



*THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA*

# **Executive Financial Report For the Three Months Ended September 30, 2008**

**Executive Financial Report**  
**Table of Contents**  
**For the Three Months Ended September 30, 2008**

<b>Schedule</b>	<b>Page No.</b>
<b>Current vs. Prior Year – Accrual Basis</b>	
Discussion and Analysis	1
Statements of Operations	2
Balance Sheets	3
<b>Cash and Investments</b>	4
<b>Actual vs. Estimate – Accrual Basis</b>	
Discussion and Analysis	5
Statement of Operations	6
O&M and Cost of Water	7
O&M Fixed and Variable Components	8
Construction Activities	9
Eligibility of Securities	10

## **Executive Financial Report For the Three Months Ended September 30, 2008 – Current vs. Prior Year Discussion and Analysis**

A summary of the accrual basis statement of operations activity for the three months ended September 30, 2008 as well as the changes in the balance sheet for September 2008 are discussed below.

### **Statements of Operations (page 2)**

Net Income of \$66.8 million was \$62.9 million less than prior year's net income of \$129.7 million. Included in the variance were \$6.3 million of lower operating revenues, \$37.0 million more in operating expenses, and \$19.6 million less in other income-net. These items are further described below.

Operating revenues for the three months ended September 30, 2008 totaled \$332.1 million and were \$6.3 million less than prior year operating revenues of \$338.4 million. The decrease was primarily due to \$7.9 million lower water sales of which \$27.8 million was due to lower volumes offset by \$19.9 million related to higher prices.

Operating expenses for the three months ended September 30, 2008 totaled \$263.0 million and were \$37.0 million higher than prior year operating expenses of \$226.0 million. This increase was due primarily to \$30.4 million of higher cost of water and \$5.3 million more in water management programs. Cost of water increased due to higher unit costs and less credits from DWR for adjustments to prior year costs. Water management programs were \$5.3 million more due to more aggressive conservation efforts, including additional incentives for the residential customer (e.g., synthetic turf).

Other income/(expense)-net of (\$2.3) million was \$19.6 million lower than prior year other income-net of \$17.3 million. This decrease was mainly due to \$28.6 million lower investment income as the result of \$21.1 million less in fair value adjustment and \$7.5 million less in interest due to lower interest rates and portfolio balances. This reduction in investment income reflected the continuing deterioration in capital markets, and includes adjustment for reductions in value of corporate notes and commercial paper held by Metropolitan (e.g., Lehman Brothers, AIG, Merrill Lynch, etc.).

### **Balance Sheets (page 3)**

At September 30, 2008, assets totaled \$11.5 billion, which were \$83.2 million higher than September 30, 2007. This variance included \$368.8 million of higher property, plant and equipment, net (PP&E) and \$77.8 million higher deferred charges and water rights, which were partially offset by \$357.7 million less in cash and investments. The higher PP&E was primarily due to construction progress on the Oxidation Retrofit programs, Inland Feeder, Perris Valley Pipeline, Treatment Plant Improvement programs, and the Chlorine Containment and Handling facilities program. The increase in deferred charges and water rights included \$50.1 million higher State Water Contract OMP&R costs, \$28.7 million for the Drop 2 reservoir, and \$24.6 million in various water transfer programs; partially offset by \$26.9 million of lower water storage program costs (e.g., Arvin-Edison, Semitropic). The \$357.7 million decrease in cash and investments was due primarily to construction expenditures.

Liabilities totaled \$5.6 billion at September 30, 2008, which were \$29.3 million less than September 30, 2007. This decrease included \$91.1 million less of long-term debt due to principal paydowns and refundings of debt, partially offset by \$60.5 million higher State Water Contract obligations.

# The Metropolitan Water District of Southern California

## Statements of Operations - Accrual Basis (Dollars in millions)

	For the Three Months Ended September 30,		<i>Favorable/ (Unfavorable) Variance</i>
	2008	2007	
<b>Operating Revenues:</b>			
Water Sales	\$ 289.9	\$ 297.8	\$ (7.9)
Wheeling / Exchange	5.2	4.6	0.6
Readiness-to-Serve	21.8	20.5	1.2
Capacity Charge	8.2	8.1	0.1
Power Sales	7.0	7.4	(0.4)
<b>Total Operating Revenues</b>	<b>332.1</b>	<b>338.4</b>	<b>(6.3)</b>
<b>Operating Expenses:</b>			
Cost of Water	105.4	74.9	(30.4)
Operations & Maintenance	84.6	82.1	(2.5)
Water Management Programs	16.7	11.4	(5.3)
Depreciation & Amortization	56.4	57.6	1.2
<b>Total Operating Expenses</b>	<b>263.0</b>	<b>226.0</b>	<b>(37.0)</b>
<b>Net Operating Income</b>	<b>69.1</b>	<b>112.4</b>	<b>(43.3)</b>
<b>Other Income (Expense):</b>			
Net Taxes/Annexations	26.8	25.6	1.2
Investment Income <sup>(1)</sup>	(5.3)	23.3	(28.6)
Bond Interest Expense	(23.3)	(30.6)	7.3
Other	(0.5)	(1.0)	0.5
<b>Total Other Income/(Expense) - Net</b>	<b>(2.3)</b>	<b>17.3</b>	<b>(19.6)</b>
<b>Net Income</b>	<b>\$ 66.8</b>	<b>\$ 129.7</b>	<b>\$ (62.9)</b>

### Sales Statistics

Water Sales (TAF)	658.1	720.7	(62.5)
Wheeling/Exchange (TAF)	18.6	17.9	0.7
Power Sales (mWh)	106.3	129.8	(23.5)
Average Sales Price <sup>(2)</sup>			
Water Sales	\$ 440.51	\$ 413.23	\$ 27.29
Wheeling/Exchange	\$ 279.79	\$ 258.00	\$ 21.79
Power Sales	\$ 0.07	\$ 0.06	\$ 0.01

### Ratios:

Fixed Charge Coverage (rolling 12 months) - Cash Basis:

Actual	1.17 x	1.66 x
Target	≥ 1.20 x	≥ 1.20 x

Revenue Bond Debt Service Coverage (rolling 12 months) - Cash Basis:

Actual	1.61 x	2.14 x
Target	> 2.00 x	> 2.00 x

### Notes:

- (1) Includes fair value adjustment of (\$15.3) million and \$5.8 million at September 30, 2008 and 2007, respectively.
- (2) Average prices calculated using exact rather than rounded dollar amounts.
- (3) Totals may not foot / cross foot due to rounding.

# The Metropolitan Water District of Southern California

## Balance Sheets - Accrual Basis (Dollars in millions)

	September 30, 2008	September 30, 2007	<i>Increase/ (Decrease)</i>
<b>Assets:</b>			
Cash and investments at book value <sup>(1)</sup>	\$ 908.5	\$ 1,266.3	\$ (357.7)
Fair Value Adjustment	(13.3)	4.9	(18.3)
Accounts Receivable	382.4	387.3	(4.9)
Property, Plant and Equipment, net	7,577.2	7,208.5	368.8
Prepaid State Water Project Costs, net	1,669.4	1,652.6	16.9
Participation Rights, net	251.7	259.0	(7.3)
Deferred Charges and Water Rights	531.0	453.2	77.8
Other	165.5	157.5	8.0
<b>Total Assets</b>	<b>\$ 11,472.4</b>	<b>\$ 11,389.3</b>	<b>\$ 83.2</b>
<b>Liabilities and Equity:</b>			
Long-Term Debt	\$ 4,480.1	\$ 4,571.2	\$ (91.1)
Off-Aqueduct Power Facilities	65.1	71.0	(6.0)
Accounts Payable and Accrued Bond Interest	173.6	178.8	(5.2)
Deferred Income	160.5	153.9	6.6
State Water Project Obligations	582.3	521.8	60.5
Trust Funds and Other	94.5	88.6	5.9
<b>Total Liabilities</b>	<b>5,556.1</b>	<b>5,585.4</b>	<b>(29.3)</b>
<b>Equity</b>	<b>5,916.4</b>	<b>5,803.9</b>	<b>112.5</b>
<b>Total Liabilities and Equity</b>	<b>\$ 11,472.4</b>	<b>\$ 11,389.3</b>	<b>\$ 83.2</b>

Revenue Bond Debt as a percent of equity	Actual	71.3	%	74.5	%
	Target	< 100.0	%	< 100.0	%

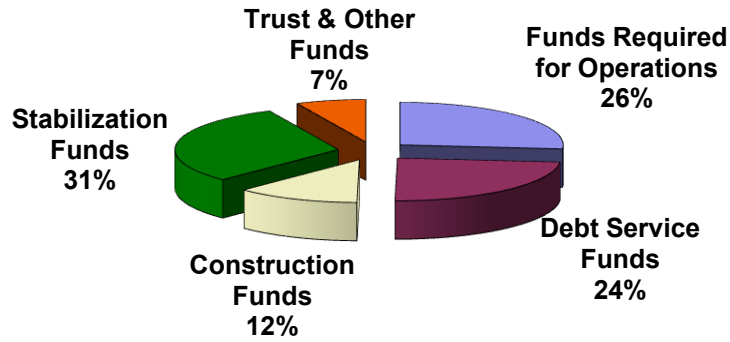
**Notes:**

- (1) Fair value of cash and investments was \$895.2 million and \$1,271.2 million at September 30, 2008 and 2007, respectively.  
(2) Totals may not foot / cross foot due to rounding.

# The Metropolitan Water District of Southern California

## Cash and Investments at Book Value As of September 30, 2008 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 172.6	\$ 67.4	\$ 0.8	\$ 240.8
Debt Service Funds	215.7	-	-	215.7
Construction Funds	90.3	-	20.8	111.1
Stabilization Funds	-	-	278.0	278.0
Trust & Other Funds	43.6	19.3	-	62.9
<b>Total</b>	<b>\$ 522.2</b>	<b>\$ 86.7</b>	<b>\$ 299.6</b>	<b>\$ 908.5</b>



## **Executive Financial Report For the Three Months Ended September 30, 2008 – Actual vs. Estimate Discussion and Analysis**

A summary of accrual basis operations and construction activity for the three months ended September 30, 2008 compared to estimate for the same period is discussed below.

### **Actual vs. Estimate (page 6)**

Net income for the three months ended September 30, 2008 was \$66.8 million, or \$1.9 million lower than the \$68.7 million estimate. Included in this variance was \$15.9 million of lower operating revenues, \$24.0 million of lower operating expenses, and \$10.0 million of lower other income-net. These items are further described below.

Operating revenues of \$332.1 million were \$15.9 million lower than the \$348.0 million estimate. This decrease was due primarily to \$11.7 million of lower than estimated water sales of which \$6.6 million was due to lower volumes and \$5.1 million related to price (untreated sales were higher and treated sales were lower than expected), and \$4.2 million less in power sales. Water sales volumes totaled 658.1 thousand acre-feet (TAF), or 14.7 TAF less than the estimate of 672.9 TAF. The power sales estimate included revenues for CRA power sales; instead these sales are recorded as a reduction of water inventory costs for accrual basis accounting.

Operating expenses of \$263.0 million were \$24.0 million lower than estimate primarily due to \$20.9 million lower cost of water and \$5.4 million less in O&M costs. The lower cost of water was due primarily to a State Water Contract credit of \$21.4 million for prior year adjustments which was not in the estimate. O&M was \$5.4 million less than estimate due primarily to \$2.7 million in lower chemical, utilities, and sludge removal costs due to lower State Water Project deliveries; \$2.8 million less in various other costs due to timing; which were partially offset by \$2.7 million higher personnel costs due to negotiated increases in labor contracts. Chemical costs may continue to run under estimate due to lower State Water Project deliveries.

Other income/(expense)-net totaling \$(2.3) million was \$10.0 million less than the \$7.7 million estimate. The variance is primarily due to \$16.9 million of lower than anticipated investment income, \$15.3 million related to fair value adjustment, which was not part of the estimated amount. Partially offsetting investment income was \$4.1 million lower bond interest expense due to lower variable interest rates.

### **Construction Activity (page 9)**

Construction costs for the three months ended September 30, 2008 totaled \$83.2 million, which was \$40.2 million, or thirty-three percent, under estimate. Lower than the estimate were \$9.8 million for the Riverside Treatment Plant land acquisition program, \$7.9 million for the Treatment Plant Improvement programs, and \$7.0 million for the Perris Valley Pipeline. Staff continues to evaluate options and timing associated with the acquisition of property for the future Riverside Treatment plant. Treatment Plant Improvement programs were less than estimate due to delays in construction and scope reductions. Perris Valley was lower than estimate due to contractor scheduling delays which are not expected to be caught up by year-end. Construction costs are expected to be \$406.0 million or \$62.9 million, under estimate by year-end.

The Metropolitan Water District of Southern California

Statement of Operations  
Actual vs. Estimate - Accrual Basis  
(Dollars in millions)

	For the Three Months Ended September 30, 2008				Fiscal Year Ending June 30, 2009			
	Estimate	Actual	Favorable/ (Unfavorable) Variance		Estimate	Projected	Favorable/ (Unfavorable) Variance	
			\$	%			\$	%
<b>Operating Revenues</b>								
Water Sales	\$ 301.7	\$ 289.9	\$ (11.7)	(4%)	\$ 1,024.5	\$ 965.5	\$ (59.0)	(6%)
Wheeling/Exchange	5.3	5.2	(0.1)	(1%)	23.6	23.6	-	0%
RTS	21.8	21.8	-	0%	87.0	87.0	-	0%
Capacity Charge	8.2	8.2	0.0	0%	32.7	32.7	-	0%
Power Sales	11.2	7.0	(4.2)	(37%)	35.2	28.5	(6.7)	(19%)
<b>Total Operating Revenues</b>	<b>348.0</b>	<b>332.1</b>	<b>(15.9)</b>	<b>(5%)</b>	<b>1,203.0</b>	<b>1,137.3</b>	<b>(65.7)</b>	<b>(5%)</b>
<b>Operating Expenses</b>								
Operations & Maintenance	90.0	84.6	5.4	6%	371.5	371.5	-	0%
Cost of Water	126.2	105.4	20.9	17%	438.1	447.3	(9.2)	(2%)
Water Mgt. Programs	13.3	16.7	(3.4)	(26%)	53.7	53.7	-	0%
Depreciation & Amortization	57.5	56.4	1.1	2%	230.0	230.0	-	0%
<b>Total Operating Expenses</b>	<b>287.0</b>	<b>263.0</b>	<b>24.0</b>	<b>8%</b>	<b>1,093.3</b>	<b>1,102.5</b>	<b>(9.2)</b>	<b>(1%)</b>
<b>Operating Income</b>	<b>61.0</b>	<b>69.1</b>	<b>8.1</b>	<b>13%</b>	<b>109.7</b>	<b>34.8</b>	<b>(74.9)</b>	<b>(68%)</b>
<b>Other Income/(Expense)</b>								
Net Taxes/Annexations	24.2	26.8	2.6	11%	96.9	96.9	-	0%
Investment Income	11.6	(5.3) <sup>(1)</sup>	(16.9)	(146%)	43.0	30.0	(13.0)	(30%)
Bond Interest Expense	(27.4)	(23.3)	4.1	15%	(114.6)	(114.6)	-	0%
Other	(0.8)	(0.5)	0.3	(35%)	(3.2)	(3.2)	-	0%
<b>Total Other Income(Expense)</b>	<b>7.7</b>	<b>(2.3)</b>	<b>(10.0)</b>	<b>(130%)</b>	<b>22.1</b>	<b>9.1</b>	<b>(13.0)</b>	<b>(59%)</b>
<b>Net Income</b>	<b>\$ 68.7</b>	<b>\$ 66.8</b>	<b>\$ (1.9)</b>	<b>(3%)</b>	<b>\$ 131.8</b>	<b>\$ 43.9</b>	<b>\$ (87.9)</b>	<b>(67%)</b>
<b>Sales Statistics:</b>								
Water Sales (TAF)	672.9	658.1	(14.7)	(2%)	2,138.3	2,035.9	(102.3)	(5%)
Wheeling Sales (TAF)	18.9	18.6	(0.3)	(2%)	84.9	84.6	(0.3)	(0%)

Notes:

(1) Includes fair value adjustment of (\$15.3) million not included in estimate.

(2) Totals may not foot / cross foot due to rounding.



# The Metropolitan Water District of Southern California

## Operations & Maintenance and Cost of Water Actual vs. Estimate - Accrual Basis For the Three Months Ended September 30, 2008 (Dollars in millions)

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
<b><u>Operations &amp; Maintenance</u></b>				
<b>Fixed:</b>				
Personnel	\$ 57.1	\$ 60.0	\$ (2.8)	(5%)
Materials & Supplies	4.2	3.6	0.6	14%
Professional Services	4.9	3.7	1.2	25%
Outside Non-Professional Services	4.4	3.5	0.9	21%
Other	5.4	2.5	2.8	53%
<b>Total Fixed</b>	<b>76.0</b>	<b>73.3</b>	<b>2.7</b>	<b>4%</b>
<b>Variable:</b>				
Water Treatment Chemicals	9.8	8.4	1.5	15%
Utility Costs	4.2	2.9	1.2	29%
<b>Total Variable</b>	<b>14.0</b>	<b>11.3</b>	<b>2.7</b>	<b>19%</b>
<b>Total Operations &amp; Maintenance</b>	<b>\$ 90.0</b>	<b>\$ 84.6</b>	<b>\$ 5.4</b>	<b>6%</b>
<b><u>Cost of Water</u></b>				
Cost of Water	\$ 126.2	\$ 126.7	(0.5)	(0%)
SWP Prior Year Adjustments	-	(21.4)	21.4	n/a
<b>Total Cost of Water</b>	<b>\$ 126.2</b>	<b>\$ 105.4</b>	<b>\$ 20.9</b>	<b>17%</b>

**Note:**

(1) Totals may not foot / cross foot due to rounding.

# The Metropolitan Water District of Southern California

## Operations and Maintenance Fixed and Variable Components Actual vs. Estimate - Accrual Basis For the Three Months Ended September 30, 2008 (Dollars in millions)

Component	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
<b>Fixed:</b>				
Personnel	\$57.1	\$60.0	(\$2.8)	(5%)
Professional Services	4.9	3.7	1.2	25%
Outside Non-Professional Services	4.4	3.5	0.9	21%
Materials & Supplies	4.2	3.6	0.6	14%
Communications Expense	0.9	0.6	0.3	35%
Travel Expense	0.6	0.4	0.2	36%
Training	0.3	0.1	0.1	48%
Memberships & Subscriptions	0.7	0.9	(0.2)	(37%)
Equipment Expensed	0.2	0.1	0.0	18%
Equipment Rents/Leases	0.3	0.2	0.1	34%
Insurance	2.5	1.9	0.6	24%
Agency Dues	1.9	1.6	0.3	15%
Rents/Leases	0.1	0.1	(0.0)	(6%)
Overhead Credit from Construction	(5.1)	(4.7)	(0.4)	9%
Other	3.1	1.2	1.9	61%
<b>Total Fixed Costs</b>	<b>76.0</b>	<b>73.3</b>	<b>2.7</b>	<b>4%</b>
<b>Variable:</b>				
Water Treatment Chemicals	9.8	8.4	1.5	15%
Utility Costs:				
Utilities	3.0	2.6	0.4	12%
Sludge Removal	0.8	0.1	0.6	82%
Permits	0.4	0.2	0.2	57%
<b>Total Variable Costs</b>	<b>14.0</b>	<b>11.3</b>	<b>2.7</b>	<b>19%</b>
<b>Total O&amp;M</b>	<b>\$90.0</b>	<b>\$84.6</b>	<b>\$5.4</b>	<b>6%</b>

**Note:**

(1) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Actual vs. Estimate: Construction Activity - Accrual Basis  
(Dollars in millions)

	For the Three Months Ended September 30, 2008				Fiscal Year Ending June 30, 2009			
	Estimate	Actual	Variance from Estimate		Estimate	Projected	Variance from Estimate	
			\$	%			\$	%
<b>Sources of Funds</b>								
Bond Construction Funds	\$ 98.4	\$ 48.6	\$ 49.8	51%	\$ 373.9	\$ 311.0	\$ 62.9	17%
R & R/General Funds	25.0	34.6	(9.6)	(38%)	95.0	95.0	-	0%
<b>Total</b>	<b>\$ 123.3</b>	<b>\$ 83.2</b>	<b>\$ 40.2</b>	<b>33%</b>	<b>\$ 468.9</b>	<b>\$ 406.0</b>	<b>\$ 62.9</b>	<b>13%</b>
<b>Program Expenditures</b>								
Oxidation Retrofit Programs	\$ 27.1	\$ 24.5	\$ 2.6	10%	\$ 90.1	\$ 85.0	\$ 5.1	6%
Treatment Plant Improvement	18.1	10.2	7.9	44%	84.0	75.0	9.0	11%
Inland Feeder	15.5	16.9	(1.4)	(9%)	61.4	60.0	1.4	2%
Riverside Treatment Plant Land Acquisition	9.9	0.0	9.8	100%	9.9	10.0	(0.1)	(1%)
Perris Valley Pipeline	15.8	8.8	7.0	44%	61.7	48.0	13.7	22%
Distribution System - Rehabilitation Program	6.2	2.2	4.1	65%	23.5	20.0	3.5	15%
Mills Capacity Upgrade	7.8	3.7	4.1	53%	35.8	16.0	19.8	55%
CRA - Reliability/Containment Programs	2.1	1.8	0.4	17%	17.2	15.0	2.2	13%
Local Groundwater Storage	1.3	1.3	0.0	3%	10.3	10.0	0.3	3%
Power Reliability & Energy Conservation	0.5	(0.5)	1.0	187%	7.3	7.0	0.3	4%
Other	18.9	14.3	4.6	24%	67.8	60.0	7.8	11%
<b>Total</b>	<b>\$ 123.3</b>	<b>\$ 83.2</b>	<b>\$ 40.2</b>	<b>33%</b>	<b>\$ 468.9</b>	<b>\$ 406.0</b>	<b>\$ 62.9</b>	<b>13%</b>

Major Program Statistics - September 2008

	Current Estimate	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,027.4	87%	82%
Oxidation Retrofit Program	970.8	618.8	64%	61%
Treatment Plant Improvement Projects	748.2	232.0	31%	32%
Chlorine Containment Handling Facilities	162.9	103.7	64%	70%
CRA - Reliability/Containment Programs	166.2	87.1	52%	55%
Skinner Expansion No. 4	153.2	145.9	95%	99%
Diamond Valley Lake Recreation	92.8	63.8	69%	68%

Note:

(1) Totals may not foot / cross foot due to rounding.



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**Date:** October 14, 2008  
**To:** Board of Directors  
**From:** General Counsel  
**Subject:** Review as to Eligibility of Securities Invested in by the Treasurer for the Month of September 2008

Pursuant to Sections 2741(a) and 5101(b)(5) of the Administrative Code, this office has examined the Treasurer's Monthly Report to the Board for the month of September 2008 covering the investment of securities for that period. The reported forms of investment are within the eligible group securities authorized by Section 5101 (b)(2) of the Administrative Code, and as of the end of the month are within the percentage constraints specified in that section. We note that the Board's ratification on October 14, 2008, of the Executive Committee's action amending the Investment Policy authorizes the orderly and systematic liquidation of the Lehman corporate notes. For purposes of this letter, we have not undertaken to independently verify the accuracy of the information submitted by the Treasurer to this office.

Karen L. Tachiki

cc: T. E. DeBacker  
J. Kightlinger  
R. N. Marumoto  
B. G. Thomas