



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Nine Months Ended March 31, 2009

Executive Financial Report
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For the Nine Months Ended March 31, 2009

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Executive Financial Report For the Nine Months Ended March 31, 2009 – Current vs. Prior Year Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the nine months ended March 31, 2009 and March 31, 2008 as well as the changes in the balance sheet for March 2009 are discussed below.

Statements of Operations (page 3)

Net income of \$68.1 million was \$98.5 million less than prior year net income of \$166.6 million. Included in the variance were \$20.1 million of higher operating revenues, \$96.8 million more in operating expenses, and \$21.8 million less in other income-net. These items are further described below.

Operating revenues for the nine months ended March 31, 2009 totaled \$823.1 million and were \$20.1 million higher than prior year operating revenues of \$803.0 million. The increase was primarily due to \$15.5 million higher water sales and \$5.1 million higher wheeling/exchange sales. The water sales increase was due to \$56.7 million of higher prices partially offset by \$41.2 million related to lower volumes. The wheeling/exchange sales increase was due to \$1.0 million of higher prices and \$4.1 million related to higher volumes.

Operating expenses for the nine months ended March 31, 2009 totaled \$783.8 million and were \$96.8 million higher than prior year operating expenses. This increase was due primarily to \$62.2 million of higher cost of water, \$23.9 million more in demand management program costs, and \$8.1 million of higher O&M's. Cost of water increased due to higher unit costs and less credits from the Department of Water Resources for adjustments to prior year costs. Demand management programs were \$23.9 million higher reflecting Metropolitan's enhanced emphasis on conservation through new products (synthetic turf and central irrigation controllers), increased public awareness (through the public sector program), and growing conservation efforts (high efficiency toilets and high efficiency washers) in both the residential and commercial sectors. O&M's were \$8.1 million higher than prior year primarily due to \$6.3 million higher personnel costs in negotiated labor contracts.

Other income/(expense)-net of \$28.8 million was \$21.8 million lower than prior year's other income-net. The decrease was due primarily to a \$36.7 million reduction in investment income partially offset by \$11.8 million of lower bond interest expense. The lower investment income was due to \$13.6 million less in fair value adjustment reflecting the continuing deterioration in capital markets, including a \$4.2 million write down of Lehman corporate notes (Lehman Brothers filed for bankruptcy protection in September 2008), and \$23.1 million less in interest income as interest rates and portfolio balances were lower than the prior year. The reduction in bond interest expense was due primarily to lower interest rates.

Ratios (page 3)

The fixed charge coverage ratio measures the ability to pay fixed financing expenses, such as debt service and State Water Project capital costs, from net operating revenues. At March 31, 2009, this ratio was 1.04x compared to the Board approved guideline of greater or equal to 1.20x. The revenue bond debt service coverage ratio is a measure of Metropolitan's ability to pay its revenue bond principal and interest payments from net operating revenues. At March 31, 2009, this ratio was 1.48x compared to the Board approved guideline of greater than 2.00x. These ratios are used by the rating agencies to assess Metropolitan's ongoing credit quality. All debt service payments and other fixed charges were met during the past nine months.

Executive Financial Report

For the Nine Months Ended March 31, 2009 – Current vs. Prior Year

Discussion and Analysis

Balance Sheets (page 4)

At March 31, 2009, assets totaled \$11.2 billion, which were \$208.3 million higher than March 31, 2008. This variance included \$302.6 million of higher property, plant and equipment, net (PP&E), \$55.2 million more in accounts receivable, \$21.8 million higher deferred charges and water rights, partially offset by \$161.0 million less in cash and investments. The higher PP&E, net was primarily due to construction progress on the Inland Feeder project, the Chlorine Containment and Handling facilities program, the Oxidation Retrofit programs, Perris Valley Pipeline, and Treatment Plant Improvement programs. The increase in accounts receivable is primarily attributed to \$40 million in Proposition 50 grant billings to the State of California. The suspension of payment remains in effect, even though the state budget has been approved. The increase in deferred charges and water rights included \$28.7 million for the Drop 2 reservoir and \$14.6 million higher State Water Contract OMP&R costs, partially offset by \$14.6 million lower intangible water rights and the return of \$10.5 million of prepaid San Bernardino Valley water rights since the agency was unable to deliver water due to low State Water Project allocations. The \$161.0 million decrease in cash and investments reflects ongoing construction expenditures and principal paydowns, partially offset by the issuance of \$200.0 million of new bond debt.

Liabilities totaled \$5.3 billion at March 31, 2009, which were \$131.3 million higher than March 31, 2008. This increase included \$103.6 million higher long-term debt due primarily to the issuance of \$200 million in revenue bonds in January 2009 partially offset by principal paydowns and refunding of debt, and \$32.5 million higher accounts payable of which \$11.2 million related to worker's compensation and third party liability and \$17.1 million related to the other post-employment benefit (OPEB) liability.

The Metropolitan Water District of Southern California

Statements of Operations - Accrual Basis (Dollars in millions)

	For the Nine Months Ended March 31,		<i>Favorable/ (Unfavorable) Variance</i>
	2009	2008	
Operating Revenues:			
Water Sales	\$ 699.8	\$ 684.3	\$ 15.5
Wheeling / Exchange	20.4	15.3	5.1
Readiness-to-Serve	65.3	61.6	3.6
Capacity Charge	24.5	24.4	0.1
Power Sales	13.2	17.4	(4.2)
Total Operating Revenues	823.1	803.0	20.1
Operating Expenses:			
Cost of Water	305.4	243.2	(62.2)
Operations & Maintenance	253.3	245.2	(8.1)
Demand Management Programs	57.4	33.5	(23.9)
Depreciation & Amortization	167.7	165.0	(2.6)
Total Operating Expenses	783.8	686.9	(96.8)
Net Operating Income	39.4	116.1	(76.7)
Other Income (Expense):			
Net Taxes/Annexations	80.4	77.3	3.1
Investment Income	24.2	60.9	(36.7) ⁽¹⁾
Bond Interest Expense	(75.6)	(87.4)	11.8
Other	(0.3)	(0.3)	0.0
Total Other Income/(Expense) - Net	28.8	50.5	(21.8)
Net Income	\$ 68.1	\$ 166.6	\$ (98.5)

Sales Statistics

Water Sales (TAF)	1,504.5	1,585.3	(80.7)
Wheeling/Exchange (TAF)	72.5	57.3	15.2
Power Sales (mWh)	204.0	301.2	(97.2)
Average Sales Price ⁽²⁾			
Water Sales	\$ 465.10	\$ 431.67	\$ 33.43
Wheeling/Exchange	\$ 280.92	\$ 266.76	\$ 14.16
Power Sales	\$ 0.06	\$ 0.06	\$ 0.01

Ratios:

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

Actual	1.04 x	1.46 x
Target ⁽³⁾	≥ 1.20 x	≥ 1.20 x

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

Actual	1.48 x	1.85 x
Target ⁽³⁾	> 2.00 x	> 2.00 x

Notes:

- (1) Includes fair value adjustment of (\$3.6) million and \$10.0 million at March 31, 2009 and 2008, respectively.
- (2) Average prices calculated using exact rather than rounded dollar amounts.
- (3) Board adopted guideline.
- (4) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Balance Sheets - Accrual Basis (Dollars in millions)

	2009	March 31, 2008	Increase/ (Decrease)
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 954.3	\$ 1,115.2	\$ (161.0)
Fair Value Adjustment	(1.7)	9.1	(10.8)
Accounts Receivable	279.1	223.9	55.2 ⁽²⁾
Property, Plant and Equipment, net	7,711.8	7,409.2	302.6
Prepaid State Water Project Costs, net	1,559.6	1,554.8	4.8
Participation Rights, net	249.3	255.3	(5.9)
Deferred Charges and Water Rights	336.3	314.4	21.8
Other	159.9	158.3	1.6
Total Assets	\$ 11,248.6	\$ 11,040.3	\$ 208.3
Liabilities and Equity:			
Long-Term Debt	\$ 4,642.3	\$ 4,538.7	\$ 103.6
Off-Aqueduct Power Facilities	61.9	68.0	(6.1)
Accounts Payable and Accrued Bond Interest	176.5	144.1	32.5
Deferred Income	62.7	60.6	2.1
State Water Project Obligations	296.4	297.0	(0.7)
Trust Funds and Other	91.1	91.2	(0.0)
Total Liabilities	5,330.9	5,199.6	131.3
Equity	5,917.7	5,840.7	76.9
Total Liabilities and Equity	\$ 11,248.6	\$ 11,040.3	\$ 208.3

Revenue Bond Debt as a percent of equity	Actual	74.5 %	74.5 %
	Target ⁽³⁾	< 100.0 %	< 100.0 %

Notes:

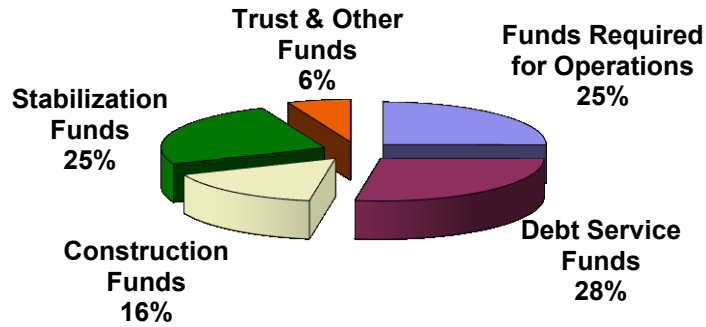
- (1) Fair value of cash and investments was \$952.6 million and \$1,124.3 million at March 31, 2009 and 2008, respectively.
- (2) Includes \$40 million of Proposition 50 grant billings placed on hold as the state re-assesses funding/budget issues. It is expected that the grant funds will be collected.
- (3) Administrative Code guideline.
- (4) Certain reclassifications of prior year amounts have been made to conform to current year presentation.
- (5) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of March 31, 2009 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 155.4	\$ 83.0	\$ 0.8	\$ 239.2
Debt Service Funds	262.0	-	-	262.0
Construction Funds	154.3	-	0.4	154.7
Stabilization Funds	-	-	238.9	238.9 ⁽¹⁾
Trust & Other Funds	40.0	19.5	-	59.5
Total	\$ 611.7	\$ 102.5	\$ 240.1	\$ 954.3

(1) Includes \$15.8 million of investments posted as collateral with Morgan Stanley.



Executive Financial Report For the Nine Months Ended March 31, 2009 – Actual vs. Estimate Discussion and Analysis

A summary of accrual basis operations and construction activity for the nine months ended March 31, 2009 compared to estimate for the same period is discussed below.

Actual vs. Estimate (page 7)

Net income for the nine months ended March 31, 2009 was \$68.1 million, or \$10.7 million lower than the \$78.8 million estimate. Included in this variance was \$42.8 million of lower operating revenues, \$24.2 million lower operating expenses, and \$7.9 million of higher other income-net. These items are further described below.

Operating revenues of \$823.1 million were \$42.8 million lower than the \$865.9 million estimate due primarily to \$29.6 million of lower than estimated water sales and \$16.5 million less in power sales. The lower water sales included \$23.4 million related to lower sales volumes and \$6.2 million related to lower prices. Water sales volumes totaled 1,504.5 thousand acre-feet (TAF), or 49.9 TAF less than the estimate of 1,554.4 TAF. Power sales were less than estimate due to lower power generation resulting from lower water flows. In addition, the power sales estimate included revenues of \$9.5 million for CRA power sales; instead these sales are recorded as a reduction of water inventory costs for accrual basis accounting.

Operating expenses of \$783.8 million were \$24.2 million lower than the \$808.0 million estimate primarily due to \$20.3 million lower cost of water and \$14.9 million less in O&M costs, partially offset by \$15.8 million higher demand management programs. The lower cost of water was due primarily to a State Water Contract credit of \$19.9 million for prior year adjustments which was not in the estimate. O&M costs were \$14.9 million less than estimate due primarily to \$6.0 million in lower chemical and utility costs due to lower State Water Project deliveries; \$2.8 million less of outside non-professional services; and \$1.9 million less in advertising costs. Chemical costs may continue to run under estimate due to lower State Water Project deliveries, lower plant flows, and favorable water quality conditions. Demand management programs were higher than estimate due to increased conservation efforts in both the residential and commercial sectors and reflect fiscal year 2009 Board actions approving additional costs.

Other income/(expense)-net totaling \$28.8 million was \$7.9 million higher than estimate due primarily to \$7.7 million more in net taxes/annexations revenues and \$10.4 million lower bond interest expense, partially offset by \$12.3 million less of investment income. The estimate for net taxes/annexations revenues was based on preliminary data which was less than the actual tax levy. The favorable variance in bond interest expense was due to lower variable interest rates. The \$12.3 million investment income variance included \$8.7 million less in income due to lower portfolio balances and lower interest rates and a \$3.6 million write-down for the fair value adjustment not included in the estimate.

Construction Activity (page 10)

Construction costs for the nine months ended March 31, 2009 totaled \$266.2 million, which was \$88.4 million, or twenty-five percent, under estimate. The variance includes \$27.4 million for the Treatment Plant Improvement programs; \$20.4 million for Perris Valley Pipeline; \$14.7 million for the Mills Capacity Upgrade; and \$11.7 million for the Oxidation and Retrofit Programs (ORP). Treatment Plant Improvement programs were less than estimate due to delays in construction and scope reductions. Perris Valley Pipeline was lower than estimate due to bids being considerably lower than anticipated for the South Reach. The Mills Capacity Upgrade was less than estimate due to the deferral of construction on the project. The ORP programs were less than estimate due to the Diemer ORP contractor's early invoices being less than budget. The Inland Feeder project was \$17.1 million higher than estimate due to accelerated construction activity. Construction costs are expected to be \$369.0 million, or \$99.9 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 Nine Months Ended March 31, 2009				Fiscal Year Ending June 30, 2009			
	Estimate	Actual	Favorable/ (Unfavorable) Variance		Estimate	Projected	Favorable/ (Unfavorable) Variance	
			\$	%			\$	%
Operating Revenues								
Water Sales	\$ 729.4	\$ 699.8	\$ (29.6)	(4%)	\$ 1,024.5	\$ 962.8	\$ (61.8)	(6%)
Wheeling/Exchange	17.1	20.4	3.3	19%	23.6	26.5	2.9	12%
RTS	65.3	65.3	-	0%	87.0	87.0	-	0%
Capacity Charge	24.5	24.5	0.0	0%	32.7	32.7	-	0%
Power Sales	29.7	13.2	(16.5)	(55%)	35.2	24.8	(10.4)	(30%)
Total Operating Revenues	865.9	823.1	(42.8)	(5%)	1,203.0	1,133.7	(69.3)	(6%)
Operating Expenses								
Operations & Maintenance	268.3	253.3	14.9	6%	371.5	364.2	7.3	2%
Cost of Water	325.7	305.4	20.3	6%	438.1	416.1	22.0	5%
Demand Mgt. Programs	41.6	57.4	(15.8)	(38%)	53.7	79.0	(25.3)	(47%)
Depreciation & Amortization	172.5	167.7	4.8	3%	230.0	225.2	4.8	2%
Total Operating Expenses	808.0	783.8	24.2	3%	1,093.3	1,084.5	8.8	1%
Operating Income	57.9	39.4	(18.5)	(32%)	109.7	49.2	(60.5)	(55%)
Other Income/(Expense)								
Net Taxes/Annexations	72.7	80.4	7.7	11%	96.9	107.1	10.2	11%
Investment Income	36.6	24.2 ⁽¹⁾	(12.3)	(34%)	43.0	32.0	(11.0)	(26%)
Bond Interest Expense	(85.9)	(75.6)	10.4	12%	(114.6)	(101.6)	13.0	11%
Other	(2.4)	(0.3)	2.1	(88%)	(3.2)	(1.1)	2.1	(66%)
Total Other Income(Expense)	20.9	28.8	7.9	38%	22.1	36.4	14.3	65%
Net Income	\$ 78.8	\$ 68.1	\$ (10.7)	(14%)	\$ 131.8	\$ 85.6	\$ (46.2)	(35%)
Sales Statistics:								
Water Sales (TAF)	1,554.4	1,504.5	(49.9)	(3%)	2,138.3	2,016.3	(122.0)	(6%)
Wheeling Sales (TAF)	61.4	72.5	11.2	18%	84.9	94.5	9.6	11%

Notes:

(1) Includes fair value adjustment of (\$3.6) 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 Nine Months Ended March 31, 2009 (Dollars in millions)

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
<u>Operations & Maintenance</u>				
Fixed:				
Personnel	\$ 180.9	\$ 181.0	\$ (0.1)	(0%)
Materials & Supplies	12.1	11.9	0.2	2%
Professional Services	15.9	16.8	(0.9)	(6%)
Outside Non-Professional Services	14.6	11.8	2.8	19%
Other	10.8	3.9	6.9	64%
Total Fixed	234.3	225.4	8.9	4%
Variable:				
Water Treatment Chemicals	23.0	18.8	4.2	18%
Utility Costs	11.0	9.1	1.9	17%
Total Variable	34.0	27.9	6.0	18%
Total Operations & Maintenance	\$ 268.3	\$ 253.3	\$ 14.9	6%
<u>Cost of Water</u>				
Cost of Water	\$ 334.9	\$ 325.3	9.6	3%
SWP Prior Year Adjustments	(9.2)	(19.9)	10.7	(117%)
Total Cost of Water	\$ 325.7	\$ 305.4	\$ 20.3	6%

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 Nine Months Ended March 31, 2009

(Dollars in millions)

Component	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Fixed:				
Personnel	\$180.9	\$181.0	(\$0.1)	(0%)
Professional Services	15.9	16.8	(0.9)	(6%)
Outside Non-Professional Services	14.6	11.8	2.8	19%
Materials & Supplies	12.1	11.9	0.2	2%
Communications Expense	2.7	2.6	0.1	4%
Travel Expense	1.7	1.5	0.2	12%
Training	0.8	0.4	0.4	47%
Memberships & Subscriptions	1.6	2.1	(0.4)	(27%)
Equipment Expensed	0.5	0.4	0.1	12%
Equipment Rents/Leases	0.8	0.8	0.0	4%
Insurance	7.4	6.3	1.1	15%
Agency Dues	1.9	1.6	0.3	15%
Rents/Leases	0.3	0.4	(0.1)	(21%)
Overhead Credit from Construction	(14.8)	(15.3)	0.5	(3%)
Other	7.9	3.1	4.8	61%
Total Fixed Costs	234.3	225.4	8.9	4%
Variable:				
Water Treatment Chemicals	23.0	18.8	4.2	18%
Utility Costs:				
Utilities	8.0	7.6	0.4	5%
Sludge Removal	1.8	0.4	1.4	76%
Permits	1.1	1.0	0.1	11%
Total Variable Costs	34.0	27.9	6.0	18%
Total O&M	\$268.3	\$253.3	\$14.9	6%

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 Nine Months Ended March 31, 2009				Fiscal Year Ending June 30, 2009			
	Estimate	Actual	Variance from Estimate		Estimate	Projected	Variance from Estimate	
			\$	%			\$	%
Sources of Funds								
Bond Construction Funds	\$ 282.8	\$ 183.8	\$ 99.0	35%	\$ 373.9	\$ 339.0	\$ 34.9	9%
R & R/General Funds	71.8	82.4	(10.6)	(15%)	95.0	30.0	65.0	68%
Total	\$ 354.6	\$ 266.2	\$ 88.4	25%	\$ 468.9	\$ 369.0	\$ 99.9	21%
Program Expenditures								
Oxidation Retrofit Programs	\$ 74.9	\$ 63.2	\$ 11.7	16%	\$ 90.1	\$ 85.0	\$ 5.1	6%
Treatment Plant Improvement	60.2	32.8	27.4	45%	84.0	45.0	39.0	46%
Inland Feeder	45.4	62.5	(17.1)	(38%)	61.4	80.0	(18.6)	(30%)
Riverside Treatment Plant Land Acquisition	9.9	0.1	9.8	99%	9.9	-	9.9	100%
Perris Valley Pipeline	48.1	27.8	20.4	42%	61.7	40.0	21.7	35%
Distribution System - Rehabilitation Program	19.3	13.9	5.4	28%	23.5	20.0	3.5	15%
Mills Capacity Upgrade	25.6	10.9	14.7	57%	35.8	15.0	20.8	58%
CRA - Reliability/Containment Programs	10.5	4.3	6.2	59%	17.2	7.0	10.2	59%
Local Groundwater Storage	5.6	4.0	1.6	29%	10.3	10.0	0.3	3%
Power Reliability & Energy Conservation	4.5	2.5	2.0	44%	7.3	7.0	0.3	4%
Other	50.6	44.2	6.4	13%	67.8	60.0	7.8	11%
Total	\$ 354.6	\$ 266.2	\$ 88.4	25%	\$ 468.9	\$ 369.0	\$ 99.9	21%

Major Program Statistics - March 2009

	Current Estimate	Project-to-Date	% Complete	
			Spent	Complete
Inland Feeder	\$ 1,186.5	\$ 1,073.1	90%	94%
Oxidation Retrofit Program	1,206.9	617.5	51%	48%
Treatment Plant Improvement Projects	748.2	254.6	34%	32%
Chlorine Containment Handling Facilities	162.9	108.0	66%	70%
CRA - Reliability/Containment Programs	166.2	89.7	54%	55%
Skinner Expansion No. 4	153.2	149.8	98%	99%
Diamond Valley Lake Recreation	92.8	64.6	70%	69%

Notes:

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



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: April 14, 2009
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of March 2009

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 March 2009 covering the investment of securities for that period. The reported forms of investment are within the eligible group of 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 Investment Policy, as amended on October 14, 2008, authorizes continued holding of the investments listed on Attachment 2a for orderly and systematic liquidation. For purposes of this letter, we have not undertaken to independently verify the accuracy of the information submitted by the Treasurer to this office.

A handwritten signature in cursive script, appearing to read "Karen L. Tachiki".

Karen L. Tachiki

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