

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

January 13, 2009 Board Meeting

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**Revised 9-2**

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**Subject**

Proposed 2009/10 fiscal year budget

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**Description**

**SUMMARY OF BOARD OBJECTIVES AND PRIORITIES**

The 2009/10 proposed budget is based on implementing the Board's strategic priorities, as outlined at the April 2007 Board Retreat and implementing immediate actions to deal with the largest court-ordered cutback in State Water Project supplies in history. The Board priorities addressed in the proposed budget include:

- 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 one-fourth of the expenditure budget, not including the Capital Investment Plan (CIP). 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. The 2009/10 budget continues to emphasize efforts by the Water System Operations and Water Resource Management staff to meet these challenges.
- Water Supply** - Metropolitan's mission to supply a safe, reliable supply of high quality water will be supported by Metropolitan's Integrated Water Resources Plan and the Five-year Water Supply Reliability Program, emphasizing the need for local resources and conservation. The actions in the Five Year Supply Reliability Program will result in higher cost water supplies, which are necessary to mitigate losses due to the regulatory restrictions associated with the Delta Smelt Biological Opinion. In particular, additional expenditures on the Bay-Delta and near- and long-term efforts to improve conveyance and reliability are a significant part of the proposed budget.
- 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. The proposed budget has reduced the number of budgeted positions from 2,052 to 2,021. This requires that all of Metropolitan's employees are highly skilled and contributing to Metropolitan's objectives and mission.
- Sustainable and Efficient Business Processes** - Metropolitan is committed to minimizing its resource use and environmental impacts associated with its day-to-day business functions. Taking advantage of long-term opportunities to reduce costs and Metropolitan's carbon footprint is a strategy that continues with the proposed budget.

- g. **Finance** - The foundation for Metropolitan's success in securing water supplies is its strong financial standing. The proposed budget incorporates necessary rate increases, while judiciously utilizing Metropolitan's existing reserves to meet expenditures. Increasing rates and managing costs will be a necessary part of maintaining Metropolitan's strong credit rating in the face of current financial challenges.

## FY 2009/10 BUDGET SUMMARY

As summarized in Table 1, the proposed 2009/10 budget totals \$2.08 billion. This is about \$95 million greater than the 2008/09 budget and about \$283 million greater than projected expenditures in 2008/09. Metropolitan has lost a substantial portion of its State Water project (SWP) water allocation because of the critically dry conditions and the court-imposed cutback in SWP deliveries from the Sacramento-San Joaquin Delta. Metropolitan is anticipating increased diversions from the Colorado River watershed as compared with 2008.

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 projection for expenditures on the capital program for fiscal year 2008/09 is \$400 million, or \$69 million lower than the 2008/09 budget. Continuing to meet the financing requirements of the ongoing CIP will nonetheless result in an increase in debt service costs of \$39 million compared to the 2008/09 budget. For fiscal year 2009/10, the CIP includes over 330 active projects in 65 programs with approximately 25 major construction contracts and dozens more projects by Metropolitan forces are planned.

In the area of operations and maintenance (O&M), the total 2009/10 budget is almost \$0.2 million lower as compared to the \$349 million 2008/09 budget. This compares to a 2.7 percent increase in 2008/09, 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. Metropolitan's budget is more fully described in the Proposed Budget Summary ([Attachment 1](#)). More details will be provided in the FY 2009/10 Proposed Budget Book to be issued in late January. The budget will also be presented and discussed at two Board Workshops on January 6 and February 24, 2009. In addition, each of the groups and departments will present their budgets during the February Board committee meetings. As Metropolitan enters the 2009/10 fiscal year, it must contend with the following cost drivers:

- a. **Debt Service** - As Metropolitan funds its ongoing CIP, debt service will continue to rise. It is projected that debt service in 2009/10 will be \$330.7 million, or \$39 million greater than projected in 2008/09 (and about \$17 million higher than budgeted in 2008/09). There are three reasons for this increase: (1) increased debt, reflecting the \$200 million issue in January 2009; (2) higher interest rates on fixed rate debt and higher cost for liquidity for the variable rate program; and (3) a shift in principal payments from the 2008/09 fiscal year to 2009/10 as bonds were refunded in 2008.
- b. **State Water Project Costs** - The cost for the State Water Project continues to rise, even in the face of lower deliveries. The State Water Contract is a "take-or-pay" contract, and Metropolitan is obligated to pay the capital and operating costs, even if no water is delivered. In 2009/10, the cost of the project is estimated to be \$508 million, almost \$50 million more than projected for 2008/09, and \$19.4 million higher than the 2008/09 budget. Deliveries on the State Water Project are expected to total 1.25 million acre-feet, including transfers, State Water Project supplies, draws from Central Valley Storage accounts, and exchanges. The primary drivers of these increases are \$14.3 million to finance the environmental and preliminary engineering for the long-term infrastructure necessary to improve reliability in the Delta, along with \$4.7 million for actions to help address species in the Delta.
- c. **Water Supply Programs** - Due to the reductions in Metropolitan's Colorado River supplies in 2003 and the continuing pressures on its State Water Project supplies due to hydrology and pumping restrictions imposed to protect endangered fish (e.g., Delta smelt), Metropolitan has been developing alternative supply sources including water transfers and exchanges. The cost of these programs is expected to be \$140.5 million in 2009/10, about \$39.3 million higher than projected expenditures in 2008/09, and just \$6.7 million lower than in the 2008/09 budget. This budget item includes \$53.5 million for the purchase of 100 thousand acre-feet of water through the State Drought Water Bank, along with ongoing purchases

from existing programs such as Kern Delta, Semitropic, the Palo Verde Irrigation District Land Management Program, and the conservation program with the Imperial Irrigation District. Projected expenditures in 2008/09 are lower than budget, reflecting a reduction in projected payments to the San Bernardino Valley Municipal Water District and a shift in payment for delivery of water from the Drought Water Bank from 2008/09 to 2009/10.

- d. **Capital Funding** - Ongoing investments in Metropolitan’s infrastructure will total about \$402.8 million. This is \$66.1 million less than the 2008/09 budget, reflecting changes in project scheduling. The 2009/10 budget reflects the issuance of an additional \$550 million of bonds in the summer of 2009, with about \$150 million of the bond proceeds deposited into the construction fund to enable the program to move forward. This deposit is reflected as an increase in the budget, although the funds will not be expended until the following fiscal year.

**Table 1. Budget Summary – Total Expenditures (Dollars in Millions)**

	2007/08 Actual	2008/09 Budget	2008/09 Projected	2009/10 Proposed	Change from:	
					2008/09 Budget	2008/09 Projected
<b>Expenditures</b>						
State Water Contract	\$ 464.3	\$ 488.6	\$ 459.7	\$ 508.0	\$ 19.4	\$ 48.3
Supply Programs	71.9	147.2	101.2	140.5	(6.7)	39.3
Colorado River Power	18.9	45.9	43.7	49.8	3.8	6.1
Debt Service	272.9	313.8	291.8	330.7	17.0	39.0
Demand Management	49.3	53.7	62.8	59.8	6.2	(3.0)
Departmental Operations & Maint. (O&M)	300.3	290.4	292.1	289.3	(1.1)	(2.8)
Treatment Chemicals, Solids & Power	27.4	35.2	34.7	36.8	1.7	2.1
Other O&M	23.4	23.4	23.5	22.7	5.3	(0.8)
<b>Sub-total Expenditures</b>	<b>1,228.4</b>	<b>1,398.2</b>	<b>1,309.5</b>	<b>1,437.7</b>	<b>45.5</b>	<b>128.2</b>
<b>Capital Investment Plan</b>	<b>419.4</b>	<b>468.9</b>	<b>400.0</b>	<b>402.8</b>	<b>(66.1)</b>	<b>2.8</b>
<b>Fund Deposits</b>	<b>139.3</b>	<b>122.9</b>	<b>92.5</b>	<b>244.1</b>	<b>121.2</b>	<b>151.5</b>
<b>TOTAL Expenditures, CIP &amp; Fund Deposits</b>	<b>\$ 1,787.1</b>	<b>\$1,989.9</b>	<b>\$ 1,802.0</b>	<b>\$2,084.6</b>	<b>\$ 94.6</b>	<b>\$ 282.5</b>

Totals may not foot due to rounding.

**FY 2009/10 OPERATIONS AND MAINTENANCE BUDGET SUMMARY**

In response to both the cost drivers noted above, and the need to meet the Board’s priorities, the proposed 2009/10 departmental operations and maintenance (O&M) budget is \$1.1 million less than the 2008/09 budget, and \$2.8 million less than projected O&M expenditures. In order to meet these targets, several actions are reflected in the proposed O&M budget, including:

- a. **Zero increase in base salaries** - The proposed budget does not include an increase in base salaries. The budget does recognize that benefit costs, including retirement and medical, increased \$2.8 million. Further, merit increases and promotions are included in the budget, leading to another \$3.2 million increase in labor costs.
- b. **Reduced positions and increased vacancy rates** - The total budget has a reduction of 31 positions, with a reduction of 35 positions in the operating and maintenance functions (i.e., four positions were transferred to capital work, reducing the amount of consulting dollars expended in the capital program.) In addition, as Metropolitan faces increasing rates of retirement, the vacancy factor will increase to just about 5.5 percent, resulting in reduced salaries and benefit payments. These efforts will result in a \$2.8-million reduction in labor costs. The combined effect of increased retirement and medical costs, merit increases and promotions, offset by staff reductions and vacancy rate increases is a \$3.2-million increase in labor costs.

- c. **Reduced conservation outreach and program expenditures** - The 2009/10 budget includes about \$3.8 million for conservation advertising, and about \$19.1 million for conservation incentives and administrative costs. This is \$1.1 million and \$1 million less than in the 2008/09 budget, respectively. Given the current water supply conditions, earned media is expected to provide a significant share of the conservation message over the next fiscal year. As a result, this area of Metropolitan's program has been reduced.
- d. **Reduction in Visitor Center financial support and Law Enforcement Payments at DVL** - The 2009/10 budget includes \$96 thousand for the Visitor Center at Diamond Valley Lake. This is \$255 thousand less than in the current year's budget and reflects Metropolitan's efforts to either partner with another enterprise to operate the Center or to "mothball" the Center. The 2009/10 budget also does not include a \$275 thousand payment to Riverside County Sheriff, recognizing that activity at Diamond Valley Lake will be substantially reduced due to lower lake levels. Security will be maintained by Securitas and Urban Parks.
- e. **Operating Equipment** - Operating equipment expenditures will be reduced by \$3.2 million from the 2008/09 budget. Staff will work to evaluate need and make efficient and optimal use of equipment that has experienced lower utilization in an effort to replace the oldest, least reliable equipment.
- f. **Travel, Training, and Other** - All "discretionary" activities have been reviewed, including staff travel, outside services and board inspection trips to ensure that only critical functions are in the budget. Travel, training, and conference expenses are down \$0.5 million as compared to the 2008/09 budget, while inspection trips are budgeted at \$438 thousand dollars, a reduction of \$192 thousand from 2008/09.

A summary of the operating and maintenance budget is provided in Table 2 below.

**Table 2. Budget Summary – Operations and Maintenance**

	2007/08 Actual	2008/09 Budget	2008/09 Projected	2009/10 Proposed	Change from:	
					2008/09 Budget	2008/09 Projected
<b>Salaries &amp; Benefits</b>	201,483,200	201,593,800	203,506,500	204,768,400	3,174,600	1,261,900
<b>Chemicals, Solids, and Power ***</b>	27,442,700	35,163,000	33,133,400	36,839,200	1,676,200	3,705,800
<b>Outside Services</b>	33,633,700	38,867,800	41,048,800	36,585,900	(2,281,900)	(4,462,900)
<b>Materials &amp; Supplies</b>	22,406,442	21,075,300	21,962,100	21,584,310	509,010	(377,790)
<b>Other</b>	58,113,447	43,319,200	43,648,850	43,281,035	(38,165)	(367,815)
<b>Operating Equipment</b>	7,988,900	9,008,600	7,000,000	5,806,200	(3,202,400)	(1,193,800)
<b>Total</b>	351,068,389	349,027,700	350,299,650	348,865,045	(162,655)	(1,434,605)
<b>Total Budgeted Positions</b>	2,069	2,052	2,052	2,021	(31)	(31)
<b>Budgeted O&amp;M Positions *</b>	1,656	1,671	1,671	1,643	(28)	(28)
<b>Funded O&amp;M Positions * (including vacancy rate)</b>	1,572	1,579	1,578**	1,551	(28)	(27)

\* Includes only regular positions; no temporary positions.

\*\* Filled positions estimated through October 2008.

\*\*\*Costs associated with treatment plants only.

## 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 2006/07 through 2013/14, expenditures are forecasted to increase by about \$763 million, or about 11 percent annually. The primary cost drivers from 2008/09 to 2013/14 are a \$241-million increase in debt service and PAYG expenditures, a \$99 million increase in demand Management costs, a \$92-million increase in O&M, and a \$58-million increase in supply program costs.

### **Conservation and Recycled Water**

Total demand management costs are budgeted at \$59.8 million, \$6.2 million higher than the 2008/09 budget, and include incentive payments made under Metropolitan's Local Resources Program (LRP) of \$40 million and \$19 million for the Conservation Credits Program. External Affairs will also continue its conservation messaging and advertising in 2009/10 in light of the dry-year outlook and SWP supply uncertainties although at levels reduced from 2008/09 by about \$1.1 million.

### **Operations and Maintenance**

O&M costs for 2009/10, including operating equipment, are expected to be almost \$0.2 million lower than the 2008/09 budget. Labor costs are estimated to increase by \$3.2 million (1.6 percent) as compared to the 2008/09 budget to allow for merit increases and promotions, but no overall salary increase is included pending the outcome of negotiations with bargaining units. An increase in retirement and medical costs is offset by eliminating 31 regular and temporary positions and increasing the vacancy rate. Included in the 2009/10 budget is a \$2.2 million increase in the O&M contingency and \$1.7 million increase in variable water treatment costs due to an increase in the unit price of water treatment chemicals and power. Offsetting these increases is a reduction of \$3.2 million in operating equipment purchases and a reduction of \$4 million in the total departmental budget due to a variety of cost control measures including reductions in other expenses including sponsorships, inspection trips, recreation at Diamond Valley Lake, travel, training, and conservation advertising. The 2009/10 budget includes \$9.1 million for continued conservation program efforts including public awareness, \$3.8 million for the Quagga Mussel Control Program, \$1.1 million to support emergency management efforts, \$0.5 million for staff efforts on water transfer programs.

The total personnel complement for 2009/10 is 2,021 positions, decreasing by 31 positions from the 2008/09 budget, which was reduced by 17 positions as compared to the prior year. Any additional changes in personnel will depend on long-range staffing plan inputs related primarily to CIP impacts and a continued emphasis on maintenance management best practices.

### **Capital Investment Plan**

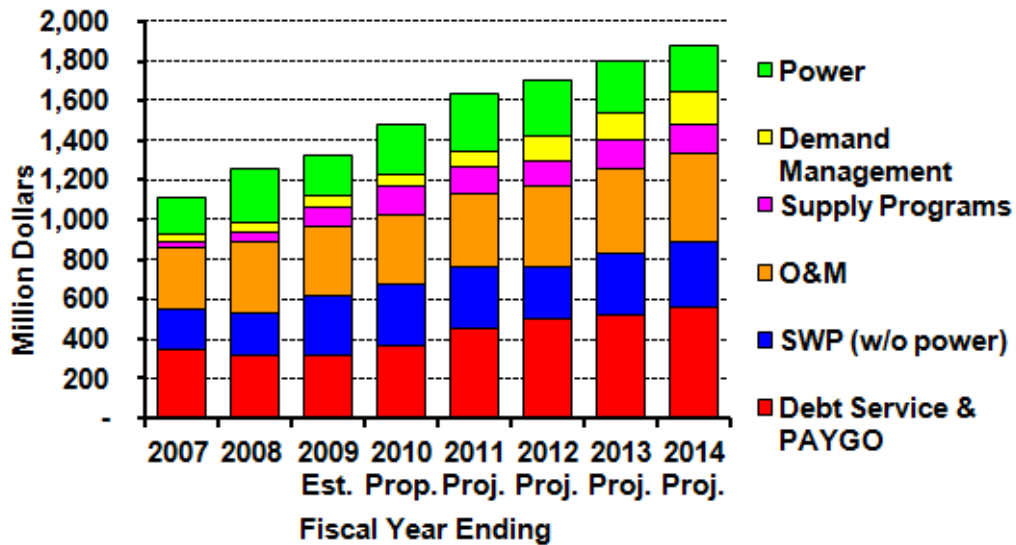
The 2009/10 CIP is \$402.8 million, or \$66.1 million lower than the 2008/09 budget. Continuing to meet the financing requirements of the ongoing CIP will nonetheless result in an increase in debt service costs of \$17 million next year. The CIP includes over 330 active projects in 65 programs with approximately 25 major construction contracts and dozens more projects by Metropolitan forces planned. Major expenditures include: treatment plant infrastructure improvements (\$111 million); ozonation facilities construction (\$86 million); infrastructure refurbishment and upgrade projects on the Colorado River Aqueduct and distribution system (\$27 million); and three major supply and delivery reliability projects – the Perris Valley Pipeline, Inland Feeder, and San Diego Pipeline No. 6 (\$74 million).

### **Sources of Funds**

As shown in Table 3, 2009/10 sources of funds will total \$2.08 billion. This includes receipts of \$1.96 billion, with water sales receipts of \$1.14 billion accounting for 58 percent of receipts. These receipts are based on projected water sales of 2.12 million acre-feet and include an increase in base rates and charges of 20.7 percent, effective January 1, 2010. Other revenues include readiness-to-serve charge revenues of \$101.5 million, revenues from the capacity charge of \$33.8 million, and tax and annexation revenues of about \$91.4 million. Interest earnings are expected to be \$33.7 million, or about \$9.3 million lower than the 2008/09 budget, reflecting lower estimated fund balances and lower interest rates. Power and other miscellaneous receipts are expected to generate about \$34.2 million.

Capital projects will be funded from a combination of existing bond funds and revenues. Revenues will be used to fund about \$40 million of the capital costs. In addition, existing bond funds will provide \$358 million toward the CIP. With a 20.7-percent overall increase in base rates and charges in 2010, about \$83.4 million would still be drawn from the Revenue Remainder Fund, Water Stewardship Fund, and Water Rate Stabilization Fund.

**Figure 1. Seven-year Expenditure Trend**



**USES OF FUNDS**

**Total**

As shown in Table 2, the total FY 2009/10 uses of funds are budgeted at \$2.08 billion, an increase of \$94.6 million (4.8 percent) from the 2008/09 budget. Total cash outlays for State Water Contract (SWC) payments, supply programs, Colorado River Aqueduct (CRA) power, debt service, demand management programs, O&M, and the CIP are budgeted at \$1.84 billion. This is \$26.6 million (1.4 percent) less than the 2008/09 budget and \$131 million (7 percent) greater than projected. Under this financing package, \$40 million of water revenues will be deposited to the Replacement and Refurbishment fund to pay for a portion of this work in the CIP. This is \$55 million less than budgeted for 2008/09. Given the challenges associated with rising rates and an uncertain water supply period, it is more prudent to preserve some of the funds and reduce Pay-As-You-Go (PAYGO) funding.

**State Water Project**

SWC costs are estimated to be \$19.4 million higher than the 2008/09 budget. Power costs on the SWP are estimated to be \$197.9 million for the delivery of about 1.17 million acre-feet into the service area. Under the contract, Metropolitan is responsible for payment for 1.08 million acre-feet, with Coachella Valley Water District and Desert Water Agency responsible for the remaining 0.09 million acre-feet under terms of the exchange agreement. The estimated average cost of power is about \$169 per acre-foot, about 14 percent higher than in the 2008/09 budget.

**Supply Programs**

Supply programs are estimated to be \$6.7 million lower than the 2008/09 budget. Although 200 thousand acre-feet of transfer water will be purchased through the Drought Water Bank for calendar year 2009, the payments for these transfers will be split between fiscal years 2008/09 and 2009/10. Payment for this transfer had originally been included in the 2008/09 budget. The increase caused by this shift is offset by a reduction in projected payments to the San Bernardino Valley Municipal Water District in 2009/10.

**CRA Power**

CRA power costs are expected to increase \$3.8 million from the 2008/09 budget for diversion of about 882 thousand acre-feet. This increase from the 2008/09 budget reflects the higher pumping volumes of 1.04 million acre-feet in 2009/10.



The revenue bond debt service coverage ratio is forecasted to be lower than the target of 2 times revenue bond debt service. Depending on the actual increase in rates and charges, the debt service coverage ratio is expected to be about 1.5 times coverage in 2009/10. This ratio is expected to increase to 2.0 as water revenues increase and anticipated water rate increases are implemented. The fixed charge coverage is expected to be around one times, reflecting the drawdown of reserve funds.

## **RESERVES**

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 about \$158.3 million on June 30, 2010, about \$76.5 million under the minimum reserve level and below the Board's reserve policy guidelines. Total restricted and unrestricted reserves are estimated to be \$1,037.1 million on June 30, 2010.

[Attachment 1](#), FY 2009/10 Proposed Budget Summary, discusses the sources of funds, including receipts and fund withdrawals, and uses of funds including expenditures and fund deposits in more detail.

## **Policy**

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Metropolitan Water District Administrative Code Section 5107: Annual Budget

**Table 3. 2008/09 Annual Budget Uses and Sources of Funds – Cash Basis (Dollars in Millions)**

	2007/08 Actual	2008/09 Budget	2008/09 Projected	2009/10 Proposed	Change from:	
					2008/09 Budget	2008/09 Projected
<b>USES OF FUNDS</b>						
<b>Expenditures</b>						
State Water Contract	\$ 464.3	\$ 488.6	\$ 459.7	\$ 508.0	\$ 19.4	\$ 48.3
Supply Programs (1)	71.9	147.2	101.2	140.5	(6.7)	39.3
Colorado River Power	18.9	45.9	43.7	49.8	3.8	6.1
Debt Service	272.9	313.8	291.8	330.7	17.0	39.0
Demand Management	49.3	53.7	62.8	59.8	6.2	(3.0)
Departmental O&M	300.3	290.4	292.1	289.3	(1.1)	(2.8)
Treatment Chemicals, Solids & Power	27.4	35.2	34.7	36.8	1.7	2.1
Other O&M	23.4	23.4	23.5	22.7	(0.7)	(0.8)
<b>Sub-total Expenditures</b>	<b>1,228.4</b>	<b>1,398.2</b>	<b>1,309.5</b>	<b>1,437.7</b>	<b>39.5</b>	<b>128.2</b>
<b>Capital Investment Plan</b>	<b>419.4</b>	<b>468.9</b>	<b>400.0</b>	<b>402.8</b>	<b>(66.1)</b>	<b>2.8</b>
<b>Fund Deposits</b>						
R&R and General Fund	42.9	95.0	30.0	40.0	(55.0)	10.0
Revenue Bond Construction	-	-	-	142.9	142.9	142.9
Water Stewardship Fund	-	-	-	-	-	-
Interest for Construction & Trust Funds (2)	19.4	4.6	3.8	0.0	(4.6)	(3.8)
Increase in Required Reserves	77.0	23.2	58.7	61.2	37.9	2.4
Increase in Rate Stabilization Fund	-	-	-	-	-	-
<b>Sub-total Fund Deposits</b>	<b>139.3</b>	<b>122.9</b>	<b>92.5</b>	<b>244.1</b>	<b>121.2</b>	<b>151.5</b>
<b>TOTAL USES OF FUNDS</b>	<b>\$ 1,787.1</b>	<b>\$1,989.9</b>	<b>\$ 1,802.0</b>	<b>\$2,084.6</b>	<b>\$ 94.6</b>	<b>\$ 282.5</b>
<b>SOURCES OF FUNDS</b>						
<b>Receipts</b>						
Taxes	\$ 97.7	\$ 94.4	\$ 96.1	\$ 90.4	\$ (3.9)	\$ (5.6)
Annexations	2.7	2.5	1.0	1.0	(1.5)	-
Interest Income	64.9	43.0	36.4	33.7	(9.3)	(2.7)
Hydro Power	41.1	35.2	24.6	27.6	(7.6)	2.9
Fixed Charges (RTS & Capacity Charge)	114.0	119.7	119.6	135.3	15.6	15.7
Water Sales Revenue	967.8	1,022.1	1,016.6	1,138.5	116.4	121.9
Miscellaneous Revenue	7.1	7.1	5.0	6.6	(0.5)	1.7
Bond Proceeds and Reimbursements	29.2	272.7	195.6	528.0	255.3	332.4
<b>Sub-total Receipts</b>	<b>1,324.4</b>	<b>1,596.7</b>	<b>1,494.8</b>	<b>1,961.2</b>	<b>364.5</b>	<b>466.3</b>
<b>Fund Withdrawals</b>						
Water Transfer Fund	19.8	7.8	9.2	0.0	(7.8)	(9.2)
R&R and General Fund	65.2	95.0	30.0	40.0	(55.0)	10.0
Bond Funds for Construction (3)	325.7	110.0	186.1	-	(110.0)	(186.1)
Water Stewardship Fund	5.9	15.1	12.5	12.2	(2.9)	(0.3)
Decrease in Required Reserves (4)	-	95.5	-	62.4	(33.1)	62.4
Decrease in Rate Stabilization Fund (5)	46.1	69.8	69.4	8.8	(61.1)	(60.6)
<b>Sub-total Fund Withdrawals</b>	<b>462.7</b>	<b>387.3</b>	<b>307.2</b>	<b>123.4</b>	<b>(269.9)</b>	<b>(183.8)</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 1,787.1</b>	<b>\$1,989.9</b>	<b>\$ 1,802.0</b>	<b>\$2,084.6</b>	<b>\$ 94.6</b>	<b>\$ 282.5</b>

(1) 2007/08 exclude \$28.7M for Drop 2 paid from the R&R Fund

(2) 2007/08 includes \$1.0M of interest for the WTF

(3) 2008/09 includes \$60 million from Proposition 50.

(4) 2009/10 Budget is expected to draw down the Revenue Remainder Fund \$62.4 million, \$76.5 million below the required minimum reserve.

(5) 2009/10 Budget is expected to draw down the Water Rate Stabilization Fund to zero, with a \$8.8 million withdrawal.

Totals may not foot due to rounding.



**Fiscal Impact**

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None

  
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Brian G. Thomas  
Chief Financial Officer

12/30/2008  
Date

  
\_\_\_\_\_  
Jeffrey Kientlinger  
General Manager

12/30/2008  
Date

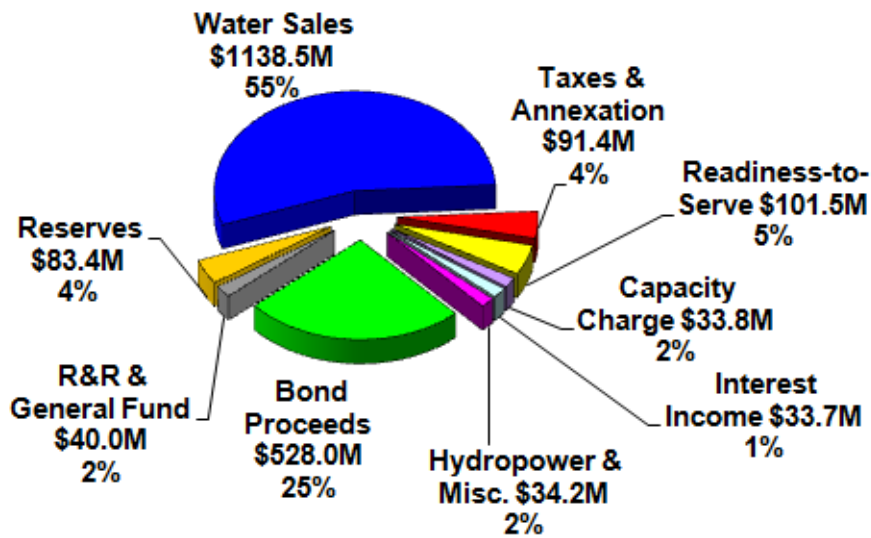
**Attachment 1 – 2009/10 Proposed Budget Summary**

**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. A pro-forma statement of operations is prepared on an accrual basis and included as Appendix 1 for reference.

**Figure 1. 2009/10 Sources of Funds (\$2.08 billion dollars)**



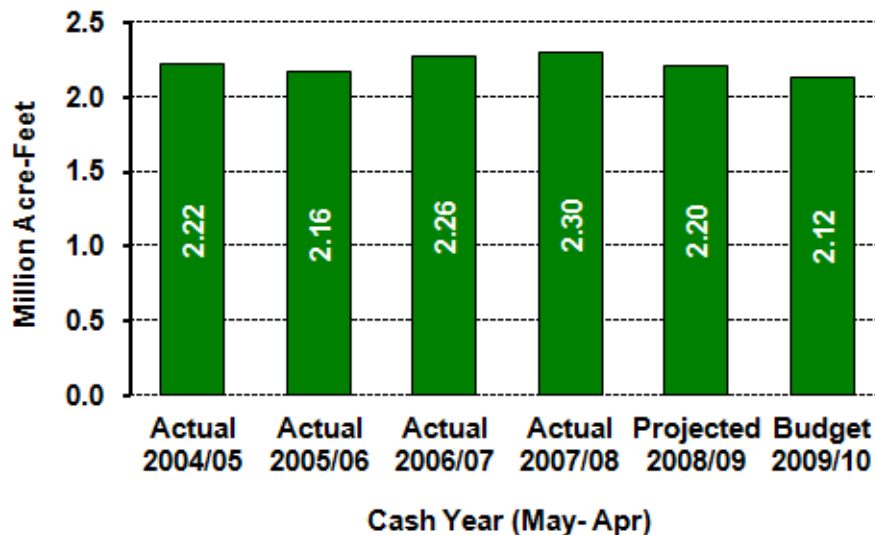
**SOURCES OF FUNDS**

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 \$1.43 billion for fiscal year 2009/10 and constitute the major revenue sources for Metropolitan. This is \$109.2 million more than the 2008/09 Budget. The increase in revenues is due to increases in water rates in 2009 and 2010. 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 \$1,138.5 million and are based on rates and charges adopted by the Board for calendar year 2009 and an increase in base rates and charges of 20.7 percent in 2010, as shown in Table 1.

The 2010 rates shown in Table 1 reflect a \$115 per acre-foot (AF) increase in the treated full service Tier 1 rate, a \$19 million increase in the RTS charge and a \$600/cfs increase in the Capacity Charge. These rates will fully recover the cost-of-service over 12 months but since the rates are not effective until January 1<sup>st</sup>, we expect to draw down reserves in 2009/10.

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

Water sales for 2009/10 are estimated to be 2.12 million acre-feet (MAF) during the May through April period (cash year). This estimate served as the basis of the 2010 cost-of-service study and resulting water rates.

The 2009/10 cash year water sales include 1.95 MAF of firm sales, zero replenishment sales, 82 thousand acre-feet (TAF) of agricultural sales, and 52 TAF of exchanges under the San Diego County Water Authority (SDCWA) Exchange Agreement for the SDCWA/Imperial Irrigation District (IID) transfer and 46 TAF of water for the All American & Coachella Canal Lining Project. Treated sales are estimated to be 1.27 MAF or 60 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 State Water Contract (SWC), are estimated to be \$91.4 million.

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

The Capacity Charge and Readiness-to-Serve Charge for 2009/10 are estimated to generate \$135.3 million or \$15.6 million more than in the 2008/09 budget.

### **Other Revenue**

Interest earnings are estimated to total \$33.7 million, including trust accounts and construction funds. This represents a \$9.3 million decrease from the 2008/09 Budget due primarily to lower estimated fund balances. Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales are estimated to be \$27.6 million, lower by \$7.6 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 \$550 million of fixed rate bonds in 2009/10. This bond issue is expected to generate \$505.6 million in bond proceeds of which \$358.0 million will be used to fund the CIP in

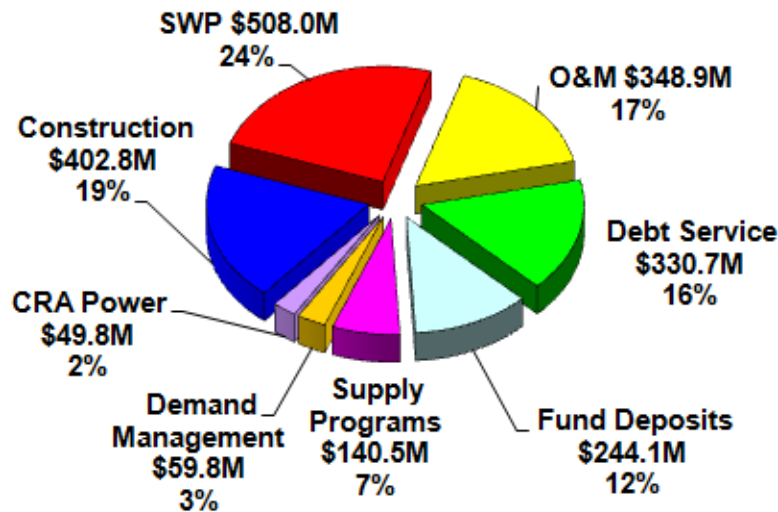
2009/10. The remaining CIP funding requirements will be met from current operating funds (i.e., \$40.0 million from the Replacement & Refurbishments (R&R) and General Funds). In 2009/10, a total of \$2.08 billion will be available for expenditures and other obligations.

**Table 1. 2009/10 Water Rates and Charges**

	Effective January 1st, 2009	Effective January 1st, 2010
Tier 1 Supply Rate (\$/AF)	\$109	\$135
Tier 2 Supply Rate (\$/AF)	\$250	\$300
Water Supply Surcharge	\$25	\$25
System Access Rate (\$/AF)	\$143	\$180
Water Stewardship Rate (\$/AF)	\$25	\$38
System Power Rate (\$/AF)	\$110	\$125
Full Service Untreated Volumetric Cost (\$/AF)		
Tier 1	\$412	\$503
Tier 2	\$528	\$643
Replenishment Water Rate Untreated (\$/AF)	\$294	\$385
Interim Agricultural Water Program Untreated (\$/AF)	\$322	\$435
Treatment Surcharge (\$/AF)	\$167	\$192
Full Service Treated Volumetric Cost (\$/AF)		
Tier 1	\$579	\$695
Tier 2	\$695	\$835
Treated Replenishment Water Rate (\$/AF)	\$436	\$552
Treated Interim Agricultural Water Program (\$/AF)	\$465	\$609
Readiness-to-Serve Charge (\$M)	\$92	\$111
Capacity Charge (\$/cfs)	\$6,800	\$7,400

**Note: 2010 Rates & Charges include a 20.7% overall increase.**

**Figure 3. 2009/10 Uses of Funds (\$2.08 billion dollars)**



**USES OF FUNDS**

Total uses of funds are \$2.08 billion. Figure 3 shows the breakdown of expenditures and other obligations that make up the Uses of Funds for 2009/10.

**Colorado River Aqueduct Power**

CRA power costs are projected to be \$49.8 million based on pumping 1.04 MAF at Whitsett Intake Pumping Plant. This is \$3.8 million more than the 2008/09 budget, which included the diversion of 882 TAF. This increase from the 2008/09 budget reflects the higher pumping volumes.

**State Water Contract**

State Water Contract (SWC) expenditures of \$508.0 million are budgeted to be \$19.4 million more than the current year’s budget.

SWC power costs are expected to be \$197.9 million or \$18.3 million lower than the 2008/09 Budget and include the cost for pumping about 1.17 MAF. An additional 86 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 \$169 per acre-foot.

SWC minimum operations, maintenance, power, and replacement charges are \$34.6 million higher than the 2008/09 Budget. Capital charges are expected to be \$3.1 million higher than the 2008/09 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 61 water-recycling projects. Fifty-five of these projects are in operation and the remaining six projects are under design or construction. Recycling projects that receive Metropolitan contributions are expected to produce 165 TAF of recycled water, principally for landscape irrigation,

groundwater recharge, and industrial uses. In 2009/10, Metropolitan is expected to spend \$27.4 million on these efforts. In addition, as part of the Board approved 5-yr Supply Plan, the 2009/10 Budget includes \$2.3 million to support private recycling projects and to directly fund new local resource facilities. These efforts are expected to produce an additional 5 TAF In 2009/10.

Metropolitan has also entered into agreements to provide financial assistance to 24 projects to recover contaminated groundwater. Twenty-one of these groundwater recovery projects are in operation and are expected to produce about 57 TAF in 2009/10 at a cost to Metropolitan of \$10.4 million.

The Conservation Credits Program (CCP) provides financial assistance to customers in Metropolitan's service area for water conservation programs. The 2009/10 budget contains \$19.1 million for the CCP to provide rebate funding for residential, commercial, industrial, and landscape conservation activities. This budget includes \$5.0 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 2009/10 Proposed O&M Budget, including operating equipment purchases, is estimated to be \$348.9 million. This is almost \$0.2 million less than the 2008/09 budget of over \$349.0 million and \$1.4 million less than the current year projected expenditures. The O&M budget is the result of significant and concerted management efforts to reduce costs while meeting the Board's four priorities.

Labor costs, not including those charged to construction, are \$204.1 million, which is \$3.2 million, or 1.6 percent higher than the 2008/09 Budget of \$200.9 million. This increase is primarily to account for merit increases and promotions. An increase of 1.8% in the Cal PERS employer contribution rate totaling about \$2.8 million was offset by \$2.8 million in reductions of 31 regular and temporary positions and an increase in vacancy rates.

Included in the 2009/10 budget is a \$2.2 million increase in the O&M contingency and \$1.7 million increase in variable water treatment costs due to an increase in the unit price of water treatment chemicals and power. Offsetting these increases is a reduction of \$3.2 million in operating equipment purchases and a reduction of \$4.0 million in the total departmental budget as a result of a variety of additional cost control measures, including reductions in travel, training and conferences, reduced conservation advertising, reducing the number of inspection trips, and closing the DVL Visitors Center.

The 2009/10 budget includes \$9.1 million for continued conservation program efforts, including public awareness, \$3.8 million for the Quagga Mussel Control Program, \$1.1 million to support emergency management efforts, \$0.5 million for staff efforts on water transfer programs.

A summary of the 2009/10 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 57 percent of the total departmental budget.

Figure 5 summarizes the total departmental budget by expenditure type, of which 63 percent is for salaries and benefits.



**Table 2. 2009/10 Operations & Maintenance Annual budget (dollars)**

Departmental Units	2007/08 Actual	2008/09 Budget	2008/09 Projected	2009/10 Proposed Budget	Change			
					2009/10 to 2008/09 Budget	%	2009/10 to 2008/09 Projected	%
Office of the General Manager	\$ 8,835,000	\$ 8,403,700	\$ 8,631,000	\$ 7,846,000	\$ (557,700)	(6.6%)	\$ (785,000)	(9.1%)
Water Systems Operations w/o Variable Treatment	157,862,100	154,896,700	154,085,900	159,182,400	4,285,700	2.8%	5,096,500	3.3%
Water Resource Management	19,541,800	19,086,000	21,991,000	19,500,500	414,500	2.2%	(2,490,500)	(11.3%)
Corporate Resources	59,048,500	62,321,600	62,166,500	59,819,300	(2,502,300)	(4.0%)	(2,347,200)	(3.8%)
Real Property Development & Mgmt	10,722,500	12,007,400	11,982,300	11,150,700	(856,700)	(7.1%)	(831,600)	(6.9%)
Human Resources	11,197,300	11,453,500	11,631,700	11,143,900	(309,600)	(2.7%)	(487,800)	(4.2%)
Office of the Chief Financial Officer	7,609,600	7,839,200	7,996,200	7,837,400	(1,800)	(0.0%)	(158,800)	(2.0%)
External Affairs	18,503,800	20,537,000	20,077,600	18,236,700	(2,300,300)	(11.2%)	(1,840,900)	(9.2%)
<b>Subtotal - General Manager's Dep.</b>	<b>293,320,600</b>	<b>296,545,100</b>	<b>298,562,200</b>	<b>294,716,900</b>	<b>(1,828,200)</b>	<b>(0.6%)</b>	<b>(3,845,300)</b>	<b>(1.3%)</b>
General Counsel	9,235,600	10,165,000	10,161,600	10,165,000	-	0.0%	3,400	0.0%
General Auditor	2,715,400	2,719,000	2,719,000	2,719,000	-	0.0%	-	NA
Ethics Office	594,400	613,000	612,700	613,100	100	0.0%	400	0.1%
Overhead Credit from Construction	(19,169,400)	(19,622,700)	(20,000,000)	(18,921,300)	701,400	(3.6%)	1,078,700	(5.4%)
<b>Total Departmental Budget</b>	<b>286,696,600</b>	<b>290,419,400</b>	<b>292,055,500</b>	<b>289,292,700</b>	<b>(1,126,700)</b>	<b>(0.4%)</b>	<b>(2,762,800)</b>	<b>(0.9%)</b>
<b>Other O&amp;M</b>								
Cargill Settlement (1)	10,348,000	1,604,900	4,768,000	1,604,900	-	NA	(3,163,100)	(66.3%)
PC Replacement	2,152,000	-	-	-	-	NA	-	NA
Performance Programs	551,800	690,800	600,000	650,000	(40,800)	(5.9%)	50,000	8.3%
Association Dues	2,165,600	1,875,000	2,166,750	2,180,000	305,000	16.3%	13,250	0.6%
Contingency (2)	-	1,300,000	-	3,489,000	2,189,000	168.4%	3,489,000	NA
Insurance (3)	12,527,589	8,000,000	8,000,000	8,000,000	-	NA	-	NA
Leases	504,200	446,000	456,000	472,600	26,600	6.0%	16,600	3.6%
Taxes	691,000	520,000	520,000	530,400	10,400	2.0%	10,400	2.0%
<b>Subtotal - Other</b>	<b>28,940,189</b>	<b>14,436,700</b>	<b>16,510,750</b>	<b>16,926,900</b>	<b>2,490,200</b>	<b>17.2%</b>	<b>416,150</b>	<b>2.5%</b>
<b>TOTAL OPERATIONS &amp; MAINTENANCE</b>	<b>315,636,789</b>	<b>304,856,100</b>	<b>308,566,250</b>	<b>306,219,600</b>	<b>1,363,500</b>	<b>0.4%</b>	<b>(2,346,650)</b>	<b>(0.8%)</b>
Operating Equipment	7,988,900	9,008,600	7,000,000	5,806,245	(3,202,355)	(35.5%)	(1,193,755)	(17.1%)
Variable Treatment	27,442,700	35,163,000	34,733,400	36,839,200	1,676,200	4.8%	2,105,800	6.1%
<b>GRAND TOTAL</b>	<b>\$ 351,068,389</b>	<b>\$ 349,027,700</b>	<b>\$ 350,299,650</b>	<b>\$ 348,865,045</b>	<b>\$ (162,655)</b>	<b>(0.0%)</b>	<b>\$ (1,434,605)</b>	<b>(0.4%)</b>

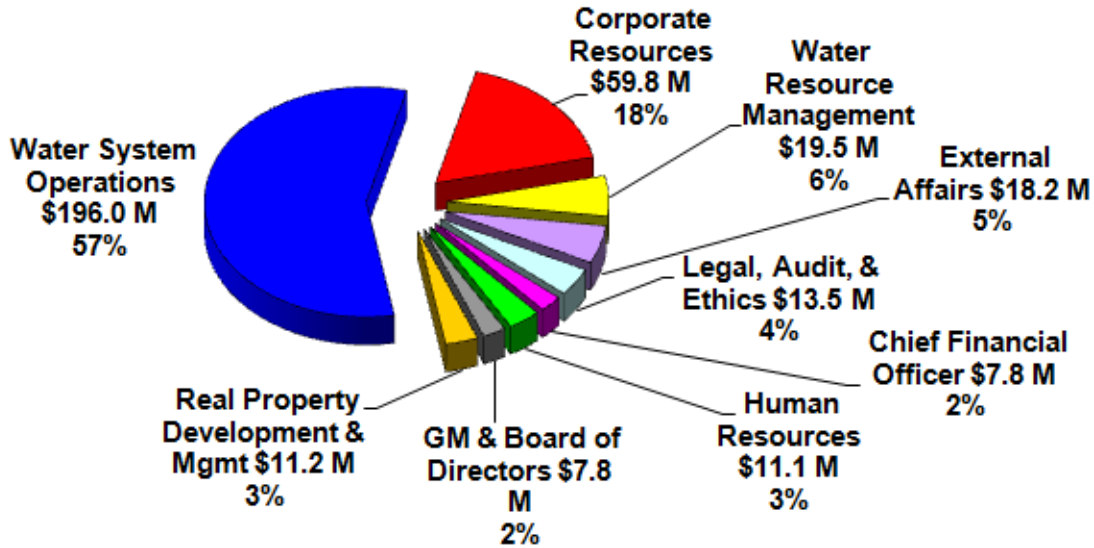
Totals may not foot due to rounding

(1) 2008/09 projected includes approximately \$3 million for attorney fees resulting from the PERS settlement.

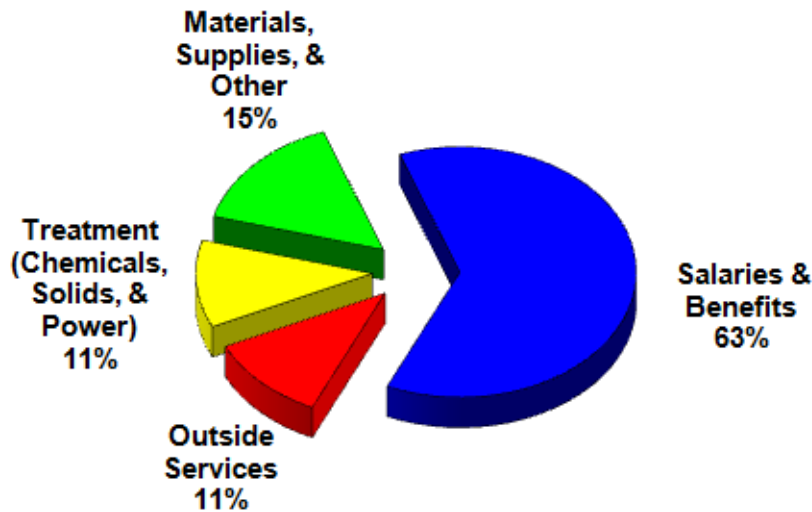
(2) Contingency = 1% of operating & maintenance budget

(3) Reflects original budget & subsequent Board actions that approved legal fees to defend claims against MWD.

**Figure 4. 2009/10 Departmental Budget by Organization**  
(without overhead credit, \$345.1 million)



**Figure 5. 2009/10 Departmental Budget by Expenditure Type**



**LABOR**

The total personnel complement (including temporary workers) for 2009/10 is 2,021 positions, down 31 positions from 2008/09. O&M personnel are down by 35 full-time-equivalent (FTE) positions to 1,659. Positions dedicated to capital work are up 4 positions. The personnel complement is broken down on

Tables 3 and 4. The O&M budget includes a vacancy rate of 5.4 percent since it is not anticipated that all positions will be filled throughout the fiscal year.

**Table 3. Regular and Temporary Positions**

	<b>2006/07 Budget</b>	<b>2007/08 Budget</b>	<b>2008/09 Budget</b>	<b>2009/10 Proposed Budget</b>	<b>Change from 2008/09</b>
Regular Full Time Positions	2,024	2,021	2,021	2,000	-21
District Temporary Positions	35	39	23	16	-7
Agency Temporary Positions	11	9	8	5	-3
<b>Total</b>	<b>2,070</b>	<b>2,069</b>	<b>2,052</b>	<b>2,021</b>	<b>-31</b>

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

	<b>2008/09</b>			<b>2009/10</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	1,671	350	2,021	1,643	357	2,000
District and Agency Temporary Positions	23	8	31	18	3	21
<b>Total</b>	<b>1,694</b>	<b>358</b>	<b>2,052</b>	<b>1,661</b>	<b>360</b>	<b>2,021</b>

## Supply Programs

Major supply program expenditures for 2009/10 are estimated to be \$140.5 million and include:

- \$53.5 million for the Drought Water Bank;
- \$25.6 million for the Palo Verde Irrigation District (PVID) Land Management Program;
- \$17.0 million for Colorado Programs;
- \$14.6 for the Semitropic Groundwater Storage and Exchange Program;
- \$11.0 million for In-Basin Projects;
- \$9.7 million for operating and maintaining the IID/MWD conservation agreement;
- \$5.8 million for the Arvin-Edison Storage Program;
- \$2.8 million for the Kern Delta Program (deferred from 2006/07); and
- \$0.5 million for other northern California transfers.

These storage programs are expected recover 251 TAF of previously stored groundwater supplies and generate 525 TAF of transfer water, after accounting for losses through the Delta.

## ANNUAL CAPITAL INVESTMENT PLAN

The Capital Investment Plan (CIP) for 2009/10 is estimated to be \$402.8 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 2009/10 Capital Investment Plan Budget book.

The 2009/10 CIP is \$66.1 million lower than in 2008/09.

### Cash Funded Capital

The 2009/10 PAYGO funding has been reduced to \$40 million to help mitigate the 2010 rate increase and preserve needed liquidity.

### Debt Service

The portion of the CIP that is not funded from cash will be funded from bond proceeds. In 2009/10, \$358.0 million of capital will be funded with bond proceeds. Debt service payments are budgeted to be \$330.7 million and include \$48.5 million in G.O. bond debt service, \$267.5 million in revenue bond debt service, \$12.2 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 \$17.0 million more than the 2008/09 Budget.

Metropolitan currently has \$4.6 billion in outstanding debt. Of this amount, \$4.4 billion is revenue bond debt, of which 23 percent is in a variable rate mode.

Over the next five years, it is expected that an additional \$1.28 billion in debt will be issued to fund the CIP. The cost of debt over this period is assumed to be 2.5 percent and 5.0 percent for variable rate and fixed rate debt, respectively.

**Reserve Transfers**

The 2009/10 budget will require use of \$83.4 million of reserves plus the 20.7% rate increase in January 2010. The Water Rate Stabilization Fund (WRSF) is expected to be drawn down to zero with the use of \$8.8 million. In addition, the Revenue Remainder Fund is expected to be drawn down \$62.4 million and the Water Stewardship Fund (WSF) is expected to be drawn down to zero with the use of \$12.2 million.

**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 \$1,037.1 million at June 30, 2010. Of that total, \$845.1 million is restricted by bond covenants, contracts, or board policy, and \$192.0 million is unrestricted. Table 5 shows a breakdown of reserves by fund type. Figure 7 shows the distribution of funds by type.

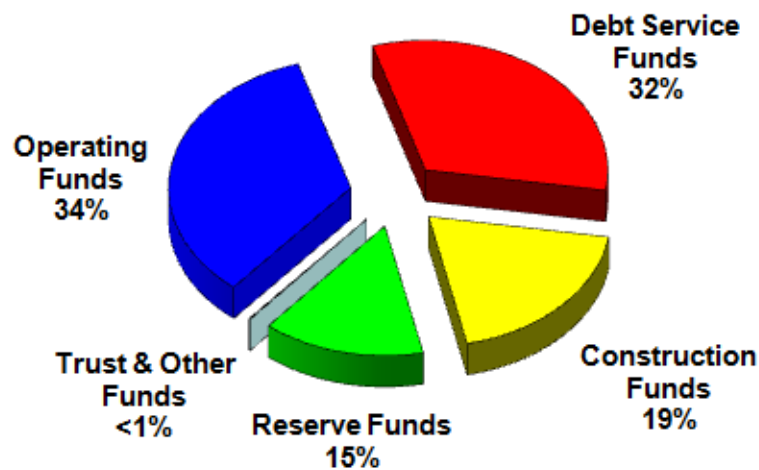
The minimum and maximum reserve fund targets are estimated to be \$234.8 million and \$574.5 million, respectively, at June 30, 2010. Based on projected receipts and expenditures, it is estimated that the balance in the WRSF, Revenue Remainder Fund, and WSF will total about \$158.3 million, about \$76.5 million less than the minimum target.

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

	Restricted		Unrestricted	Total
	Contractual	Board		
Operating Funds	246.8	106.7		353.5
Debt Service Funds	332.0			332.0
Construction Funds	158.4		33.8	192.1
Reserve Funds*			158.3	158.3
Water Transfer Fund		-		-
Trust and Other Funds	1.2			1.2
<b>Total</b>	<b>738.3</b>	<b>106.7</b>	<b>192.0</b>	<b>1,037.1</b>

\* includes Water Rate Stabilization Fund and the Revenue Remainder Fund  
 Totals may not foot due to rounding.

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





**Table 6. 2009/10 Budget Sources and Uses of Funds (dollars in millions)**

	2007/08 Actual	2008/09 Budget	2008/09 Projected	2009/10 Proposed Budget	2009/10 Proposed Budget Compared	
					2008/09 Budget	2008/09 Projected
<b>USES OF FUNDS</b>						
<b>Expenditures</b>						
State Water Contract	\$ 464.3	\$ 488.6	\$ 459.7	\$ 508.0	\$ 19.4	\$ 48.3
Supply Programs (1)	71.9	147.2	101.2	140.5	(6.7)	39.3
Colorado River Power	18.9	45.9	43.7	49.8	3.8	6.1
Debt Service	272.9	313.8	291.8	330.7	17.0	39.0
Demand Management	49.3	53.7	62.8	59.8	6.2	(3.0)
Departmental O&M	300.3	290.4	292.1	289.3	(1.1)	(2.8)
Treatment Chemicals, Solids & Power	27.4	35.2	34.7	36.8	1.7	2.1
Other O&M	23.4	23.4	23.5	22.7	(0.7)	(0.8)
<b>Sub-total Expenditures</b>	<b>1,228.4</b>	<b>1,398.2</b>	<b>1,309.5</b>	<b>1,437.7</b>	<b>39.5</b>	<b>128.2</b>
<b>Capital Investment Plan</b>	<b>419.4</b>	<b>468.9</b>	<b>400.0</b>	<b>402.8</b>	<b>(66.1)</b>	<b>2.8</b>
<b>Fund Deposits</b>						
R&R and General Fund	42.9	95.0	30.0	40.0	(55.0)	10.0
Revenue Bond Construction	-	-	-	142.9	142.9	142.9
Water Stewardship Fund	-	-	-	-	-	-
Interest for Construction & Trust Funds (2)	19.4	4.6	3.8	0.0	(4.6)	(3.8)
Increase in Required Reserves	77.0	23.2	58.7	61.2	37.9	2.4
Increase in Rate Stabilization Fund	-	-	-	-	-	-
<b>Sub-total Fund Deposits</b>	<b>139.3</b>	<b>122.9</b>	<b>92.5</b>	<b>244.1</b>	<b>121.2</b>	<b>151.5</b>
<b>TOTAL USES OF FUNDS</b>	<b>\$ 1,787.1</b>	<b>\$ 1,989.9</b>	<b>\$ 1,802.0</b>	<b>\$ 2,084.6</b>	<b>\$ 94.6</b>	<b>\$ 282.5</b>
<b>SOURCES OF FUNDS</b>						
<b>Receipts</b>						
Taxes	\$ 97.7	\$ 94.4	\$ 96.1	\$ 90.4	\$ (3.9)	\$ (5.6)
Annexations	2.7	2.5	1.0	1.0	(1.5)	-
Interest Income	64.9	43.0	36.4	33.7	(9.3)	(2.7)
Hydro Power	41.1	35.2	24.6	27.6	(7.6)	2.9
Fixed Charges (RTS & Capacity Charge)	114.0	119.7	119.6	135.3	15.6	15.7
Water Sales Revenue	967.8	1,022.1	1,016.6	1,138.5	116.4	121.9
Miscellaneous Revenue	7.1	7.1	5.0	6.6	(0.5)	1.7
Bond Proceeds and Reimbursements	29.2	272.7	195.6	528.0	255.3	332.4
<b>Sub-total Receipts</b>	<b>1,324.4</b>	<b>1,596.7</b>	<b>1,494.8</b>	<b>1,961.2</b>	<b>364.5</b>	<b>466.3</b>
<b>Fund Withdrawals</b>						
Water Transfer Fund	19.8	7.8	9.2	-	(7.8)	(9.2)
R&R and General Fund	65.2	95.0	30.0	40.0	(55.0)	10.0
Bond Funds for Construction (3)	325.7	110.0	186.1	-	(110.0)	(186.1)
Water Stewardship Fund	5.9	15.1	12.5	12.2	(2.9)	(0.3)
Decrease in Required Reserves (4)	-	95.5	-	62.4	(33.1)	62.4
Decrease in Rate Stabilization Fund (5)	46.1	69.8	69.4	8.8	(61.1)	(60.6)
<b>Sub-total Fund Withdrawals</b>	<b>462.7</b>	<b>393.3</b>	<b>307.2</b>	<b>123.4</b>	<b>(269.9)</b>	<b>(183.8)</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 1,787.1</b>	<b>\$ 1,989.9</b>	<b>\$ 1,802.0</b>	<b>\$ 2,084.6</b>	<b>\$ 94.6</b>	<b>\$ 282.5</b>

(1) 2007/08 exclude \$28.7M for Drop 2 paid from the R&R Fund

(2) 2007/08 includes \$1.0M of interest for the WTF

(3) 2008/09 includes \$60 million from Proposition 50.

(4) 2009/10 Budget is expected to draw down the Revenue Remainder Fund \$62.4 million, \$76.5 million below the required minimum reserve.

(5) 2009/10 Budget is expected to draw down the Water Rate Stabilization Fund to zero, with an \$8.8 million withdrawal.

Totals may not foot due to rounding.

**Table 7 2009/10 Sources and Uses by Fund (dollars in millions)**

Fiscal Year Ending June 30th, 2010 (\$ 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 Stewardship	Self-Insured Retention	State Contract			R&R	Revenue Bond Construction	
<b>Beginning of Year Balance</b>	<b>916.4</b>	<b>62.8</b>	-	<b>175.7</b>	<b>1.1</b>	<b>12.2</b>	<b>25.2</b>	<b>72.6</b>	<b>287.0</b>	<b>229.5</b>	<b>33.8</b>	<b>15.5</b>	<b>1.1</b>
<b>USES OF FUNDS</b>													
<b>Expenditures</b>													
State Water Contract	508.0	-	-	348.9	-	-	-	159.2	-	-	-	-	-
Supply Programs	140.5	-	-	140.5	-	-	-	-	-	-	-	-	-
Colorado River Power	49.8	-	-	49.8	-	-	-	-	-	-	-	-	-
Debt Service	330.7	2.6	-	12.2	-	-	-	-	316.0	-	-	-	-
Demand Management	59.8	-	-	59.8	-	-	-	-	-	-	-	-	-
Departmental O&M	289.3	-	-	289.3	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	36.8	-	-	36.8	-	-	-	-	-	-	-	-	-
Other O&M	22.7	5.8	-	16.9	-	-	-	-	-	-	-	-	-
<b>Sub-total Expenditures</b>	<b>1,437.7</b>	<b>8.4</b>	-	<b>954.2</b>	-	-	-	<b>159.2</b>	<b>316.0</b>	-	-	-	-
<b>Capital Investment Plan</b>	<b>402.8</b>	<b>20.0</b>	-	-	-	-	-	-	-	-	<b>20.0</b>	<b>362.8</b>	-
<b>Fund Deposits</b>													
R&R and General Fund	40.0	20.0	-	-	-	-	-	-	-	-	20.0	-	-
Revenue Bond Construction	142.9	-	-	-	-	-	-	-	-	-	-	142.9	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	0.0	-	-	-	-	-	-	-	-	-	-	-	0.0
Increase in Required Reserves	61.2	-	-	8.3	-	-	-	7.9	45.0	-	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub-total Fund Deposits</b>	<b>244.1</b>	<b>20.0</b>	-	<b>8.3</b>	-	-	-	<b>7.9</b>	<b>45.0</b>	-	<b>20.0</b>	<b>142.9</b>	<b>0.0</b>
<b>TOTAL USES OF FUNDS</b>	<b>2,084.6</b>	<b>48.4</b>	-	<b>962.5</b>	-	-	-	<b>167.1</b>	<b>361.0</b>	-	<b>40.0</b>	<b>505.6</b>	<b>0.0</b>
<b>SOURCES OF FUNDS</b>													
<b>Receipts</b>													
Taxes	90.4	-	-	-	-	-	-	42.8	47.6	-	-	-	-
Annexations	1.0	-	-	-	-	-	-	1.0	-	-	-	-	-
Interest Income	33.7	2.2	-	6.2	0.0	0.2	0.9	2.6	10.7	6.6	1.2	3.0	0.0
Hydro Power	27.6	-	26.9	0.7	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	135.3	-	135.3	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,138.5	-	1,138.5	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	6.6	6.6	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	528.0	-	-	-	-	-	-	-	22.4	-	-	505.6	-
<b>Sub-total Receipts</b>	<b>1,961.2</b>	<b>8.8</b>	<b>1,300.7</b>	<b>6.9</b>	<b>0.0</b>	<b>0.2</b>	<b>0.9</b>	<b>46.5</b>	<b>80.7</b>	<b>6.6</b>	<b>1.2</b>	<b>508.6</b>	<b>0.0</b>
<b>Fund Withdrawals</b>													
Transfer Fund	0.0	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	40.0	20.0	-	-	-	-	-	-	-	-	20.0	-	-
Bond Funds for Construction	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	12.2	-	-	-	-	12.2	-	-	-	-	-	-	-
Decrease in Required Reserves (2)	62.4	-	-	-	-	-	-	-	-	62.4	-	-	-
Decrease in Rate Stabilization Fund (3)	8.8	-	-	-	-	-	-	-	-	8.8	-	-	-
<b>Sub-total Fund Withdrawals</b>	<b>123.4</b>	<b>20.0</b>	-	-	-	<b>12.2</b>	-	-	-	<b>71.2</b>	<b>20.0</b>	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>2,084.6</b>	<b>28.8</b>	<b>1,300.7</b>	<b>6.9</b>	<b>0.0</b>	<b>12.4</b>	<b>0.9</b>	<b>46.5</b>	<b>80.7</b>	<b>77.8</b>	<b>21.2</b>	<b>508.6</b>	<b>0.0</b>
<b>Inter-Fund Transfers</b>	-	<b>19.6</b>	<b>(1,300.7)</b>	<b>955.6</b>	<b>(0.0)</b>	<b>(12.4)</b>	<b>(0.9)</b>	<b>120.6</b>	<b>280.3</b>	<b>(77.8)</b>	<b>18.8</b>	<b>(3.0)</b>	-
<b>End of Year Balance</b>	<b>1,037.1</b>	<b>62.8</b>	-	<b>184.0</b>	<b>1.1</b>	-	<b>25.2</b>	<b>80.5</b>	<b>332.0</b>	<b>158.3</b>	<b>33.8</b>	<b>158.4</b>	<b>1.2</b>

(1) includes Water Rate Stabilization Fund, Water Treatment Surcharge Stabilization Fund, and the Revenue Remainder Fund  
 (2) 2009/10 Budget is expected to draw down the Revenue Remainder Fund \$62.4 million, \$76.5 million below the required minimum reserve.  
 (3) 2009/10 Budget is expected to draw down the Water Rate Stabilization Fund to zero, with a \$8.8 million withdrawal.  
 Totals may not foot due to rounding.