



- Board of Directors
Business and Finance Committee

1/12/2010 Board Meeting

9-1

Subject

Proposed 2010/11 Fiscal Year Budget

Description

The United States' economy, although improving, continues to struggle through difficult financial times. During the past year, both the public and private sectors have weathered the collateral impacts of the financial market turmoil, a slowdown in overall economic activity, a collapse in the housing market, and rising unemployment rates. In response to these pressures, Metropolitan implemented significant actions to reduce ongoing expenditures and preserve the ability to fund water and operating costs, thus helping to ensure a stable supply of water for Southern California.

Metropolitan took actions to reduce the 2009/10 budget by \$70 million below the expenditures in the 2008/09 budget. Metropolitan continues this approach with the proposed 2010/11 budget, which is \$62 million below 2009/10 budgeted expenditures. Many actions have been taken to manage costs within the proposed 2010/11 budget, including:

- Staffing – The proposed 2010/11 budget eliminates 63 positions, recognizing the need to better manage workload within current budget constraints. Under these conditions, external candidates are only considered for “critical need” positions as they become available through attrition.
- Base salary containment – The proposed budget assumes no across-the-board salary increases in 2010, subject to labor negotiations.
- Reduced water treatment costs – The proposed 2010/11 budget assumes higher Colorado River Aqueduct (CRA) deliveries than in 2009/10. These higher CRA deliveries help to reduce the quantity of chemicals used at the water treatment plants. This lower chemical usage, along with lower chemical prices, is projected to lead to lower water treatment costs in 2010/11.
- Operating equipment reductions – The 2010/11 budget for operating equipment purchases is significantly lower than in previous years. This reduction is temporary in nature, reflecting the deferral of equipment purchases to help contain the budget and reduce rate impacts in the current economic climate. In order to achieve this reduction, some operating equipment at Metropolitan will be used beyond adopted replacement guidelines. This equipment will need to be replaced in 2011/12 and beyond.
- Conservation advertising – Planned expenditures are lower in the proposed 2010/11 budget as water users throughout the region are complying with mandatory restrictions.
- Decline in CIP expenditures – Metropolitan's proposed 2010/11 CIP of about \$328 million is consistent with last year's forecast and is about \$85 million less than the 2009/10 budget. Staff continues to focus efforts on the most critical capital projects. Additionally, large projects like the Inland Feeder and Skinner Oxidation Retrofit Program are coming to completion.

While the actions detailed above help to reduce Metropolitan's budget expenditures and associated water rate impacts, the 2010/11 budget continues to support the Board's strategic priorities, including:

- a. **Sustainability** - Metropolitan will strive to meet the needs of the present by providing a secure and reliable water supply to its member agencies 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.
- b. **Energy** - Energy (including payments under the State Water Project contract) 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.
- c. **Water Supply** - The Integrated Water Resources Plan and the Five-Year Water Supply Reliability Program will support Metropolitan's mission to supply a safe, reliable supply of high quality water emphasizing the need for local resources and conservation. The actions in the Five-Year Supply Reliability Program, however, will result in higher cost water supplies 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 an important part of the proposed budget.
- d. **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.
- e. **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 2,019 to 1,956, further emphasizing the importance of ensuring that all of our employees are highly skilled and capable of effectively contributing to Metropolitan's objectives and mission.
- f. **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 continues to be an important strategy in 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 to cover the full cost of service in 2010/11 without drawing from financial reserves to meet expenditures. Increasing rates while continuing to manage costs are a necessary part of maintaining Metropolitan's strong credit rating in the face of current economic challenges.

BUDGET REVIEW SCHEDULE

In an effort to allow sufficient review of Metropolitan's proposed 2010/11 budget, the following schedule has been developed:

| | |
|------------------|---|
| January 11, 2010 | Business and Finance Committee review of draft budget summary |
| January 26, 2010 | Board Budget/Rates Workshop |

| | |
|----------------------|--|
| February 8 & 9, 2010 | Public hearing on 2010/11 rates and charges at Business and Finance Committee. Review of each departmental budget with the respective home committees (e.g., Office of the CFO budget to be reviewed in the Business and Finance Committee, Water System Operations Group budget to be reviewed by Engineering and Operations Committee, etc.) |
| February 23, 2010 | Board Budget/Rates Workshop |
| March 8 & 9, 2010 | Business and Finance Committee review and recommendation, Board consideration of proposed 2010/11 budget |

FY 2010/11 BUDGET SUMMARY

As summarized in Table 1, the proposed 2010/11 expenditure budget, including CIP, totals \$1.74 billion. This is about \$62 million less than the 2009/10 budget and about \$54 million greater than projected expenditures in 2009/10. As Metropolitan enters the 2010/11 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 2010/11 will be \$348 million, or \$43 million greater than projected and about \$17 million higher than budgeted in 2009/10. This primarily reflects increased debt, including the planned issuance of \$400 million of fixed rate bonds in 2010/11 to fund the CIP.
- 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. Deliveries on the State Water Project are expected to total 0.92 million acre-feet, including transfers, State Water Project supplies, draws from Central Valley Storage accounts, and exchanges. In 2010/11, Metropolitan’s State Water Project costs are estimated to be \$501 million, about \$48 million more than projected, and \$22 million higher than the 2009/10 budget. The primary drivers of these increases compared to the 2009/10 budget are a \$17.4 million increase in SWC capital charges and a \$7.5 million increase in power cost.
- c. **Water Supply Programs** - Due to restrictions placed on 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 continued to emphasize development of alternative supply sources including water transfers and exchanges. The cost of these programs is expected to be \$103 million in 2010/11, about \$11 million lower than projected expenditures in 2009/10, and about \$22 million lower than in the 2009/10 budget. These programs are expected to recover 97 thousand acre-feet (TAF) of previously stored groundwater supplies and generate 405 TAF of net transfer deliveries on the Colorado River Aqueduct and State Water Project.
- d. **Capital Funding** - Ongoing investments in Metropolitan’s infrastructure will total about \$328 million. This is \$85 million less than the 2009/10 budget, reflecting changes in project scheduling and the completion of some major projects in 2009/10 resulting in lower projected 2010/11 expenditures. The 2010/11 budget reflects the issuance of an additional \$400 million of bonds, of which about \$233 million of proceeds will be used to fund the CIP in 2010/11.

Metropolitan’s budget is more fully described in the Proposed Budget Summary ([Attachment 1](#)). Additional details will be provided in the FY 2010/11 Proposed Budget Book to be issued in late January.

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

| | 2008/09 Actual | 2009/10 Budget | 2009/10 Projected | 2010/11 Proposed Budget | 2010/11 Proposed Budget Compared to | |
|-------------------------------------|-------------------|-------------------|----------------------|-------------------------------|--|----------------------|
| | | | | | 2009/10 Budget | 2009/10 Projected |
| Expenditures | | | | | | |
| State Water Contract | \$ 394.7 | \$ 478.8 | \$ 452.7 | \$ 501.0 | \$ 22.2 | \$ 48.3 |
| Supply Programs | 84.1 | 125.5 | 113.8 | 103.2 | (22.3) | (10.7) |
| Colorado River Power | 37.4 | 49.8 | 46.3 | 59.6 | 9.8 | 13.3 |
| Debt Service | 287.1 | 330.7 | 305.0 | 348.1 | 17.4 | 43.1 |
| Demand Management | 75.6 | 59.8 | 76.9 | 58.2 | (1.6) | (18.6) |
| Departmental O&M | 291.5 | 289.3 | 294.2 | 295.5 | 6.2 | 1.4 |
| Treatment Chemicals, Solids & Power | 28.4 | 32.8 | 29.5 | 26.5 | (6.3) | (3.0) |
| Other O&M | 24.8 | 18.7 | 16.6 | 15.9 | (2.8) | (0.6) |
| Sub-total Expenditures | 1,223.6 | 1,385.5 | 1,334.9 | 1,408.0 | 22.6 | 73.2 |
| Capital Investment Plan | 416.7 | 412.1 | 346.7 | 327.6 | (84.5) | (19.1) |
| TOTAL Expenditures | \$1,640.3 | \$1,797.5 | \$ 1,681.6 | \$ 1,735.6 | \$ (61.9) | \$ 54.0 |

Totals may not foot due to rounding.

FY 2010/11 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 2010/11 departmental operations and maintenance (O&M) budget is \$2.9 million less than the \$340.9 million 2009/10 budget, and \$2.3 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 with the exception of a previously negotiated increase for employees in the Supervisors Association totaling \$0.4 million. The budget includes increases in benefit costs, including retirement and medical, of \$2.3 million. In addition, an allowance for merit increases is included in the budget, leading to another \$2.2 million increase in labor costs.
- b. **Increased O&M work** - A reduction in capital work has permitted renewed emphasis on deferred water system O&M work and support of programs in the Bay-Delta. This resulted in a shift from capital to O&M work in these areas of \$2.8 million and \$2.4 million, respectively.
- c. **Reduced positions and vacancy rates** - The total personnel budget includes a reduction of 63 net positions. The combined effect of increased benefit costs, merit increases, increased O&M work, and a reduced vacancy rate offset by a reduction of 63 positions is an \$8.3 million overall increase in the labor budget.
- d. **Reduced conservation outreach expenditures** - The 2010/11 budget includes \$1.2 million for conservation advertising. This is about \$2.5 million less than in the 2009/10 budget. 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. Conservation incentives and the administrative costs of the conservation incentives programs are maintained at the same levels in the 2009/10 budget of about \$19.1 million and 1.7 million, respectively.
- e. **Operating Equipment** - Operating equipment expenditures will be reduced by almost \$3.2 million from the 2009/10 budget. This will be the second year operating equipment purchases have been reduced by this magnitude. The 2008/09, 2009/10, and 2010/11 budgets for operating equipment totaled \$9.0 million, \$5.3 million, and \$2.1 million, respectively. Staff will need to continue to optimize the use of equipment that has experienced lower utilization in an effort to limit replacements to the oldest, least reliable equipment and manage the potentially increasing maintenance cost on older equipment. As mentioned

earlier, this reduced level of operating equipment purchases is not sustainable and is not consistent with internal guidelines for equipment replacement. Operating equipment purchases in 2011/12 and beyond will be higher than contemplated in the proposed 2010/11 budget to make up for the deferred replacements.

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

Table 2. Budget Summary – Operations and Maintenance

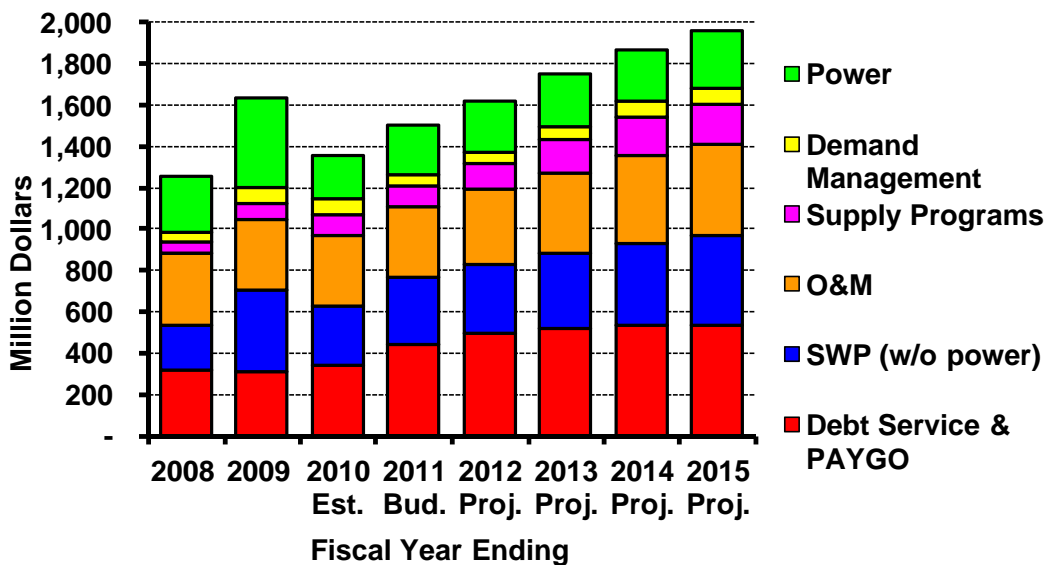
| | 2008/09 Actual | 2009/10 Budget | 2009/10 Projected | 2010/11 Proposed | Change from: | |
|-----------------------------------|--------------------|--------------------|----------------------|---------------------|--------------------|----------------------|
| | | | | | 2009/10 Budget | 2009/10 Projected |
| Salaries & Benefits | 207,977,100 | 204,714,300 | 205,974,400 | 212,976,600 | 8,262,300 | 7,002,200 |
| Chemicals, Solids, and Power * | 24,933,500 | 32,837,200 | 29,492,300 | 26,493,300 | (6,343,900) | (2,999,000) |
| Outside Services | 39,451,600 | 36,695,900 | 38,200,000 | 37,839,200 | 1,143,300 | (360,800) |
| Materials & Supplies | 22,749,536 | 21,673,300 | 22,138,300 | 22,559,300 | 886,000 | 421,000 |
| Cargill Settlement | 10,348,000 | 1,604,900 | 817,000 | 1,000,000 | (604,900) | 183,000 |
| Other | 43,780,369 | 38,079,100 | 38,297,400 | 34,981,200 | (3,097,900) | (3,316,200) |
| Operating Equipment | 8,666,684 | 5,252,800 | 5,300,000 | 2,091,500 | (3,161,300) | (3,208,500) |
| Total Departmental O&M | 357,906,789 | 340,857,500 | 340,219,400 | 337,941,100 | (2,916,400) | (2,278,300) |
| Total Budgeted Positions | 2,052 | 2,019 | N/A | 1,956 | (63) | N/A |

* 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 2007/08 through 2014/15, expenditures are forecast to increase by about \$706 million, or about 7 percent annually. The primary cost drivers from 2008/09 to 2013/14 are a \$218 million increase in debt service and PAYGO expenditures, a \$212 million increase in fixed State Water Project Costs, \$139 million increase in supply program costs, and a \$96 million increase in departmental O&M.

Figure 1. Seven-year Expenditure Trend



USES OF FUNDS

Total

As shown in Table 1, the total FY 2010/11 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 \$1.74 billion. This is \$61.9 million (3.4 percent) less than the 2009/10 budget and \$54.1 million (3.3 percent) greater than projected. Under this financing package, \$95 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 \$58.3 million more than budgeted for 2009/10.

State Water Project

SWC costs are estimated to be \$22.2 million higher than the 2009/10 budget. Power costs on the SWP are estimated to be \$176.1 million for the delivery of about 922 TAF into the service area. Under the contract, Metropolitan is responsible for payment for 853 TAF, with Coachella Valley Water District and Desert Water Agency responsible for the remaining 69 TAF under terms of the exchange agreement. The estimated average cost of power is about \$206 per acre-foot, about 22 percent higher than in the 2009/10 budget.

Supply Programs

Supply programs are estimated to be \$22.3 million lower than the 2009/10 budget. These programs are expected to recover 97 TAF of previously stored groundwater supplies and generate 405 TAF of transfer water, after accounting for losses through the Delta.

CRA Power

CRA power costs are expected to increase \$9.8 million from the 2009/10 budget for diversion of about 1.18 million acre-feet. This increase from the 2009/10 budget reflects higher pumping volumes as compared to the 882 TAF in the 2009/10 budget.

Conservation and Recycled Water

Total demand management costs are budgeted at \$58.2 million, \$1.6 million lower than the 2009/10 budget, and include incentive payments made under Metropolitan's Local Resources Program (LRP) of \$39.1 million and \$19.1 million for the Conservation Credits Program. External Affairs will also continue its conservation messaging and advertising in 2010/11 in light of the dry-year outlook and SWP supply uncertainties although at levels reduced from 2009/10 by about \$2.5 million to a total of \$1.2 million.

Operations and Maintenance

O&M costs for 2010/11, including operating equipment, are expected to be \$2.9 million lower than the 2009/10 budget. Labor costs are estimated to increase by \$8.3 million as compared to the 2009/10 budget reflecting a shift of direct labor effort from capital projects to O&M work due, in part, to increased engineering and right of way support for Bay-Delta efforts, an increase in the cost of employee benefits, and merit increases for eligible employees. No base salary increase was included in the 2010/11 budget pending completion of bargaining unit negotiations. These labor increases are more than offset by other cost reductions including a decrease in water treatment costs, reductions in operating equipment purchases, and reduced conservation advertising expenditures.

The total personnel complement for 2010/11 is 1,956 positions, decreasing by 63 positions from the 2009/10 budget, which was reduced by 33 positions compared to 2008/09. A total of 114 positions have been eliminated from Metropolitan's budget since the 2006/07 budget year. 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. The proposed 2010/11 budget assumes a vacancy rate of approximately 2.6 percent across the organization, which is significantly lower than the 5.5 percent vacancy rate assumed for the 2009/10 budget.

Capital Investment Plan

In trying to meet the challenge of providing reliable, high quality water at reasonable rates, projects in the CIP are annually reviewed and prioritized to ensure resources are applied to those projects deemed most critical. As a result, proposed expenditures on the capital program for fiscal year 2010/11 are \$328 million, or \$85 million lower than the 2009/10 budget. Continuing to meet the financing requirements of the ongoing CIP will nonetheless result in an increase in debt service costs of \$17 million compared to the 2009/10 budget. For fiscal year 2010/11, the CIP includes 335 active projects in over 60 programs. The two largest areas of expenditures are in the areas of Infrastructure Reliability and Water Quality, accounting for about 84 percent of the total CIP. Major expenditures programs include: treatment plant infrastructure reliability projects (\$97 million); ozonation facilities at the Diemer and Weymouth plants (\$80 million); infrastructure reliability projects on Metropolitan's other facilities (\$79 million); and solar power and hydroelectric projects (\$15 million). It is currently anticipated that infrastructure expenditures will continue to grow as more facilities reach the end of their service life.

Sources of Funds

As shown in Table 3, 2010/11 sources of funds will total \$2.03 billion. This includes receipts of \$1.92 billion, with water sales receipts of \$1.22 billion accounting for 63 percent of receipts. These receipts are based on projected water sales of 1.93 million acre-feet and include an increase in base rates and charges of 12.6 percent, effective January 1, 2011. Other revenues include readiness-to-serve charge revenues of \$34.9 million, revenues from the capacity charge of \$124.5 million, and tax and annexation revenues of about \$81.8 million. Interest earnings are expected to be \$36.0 million, about \$1.7 million higher than the 2009/10 budget, reflecting higher estimated fund balances. Power and other miscellaneous receipts are expected to generate about \$22.4 million.

Capital projects will be funded from a combination of existing bond funds and revenues. Revenues will be used to fund about \$95 million of the capital costs. In addition, bond proceeds will provide about \$232 million toward the CIP.

The revenue bond debt service coverage ratio is forecast to be just under the Board's adopted target of 2 times revenue bond debt service. Assuming a 12.6 percent increase in rates and charges, the debt service coverage ratio is expected to be about 1.9 times coverage in 2010/11. Metropolitan's fixed charge coverage is expected to be almost 1.3 times, which meets the board-adopted objective of 1.2 times coverage.

RESERVES

Based on projected receipts and expenditures, it is estimated that the total balance in the Water Rate Stabilization, Revenue Remainder, the Treatment Surcharge Stabilization Fund, and Water Stewardship funds will be about \$308.5 million, which reflects a draw of about \$100,000 during fiscal year 2010/11. Total restricted and unrestricted reserves are estimated to be \$1,234.2 million on June 30, 2011.

Table 3. 2010/11 Annual Budget Uses and Sources of Funds – Cash Basis (Dollars in Millions)

| | 2008/09 Actual | 2009/10 Budget | 2009/10 Projected | 2010/11 Proposed Budget | 2010/11 Proposed Budget Compared | |
|---|-------------------|-------------------|----------------------|-------------------------------|-------------------------------------|----------------------|
| | | | | | 2009/10 Budget | 2009/10 Projected |
| USES OF FUNDS | | | | | | |
| Expenditures | | | | | | |
| State Water Contract | \$ 394.7 | \$ 478.8 | \$ 452.7 | \$ 501.0 | \$ 22.2 | \$ 48.3 |
| Supply Programs | 84.1 | 125.5 | 113.8 | 103.2 | (22.3) | (10.7) |
| Colorado River Power | 37.4 | 49.8 | 46.3 | 59.6 | 9.8 | 13.3 |
| Debt Service | 287.1 | 330.7 | 305.0 | 348.1 | 17.4 | 43.1 |
| Demand Management | 75.6 | 59.8 | 76.9 | 58.2 | (1.6) | (18.6) |
| Departmental O&M | 291.5 | 289.3 | 294.2 | 295.5 | 6.2 | 1.4 |
| Treatment Chemicals, Solids & Power | 28.4 | 32.8 | 29.5 | 26.5 | (6.3) | (3.0) |
| Other O&M | 24.8 | 18.7 | 16.6 | 15.9 | (2.8) | (0.6) |
| Sub-total Expenditures | 1,223.6 | 1,385.5 | 1,334.9 | 1,408.1 | 22.6 | 73.2 |
| Capital Investment Plan | 416.7 | 412.1 | 346.7 | 327.6 | (84.5) | (19.1) |
| Fund Deposits | | | | | | |
| R&R and General Fund | 30.1 | 36.7 | 36.7 | 95.0 | 58.3 | 58.3 |
| Revenue Bond Construction | - | 130.3 | - | 131.5 | 1.2 | 131.5 |
| Water Stewardship Fund | - | - | - | 2.1 | 2.1 | 2.1 |
| Interest for Construction & Trust Funds | 4.2 | 0.0 | 6.0 | 4.5 | 4.5 | (1.4) |
| Increase in Required Reserves | 44.0 | 61.3 | 37.7 | 62.1 | 0.9 | 24.4 |
| Increase in Rate Stabilization Fund | - | - | - | - | - | - |
| Sub-total Fund Deposits | 88.8 | 228.3 | 80.4 | 295.3 | 67.0 | 214.9 |
| TOTAL USES OF FUNDS | \$ 1,729.1 | \$ 2,025.8 | \$ 1,762.0 | \$ 2,030.9 | \$ 5.1 | \$ 268.9 |
| SOURCES OF FUNDS | | | | | | |
| Receipts | | | | | | |
| Taxes | \$ 103.8 | \$ 90.4 | \$ 91.1 | \$ 80.8 | \$ (9.7) | \$ (10.4) |
| Annexations | 1.4 | 1.0 | 1.0 | 1.0 | - | - |
| Interest Income | 36.4 | 34.2 | 31.5 | 36.0 | 1.8 | 4.5 |
| Hydro Power | 22.5 | 24.1 | 23.3 | 22.4 | (1.7) | (0.9) |
| Fixed Charges (RTS & Capacity Charge) | 119.7 | 136.3 | 136.4 | 159.4 | 23.1 | 23.0 |
| Water Sales Revenue | 988.1 | 1,078.6 | 1,068.7 | 1,215.6 | 137.0 | 146.9 |
| Miscellaneous Revenue | 8.4 | 8.8 | 30.3 | 19.2 | 10.4 | (11.1) |
| Bond Proceeds and Reimbursements | 367.0 | 528.0 | - | 384.0 | (144.0) | 384.0 |
| Sub-total Receipts | 1,647.3 | 1,901.5 | 1,382.4 | 1,918.3 | 16.9 | 536.0 |
| Fund Withdrawals | | | | | | |
| Water Transfer Fund | 7.8 | - | 12.1 | - | - | (12.1) |
| R&R and General Fund | 34.3 | 36.7 | 36.7 | 95.0 | 58.3 | 58.3 |
| Bond Funds for Construction | 46.1 | - | 310.0 | - | - | (310.0) |
| Water Stewardship Fund | 24.7 | 0.9 | - | - | (0.9) | - |
| Decrease in Required Reserves | - | 29.9 | - | - | (29.9) | - |
| Decrease in Rate Stabilization Fund | (31.2) | 56.8 | 20.8 | 17.6 | (39.2) | (3.2) |
| Sub-total Fund Withdrawals | 81.7 | 124.3 | 379.6 | 112.6 | (11.8) | (267.0) |
| TOTAL SOURCES OF FUNDS | \$ 1,729.1 | \$ 2,025.8 | \$ 1,762.0 | \$ 2,030.9 | \$ 5.1 | \$ 268.9 |

Totals may not foot due to rounding.

Attachment 1, FY 2010/11 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

Metropolitan Water District Administrative Code Section 5107: Annual Budget

Fiscal Impact


None



Brian G. Thomas
Chief Financial Officer

12/29/2009

Date



Jeffrey Lightlinger
General Manager

12/29/2009

Date

Attachment 1 – 2010/11 Proposed Budget Summary

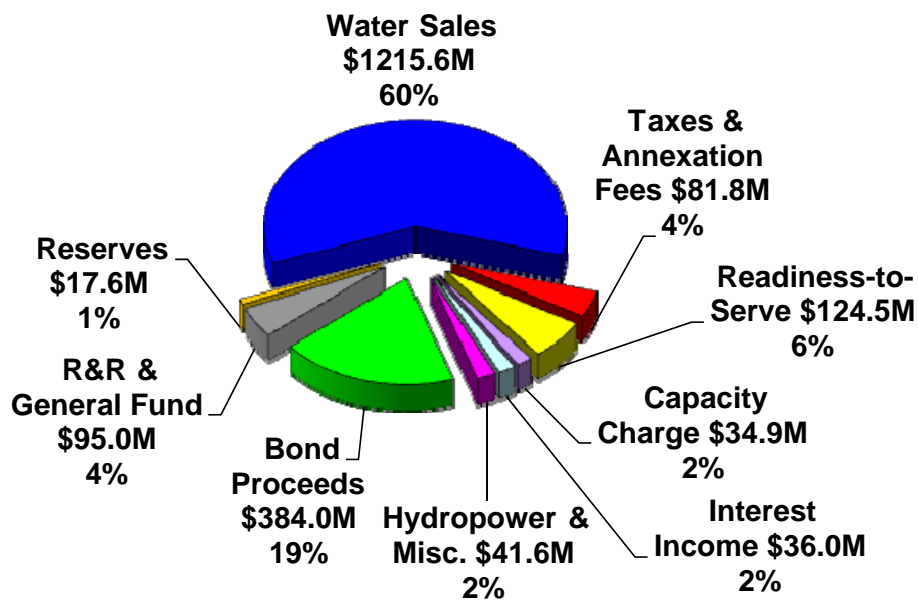
Reference Number 633928526495335538

Budget Summary

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

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

Figure 1. 2010/11 Sources of Funds (\$2.03 billion dollars)



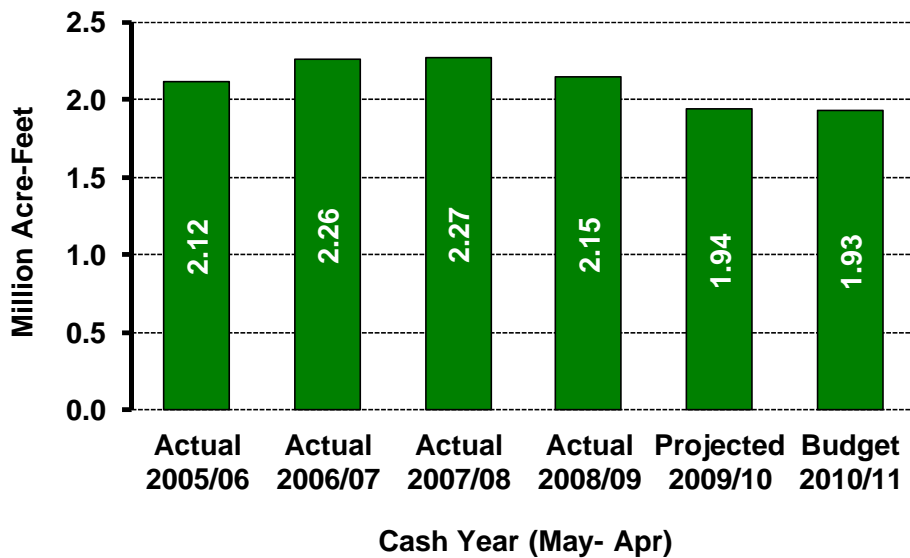
SOURCES OF FUNDS

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 \$1.53 billion for fiscal year 2010/11 and constitute the major revenue sources for Metropolitan. This is \$160.9 million more than the 2009/10 Budget. The increase in revenues is primarily due to increases in water rates in 2010 and 2011. Figure 1 shows the major sources of funds. Summaries of sources and uses of funds are shown in Tables 5 and 6 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 \$1,215.6 million and are based on rates and charges adopted by the Board for January 1, 2010 and an increase in base rates and charges of 12.6 percent on January 1, 2011. These rates would fully recover the cost-of-service in 2010/11.

Water sales for 2010/11 are estimated to be 1.93 million acre-feet (MAF) during the May through April period (cash year). Water sold during the cash year results in revenue collections in the July-to-June fiscal year.

Figure 2. Five-Year Trend of Water Sales

The 2010/11 cash year water sales include 1.71 MAF of firm sales, zero replenishment sales, 62 thousand acre-feet (TAF) of agricultural sales, and 156 TAF in wheeled / exchanged sales. Treated sales are estimated to be 1.25 MAF or 65 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 \$81.8 million.

Capacity and Readiness-to-Serve Charges

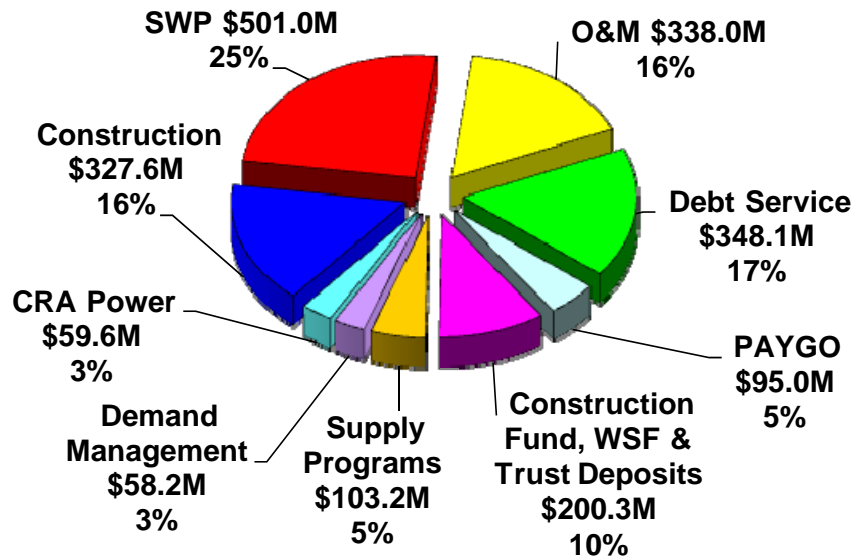
The Capacity Charge and Readiness-to-Serve Charge for 2010/11 are estimated to generate \$124.5 million and \$34.9 million, respectively, or \$23.1 million more in total than in the 2009/10 budget.

Other Revenue

Interest earnings are estimated to total \$36.0 million, including trust accounts and construction funds. This represents a \$1.8 million increase from the 2009/10 Budget due primarily to higher estimated fund balances. Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales are estimated to be \$22.4 million, about \$1.7 million lower than the 2009/10 budget.

Other Sources

To meet the on-going funding requirements of the CIP, Metropolitan plans to issue \$400 million of fixed rate bonds in 2010/11. These bonds are expected to generate \$364.1 million in bond proceeds of which \$232.6 million will be used to fund the CIP in 2010/11. The remaining CIP funding requirements will be met from current operating funds (i.e., \$95.0 million from the Replacement & Refurbishment (R&R) and General Funds). In 2010/11, a total of \$2.03 billion will be available for expenditures and other obligations

Figure 3. 2010/11 Uses of Funds (\$2.03 billion dollars)

USES OF FUNDS

Total uses of funds are \$2.03 billion. Figure 3 shows the breakdown of expenditures and other obligations that make up the Uses of Funds for 2010/11.

Colorado River Aqueduct Power

CRA power costs are projected to be \$59.6 million based on pumping 1.18 MAF at Whitsett Intake Pumping Plant. This is \$9.8 million more than the 2009/10 budget, which included the diversion of 882 TAF. The increase in pumping costs from the 2009/10 budget reflects the higher pumping volumes in 2010/11.

State Water Contract

State Water Contract (SWC) expenditures are budgeted at \$501.0 million, \$22.2 million more than the 2009/10 budget, based on total deliveries of 922 TAF, of which 69 TAF are received via exchange.

SWC power costs are expected to be \$176.1 million or \$7.5 million higher than the 2009/10 budget and include the cost for pumping about 853 TAF. The average total unit cost of SWC power is expected to be about \$206 per acre-foot, which includes \$89 per acre-foot for fixed power costs and \$117 per acre-foot for variable pumping costs.

SWC minimum operations, maintenance, power, and replacement charges are \$2.6 million lower than the 2009/10 Budget. Capital charges are expected to be \$17.4 million higher than the 2009/10 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 63 water-recycling projects. Fifty-eight of these projects are in operation and the remaining five projects are under design or construction. Recycling projects that receive Metropolitan contributions are expected to produce 194 TAF of recycled water, principally for landscape irrigation, groundwater recharge, and industrial uses. In 2010/11, Metropolitan is expected to spend \$29.4 million on these efforts.

Metropolitan has also entered into agreements to provide financial assistance to 23 projects to

recover contaminated groundwater. Twenty-two of these groundwater recovery projects are in operation and are expected to produce about 57 TAF in 2010/11 at a cost to Metropolitan of \$9.7 million.

The Conservation Credits Program (CCP) provides financial assistance to customers in Metropolitan's service area for water conservation programs. The 2010/11 budget contains \$19.1 million for the CCP to provide rebate funding for residential, commercial, industrial, and landscape conservation activities. Metropolitan's conservation program will be updated as part of the 2010 Integrated Resources Plan Update. The 2010/11 budget of \$19.1 million is equal to the 2009/10 budget and represents the program that is currently in place. Future budgets will be adjusted as new board policy on the conservation program is adopted.

OPERATIONS AND MAINTENANCE

The 2010/11 Proposed O&M Budget, including operating equipment purchases, is estimated to be \$338.0 million. This is \$2.9 million less than the 2009/10 budget of \$340.9 million and \$2.3 million less than the current year projected expenditures. The O&M budget is the result of continuing management efforts to increase efficiency and reduce costs while meeting the Board's priorities. Table 1 presents a summary of the O&M budget by expenditure type.

Labor costs, not including those charged to construction, are \$213.0 million, which is \$8.3 million, or 4.0 percent higher than the 2009/10 Budget of \$204.7 million. This

increase is the result of various upward pressures including:

- A significant shift in direct labor from capital projects to O&M work. A large part of the shift is to allow greater engineering and right-of-way support for Bay-Delta efforts;
- Increases in the cost of employee benefits, particularly related to healthcare and pension benefits; and
- Merit increases for eligible employees.

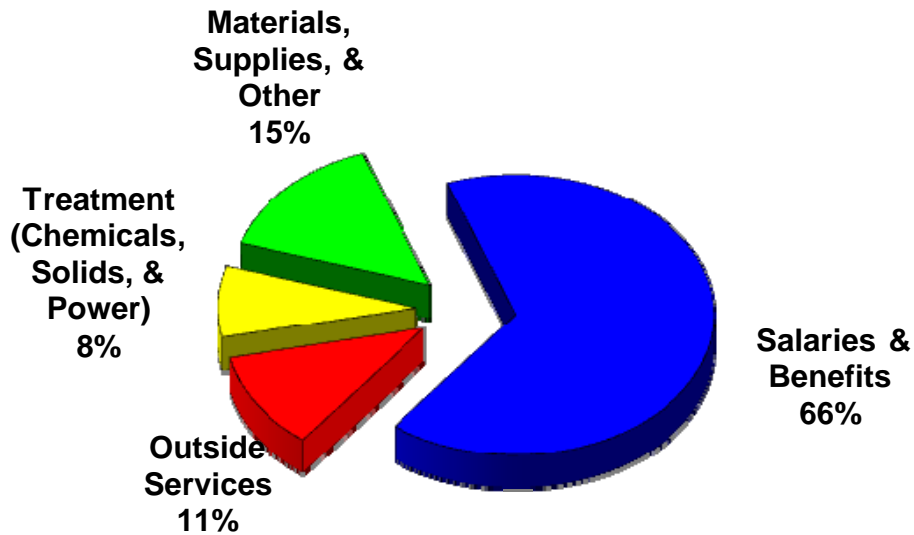
While these factors lead to labor cost increases, the 2010/11 budget assumes no cost-of-living adjustments in salaries for the workforce. The budget also reflects a total net reduction of 63 budgeted positions. Most of these positions had been held vacant in the 2009/10 budget, and eliminating these positions leads to a reduction in the vacancy factor from 5.5 percent to 2.6 percent in 2010/11.

O&M costs other than labor in the 2010/11 proposed budget are \$11.2 million less than the 2009/10 budget. Cost reductions include a \$6.3 million decrease in water treatment costs due to blend considerations and treatment optimization efforts, a \$3.1 million decrease in operating equipment purchases, and a \$2.7 million decrease in conservation advertising and its related professional services. Cost increases which partially offset these reductions include \$0.7 million for the annual Bay-Delta fund and \$0.7 million in professional service support for the Bay-Delta efforts in engineering and right of way.

Table 1. 2010/11 Operations & Maintenance Annual Budget (dollars) by Expenditure Type

| | 2008/09 Actual | 2009/10 Budget | 2009/10 Projected | 2010/11 Proposed | Change from: | |
|---|-------------------|-------------------|----------------------|---------------------|-------------------|----------------------|
| | | | | | 2009/10 Budget | 2009/10 Projected |
| Salaries & Benefits | 207,977,100 | 204,714,300 | 205,974,400 | 212,976,600 | 8,262,300 | 7,002,200 |
| Chemicals, Solids, and Power * | 24,933,500 | 32,837,200 | 29,492,300 | 26,493,300 | (6,343,900) | (2,999,000) |
| Outside Services | 39,451,600 | 36,695,900 | 38,200,000 | 37,839,200 | 1,143,300 | (360,800) |
| Materials & Supplies | 22,749,536 | 21,673,300 | 22,138,300 | 22,559,300 | 886,000 | 421,000 |
| Cargill Settlement | 10,348,000 | 1,604,900 | 817,000 | 1,000,000 | (604,900) | 183,000 |
| Other | 43,780,369 | 38,079,100 | 38,297,400 | 34,981,200 | (3,097,900) | (3,316,200) |
| Operating Equipment | 8,666,684 | 5,252,800 | 5,300,000 | 2,091,500 | (3,161,300) | (3,208,500) |
| Total | 357,906,789 | 340,857,500 | 340,219,400 | 337,941,100 | (2,916,400) | (2,278,300) |
| Total Budgeted Positions | 2,052 | 2,019 | NA | 1,956 | (63) | NA |

Figure 4. 2010/11 Departmental Budget by Expenditure Type



A summary of the 2010/11 O&M Budget by organization is shown in Table 2. Vendor administration of the Conservation Credits Program (CCP) is now reflected as Other O&M for greater visibility. These expenditures were part of the 2009/10 O&M budget for the Water Resource Management (WRM) Group. As a result, Table 1 reflects a decrease in WRM’s budget and corresponding increase in the CCP Vendor Administration line of Other O&M.

Figure 4 depicts the distribution of the departmental O&M for each organization, i.e., without other O&M, the overhead credit, and operating equipment. Including treatment costs, the Water System Operations Group (WSO) accounts for 56 percent of the total departmental budget. In 2010/11, Metropolitan’s departmental organization will

change to reflect the increasing demand and focus on Bay-Delta issues. Staff and professional services budgets will be moved from the Water Resources Management Group and the Office of the General Manager into a new Bay-Delta Initiatives Group. This group will provide direct support to the ongoing Bay-Delta negotiations and analysis associated with the Delta Habitat Conservation and Conveyance Program (DHCCP). Table 1 and figure 4 do not reflect this organizational change, but they will be updated in the final budget documents, with no impact on the overall budget, as the makeup of the new Bay-Delta Initiatives Group is finalized.

Figure 5 summarizes the total departmental O&M budget by expenditure type, of which 66 percent is for salaries and benefits.

Figure 5. 2010/11 Departmental Budget by Organization
(without Other O&M, operating equipment, and overhead credit, \$342.0 million)

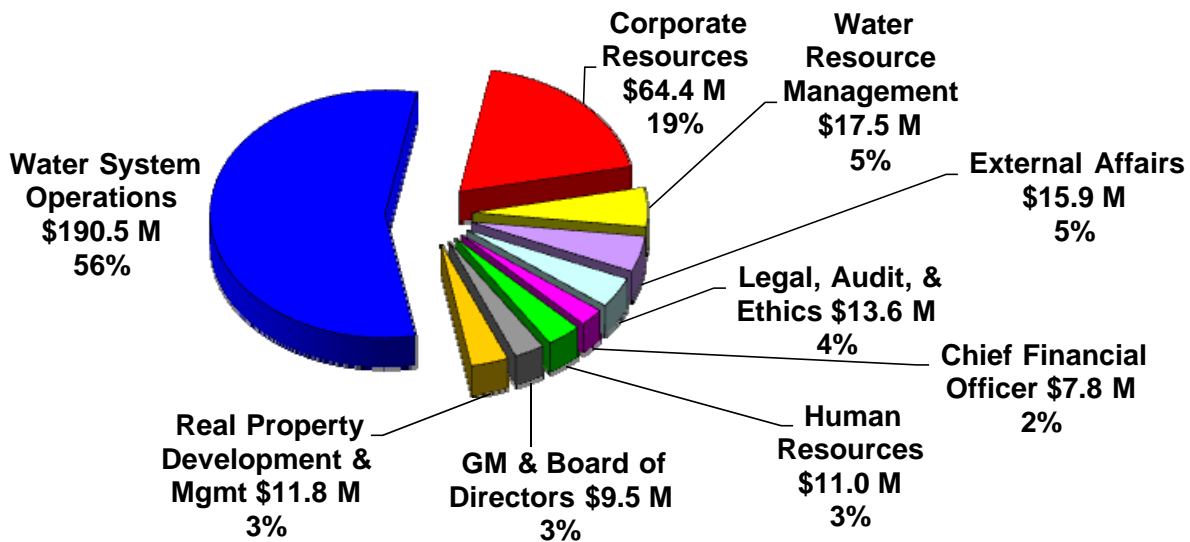


Table 2. 2010/11 Operations & Maintenance Annual Budget (dollars) by Organization

| Departmental Units | 2009/10 Budget | 2009/10 Projected | 2010/11 Proposed Budget | Change | | | |
|---|-----------------------|-----------------------|-------------------------------|---------------------------------|---------------|------------------------------------|---------------|
| | | | | 2010/11 to 2009/10 Budget | % | 2010/11 to 2009/10 Projected | % |
| Office of the General Manager | \$ 7,815,600 | \$ 7,965,100 | \$ 9,549,700 | \$ 1,734,100 | 22.2% | \$ 1,584,600 | 19.9% |
| Water Systems Operations w/o Variable Treatment | 159,273,500 | 162,518,700 | 163,968,000 | 4,694,500 | 2.9% | 1,449,300 | 0.9% |
| Water Resource Management | 19,680,200 | 21,601,600 | 17,520,400 | (2,159,800) | (11.0%) | (4,081,200) | (18.9%) |
| Corporate Resources | 59,819,300 | 60,114,100 | 64,360,400 | 4,541,100 | 7.6% | 4,246,300 | 7.1% |
| Real Property Development & Mgmt | 11,250,700 | 11,290,600 | 11,778,000 | 527,300 | 4.7% | 487,400 | 4.3% |
| Human Resources | 10,843,900 | 10,842,100 | 10,988,500 | 144,600 | 1.3% | 146,400 | 1.4% |
| Office of the Chief Financial Officer | 7,837,400 | 8,090,900 | 7,838,600 | 1,200 | 0.0% | (252,300) | (3.1%) |
| External Affairs | 18,236,700 | 18,288,800 | 15,939,600 | (2,297,100) | (12.6%) | (2,349,200) | (12.8%) |
| Subtotal - General Manager's Dep. | 294,757,300 | 300,711,900 | 301,943,200 | 7,185,900 | 2.4% | 1,231,300 | 0.4% |
| General Counsel | 10,165,000 | 10,165,000 | 10,310,000 | 145,000 | 1.4% | 145,000 | 1.4% |
| General Auditor | 2,719,000 | 2,672,600 | 2,662,100 | (56,900) | (2.1%) | (10,500) | (0.4%) |
| Ethics Office | 609,600 | 609,200 | 620,000 | 10,400 | 1.7% | 10,800 | 1.8% |
| Overhead Credit from Construction | (18,921,300) | (20,000,300) | (20,000,000) | (1,078,700) | 5.7% | 300 | (0.0%) |
| Total Departmental Budget | 289,329,600 | 294,158,400 | 295,535,300 | 6,205,700 | 2.1% | 1,376,900 | 0.5% |
| Other O&M | | | | | | | |
| Cargill Settlement | 1,604,900 | 817,000 | 1,000,000 | (604,900) | (37.7%) | 183,000 | 22.4% |
| CCP Vendor Administration | - | - | 1,728,600 | 1,728,600 | NA | 1,728,600 | NA |
| Performance Programs | 650,000 | 370,100 | 650,000 | - | NA | 279,900 | 75.6% |
| Association Dues | 2,180,000 | 2,079,000 | 2,200,000 | 20,000 | 0.9% | 121,000 | 5.8% |
| Contingency | - | - | - | - | NA | - | NA |
| Insurance | 8,000,000 | 7,000,000 | 7,250,000 | (750,000) | (9.4%) | 250,000 | 3.6% |
| Leases | 472,600 | 472,600 | 475,000 | 2,400 | 0.5% | 2,400 | 0.5% |
| Taxes | 530,400 | 530,000 | 541,000 | 10,600 | 2.0% | 11,000 | 2.1% |
| Subtotal - Other | 13,437,900 | 11,268,700 | 13,844,600 | 406,700 | 3.0% | 2,575,900 | 22.9% |
| TOTAL OPERATIONS & MAINTENANCE | 302,767,500 | 305,427,100 | 309,379,900 | 6,612,400 | 2.2% | 3,952,800 | 1.3% |
| Operating Equipment | 5,252,800 | 5,300,000 | 2,091,500 | (3,161,300) | (60.2%) | (3,208,500) | (60.5%) |
| Variable Treatment | 32,837,200 | 29,492,300 | 26,493,300 | (6,343,900) | (19.3%) | (2,999,000) | (10.2%) |
| GRAND TOTAL | \$ 340,857,500 | \$ 340,219,400 | \$ 337,964,700 | \$ (2,892,800) | (0.8%) | \$ (2,254,700) | (0.7%) |

Totals may not foot due to rounding

LABOR

The total personnel complement (including temporary workers) for 2010/11 is 1,956 positions, down a total of 63 full-time-equivalent (FTE) positions from 2009/10. O&M personnel are down by 34 positions to 1,628. Positions dedicated to capital work are down by 29.

The personnel complement is broken down on Tables 3 and 4. The O&M budget includes a vacancy rate of about 2.6 percent, as compared to the 5.5 percent vacancy rate in the 2009/10 budget.

Table 2. Regular and Temporary Positions

| | 2007/08 Budget | 2008/09 Budget | 2009/10 Budget | 2010/11 Proposed Budget | Change from 2009/10 |
|------------------------------|-------------------|-------------------|-------------------|-------------------------------|---------------------------|
| Regular Full Time Positions | 2,021 | 2,021 | 2,000 | 1,931 | -69 |
| District Temporary Positions | 39 | 23 | 16 | 22 | 6 |
| Agency Temporary Positions | 9 | 8 | 3 | 3 | 0 |
| Total | 2,069 | 2,052 | 2,019 | 1,956 | -63 |

Table 3. O&M and Capital Staffing Levels

| | 2009/10 | | | 2010/11 | | |
|---|--------------|------------|--------------|--------------|------------|--------------|
| | O&M | Capital | Total | O&M | Capital | Total |
| Regular Full Time Positions | 1,643 | 357 | 2,000 | 1,607 | 324 | 1,931 |
| District and Agency Temporary Positions | 19 | - | 19 | 21 | 4 | 25 |
| Total | 1,662 | 357 | 2,019 | 1,628 | 328 | 1,956 |

Supply Programs

Major supply program expenditures for 2010/11 are estimated to be \$103.2 million and include:

- \$32.4 million State Water Project Transfer Programs;
- \$26.8 million for Colorado Programs;
- \$17.3 million for the Palo Verde Irrigation District (PVID) Land Management Program;
- \$10.1 million for operating and maintaining the IID/MWD conservation agreement;
- \$9.8 million for In-Basin Projects;
- \$4.2 million for the Arvin-Edison Storage Program; and
- \$2.6 million for the Semitropic Groundwater Storage and Exchange Program.

These storage programs are expected to recover 97 TAF of previously stored groundwater supplies and generate 405 TAF of net transfer deliveries on the Colorado River Aqueduct and State Water Project.

ANNUAL CAPITAL INVESTMENT PLAN

The Capital Investment Plan (CIP) budget for 2010/11 is estimated to be \$327.6 million and is funded by a combination of debt and current operating revenues (R&R and General Fund). The proposed 2010/11 capital budget is \$84.5 million lower than the 2009/10 Budget.

With the completion of the Arrowhead Tunnels, the final reach of the Inland Feeder, in 2009, the two largest areas of expenditures in the FY 2010/11 CIP are Infrastructure Reliability and Water Quality. It is currently anticipated that infrastructure expenditures will continue to grow as more facilities reach the end of their service life.

There are 335 projects included in the 2010/11 CIP. Major CIP projects that will be in design and/or construction next fiscal year include:

- \$97 million for infrastructure reliability at Metropolitan's five treatment plants, not including the Oxidation Retrofit Program (ORP);
- \$79 million for infrastructure reliability projects at Metropolitan's other facilities;
- \$80 million for ORP projects at the Diemer and Weymouth treatment plants; and
- \$15 million for Solar Power and Hydroelectric Power projects.

The projects listed above account for 83 percent of the total 2010/11 CIP expenditures. Figure 5 shows the planned expenditures in the 2010/11 CIP under the five project driver categories.

These projects are also categorized by the service functions that are the foundation of Metropolitan's cost-of-service including source of supply, conveyance, storage, treatment, distribution, and general. The 2010/11 expenditure plan by major service function is shown in Figure 6.

Figure 5. 2010/11 Capital Investment Plan by Major Project Driver

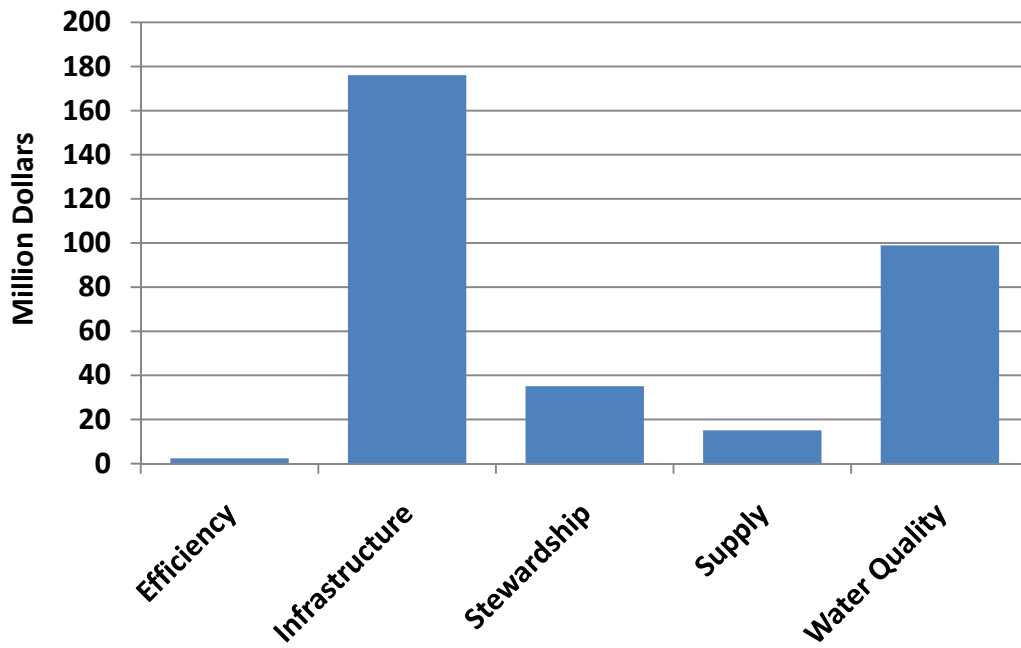
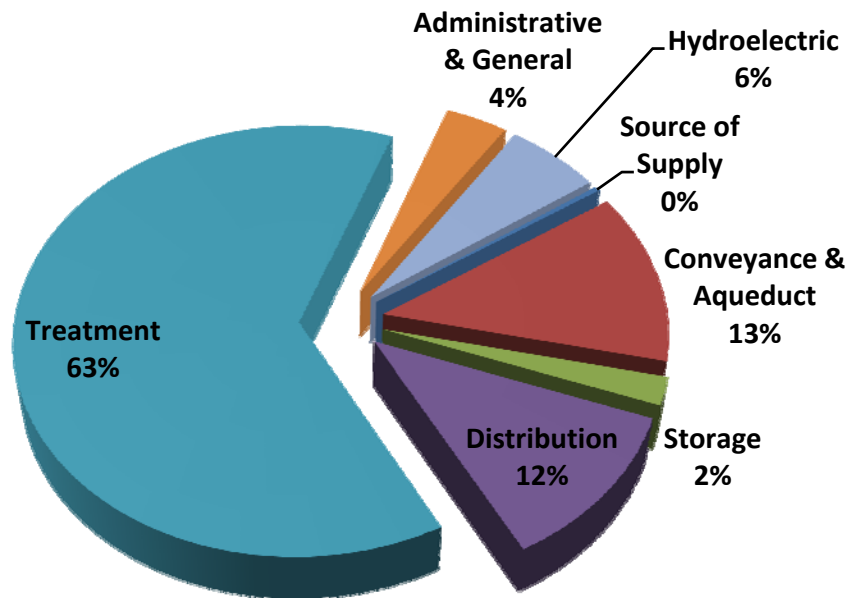


Figure 6. 2010/11 Capital Investment Plan by Service Function



Cash Funded Capital

The 2009/10 CIP includes Replacement & Refurbishment (R&R) and other projects (funded from General Fund). The combined cash financing from operating revenues for the R&R and General Fund will total \$95.0 million, commonly referred to as Pay-As-You-Go (PAYGO) funding.

Debt Service

The portion of the CIP that is not funded from cash will be funded from bond proceeds. In 2010/11, \$232.6 million of capital will be funded with bond proceeds. Metropolitan plans to issue \$400 million in new debt in 2010/11. This will result in construction proceeds of \$364.1 million. Approximately \$136 million in bond proceeds and interest earnings will remain in the construction bond fund for use in 2011/12.

Debt service payments are budgeted to be \$348.1 million and include \$39.0 million in G.O. bond debt service, \$294.0 million in revenue bond debt service, \$12.5 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 \$17.4 million more than the 2009/10 Budget.

Metropolitan currently has \$4.8 billion in outstanding debt. Of this amount, \$4.6 billion is revenue bond debt, of which 15 percent is in a variable rate mode.

Reserve Transfers

The 2010/11 budget could require use of just under \$100,000 of reserves plus the 12.6 percent rate increase in January 2010. While in total, there will be close to no draws from Metropolitan's reserve funds, there will be some transfers among the funds. The Water Rate Stabilization Fund (WRSF) and the Treatment Surcharge Stabilization Fund (TSSF) are expected to be drawn down by about \$17.6 million. Conversely, the Revenue Remainder Fund is expected to increase by \$15.3 million and the Water Stewardship Fund (WSF) is expected to increase to \$2.1 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 6. Fund balances are budgeted to be \$1,234.2 million at June 30, 2011. Of that total, \$894.1 million is restricted by bond covenants, contracts, or board policy, and \$340.1 million is unrestricted. Table 4 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 \$235.3 million and \$576.0 million, respectively, at June 30, 2011. Based on projected receipts and expenditures, it is estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF will total about \$308.5 million, about \$73.2 million over the minimum target.

Table 4. Projected Fund Balances at June 30, 2011 (dollars in millions)

| | Restricted | | Unrestricted | Total |
|-----------------------|--------------|--------------|--------------|----------------|
| | Contractual | Board | | |
| Operating Funds | 233.0 | 108.2 | | 341.2 |
| Debt Service Funds | 340.4 | | | 340.4 |
| Construction Funds | 211.4 | | 33.8 | 245.2 |
| Reserve Funds* | | | 306.3 | 306.3 |
| Water Transfer Fund | | - | | - |
| Trust and Other Funds | 1.1 | | | 1.1 |
| Total | 785.9 | 108.2 | 340.1 | 1,234.2 |

* includes Water Rate Stabilization Fund, Water Treatment Surcharge Stabilization Fund and the Revenue Remainder Fund

Totals may not foot due to rounding.

Figure 7. Fund Distribution by Type at June 30, 2011

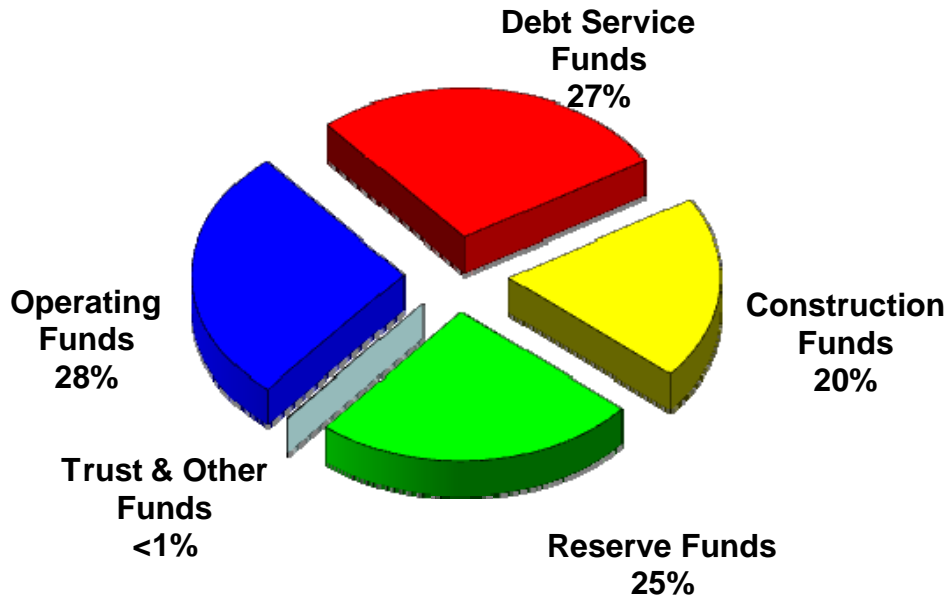


Table 5. 2010/11 Budget Sources and Uses of Funds (dollars in millions)

| | 2008/09 Actual | 2009/10 Budget | 2009/10 Projected | 2010/11 Proposed Budget | 2010/11 Proposed Budget Compared | |
|---|-------------------|-------------------|----------------------|-------------------------------|-------------------------------------|----------------------|
| | | | | | 2009/10 Budget | 2009/10 Projected |
| USES OF FUNDS | | | | | | |
| Expenditures | | | | | | |
| State Water Contract | \$ 394.7 | \$ 478.8 | \$ 452.7 | \$ 501.0 | \$ 22.2 | \$ 48.3 |
| Supply Programs | 84.1 | 125.5 | 113.8 | 103.2 | (22.3) | (10.7) |
| Colorado River Power | 37.4 | 49.8 | 46.3 | 59.6 | 9.8 | 13.3 |
| Debt Service | 287.1 | 330.7 | 305.0 | 348.1 | 17.4 | 43.1 |
| Demand Management | 75.6 | 59.8 | 76.9 | 58.2 | (1.6) | (18.6) |
| Departmental O&M | 291.5 | 289.3 | 294.2 | 295.5 | 6.2 | 1.4 |
| Treatment Chemicals, Solids & Power | 28.4 | 32.8 | 29.5 | 26.5 | (6.3) | (3.0) |
| Other O&M | 24.8 | 18.7 | 16.6 | 15.9 | (2.8) | (0.6) |
| Sub-total Expenditures | 1,223.6 | 1,385.5 | 1,334.9 | 1,408.1 | 22.6 | 73.2 |
| Capital Investment Plan | 416.7 | 412.1 | 346.7 | 327.6 | (84.5) | (19.1) |
| Fund Deposits | | | | | | |
| R&R and General Fund | 30.1 | 36.7 | 36.7 | 95.0 | 58.3 | 58.3 |
| Revenue Bond Construction | - | 130.3 | - | 131.5 | 1.2 | 131.5 |
| Water Stewardship Fund | - | - | - | 2.1 | 2.1 | 2.1 |
| Interest for Construction & Trust Funds | 4.2 | 0.0 | 6.0 | 4.5 | 4.5 | (1.4) |
| Increase in Required Reserves | 44.0 | 61.3 | 37.7 | 62.1 | 0.9 | 24.4 |
| Increase in Rate Stabilization Fund | - | - | - | - | - | - |
| Sub-total Fund Deposits | 88.8 | 228.3 | 80.4 | 295.3 | 67.0 | 214.9 |
| TOTAL USES OF FUNDS | \$ 1,729.1 | \$ 2,025.8 | \$ 1,762.0 | \$ 2,030.9 | \$ 5.1 | \$ 268.9 |
| SOURCES OF FUNDS | | | | | | |
| Receipts | | | | | | |
| Taxes | \$ 103.8 | \$ 90.4 | \$ 91.1 | \$ 80.8 | \$ (9.7) | \$ (10.4) |
| Annexations | 1.4 | 1.0 | 1.0 | 1.0 | - | - |
| Interest Income | 36.4 | 34.2 | 31.5 | 36.0 | 1.8 | 4.5 |
| Hydro Power | 22.5 | 24.1 | 23.3 | 22.4 | (1.7) | (0.9) |
| Fixed Charges (RTS & Capacity Charge) | 119.7 | 136.3 | 136.4 | 159.4 | 23.1 | 23.0 |
| Water Sales Revenue | 988.1 | 1,078.6 | 1,068.7 | 1,215.6 | 137.0 | 146.9 |
| Miscellaneous Revenue | 8.4 | 8.8 | 30.3 | 19.2 | 10.4 | (11.1) |
| Bond Proceeds and Reimbursements | 367.0 | 528.0 | - | 384.0 | (144.0) | 384.0 |
| Sub-total Receipts | 1,647.3 | 1,901.5 | 1,382.4 | 1,918.3 | 16.9 | 536.0 |
| Fund Withdrawals | | | | | | |
| Water Transfer Fund | 7.8 | - | 12.1 | - | - | (12.1) |
| R&R and General Fund | 34.3 | 36.7 | 36.7 | 95.0 | 58.3 | 58.3 |
| Bond Funds for Construction | 46.1 | - | 310.0 | - | - | (310.0) |
| Water Stewardship Fund | 24.7 | 0.9 | - | - | (0.9) | - |
| Decrease in Required Reserves | - | 29.9 | - | - | (29.9) | - |
| Decrease in Rate Stabilization Fund | (31.2) | 56.8 | 20.8 | 17.6 | (39.2) | (3.2) |
| Sub-total Fund Withdrawals | 81.7 | 124.3 | 379.6 | 112.6 | (11.8) | (267.0) |
| TOTAL SOURCES OF FUNDS | \$ 1,729.1 | \$ 2,025.8 | \$ 1,762.0 | \$ 2,030.9 | \$ 5.1 | \$ 268.9 |

Totals may not foot due to rounding.

Table 6. 2010/11 Sources and Uses by Fund (dollars in millions)

| Fiscal Year Ending June 30th, 2011 (\$ 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 | |
| Beginning of Year Balance | 1,051.5 | 58.6 | - | 165.0 | 2.1 | - | 25.0 | 78.6 | 303.2 | 308.6 | 33.8 | 75.5 | 1.1 |
| USES OF FUNDS | | | | | | | | | | | | | |
| Expenditures | | | | | | | | | | | | | |
| State Water Contract | 501.0 | - | - | 322.3 | - | - | - | 178.7 | - | - | - | - | - |
| Supply Programs | 103.2 | - | - | 103.2 | - | - | - | - | - | - | - | - | - |
| Colorado River Power | 59.6 | - | - | 59.6 | - | - | - | - | - | - | - | - | - |
| Debt Service | 348.1 | 2.6 | - | 12.5 | - | - | - | - | 333.1 | - | - | - | - |
| Demand Management | 58.2 | - | - | 58.2 | - | - | - | - | - | - | - | - | - |
| Departmental O&M | 295.5 | - | - | 295.5 | - | - | - | - | - | - | - | - | - |
| Treatment Chemicals, Sludge & Power | 26.5 | - | - | 26.5 | - | - | - | - | - | - | - | - | - |
| Other O&M | 15.9 | 2.1 | - | 13.8 | - | - | - | - | - | - | - | - | - |
| Sub-total Expenditures | 1,408.1 | 4.7 | - | 891.7 | - | - | - | 178.7 | 333.1 | - | - | - | - |
| Capital Investment Plan | 327.6 | 40.0 | - | - | - | - | - | - | - | - | 55.0 | 232.6 | - |
| Fund Deposits | | | | | | | | | | | | | |
| R&R and General Fund | 95.0 | 40.0 | - | - | - | - | - | - | - | - | 55.0 | - | - |
| Revenue Bond Construction | 131.5 | - | - | - | - | - | - | - | - | - | - | 131.5 | - |
| Water Stewardship Fund | 2.1 | - | - | - | - | 2.1 | - | - | - | - | - | - | - |
| Interest for Construction & Trust Funds | 4.5 | - | - | - | - | - | - | - | - | - | - | 4.5 | 0.0 |
| Increase in Required Reserves | 62.1 | - | - | 9.4 | - | - | - | 0.3 | 37.1 | 15.3 | - | - | - |
| Increase in Rate Stabilization Fund | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sub-total Fund Deposits | 295.3 | 40.0 | - | 9.4 | - | 2.1 | - | 0.3 | 37.1 | 15.3 | 55.0 | 135.9 | 0.0 |
| TOTAL USES OF FUNDS | 2,030.9 | 84.7 | - | 901.1 | - | 2.1 | - | 179.0 | 370.2 | 15.3 | 110.0 | 368.5 | 0.0 |
| SOURCES OF FUNDS | | | | | | | | | | | | | |
| Receipts | | | | | | | | | | | | | |
| Taxes | 80.8 | - | - | - | - | - | - | 42.4 | 38.4 | - | - | - | - |
| Annexations | 1.0 | - | - | - | - | - | - | 1.0 | - | - | - | - | - |
| Interest Income | 36.0 | 1.9 | - | 5.4 | 0.1 | 0.0 | 0.8 | 2.5 | 10.2 | 9.6 | 1.1 | 4.5 | 0.0 |
| Hydro Power | 22.4 | - | 22.4 | - | - | - | - | - | - | - | - | - | - |
| Fixed Charges (RTS & Capacity Charge) | 159.4 | - | 159.4 | - | - | - | - | - | - | - | - | - | - |
| Water Sales Revenue | 1,215.6 | - | 1,215.6 | - | - | - | - | - | - | - | - | - | - |
| Miscellaneous Revenue | 19.2 | 19.2 | - | - | - | - | - | - | - | - | - | - | - |
| Bond Proceeds | 384.0 | - | - | - | - | - | - | - | 19.9 | - | - | 364.1 | - |
| Sub-total Receipts | 1,918.3 | 21.1 | 1,397.4 | 5.4 | 0.1 | 0.0 | 0.8 | 45.9 | 68.5 | 9.6 | 1.1 | 368.5 | 0.0 |
| Fund Withdrawals | | | | | | | | | | | | | |
| Transfer Fund | - | - | - | - | - | - | - | - | - | - | - | - | - |
| R&R and General Fund | 95.0 | 40.0 | - | - | - | - | - | - | - | - | 55.0 | - | - |
| Bond Funds for Construction | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Water Stewardship Fund | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Decrease in Required Reserves | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Decrease in Rate Stabilization Fund | 17.6 | - | - | - | - | - | - | - | - | 17.6 | - | - | - |
| Sub-total Fund Withdrawals | 112.6 | 40.0 | - | - | - | - | - | - | - | 17.6 | - | - | - |
| TOTAL SOURCES OF FUNDS | 2,030.9 | 61.1 | 1,397.4 | 5.4 | 0.1 | 0.0 | 0.8 | 45.9 | 68.5 | 27.2 | 56.1 | 368.5 | 0.0 |
| Inter-Fund Transfers | - | 23.6 | (1,397.4) | 895.7 | (0.1) | 2.1 | (0.8) | 133.1 | 301.7 | (11.9) | 53.9 | - | - |
| End of Year Balance | 1,234.2 | 58.6 | - | 174.4 | 2.1 | 2.1 | 25.0 | 78.9 | 340.4 | 306.3 | 33.8 | 211.4 | 1.1 |

(1) includes Water Rate Stabilization Fund, Water Treatment Surcharge Stabilization Fund, and the Revenue Remainder Fund
Totals may not foot due to rounding.