



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Three Months Ended September 30, 2009

Executive Financial Report
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For the Three Months Ended September 30, 2009

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Executive Financial Report For the Three Months Ended September 30, 2009 – Current vs. Prior Year Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the three months ended September 30, 2009 and September 30, 2008 as well as the changes in the balance sheet for September 2009 are discussed below.

Statements of Operations (page 3)

Net income of \$99.7 million was \$33 million more than the prior year's net income. Included in the variance were \$29.3 million of higher operating revenues, \$20.6 million more in operating expenses, and \$24.3 million more in other income-net. These items are further described below.

Operating revenues for the three months ended September 30, 2009 totaled \$361.4 million and were \$29.3 million higher than prior year operating revenues of \$332.1 million. The increase was primarily due to \$22.1 million higher water sales, \$2.3 million higher wheeling/exchange sales, and \$4 million more in readiness-to-serve charges reflecting a Board approved increase. The increase in water sales was due to \$59.1 million of higher prices partially offset by \$37 million related to lower volumes and the wheeling/ exchange sales increase was primarily due to higher volumes.

Operating expenses for the three months ended September 30, 2009 totaled \$283.6 million and were \$20.6 million higher than prior year operating expenses of \$263 million. This increase was due primarily to \$20.4 million of higher cost of water of which \$16.9 million related to less credits from DWR for adjustments to prior year costs.

Other income-net of \$22 million was \$24.3 million higher than prior year other expense-net of \$2.3 million. The increase was mainly due to \$26 million higher investment income as the result of \$29.5 million more in fair value adjustment offset by \$3.5 million less in interest income due 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 September 30, 2009, this ratio was 1.17x 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 September 30, 2009, this ratio was 1.66x 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 three months.

Executive Financial Report
For the Three Months Ended September 30, 2009 – Current vs. Prior Year
Discussion and Analysis

Balance Sheets (page 4)

At September 30, 2009, assets totaled \$12.2 billion, which were \$700.2 million higher than September 30, 2008. This variance included \$267.3 million of higher property, plant and equipment, net (PP&E), \$261.6 million more in cash and investments, and \$107.4 million higher participation rights, net. The higher PP&E was primarily due to construction progress on the Inland Feeder, Oxidation Retrofit programs, Treatment Plant Improvement programs, and Perris Valley Pipeline. The \$261.6 million increase in cash and investments was primarily due to \$550 million of revenue bonds issued during the year and the receipt of \$56.3 million in state grant funds from Propositions 13 and 50, partially offset by expenditures on the capital improvement program. The increase in participation rights was due to the addition of three groundwater storage programs to which Metropolitan has storage rights: \$28.4 million for Calleguas groundwater storage, \$27.5 million for Chino Basin groundwater storage, and \$23 million for Orange County groundwater storage and \$20.6 million related to agreements with other agencies for various conjunctive use programs

Liabilities totaled \$6 billion at September 30, 2009, which were \$469.7 million higher than September 30, 2008. The increase included \$424.1 million more of long-term debt and \$26.5 million more in accounts payables. The net increase to long-term debt was due to \$550 million of revenue bonds issued during the year, partially offset by principal pay downs. The increase in accounts payable was primarily due to \$21.2 million of other post-employment benefit (OPEB) liability.

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>
	2009	2008	
Operating Revenues:			
Water Sales	\$ 312.0	\$ 289.9	\$ 22.1
Wheeling / Exchange	7.5	5.2	2.3
Readiness-to-Serve	25.8	21.8	4.0
Capacity Charge	8.1	8.2	(0.1)
Power Sales	8.0	7.0	1.0
Total Operating Revenues	361.4	332.1	29.3
Operating Expenses:			
Cost of Water	125.7	105.4	(20.4)
Operations & Maintenance	85.1	84.6	(0.5)
Demand Management Programs	15.2	16.7	1.5
Depreciation & Amortization	57.5	56.4	(1.2)
Total Operating Expenses	283.6	263.0	(20.6)
Net Operating Income	77.7	69.1	8.7
Other Income (Expense):			
Net Taxes/Annexations	26.4	26.8	(0.4)
Investment Income	20.7	(5.3)	26.0
Bond Interest Expense	(25.6)	(23.3)	(2.3)
Other	0.4	(0.5)	0.9
Total Other Income/(Expense) - Net	22.0	(2.3)	24.3
Net Income	\$ 99.7	\$ 66.8	\$ 33.0

Sales Statistics:

Water Sales (TAF)	580.2	658.1	(78.0)
Wheeling/Exchange (TAF)	25.7	18.6	7.1
Power Sales (mWh)	100.8	106.3	(5.5)
Average Sales Price (1)			
Water Sales	\$ 537.72	\$ 440.51	\$ 97.21
Wheeling/Exchange	\$ 292.70	\$ 279.77	\$ 12.93
Power Sales	\$ 0.08	\$ 0.07	\$ 0.01

Ratios:

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

Actual	1.17 x	1.15 x
Target (2)	≥ 1.20 x	≥ 1.20 x

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

Actual	1.66 x	1.61 x
Target (2)	> 2.00 x	> 2.00 x

Notes:

- (1) Average prices calculated using exact rather than rounded dollar amounts.
- (2) Board adopted guideline.
- (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,		<i>Increase/ (Decrease)</i>
	2009	2008	
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 1,170.1	\$ 908.5	\$ 261.6
Fair Value Adjustment	8.8	(13.3)	22.2
Accounts Receivable	414.2	382.4	31.7
Property, Plant and Equipment, net	7,844.5	7,577.2	267.3
Prepaid State Water Project Costs, net	1,668.6	1,669.4	(0.9)
Participation Rights, net	359.1	251.7	107.4
Deferred Charges and Water Rights	507.0	532.1	(25.0)
Other	200.3	164.3	36.0
Total Assets	\$ 12,172.7	\$ 11,472.4	\$ 700.2
Liabilities and Equity:			
Long-Term Debt	\$ 4,904.2	\$ 4,480.1	\$ 424.1
Off-Aqueduct Power Facilities	59.0	65.1	(6.1)
Accounts Payable and Accrued Bond Interest	200.1	173.6	26.5
Deferred Income	169.6	160.5	9.1
State Water Project Obligations	600.4	582.3	18.1
Trust Funds and Other	92.6	94.5	(2.0)
Total Liabilities	6,025.8	5,556.1	469.7
Equity	6,146.9	5,916.4	230.5
Total Liabilities and Equity	\$ 12,172.7	\$ 11,472.4	\$ 700.2

Revenue Bond Debt as a percent of equity	Actual	72.4 %	71.3 %
	Target ⁽²⁾	< 100.0 %	< 100.0 %

Notes:

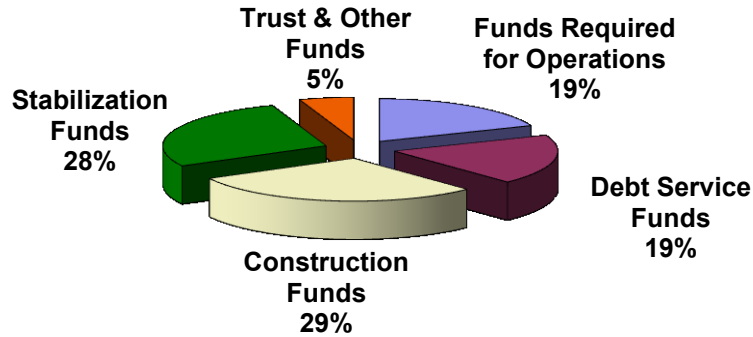
- (1) Fair value of cash and investments was \$1,178.9 million and \$895.2 million at September 30, 2009 and 2008, respectively.
- (2) Per Metropolitan Water District Act - Part 5, Chapter 1.6, Section 239.2.
- (3) Certain reclassifications of prior year amounts has been made to conform to current year presentation.
- (4) 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, 2009 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 177.9	\$ 43.0	\$ 0.4	\$ 221.3
Debt Service Funds	222.0	-	-	222.0
Construction Funds	315.5	-	27.3	342.8
Stabilization Funds	-	-	321.6	321.6 ⁽¹⁾
Trust & Other Funds	42.9	19.5	-	62.4
Total	\$ 758.3	\$ 62.5	\$ 349.3	\$ 1,170.1

(1) Includes \$4.1 million of investments posted as collateral with Morgan Stanley.



Executive Financial Report For the Three Months Ended September 30, 2009 – Actual vs. Estimate Discussion and Analysis

A summary of accrual basis operations and construction activity for the three months ended September 30, 2009 compared to estimate for the same period is discussed below.

Actual vs. Estimate (page 7)

Net income for the three months ended September 30, 2009 was \$99.7 million, or \$10.2 million higher than the \$89.5 million estimate. Included in this variance was \$8.6 million of lower operating revenues, \$300,000 lower operating expenses, and \$18.6 million of higher other income-net. These items are further described below.

Operating revenues of \$361.4 million were \$8.6 million lower than the \$370 million estimate due primarily to \$12.4 million of lower than estimated water sales of which \$7.5 million related to price (untreated sales were higher and treated sales were lower than expected) and \$4.9 million was due to lower volumes. Water sales volumes totaled 580.2 thousand acre-feet (TAF), or 8.9 TAF less than the estimate of 589.1 TAF. Partially offsetting the lower water sales was \$2.6 million higher power sales due to \$1.8 million of higher volumes and \$800,000 due to higher prices.

Operating expenses of \$283.6 million were \$300,000 lower than estimate primarily due to \$6 million less in O&M costs partially offset by \$3.7 million higher cost of water and \$1.1 million more in demand management program costs. O&M costs were lower than budget due primarily to \$5.4 million less of variable treatment costs (chemicals, utilities, sludge removal) due to lower State Water Project deliveries and flows. Chemical costs are expected to continue to run under estimate due to the lower State Water Project deliveries and chemical blends. The higher cost of water was due primarily to higher than estimated unit costs, \$12.7 million, partially offset by lower than anticipated volumes, \$3.6 million, and a State Water Contract credit of \$4.4 million for prior year adjustments which was not in the estimate. Demand management programs were higher than estimate due to the processing of unbudgeted back-log: costs identified by the General Auditor during a Board requested audit of the conservation program.

Other income-net totaling \$22 million was \$18.6 million higher than estimate due primarily to \$12.2 million more in investment income, \$3.6 million higher net taxes/annexations revenues and \$2.5 million lower bond interest expense. The favorable variance in investment income is attributed to a \$14.2 million fair value adjustment, which is not included in the estimate, partially offset by lower than anticipated income as interest rates were lower than expected. Net taxes/annexations revenues were based on preliminary data which was less than the actual tax levy. The lower bond interest expense was due to lower variable interest rates.

Construction Activity (page 10)

Construction costs for the three months ended September 30, 2009 totaled \$72.5 million, which was \$45.7 million, or thirty-nine percent, under estimate. Lower than the estimate were \$14.7 million for the Treatment Plant Improvement programs, \$11.9 million for the Riverside Treatment Plant land acquisition program, and \$5.7 million for the Power Reliability and Energy Conservation program. Treatment Plant Improvement programs were less than estimate due to delays in construction and the timing and scope of work. Staff continues to evaluate options and timing associated with the acquisition of property for the future Riverside Treatment plant. The Power Reliability and Energy Conservation program was \$5.7 million less than estimate as work was completed in fiscal year 2009. Construction costs are expected to be \$371.1 million, or ten percent lower than 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, 2009				Fiscal Year Ending June 30, 2010			
	Estimate	Actual	Favorable/ (Unfavorable) Variance		Estimate	Projected	Favorable/ (Unfavorable) Variance	
			\$	%			\$	%
Operating Revenues								
Water Sales	\$ 324.4	\$ 312.0	\$ (12.4)	(4%)	\$ 1,086.0	\$ 1,033.6	\$ (52.4)	(5%)
Wheeling/Exchange	6.1	7.5	1.4	23%	31.9	50.2	18.3	57%
RTS	25.8	25.8	-	0%	103.0	103.0	-	0%
Capacity Charge	8.3	8.1	(0.2)	(3%)	33.3	33.3	-	0%
Power Sales	5.4	8.0	2.6	49%	24.1	25.5	1.4	6%
Total Operating Revenues	370.0	361.4	(8.6)	(2%)	1,278.3	1,245.6	(32.7)	(3%)
Operating Expenses								
Operations & Maintenance	91.1	85.1	6.0	7%	379.4	376.4	3.0	1%
Cost of Water	122.0	125.7	(3.7)	(3%)	415.8	473.8	(58.0)	(14%)
Demand Mgt. Programs	14.1	15.2	(1.1)	(8%)	59.8	73.0	(13.2)	(22%)
Depreciation & Amortization	56.7	57.5	(0.8)	(1%)	226.8	237.0	(10.2)	(4%)
Total Operating Expenses	283.9	283.6	0.3	0%	1,081.9	1,160.2	(78.3)	(7%)
Operating Income	86.1	77.7	(8.3)	(10%)	196.4	85.4	(111.0)	(57%)
Other Income/(Expense)								
Net Taxes/Annexations	22.9	26.4	3.6	16%	91.4	105.6	14.2	16%
Investment Income	8.6	20.7 ⁽¹⁾	12.2	142%	34.2	29.2	(5.0)	(15%)
Bond Interest Expense	(28.1)	(25.6)	2.5	9%	(121.7)	(119.2)	2.5	2%
Other	0.1	0.4	0.3	376%	0.4	0.4	-	0%
Total Other Income(Expense)	3.4	22.0	18.6	542%	4.2	16.0	11.7	276%
Net Income	\$ 89.5	\$ 99.7	\$ 10.2	11%	\$ 200.6	\$ 101.4	\$ (99.3)	(49%)
Sales Statistics:								
Water Sales (TAF)	589.1	580.2	(8.9)	(2%)	1,811.8	1,737.5	(74.3)	(4%)
Wheeling Sales (TAF)	21.1	25.7	4.5	21%	103.3	159.2	55.9	54%

Note:

(1) Includes fair value adjustment of \$14.2 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, 2009 (Dollars in millions)

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
<u>Operations & Maintenance</u>				
Fixed:				
Personnel	\$ 60.0	\$ 61.0	\$ (1.0)	(2%)
Materials & Supplies	3.7	3.7	(0.0)	(0%)
Professional Services	4.6	4.6	0.0	0%
Outside Non-Professional Services	2.9	2.8	0.0	2%
Other	4.9	3.3	1.6	32%
Total Fixed	76.1	75.5	0.6	1%
Variable:				
Water Treatment Chemicals	10.5	6.9	3.6	34%
Utility Costs	4.5	2.7	1.8	40%
Total Variable	15.0	9.6	5.4	36%
Total Operations & Maintenance	\$ 91.1	\$ 85.1	\$ 6.0	7%
<u>Cost of Water</u>				
Cost of Water	\$ 122.0	\$ 130.2	(8.2)	(7%)
SWP Prior Year Adjustments	-	(4.4)	4.4	n/a
Total Cost of Water	\$ 122.0	\$ 125.7	\$ (3.7)	(3%)

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, 2009 (Dollars in millions)

Component	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Fixed:				
Personnel	\$60.0	\$61.0	(\$1.0)	(2%)
Professional Services	4.6	4.6	0.0	0%
Outside Non-Professional Services	2.9	2.8	0.0	2%
Materials & Supplies	3.7	3.7	(0.0)	(0%)
Communications Expense	1.0	0.8	0.2	20%
Travel Expense	0.6	0.3	0.3	56%
Training	0.3	0.1	0.2	62%
Memberships & Subscriptions	0.8	2.0	(1.2)	(151%)
Equipment Expensed	0.1	0.1	(0.0)	(38%)
Equipment Rents/Leases	0.3	0.3	0.0	14%
Insurance	1.9	1.9	(0.0)	(1%)
Agency Dues	2.2	2.1	0.1	5%
Rents/Leases	0.1	0.2	(0.1)	(48%)
Overhead Credit from Construction	(4.3)	(4.6)	0.4	(9%)
Other	1.9	0.2	1.6	87%
Total Fixed Costs	76.1	75.5	0.6	1%
Variable:				
Water Treatment Chemicals	10.5	6.9	3.6	34%
Utility Costs:				
Utilities	3.6	2.4	1.2	33%
Sludge Removal	0.6	0.2	0.4	71%
Permits	0.3	0.1	0.2	62%
Total Variable Costs	15.0	9.6	5.4	36%
Total O&M	\$91.1	\$85.1	\$6.0	7%

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, 2009				Fiscal Year Ending June 30, 2010			
	Estimate	Actual	Variance from Estimate		Estimate	Projected	Variance from Estimate	
			\$	%			\$	%
Sources of Funds								
Bond Construction Funds	\$ 107.7	\$ 64.3	\$ 43.4	40%	\$ 375.4	\$ 334.4	\$ 41.0	11%
R & R/General Funds	10.5	8.2	2.3	22%	36.7	36.7	-	0%
Total	\$ 118.3	\$ 72.5	\$ 45.7	39%	\$ 412.1	\$ 371.1	\$ 41.0	10%
Program Expenditures								
Treatment Plant Improvement	\$ 22.5	\$ 7.8	\$ 14.7	65%	\$ 118.2	\$ 103.5	\$ 14.7	12%
Oxidation Retrofit Programs	21.2	23.2	(1.9)	(9%)	92.8	92.8	-	0%
Inland Feeder	18.7	16.9	1.8	9%	49.6	49.6	-	0%
Distribution System - Rehabilitation Program	7.1	4.1	3.0	43%	23.1	20.1	3.0	13%
Perris Valley Pipeline	7.2	7.0	0.2	2%	19.5	19.5	-	0%
CRA - Reliability/Containment Programs	3.2	1.6	1.5	48%	17.3	17.3	-	0%
Hayfield Ground Storage Program	3.8	0.6	3.2	85%	13.4	10.2	3.2	24%
Riverside Treatment Plant Land Acquisition	11.9	0.0	11.9	100%	11.9	-	11.9	100%
Power Reliability & Energy Conservation	6.2	0.5	5.7	91%	9.6	3.6	6.0	62%
Information Technology System - Infrastructure	3.7	1.6	2.2	59%	6.0	3.8	2.2	37%
Other	12.7	9.2	3.5	28%	50.7	50.7	-	0%
Total	\$ 118.3	\$ 72.5	\$ 45.7	39%	\$ 412.1	\$ 371.1	\$ 41.0	10%

Major Program Statistics

	Current Estimate	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,113.9	94%	98%
Oxidation Retrofit Program	1,210.3	710.2	59%	57%
Treatment Plant Improvement Projects	995.8	273.4	27%	31%
Chlorine Containment Handling Facilities	175.9	109.9	62%	67%
CRA - Reliability/Containment Programs	204.2	93.6	46%	47%
Diamond Valley Lake Recreation	92.8	65.0	70%	70%

Note:

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



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: October 13, 2009
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of September 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 September 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 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