5
Departmental O&M	261.0	280.2	283.6	290.6	10.3	7.0
Treatment Chemicals, Solids & Power	35.9	36.2	33.4	35.0	(1.1)	1.6
Other O&M	12.3	17.7	29.1	17.4	(0.3)	(11.7)
<b>Sub-total Expenditures</b>	<b>1,034.5</b>	<b>1,192.6</b>	<b>1,247.7</b>	<b>1,394.1</b>	<b>201.5</b>	<b>146.4</b>
<b>Capital Investment Plan</b>	<b>566.6</b>	<b>498.4</b>	<b>422.3</b>	<b>468.9</b>	<b>(29.6)</b>	<b>46.6</b>
<b>Fund Deposits</b>	<b>581.0</b>	<b>149.8</b>	<b>128.9</b>	<b>66.0</b>	<b>(83.9)</b>	<b>(63.0)</b>
<b>TOTAL Expenditures, CIP &amp; Fund Deposits</b>	<b>\$ 2,182.2</b>	<b>\$ 1,840.8</b>	<b>\$ 1,798.9</b>	<b>\$ 1,928.9</b>	<b>\$ 88.1</b>	<b>\$ 130.0</b>

Totals may not foot due to rounding.

**BUDGET TREND**

To provide a longer-term picture of Metropolitan’s costs, Figure 1 shows the major expenditure categories over the past two years, the estimate for the current fiscal year, as well as the projection for the following four years. From 2005/06 through 2011/13, expenditures are forecasted to increase by about \$458.1 million, or about 4.9 percent annually. The primary cost drivers from 2008/09 to 2011/13 are a \$151.8 million increase in debt service costs & PAYG capital financing, \$74.4 million increase in O&M due to inflation and salary and benefit cost increases, and a \$24.8 million increase in SWP capital, OMP&R and on-aqueduct power costs. Ongoing investments in demand management programs are expected to increase \$9.8 million during this period. Supply program costs are expected to decrease by about \$43.8 million attributable to reduced expenditures as near-term projects address issues in the Bay-Delta, resulting in more SWP supplies. Power on the SWP and the Colorado River Aqueduct (CRA) are expected to decrease \$29.8 million as a result of a shift of water from the SWP to the CRA, and an assumed escalation of 2.5 percent annually for market power.

**Figure 1. Expenditure Trend**



**USES OF FUNDS**

**Total**

As shown in Table 2, the total FY 2008/09 uses of funds are budgeted at \$1.93 billion, an increase of \$88.1 million (4.8 percent) from the 2007/08 budget. Total cash outlays for State Water Contract (SWC) payments, supply programs, CRA power, debt service, demand management programs, O&M, and the CIP are budgeted at \$1.86 billion. This is \$172 million (10.2 percent) greater than the 2007/08 budget and \$193 million (11.4 percent) greater than projected. Under this financing package, \$30 million of water revenues fund PAYGO. This is \$55 million less than 2007/08 Budget, and \$60 million less than shown in the January 2008 draft budget.

**State Water Project**

SWC costs are estimated to be \$40.6 million higher than the 2007/08 budget. Power costs on the SWP are estimated to be \$216.2 million for the delivery of about 1.58 million acre-feet into the service area. Under the contract, Metropolitan is responsible for payment for 1.46 million acre-feet (Coachella Valley Water District and Desert Water Agency are responsible for the majority of the remaining 0.12 million acre-feet under terms of the exchange agreement). The estimated average cost of power is about \$148 per acre-foot, 6 percent higher than in the 2007/08 budget.

**Supply Programs**

Supply programs are estimated to be \$88.6 million higher than the 2007/08 budget. The increase is due primarily to the anticipated cost of water transfers from Northern California, as a result of the federal court ruling restricting pumping on the SWP, including payments for additional water under the San Bernardino Valley Municipal Water District agreement.

**CRA Power**

CRA power costs are expected to be \$45.9 million based on pumping 882 thousand acre-feet at Whitsett Intake Pumping Plant. This is an increase of \$18.7 million from the 2007/08 budget, which included the diversion of 732 thousand acre-feet, a 20 percent increase in volume. This increase from the 2007/08 budget reflects the higher pumping rate, buying more supplemental power at higher market rates, and also somewhat higher unit prices for our cost-based resources (Hoover and Parker).

**Conservation and Recycled Water**

Total demand management costs are budgeted at \$53.7 million, \$10.7 million higher than the 2007/08 budget, and include incentive payments made under Metropolitan's Local Resources Program (LRP) of \$32.6 million and \$20.1 million for the Conservation Credits Program. The Board also requested that External Affairs continue its conservation messaging and advertising in 2008/09 in light of the dry-year outlook and SWP supply uncertainties.

**Operations and Maintenance**

O&M costs for 2008/09, including operating equipment, are expected to increase by about \$8.9 million (2.7 percent) from the 2007/08 budget. This increase is lower than the 3.6 percent regional rate of inflation for the five years ending July 31, 2007. Labor costs are estimated to increase by \$8.5 million (4.0 percent) as compared to the 2007/08 budget to allow for merit and benefit cost increases. An additional \$4.9 million for the Quagga Mussel Control Program and \$1.6 million as part of the Cargill settlement is also included in the 2008/09 budget. Offsetting these increases is a reduction of \$1 million reflecting completion of the PC Replacement Program and a reduction of \$0.7 million in operating equipment expenditures. The remainder of the decrease is due to a variety of cost control measures including reductions in the use of temporary employees, association dues expenses, and employee performance program costs. Additionally, the 2008/09 budget includes \$10.6 million for continued conservation program efforts to increase public awareness of water issues, \$1.1 million to support emergency management efforts, \$0.9 million for staff efforts on water transfer programs, and almost \$0.7 million to cover basic operation and maintenance of the Center for Water Education facility.

The total personnel complement for 2008/09 is 2,052 positions, decreasing by 17 positions from the 2007/08 budget. Any significant changes in personnel will be dependent on long-range staffing plan inputs related primarily to CIP impacts and a continued emphasis on maintenance management best practices.

**Capital Investment Plan**

The 2008/09 CIP is \$468.9 million, or \$29.5 million lower than the 2007/08 budget. Continuing to meet the financing requirements of the ongoing CIP will nonetheless result in an increase in debt service costs of \$31 million next year. The CIP includes over 300 active projects in 66 programs with approximately 20 major construction contracts and dozens more projects by Metropolitan forces planned. Major expenditures include: treatment plant improvements (\$193.5 million) including the Oxidation Retrofit Program and the Skinner Expansion Project; 138 replacement and refurbishment projects (\$80.4 million); Perris Valley Pipeline

(\$61.7 million); the Inland Feeder Project (\$61.4 million); and the North Reach of San Diego Pipeline No. 6 (\$3.6 million).

## **SOURCES OF FUNDS**

As shown in Table 2, FY 2008/09 sources of funds will total \$1.93 billion. This includes receipts of \$1.67 billion, with water sales receipts of \$1.02 billion accounting for 61 percent of receipts. These receipts are based on projected water sales of 2.23 million acre-feet and include an increase in base rates and charges of 9.8 percent, plus a \$25 per acre-foot Water Supply Surcharge, effective January 1, 2009. The combined impact of these rate changes will result in a total revenue increase of 14.3 percent beginning January 1, 2009. Included in the 9.8 percent base increase is an increase in the readiness-to-serve charge of \$10 million, to \$92 million. Other revenues include readiness-to-serve charge revenues of \$86 million, revenues from the capacity charge of \$32.7 million, and tax and annexation revenues of about \$96.9 million. Interest earnings are expected to be about \$7.7 million lower than the 2007/08 budget, reflecting lower estimated fund balances. Power and other miscellaneous receipts are expected to generate about \$42.3 million.

Capital projects will be funded from a combination of existing bond funds and revenues. Fund withdrawals from the Refurbishment and Replacement and General Fund will provide \$30 million. The remaining CIP funding requirements will be met from existing bond funds (\$378.9 million) and Proposition 50 grants (\$60 million).

With the proposed increase in base rates and charges in 2009, about \$116.5 million would be drawn from the Water Rate Stabilization Fund, Revenue Remainder Fund, and Water Stewardship Fund to offset the need for greater rate increases. These withdrawals are expected to push reserves \$21.2 million below the Board's minimum targets by the end of fiscal year 2008/09 (including Water Stewardship Fund). In order to increase fund balances, higher rates and charges, reduced capital funding, or lower expenditures will be required.

Debt service coverage ratios in 2008/09 are also expected to be below the stated objective of 2 times, but are expected to increase up to 2.37 as water sales increase and anticipated water rate increases are implemented. The fixed charge coverage ratio is expected to be approximately 1.0 times, lower than the 1.20 times target, further reflecting the drawdown of reserve funds.

**Table 2. 2008/09 Annual Budget Uses and Sources of Funds – Cash Basis (Dollars in Millions)**

	2006/07 Actual	2007/08 Budget	2007/08 Projected	2008/09 Budget	2008/09 Budget Compared to	
					2007/08 Budget	2007/08 Projected
<b>USES OF FUNDS</b>						
<b>Expenditures</b>						
State Water Contract	\$ 370.1	\$ 448.0	\$ 479.0	\$ 488.6	\$ 40.6	\$ 9.6
Supply Programs	38.3	58.5	76.5	147.2	88.6	70.6
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Other O&M	12.3	17.7	29.1	17.4	(0.3)	(11.7)
<b>Sub-total Expenditures</b>	<b>1,034.5</b>	<b>1,192.6</b>	<b>1,247.7</b>	<b>1,394.1</b>	<b>201.5</b>	<b>146.4</b>
<b>Capital Investment Plan</b>	<b>566.6</b>	<b>498.4</b>	<b>422.3</b>	<b>468.9</b>	<b>(29.6)</b>	<b>46.6</b>
<b>Fund Deposits</b>						
R&R and General Fund	95.0	85.0	45.0	30.0	(55.0)	(15.0)
Revenue Bond Construction	385.6	-	-	-	-	-
Water Stewardship Fund	4.2	-	-	-	-	-
Interest for Construction & Trust Funds	7.3	13.6	11.8	4.7	(8.9)	(7.1)
Increase in Required Reserves	63.3	51.2	72.2	31.2	(20.0)	(40.9)
Increase in Rate Stabilization Fund	25.6	-	-	-	-	-
<b>Sub-total Fund Deposits</b>	<b>581.0</b>	<b>149.8</b>	<b>128.9</b>	<b>66.0</b>	<b>(83.9)</b>	<b>(63.0)</b>
<b>TOTAL USES OF FUNDS</b>	<b>\$ 2,182.2</b>	<b>\$ 1,840.8</b>	<b>\$ 1,798.9</b>	<b>\$ 1,928.9</b>	<b>\$ 88.1</b>	<b>\$ 130.0</b>
<b>SOURCES OF FUNDS</b>						
<b>Receipts</b>						
Taxes	\$ 99.5	\$ 93.7	\$ 93.8	\$ 94.4	\$ 0.7	\$ 0.5
Annexations	1.5	2.5	2.5	2.5	-	-
Interest Income	33.9	52.3	52.0	44.6	(7.7)	(7.4)
Hydro Power	44.9	45.1	42.0	35.2	(9.9)	(6.7)
Fixed Charges (RTS & Capacity Charge)	113.1	114.7	114.7	119.7	5.0	5.0
Water Sales Revenue	891.5	928.6	988.1	1,022.1	93.6	34.1
Miscellaneous Revenue	6.4	6.3	7.0	7.1	0.8	0.1
Bond Proceeds and Reimbursements (1)	854.3	-	-	342.5	342.5	342.5
<b>Sub-total Receipts</b>	<b>2,045.2</b>	<b>1,243.1</b>	<b>1,300.0</b>	<b>1,668.1</b>	<b>424.9</b>	<b>368.0</b>
<b>Fund Withdrawals</b>						
Water Transfer Fund	12.9	20.0	20.0	7.8	(12.2)	(12.2)
R&R and General Fund	124.0	109.8	45.0	30.0	(79.8)	(15.0)
Bond Funds for Construction (2)	-	388.7	377.3	106.6	(282.0)	(270.7)
Water Stewardship Fund	-	0.8	7.1	15.1	14.3	8.1
Decrease in Required Reserves (3)	-	-	-	26.6	26.6	26.6
Decrease in Rate Stabilization Fund (4)	-	78.5	49.5	74.7	(3.8)	25.1
<b>Sub-total Fund Withdrawals</b>	<b>136.9</b>	<b>597.7</b>	<b>498.9</b>	<b>260.9</b>	<b>(336.8)</b>	<b>(238.1)</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 2,182.2</b>	<b>\$ 1,840.8</b>	<b>\$ 1,798.9</b>	<b>\$ 1,928.9</b>	<b>\$ 88.1</b>	<b>\$ 130.0</b>

(1) 2006/07 includes bond proceeds from the sale of \$800 million of new money revenue bonds; proceeds for revenue reserve fund requirements from refunding bonds; and member agency reimbursements for construction.

(2) 2008/09 includes \$60 million from Proposition 50.

(3) In 2008/09, the Revenue Remainder Fund is expected to be drawn down \$26.6 million.

(4) In 2008/09, the Water Rate Stabilization Fund is expected to be drawn down to zero, with a \$74.7 million withdrawal.

Totals may not foot due to rounding.

## RESERVES

The maximum reserve level target for the Water Rate Stabilization and Revenue Remainder funds on June 30, 2009 is estimated to be about \$478.2 million. This includes the staff recommendation to reduce PAYG funding for capital in 2007/08 to \$45 million and to \$30 million in 2008/09. This recommendation leads to higher reserve balances. It is further recommended that PAYG funding be raised to \$95 million in 2009/10 and 2010/11, and increased to \$125 million in the following years. As noted in the recommended action, if water sales are higher than anticipated, staff would bring back a recommended funding level for board consideration. Based on projected receipts and expenditures, it is estimated that the total balance in the Water Rate Stabilization, Revenue Remainder, and Water Stewardship funds will be \$181.2 million on June 30, 2009, which is \$21.2 million under the minimum reserve level and below the Board's reserve policy guidelines (including Water Stewardship funds). Total fund balances are estimated to be \$910.9 million on June 30, 2009.

**Attachment 1**, 2008/09 Proposed Budget Summary, discusses the sources of funds including receipts and fund withdrawals and uses of funds including expenditures and fund deposits.

## Policy

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Metropolitan Water District Administrative Code Section 5107: Annual Budget

### California Environmental Quality Act (CEQA)

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CEQA determination for Options #1 and #2:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). For those anticipated projects listed in the budget that may require subsequent board approval, a CEQA review will be carried out and, if appropriate, environmental documentation for such projects will be prepared and processed in accordance with CEQA and the State CEQA Guidelines.

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

## Board Options

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### Option #1

Adopt the CEQA determination and

- a. Approve the 2008/09 Budget;
- b. Appropriate \$1.08 billion for the projected annual cash outlays for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs paid from the Water Transfer Fund;
- c. Appropriate as continuing appropriations, \$315.7 million for 2008/09 debt service on Metropolitan general obligation and revenue bonds;
- d. Authorize the use of \$45 million in operating revenues to fund Replacement and Refurbishment and General Fund construction during 2007/08; and
- e. Authorize the use of \$30 million in operating revenues to fund Replacement and Refurbishment and General Fund construction and up to an additional \$65 million if water sales exceed 2.23 million acre-feet during 2008/09.

**Fiscal Impact:** \$1.42 billion

**Business Analysis:** Appropriate funds and authorize the use of those funds for the specified continuing business operations of Metropolitan

**Option #2**

Adopt the CEQA determination and approve the 2008/09 Budget with changes as recommended by the Board.


**Fiscal Impact:** Impact depends on adopted changes.

**Business Analysis:** Appropriate funds and authorize the use of those funds for business operations of Metropolitan, with changes as recommended by the Board

**Staff Recommendation**

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Option #1

  
\_\_\_\_\_  
Brian G. Thomas  
Chief Financial Officer

2/29/2008  
Date

  
\_\_\_\_\_  
Jeffrey Lightlinger  
General Manager

2/29/2008  
Date

**Attachment 1 – 2008/09 Proposed Budget Summary**

BLA #5771

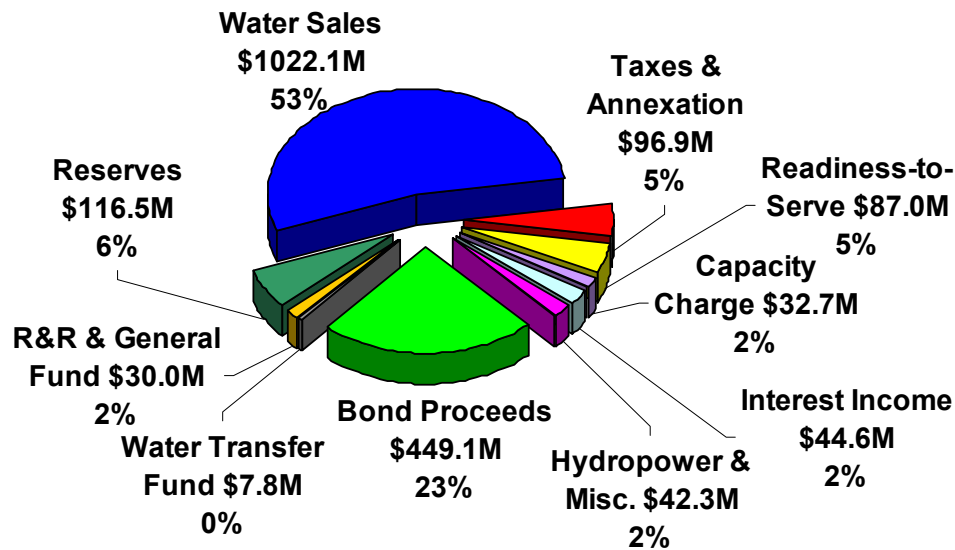


### Fiscal Year 2008/09 Budget Summary

The annual budget includes a discussion of cash basis sources and uses of funds. The budget is developed and monitored on a cash basis. This means that revenues and expenses are recognized when cash is received and

when cash is disbursed. Accrual basis accounting records, by contrast, recognize revenues and expenses in the period they are earned and incurred regardless of whether cash has been received or disbursed.

**Figure 1. 2008/09 Sources of Funds (\$1.93 billion dollars)**



### SOURCES OF FUNDS

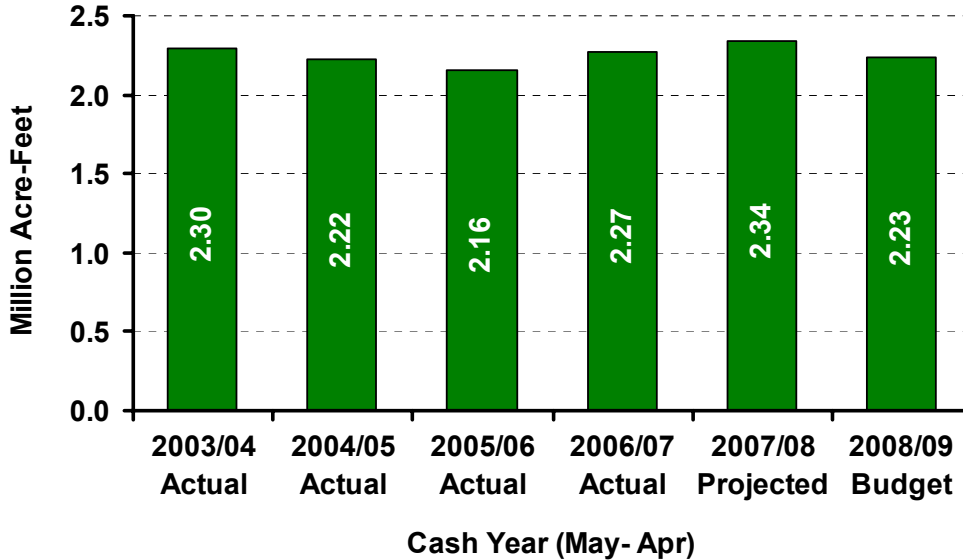
Estimated receipts from water sales, the readiness-to-serve (RTS) charge, the capacity charge, taxes, annexation fees, interest income, power recoveries, and other miscellaneous income are projected to be \$1.33 billion for fiscal year 2008/09 and constitute the major revenue sources for Metropolitan. This is \$82.4 million more than the 2007/08 Budget. The increase in revenues is due primarily to increases in water rates in 2008 and 2009. Figure 1 shows the major sources of funds. Summaries of sources and uses of funds are shown in Tables 6 and 7 at the end of this section. A description of each revenue source is included in the Glossary of Terms.

#### Water Sales

Receipts from water sales are budgeted at \$1,022.1 million and are based on rates and charges adopted by the Board for calendar year 2008 and an increase in base rates and charges (including a \$10 million increase in the readiness-to-serve charge) of 9.8 percent, plus a \$25 per acre-foot Water Supply Surcharge. The combined impact of these changes is a total increase of 14.3 percent in 2009, as shown in Table 1.

The 2009 rates shown in Table 1 reflect a \$71 per acre-foot (AF) increase in the full service Tier 1 rate and a \$10 million increase in the RTS charge. These rates do not fully recover the cost-of-service during the 2008/09 fiscal year, or in the calendar year 2009. As more fully described later in this budget summary, the difference is paid from reserves.

**Figure 2. Five-Year Trend of Water Sales**



Water sales for 2008/09 are estimated to be 2.23 million acre-feet (MAF) during the May through April period (cash year). This estimate served as the basis of the 2009 cost-of-service study and resulting water rates.

The 2008/09 cash year water sales include 2.02 MAF of firm sales, zero replenishment sales, 0.13 MAF of agricultural sales, and 0.08 MAF of exchanges under the San Diego County Water Authority (SDCWA) Exchange Agreement for the SDCWA/Imperial Irrigation District (IID) transfer. Treated sales are estimated to be 1.30 MAF or 58 percent of total sales. Figure 2 shows the five-year trend of water sales.

**Taxes and Annexation Fees**

Revenues from taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the SWC, are estimated to be \$96.9 million.

**Capacity and Readiness-to-Serve Charges**

The Capacity Charge and Readiness-to-Serve Charge for 2008/09 is estimated to generate \$119.7 million or \$5.0 million more than the 2007/08 budget.

**Other Revenue**

Interest earnings are estimated to total \$44.6 million, including trust accounts and construction funds. This represents a \$7.7 million decrease from the 2007/08 Budget due to lower estimated fund balances. Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales are estimated to be \$35.2 million, lower by \$9.9 million due to higher flows on the CRA resulting in lower sales of supplemental power.

**Other Sources**

To meet the on-going funding requirements of the CIP, Metropolitan plans to issue \$340 million of variable rate bonds in 2008/09. \$800 million of new money revenue bonds were issued in 2006/07 to fund a portion of the Capital Investment Plan (CIP). In addition, Metropolitan expects to receive \$60 million in 2008/09 from Proposition 50 to fund a portion of the Oxidation Retrofit

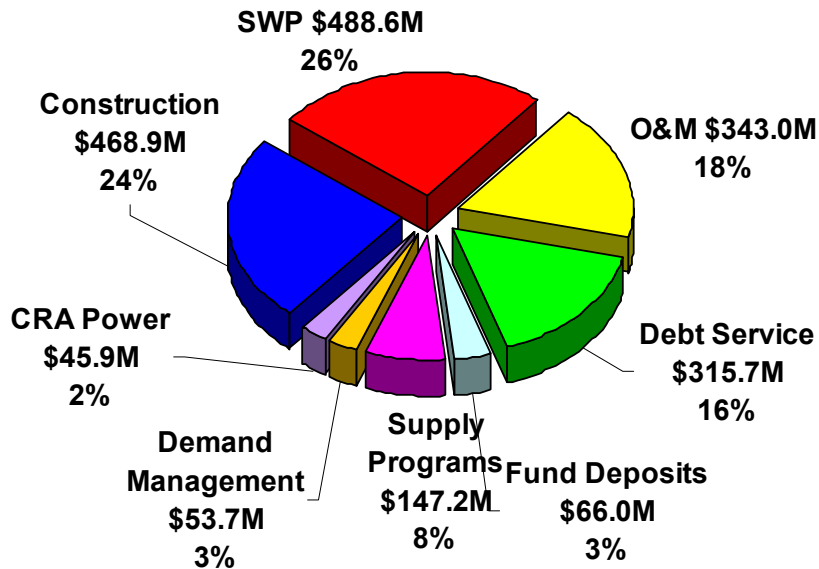
Program. The remaining CIP funding requirements will be met from existing bond funds (\$378.9 million), and current operating funds (\$30.0 million from the Replacement & Refurbishments (R&R) and General Funds). Finally, about \$7.8 million will be withdrawn from the Water Transfer Fund to pay for certain water transfer and storage programs. In 2008/09, a total of \$1.93 billion will be available for expenditures and other obligations.

**Table 1. 2008/09 Water Rates and Charges**

	Effective January 1st, 2008	Estimated Effective January 1st, 2009
Tier 1 Supply Rate (\$/AF)	\$73	\$109
Tier 2 Supply Rate (\$/AF)	\$171	\$250
Drought Surcharge	\$0	\$25
System Access Rate (\$/AF)	\$143	\$143
Water Stewardship Rate (\$/AF)	\$25	\$25
System Power Rate (\$/AF)	\$110	\$110
Full Service Untreated Volumetric Cost (\$/AF)		
Tier 1	\$351	\$412
Tier 2	\$449	\$528
Replenishment Water Rate Untreated (\$/AF)	\$258	\$294
Interim Agricultural Water Program Untreated (\$/AF)	\$261	\$322
Treatment Surcharge (\$/AF)	\$157	\$167
Full Service Treated Volumetric Cost (\$/AF)		
Tier 1	\$508	\$579
Tier 2	\$606	\$695
Treated Replenishment Water Rate (\$/AF)	\$390	\$436
Treated Interim Agricultural Water Program (\$/AF)	\$394	\$465
Readiness-to-Serve Charge (\$M)	\$82	\$92
Capacity Charge (\$/cfs)	\$6,800	\$6,800

Note: 2009 Rates & Charges include a 14.3% overall increase.

**Figure 3. 2007/08 Uses of Funds (\$1.93 billion dollars)**



**USES OF FUNDS**

Total uses of funds are \$1.93 billion. Figure 3 shows the breakdown of expenditures and other obligations that make up the Uses of Funds for 2008/09.

**Colorado River Aqueduct Power**

CRA power costs are projected to be \$45.9 million based on pumping 882 thousand acre-feet (TAF) at Whitsett Intake Pumping Plant. This is \$18.7 million more than the 2007/08 budget, which included the diversion of 732 TAF. This increase from the 2007/08 budget reflects the higher pumping rate, buying more supplemental power at higher market rates, and also somewhat higher unit prices for Metropolitan’s cost-based resources (Hoover and Parker).

**State Water Contract**

State Water Contract (SWC) expenditures of \$488.6 million are budgeted to be \$40.6 million more than the current year’s budget.

SWC power costs are expected to be \$216.2 million or \$0.5 million more than the 2007/08 Budget and include the cost for

pumping about 1.46 MAF. An additional 123 TAF will be delivered through the Desert Water/Coachella Valley (DWCV) exchange and DWCV transfer. The average unit cost of SWC power is expected to be about \$148 per acre-foot, 6 percent higher than in the 2007/08 Budget.

SWC minimum operations, maintenance, power, and replacement charges are \$41.6 million higher than the 2007/08 Budget. Capital charges are expected to be \$1.5 million lower than the 2007/08 Budget.

**Demand Management Costs**

Metropolitan provides financial assistance to its member agencies for the development of local water recycling and groundwater recovery projects through the Local Resource Program (LRP). Metropolitan also provides financial assistance for the development of conservation programs through the Conservation Credits Program (CCP).

As part of the LRP, Metropolitan has entered into agreements to provide financial assistance to 62 water-recycling projects. Forty-five 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 131 TAF of recycled water, principally for landscape irrigation, groundwater recharge, and industrial uses. In 2008/09, Metropolitan is expected to spend \$23.9 million on these efforts.

Metropolitan has also entered into agreements to provide financial assistance to 24 projects to recover contaminated groundwater. Eighteen of these groundwater recovery projects are in operation and are expected to produce about 53 TAF in 2008/09 at a cost to Metropolitan of \$9.6 million.

The Conservation Credits Program (CCP) provides financial assistance to customers in Metropolitan's service area for water conservation programs. The 2008/09 budget contains \$20.1 million for the CCP to provide rebate funding for residential, commercial, industrial, and landscape conservation activities. This budget includes \$7.5 million for the recently created Accelerated Public Sector Water Efficiency Partnership Demonstration Program which provides enhanced incentives for a limited time to public agencies to encourage retrofitting old fixtures and equipment for more water efficient ones.

## **OPERATIONS AND MAINTENANCE**

The 2008/09 O&M Budget, including operating equipment purchases, is estimated to be \$343.0 million. This is \$8.9 million more than the current year budget of \$334.1 million, an increase of 2.7 percent. The O&M increase is lower than the rolling average regional

inflation of 3.6 percent for the five years ending July 31, 2007.

Labor costs, not including those charged to construction, are \$220.6 million, which is \$8.5 million, or 4.0 percent higher than the 2007/08 Budget of \$212.1 million.

Included in the 2008/09 budget is an additional \$4.9 million for the Quagga Muscle Control Program and \$1.6 million as part of the Cargill settlement. Partially offsetting these increases is a reduction of \$1.0 million reflecting completion of the PC Replacement Program, a reduction of \$0.7 million in operating equipment expenditures, and a variety of cost control measures including reductions in the use of temporary employees and association dues expenses.

The 2008/09 budget also includes \$10.6 million for continued conservation program efforts including public awareness, \$1.1 million to support emergency management efforts, \$0.9 million for staff efforts on water transfer programs, and almost \$0.7 million to cover basic operation and maintenance of the Visitors Center at Diamond Valley Lake.

A summary of the 2008/09 O&M Budget is shown in Table 2.

Figure 4 provides the distribution of departmental O&M by organization. The Water System Operations Group (WSO) accounts for 56 percent of the total departmental budget.

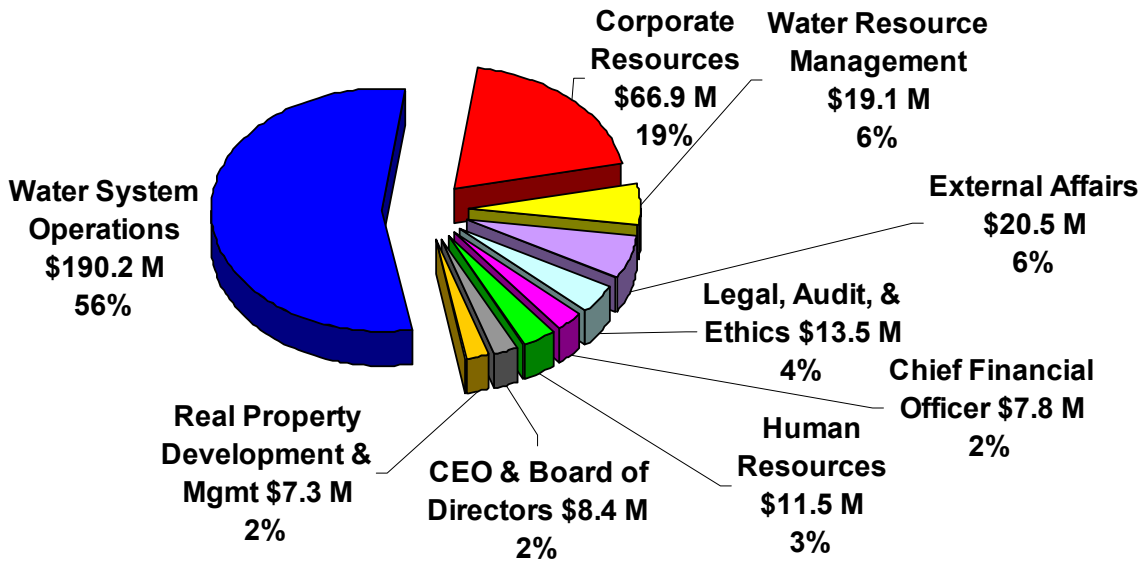
Figure 5 summarizes the total departmental budget by expenditure type, of which 61 percent is for salaries and benefits.

**Table 2. 2008/09 Operations & Maintenance Annual budget (dollars)**

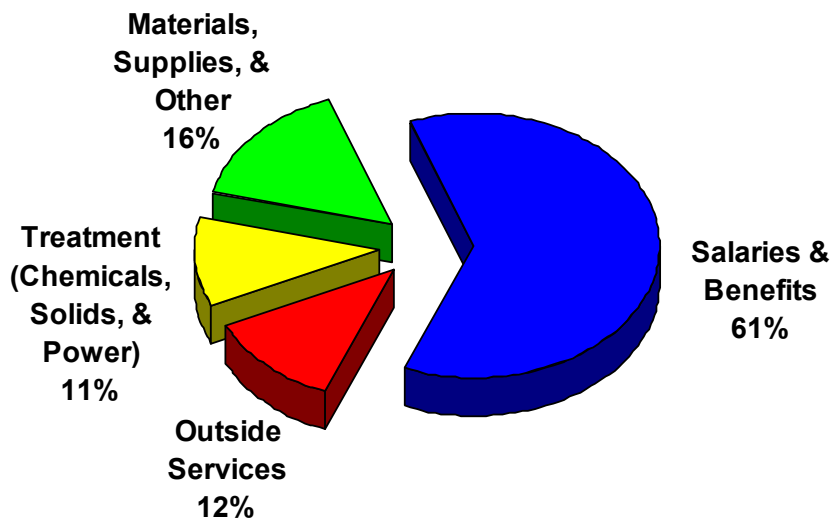
Departmental Units	2007/08 Budget	2007/08 Projected	2008/09 Budget	Change			
				2008/09 to 2007/08 Budget	%	2008/09 to 2007/08 Projected	%
Office of the General Manager	\$ 8,326,500	\$ 8,702,400	\$ 8,403,700	\$ 77,200	0.9%	\$ (298,700)	(3.4%)
Water Systems Operations	181,790,300	185,685,300	190,165,000	8,374,700	4.6%	4,479,700	2.4%
Water Resource Management	18,766,000	18,165,500	19,086,000	320,000	1.7%	920,500	5.1%
Corporate Resources	66,077,400	66,150,700	66,919,200	841,800	1.3%	768,500	1.2%
Real Property Development & Mgmt	7,302,500	6,699,900	7,304,500	2,000	0.0%	604,600	9.0%
Human Resources	11,777,700	11,477,700	11,453,500	(324,200)	(2.8%)	(24,200)	(0.2%)
Office of the Chief Financial Officer	7,430,000	7,510,600	7,839,200	409,200	5.5%	328,600	4.4%
External Affairs	20,602,700	20,034,700	20,537,000	(65,700)	(0.3%)	502,300	2.5%
<b>Subtotal - General Manager's Dep.</b>	<b>322,073,100</b>	<b>324,426,800</b>	<b>331,708,100</b>	<b>9,635,000</b>	<b>3.0%</b>	<b>7,281,300</b>	<b>2.2%</b>
General Counsel	10,165,000	10,161,600	10,165,000	-	0.0%	3,400	0.0%
General Auditor	2,819,000	2,782,600	2,719,000	(100,000)	(3.5%)	(63,600)	(2.3%)
Ethics Office	613,000	613,000	613,000	-	NA	-	NA
Overhead Credit from Construction	(19,430,100)	(21,000,000)	(19,622,700)	(192,600)	1.0%	1,377,300	(6.6%)
<b>Total Departmental Budget</b>	<b>316,240,000</b>	<b>316,984,000</b>	<b>325,582,400</b>	<b>9,342,400</b>	<b>3.0%</b>	<b>8,598,400</b>	<b>2.7%</b>
<b>Other O&amp;M</b>							
Cargill Settlement	-	15,000,000	1,604,900	1,604,900	NA	(13,395,100)	(89.3%)
PC Replacement	987,600	987,600	-	(987,600)	(100.0%)	(987,600)	(100.0%)
Performance Programs	805,100	650,900	690,800	(114,300)	(14.2%)	39,900	6.1%
Association Dues	2,200,000	1,739,100	1,875,000	(325,000)	(14.8%)	135,900	7.8%
Contingency	3,295,000	-	3,300,000	5,000	0.2%	3,300,000	NA
Leases	430,000	410,000	446,000	16,000	3.7%	36,000	8.8%
Property Tax	515,000	520,000	520,000	5,000	1.0%	-	NA
<b>Subtotal - Other</b>	<b>8,232,700</b>	<b>19,307,600</b>	<b>8,436,700</b>	<b>204,000</b>	<b>2.5%</b>	<b>(10,870,900)</b>	<b>(56.3%)</b>
<b>TOTAL OPERATIONS &amp; MAINTENANCE</b>	<b>324,472,700</b>	<b>336,291,600</b>	<b>334,019,100</b>	<b>9,546,400</b>	<b>2.9%</b>	<b>(2,272,500)</b>	<b>(0.7%)</b>
Operating Equipment	9,658,800	9,842,000	9,008,600	(650,200)	(6.7%)	(833,400)	(8.5%)
<b>GRAND TOTAL</b>	<b>\$ 334,131,500</b>	<b>\$ 346,133,600</b>	<b>\$ 343,027,700</b>	<b>\$ 8,896,200</b>	<b>2.7%</b>	<b>\$ (3,105,900)</b>	<b>(0.9%)</b>

Totals may not foot due to rounding.

**Figure 4. 2008/09 Departmental Budget by Organization**  
(without overhead credit, \$345.2 million)



**Figure 5. 2008/09 Departmental Budget by Expenditure Type**



**LABOR**

The total personnel complement (including temporary workers) for 2008/09 is 2,052 positions, down 17 positions from 2007/08. O&M personnel are up by 8 full-time-equivalent (FTE) positions to 1,694. Positions dedicated to capital work are down

25 positions. The personnel complement is broken down on Tables 3 and 4. The O&M budget includes a vacancy rate of 5.6 percent since it is not anticipated that all positions will be filled throughout the fiscal year.

**Table 3. Regular and Temporary Positions**

	<b>2005/06 Budget</b>	<b>2006/07 Budget</b>	<b>2007/08 Budget</b>	<b>2008/09 Budget</b>	<b>Change from 2007/08</b>
Regular Full Time Positions	1,965	2,024	2,021	2,021	0
District Temporary Positions	33	35	39	23	-16
Agency Temporary Positions	28	11	9	8	-1
<b>Total</b>	<b>2,026</b>	<b>2,070</b>	<b>2,069</b>	<b>2,052</b>	<b>-17</b>

**Table 4. O&M and Capital Staffing Levels**

	<b>2007/08</b>			<b>2008/09</b>		
	<b>O&amp;M</b>	<b>Capital</b>	<b>Total</b>	<b>O&amp;M</b>	<b>Capital</b>	<b>Total</b>
Regular Full Time Positions	1,656	365	2,021	1,671	350	2,021
District and Agency Temporary Positions	30	18	48	23	8	31
<b>Total</b>	<b>1,686</b>	<b>383</b>	<b>2,069</b>	<b>1,694</b>	<b>358</b>	<b>2,052</b>



## Supply Programs

Major supply program expenditures for 2008/09 are estimated to be \$147.2 million and include:

- \$50.0 million for northern California water transfers;
- \$37.7 million for the San Bernardino Valley Municipal Water District agreement, including an estimated \$25 million for the purchase of water to be used in future years;
- \$17.9 million for the Palo Verde Irrigation District (PVID) Land Management Program;
- \$11.0 million for the Kern Delta Program (deferred from 2006/07);
- \$9.7 million for operating and maintaining the IID/MWD conservation agreement;
- \$7.1 million for the Semitropic Groundwater Storage and Exchange Program;
- \$6.1 million for Colorado Programs (Multi Species Habitat Conservation Plan, Drop 2 Reservoir, & Lower Colorado Water Supply Project);
- \$4.6 million for the Arvin-Edison Storage Program;
- \$3.0 million for the O&M costs of groundwater storage programs in Metropolitan's service area.

Of the total \$147.2 million supply program cost, \$139.4 million will be funded from revenues, while \$7.8 million will be funded from the Water Transfer Fund (WTF) balance. These storage programs are expected to yield 210 TAF and generate 422 TAF of transfer water.

In accordance with Board policy, deposits to the WTF ended in 2003/04. The forecast ending balance on June 30, 2008, is \$7.8 million, and as noted above, will be depleted by June 30, 2009.

## ANNUAL CAPITAL INVESTMENT PLAN

The Capital Investment Plan (CIP) for 2008/09 is estimated to be \$468.9 million and is funded by a combination of debt and current operating revenues (R&R and General Fund). The details of each project within the CIP are discussed in the 2008/09 Capital Investment Plan Budget book.

The 2008/09 CIP is \$29.5 million lower than in 2007/08. Major CIP projects in design and/or construction include:

- \$193.5 million for improvements to Metropolitan's five treatment plants, including the Oxidation Retrofit Program (ORP) and the Treatment Plant Improvements Program;
- \$80.4 million for 138 R&R projects;
- \$61.7 million for the Perris Valley Pipeline project;
- \$61.4 million for the Inland Feeder project; and
- \$3.6 million for San Diego Pipeline No. 6.

The projects listed above account for 89 percent of the total 2008/09 CIP expenditures. Figure 5 shows the major project categories in the 2008/09 CIP.

These projects are also categorized by the service functions that are the foundation of Metropolitan's cost-of-service water rates including source of supply, conveyance, storage, treatment, distribution, and general. The 2008/09 expenditure plan by major service function is shown in Figure 6.

Figure 5. 2008/09 Capital Investment Plan by Major Project Category

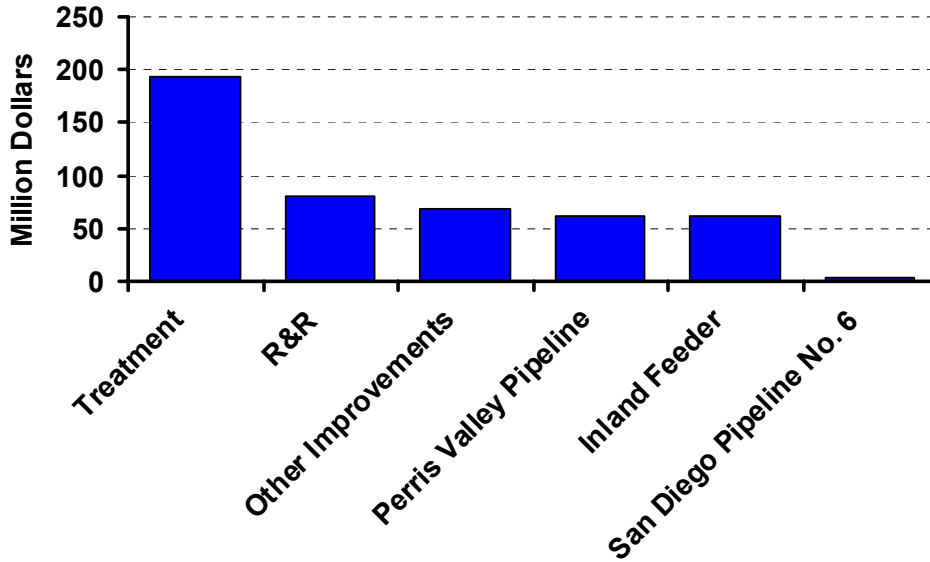
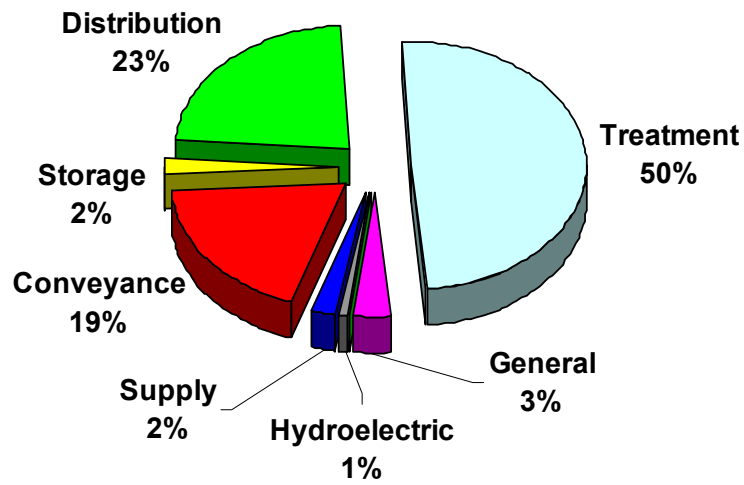


Figure 6. 2008/09 Capital Investment Plan by Service Function



### **Cash Funded Capital**

The 2008/09 CIP includes estimated R&R programs totaling \$80.4 million and an additional \$26.8 million to be paid from the General Fund. The combined cash financing from operating revenues for the R&R and General Fund will total \$30.0 million. After paying for General Fund expenditures, \$3.2 million of operating funds is available for R&R expenditures. In order to ensure a reliable delivery system, an additional \$77.2 million of R&R will be funded from bond proceeds.

### **Debt Service**

The portion of the CIP that is not funded from cash or Proposition 50 will be funded from bond proceeds. In 2008/09, \$378.9 million of capital will be funded with bond proceeds. Debt service payments are budgeted to be \$315.7 million and include \$49.3 million in G.O. bond debt service, \$258.0 million in revenue bond debt service, \$5.8 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and \$2.6 million for State Revolving Fund Loan payments. Total debt service costs are \$31.0 million more than the 2007/08 Budget.

Metropolitan currently has \$4.56 billion in outstanding debt. Of this amount, \$4.23 billion is revenue bond debt, of which 24 percent is in a variable rate mode.

Over the next five years, it is expected that an additional \$1.19 billion in debt will be issued to fund the CIP. The cost of debt over this period is assumed to be 3.3 percent and 5.0 percent for variable rate and fixed rate debt, respectively.

### **Reserve Transfers**

During the 2008/09 Budget year, the Water Rate Stabilization Fund (WRSF) is expected to be drawn down to zero with the use of \$74.7 million. In addition, the Revenue Remainder Fund is expected to be drawn down \$26.6 million and the Water Stewardship Fund (WSF) is expected to be drawn down \$15.1 million. In total, \$116.5 million is expected to be drawn from reserves (including draws on the WSF) in 2008/09.

### **FUND BALANCES AND RESERVE LEVELS**

Metropolitan operates as a single enterprise fund for financial statements and budgeting purposes. Through its administrative code, Metropolitan identifies a number of accounts, which are referred to as funds, to separately track uses of monies for specific purposes as summarized in Table 7. Fund balances are budgeted to be \$910.9 million at June 30, 2009. Of that total, \$675.6 million is restricted by bond covenants, contracts, or board policy, and \$235.3 million is unrestricted. Table 5 shows a breakdown of reserves by fund type. Figure 7 shows the distribution of funds by type.

The minimum and maximum reserve fund targets are estimated to be \$202.4 million and \$478.2 million, respectively, at June 30, 2009. Based on projected receipts and expenditures, it is estimated that the balance in the WRSF, Revenue Remainder Fund, and WSF will total about \$181.2 million.

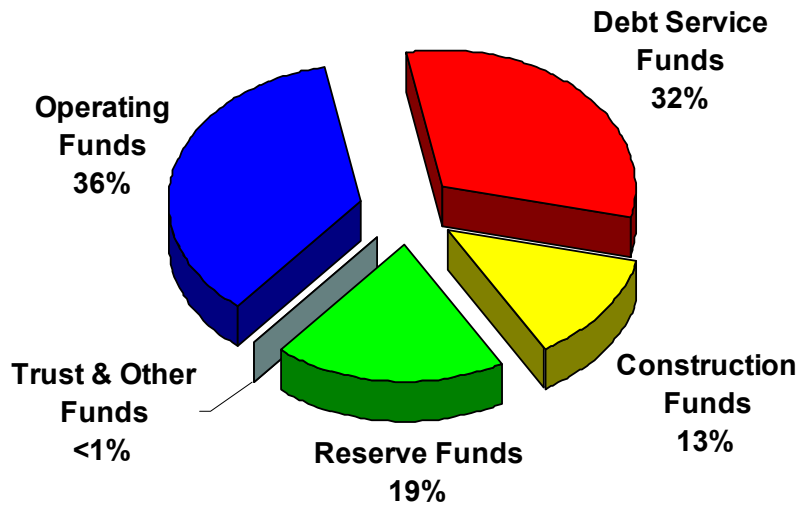
**Table 5. Projected Fund Balances at June 30, 2009 (dollars in millions)**

	Restricted		Unrestricted	Total
	Contractual	Board		
Operating Funds	218.5	110.7		329.2
Debt Service Funds	289.2			289.2
Construction Funds	56.1		62.5	118.6
Reserve Funds*			172.8	172.8
Water Transfer Fund		-		-
Trust and Other Funds	1.2			1.2
<b>Total</b>	<b>564.9</b>	<b>110.7</b>	<b>235.3</b>	<b>910.9</b>

Totals may not foot due to rounding.

\* includes Water Rate Stabilization Fund and the Revenue Remainder Fund

**Figure 7. Fund Distribution by Type at June 30, 2009**



**Table 6. 2008/09 Budget Sources and Uses of Funds (dollars in millions)**

	2006/07 Actual	2007/08 Budget	2007/08 Projected	2008/09 Budget	2008/09 Budget Compared to	
					2007/08 Budget	2007/08 Projected
<b>USES OF FUNDS</b>						
<b>Expenditures</b>						
State Water Contract	\$ 370.1	\$ 448.0	\$ 479.0	\$ 488.6	\$ 40.6	\$ 9.6
Supply Programs	38.3	58.5	76.5	147.2	88.6	70.6
Colorado River Power	21.5	27.2	22.4	45.9	18.7	23.5
Debt Service	258.8	281.7	279.5	315.7	34.0	36.2
Demand Management	36.5	42.9	44.2	53.7	10.7	9.5
Departmental O&M	261.0	280.2	283.6	290.6	10.3	7.0
Treatment Chemicals, Solids & Power	35.9	36.2	33.4	35.0	(1.1)	1.6
Other O&M	12.3	17.7	29.1	17.4	(0.3)	(11.7)
<b>Sub-total Expenditures</b>	<b>1,034.5</b>	<b>1,192.6</b>	<b>1,247.7</b>	<b>1,394.1</b>	<b>201.5</b>	<b>146.4</b>
<b>Capital Investment Plan</b>	<b>566.6</b>	<b>498.4</b>	<b>422.3</b>	<b>468.9</b>	<b>(29.6)</b>	<b>46.6</b>
<b>Fund Deposits</b>						
R&R and General Fund	95.0	85.0	45.0	30.0	(55.0)	(15.0)
Revenue Bond Construction	385.6	-	-	-	-	-
Water Stewardship Fund	4.2	-	-	-	-	-
Interest for Construction & Trust Funds	7.3	13.6	11.8	4.7	(8.9)	(7.1)
Increase in Required Reserves	63.3	51.2	72.2	31.2	(20.0)	(40.9)
Increase in Rate Stabilization Fund	25.6	-	-	-	-	-
<b>Sub-total Fund Deposits</b>	<b>581.0</b>	<b>149.8</b>	<b>128.9</b>	<b>66.0</b>	<b>(83.9)</b>	<b>(63.0)</b>
<b>TOTAL USES OF FUNDS</b>	<b>\$ 2,182.2</b>	<b>\$ 1,840.8</b>	<b>\$ 1,798.9</b>	<b>\$ 1,928.9</b>	<b>\$ 88.1</b>	<b>\$ 130.0</b>
<b>SOURCES OF FUNDS</b>						
<b>Receipts</b>						
Taxes	\$ 99.5	\$ 93.7	\$ 93.8	\$ 94.4	\$ 0.7	\$ 0.5
Annexations	1.5	2.5	2.5	2.5	-	-
Interest Income	33.9	52.3	52.0	44.6	(7.7)	(7.4)
Hydro Power	44.9	45.1	42.0	35.2	(9.9)	(6.7)
Fixed Charges (RTS & Capacity Charge)	113.1	114.7	114.7	119.7	5.0	5.0
Water Sales Revenue	891.5	928.6	988.1	1,022.1	93.6	34.1
Miscellaneous Revenue	6.4	6.3	7.0	7.1	0.8	0.1
Bond Proceeds and Reimbursements (1)	854.3	-	-	342.5	342.5	342.5
<b>Sub-total Receipts</b>	<b>2,045.2</b>	<b>1,243.1</b>	<b>1,300.0</b>	<b>1,668.1</b>	<b>424.9</b>	<b>368.0</b>
<b>Fund Withdrawals</b>						
Water Transfer Fund	12.9	20.0	20.0	7.8	(12.2)	(12.2)
R&R and General Fund	124.0	109.8	45.0	30.0	(79.8)	(15.0)
Bond Funds for Construction (2)	-	388.7	377.3	106.6	(282.0)	(270.7)
Water Stewardship Fund	-	0.8	7.1	15.1	14.3	8.1
Decrease in Required Reserves (3)	-	-	-	26.6	26.6	26.6
Decrease in Rate Stabilization Fund (4)	-	78.5	49.5	74.7	(3.8)	25.1
<b>Sub-total Fund Withdrawals</b>	<b>136.9</b>	<b>597.7</b>	<b>498.9</b>	<b>260.9</b>	<b>(336.8)</b>	<b>(238.1)</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 2,182.2</b>	<b>\$ 1,840.8</b>	<b>\$ 1,798.9</b>	<b>\$ 1,928.9</b>	<b>\$ 88.1</b>	<b>\$ 130.0</b>

(1) 2006/07 includes bond proceeds from the sale of \$800 million of new money revenue bonds; proceeds for revenue reserve fund requirements from refunding bonds; and member agency reimbursements for construction.

(2) 2008/09 includes \$60 million from Proposition 50.

(3) In 2008/09, the Revenue Remainder Fund is expected to be drawn down \$26.6 million.

(4) In 2008/09, the Water Rate Stabilization Fund is expected to be drawn down to zero, with a \$74.7 million withdrawal.

Totals may not foot due to rounding.

**Table 7 2008/09 Sources and Uses by Fund (dollars in millions)**

Fiscal Year Ending June 30th, 2009 (\$ in Millions)	All Funds	Operating Funds								Debt Service Funds	Reserve Funds (1)	Construction Funds		Trust & Other Funds
		General	Water Revenue	O&M	Water Standby	Water Transfer	Water Stewardship	Self-Insured Retention	State Contract			R&R	Revenue Bond Construction	
<b>Beginning of Year Balance</b>	<b>1,105.8</b>	<b>56.4</b>	-	<b>166.2</b>	<b>0.4</b>	<b>7.8</b>	<b>23.6</b>	<b>25.6</b>	<b>70.8</b>	<b>259.3</b>	<b>274.1</b>	<b>62.5</b>	<b>158.0</b>	<b>1.1</b>
<b>USES OF FUNDS</b>														
<b>Expenditures</b>														
State Water Contract	488.6	-	-	335.8	-	-	-	-	152.8	-	-	-	-	-
Supply Programs	147.2	-	-	-	-	147.2	-	-	-	-	-	-	-	-
Colorado River Power	45.9	-	-	45.9	-	-	-	-	-	-	-	-	-	-
Debt Service	315.7	2.6	-	5.8	-	-	-	-	-	307.3	-	-	-	-
Demand Management	53.7	-	-	53.7	-	-	-	-	-	-	-	-	-	-
Departmental O&M	290.6	-	-	290.6	-	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	35.0	-	-	35.0	-	-	-	-	-	-	-	-	-	-
Other O&M	17.4	9.0	-	8.4	-	-	-	-	-	-	-	-	-	-
<b>Sub-total Expenditures</b>	<b>1,394.1</b>	<b>11.6</b>	-	<b>775.2</b>	-	<b>147.2</b>	-	-	<b>152.8</b>	<b>307.3</b>	-	-	-	-
<b>Capital Investment Plan</b>	<b>468.9</b>	<b>26.9</b>	-	-	-	-	-	-	-	-	-	<b>3.1</b>	<b>438.9</b>	-
<b>Fund Deposits</b>														
R&R and General Fund	30.0	26.9	-	-	-	-	-	-	-	-	-	3.1	-	-
Revenue Bond Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	4.7	-	-	-	-	-	-	-	-	-	-	-	4.7	0.1
Increase in Required Reserves	31.2	-	-	(4.1)	-	-	-	-	5.5	29.8	-	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total Fund Deposits</b>	<b>66.0</b>	<b>26.9</b>	-	<b>(4.1)</b>	-	-	-	-	<b>5.5</b>	<b>29.8</b>	-	<b>3.1</b>	<b>4.7</b>	<b>0.1</b>
<b>TOTAL USES OF FUNDS</b>	<b>1,928.9</b>	<b>65.4</b>	-	<b>771.1</b>	-	<b>147.2</b>	-	-	<b>158.3</b>	<b>337.1</b>	-	<b>6.2</b>	<b>443.5</b>	<b>0.1</b>
<b>SOURCES OF FUNDS</b>														
<b>Receipts</b>														
Taxes	94.4	-	-	-	-	-	-	-	45.0	49.4	-	-	-	-
Annexations	2.5	-	-	-	-	-	-	-	2.5	-	-	-	-	-
Interest Income	44.6	2.5	-	7.3	0.0	0.2	0.7	1.1	3.3	12.2	9.7	2.8	4.7	0.1
Hydro Power	35.2	-	24.7	10.5	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	119.7	-	119.7	-	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,022.1	-	1,022.1	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	7.1	7.1	-	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	342.5	-	-	-	-	-	-	-	-	10.2	-	-	332.2	-
<b>Sub-total Receipts</b>	<b>1,668.1</b>	<b>9.6</b>	<b>1,166.5</b>	<b>17.8</b>	<b>0.0</b>	<b>0.2</b>	<b>0.7</b>	<b>1.1</b>	<b>50.8</b>	<b>71.8</b>	<b>9.7</b>	<b>2.8</b>	<b>336.9</b>	<b>0.1</b>
<b>Fund Withdrawals</b>														
Transfer Fund	7.8	-	-	-	-	7.8	-	-	-	-	-	-	-	-
R&R and General Fund	30.0	26.9	-	-	-	-	-	-	-	-	-	3.1	-	-
Bond Funds for Construction (2)	106.6	-	-	-	-	-	-	-	-	-	-	-	106.6	-
Water Stewardship Fund	15.1	-	-	-	-	-	15.1	-	-	-	-	-	-	-
Decrease in Required Reserves (3)	26.6	-	-	-	-	-	-	-	-	-	26.6	-	-	-
Decrease in Rate Stabilization Fund (4)	74.7	-	-	-	-	-	-	-	-	-	74.7	-	-	-
<b>Sub-total Fund Withdrawals</b>	<b>260.9</b>	<b>26.9</b>	-	-	-	<b>7.8</b>	<b>15.1</b>	-	-	-	<b>101.3</b>	<b>3.1</b>	<b>106.6</b>	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,928.9</b>	<b>36.5</b>	<b>1,166.5</b>	<b>17.8</b>	<b>0.0</b>	<b>8.0</b>	<b>15.8</b>	<b>1.1</b>	<b>50.8</b>	<b>71.8</b>	<b>111.1</b>	<b>5.9</b>	<b>443.5</b>	<b>0.1</b>
<b>Inter-Fund Transfers</b>	-	<b>28.8</b>	<b>(1,166.5)</b>	<b>892.7</b>	<b>(0.0)</b>	<b>(0.2)</b>	<b>(15.8)</b>	<b>(1.1)</b>	<b>107.5</b>	<b>265.3</b>	<b>(111.1)</b>	<b>0.3</b>	-	-
<b>End of Year Balance</b>	<b>910.9</b>	<b>56.4</b>	-	<b>301.5</b>	<b>0.4</b>	<b>(139.4)</b>	<b>8.4</b>	<b>25.6</b>	<b>76.3</b>	<b>289.2</b>	<b>172.8</b>	<b>62.5</b>	<b>56.1</b>	<b>1.2</b>

(1) includes Water Rate Stabilization Fund, Water Treatment Surcharge Stabilization Fund, and the Revenue Remainder Fund  
 (2) 2008/09 includes \$60 million from Proposition 50.  
 (3) In 2008/09, the Revenue Remainder Fund is expected to be drawn down \$26.6 million.  
 (4) In 2008/09, the Water Rate Stabilization Fund is expected to be drawn down to zero, with a \$74.7 million withdrawal.  
 Totals may not foot due to rounding.