



- Board of Directors
Finance and Insurance Committee

4/12/2011 Board Meeting

8-4

Subject

Approve proposed biennial budget for fiscal years 2011/12 and 2012/13

Description

The proposed biennial budget, which includes the previously approved 2011/12 budget, marks the initiation of a formal two-year budget cycle and provides the Board with the means to address budgetary planning over a longer time horizon than the traditional annual budget process. This approach permits the Board to focus on longer term issues, assumptions, and policy considerations for 2012/13 while challenging staff to manage any near term financial uncertainties within the appropriation of the adopted 2011/12 budget. Metropolitan's Board directed staff to implement a biennial budget process in a rolling two-year budget format where the Board approves the first year and provisionally approves the second year. For this transition year, with the 2011/12 budget already approved, provisional approval of the 2012/13 budget is being requested. In January 2012, the Board will be presented with an updated 2012/13 budget for final approval by April 2012 that reflects more current information.

The proposed 2012/13 budget presented in this letter for provisional approval reflects input from and participation by the Board and member agencies over the past four months. This was facilitated by two board workshops on January 25 and March 22, 2011, discussion at the January 11, February 7, and March 7 Finance and Insurance Committee meetings, discussion at the February 22 Executive Committee meeting, and several other presentations and caucuses with member agencies.

EXPENDITURE BUDGET SUMMARY

The 2012/13 proposed budget expenditures shown in Table 1 total \$1.78 billion, including operating expenditures, capital expenditures, and debt service. With 2010/11 water sales trending at about 1.7 million acre-feet, the 2012/13 proposed budget reflects water sales of 1.8 million acre-feet, about 200 thousand acre-feet below what is forecast in Metropolitan's Integrated Water Resources Plan (IRP). As a result, the proposed 2012/13 budget is \$48 million less than the approved 2011/12 budget. The 2011/12 projected budget also reflects water sales of 1.8 million acre-feet as compared to the 2 million acre-feet estimate contained in the approved budget.

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

	2009/10 Actual	2010/11 Budget	2010/11 Projected	2011/12 Approved Budget	2011/12 Projected	2012/13 Proposed Budget	2011/12 Approved	2012/13 Proposed
							Budget Compared to	Budget Compared to
Expenditures								
State Water Contract	\$ 438.2	\$ 488.5	\$ 501.8	\$ 517.1	\$ 557.5	\$ 552.7	\$ 28.5	\$ 35.6
Supply Programs	121.9	101.4	103.0	119.1	47.5	45.4	17.7	(73.7)
Colorado River Power	42.4	59.6	49.0	61.5	45.4	46.5	1.9	(15.0)
Debt Service	293.7	331.7	321.5	351.9	332.8	355.3	20.2	3.4
Demand Management	62.4	58.2	54.5	59.1	59.1	60.7	0.8	1.7
Departmental O&M	293.8	294.6	295.4	302.7	309.8	316.2	8.1	13.4
Treatment Chemicals, Solids & Power	23.1	26.5	26.5	29.4	22.9	24.3	2.9	(5.1)
Other O&M	18.5	15.7	15.0	41.8	23.6	27.6	26.2	(14.2)
Sub-total Expenditures	1,294.0	1,376.3	1,366.7	1,482.6	1,398.5	1,428.6	106.4	(54.0)
Capital Investment Plan	316.4	259.9	222.0	341.0	281.9	346.8	81.1	5.8
TOTAL Expenditures	\$ 1,610.3	\$ 1,636.2	\$ 1,588.7	\$ 1,823.7	\$ 1,680.5	\$ 1,775.5	\$ 187.4	\$ (48.2)

Totals may not foot due to rounding.

Significant factors driving the 2012/13 proposed budget include:

- a. **State Water Contract (SWC) Costs** – State Water Project (SWP) costs continue to rise, reflecting increasing SWC capital and OMP&R costs as well as anticipated increases in water allocations. The SWC is a “take-or-pay” contract, which obligates Metropolitan to pay the capital and operating costs even if no water is delivered. Deliveries on the SWP are expected to total 0.99 million acre-feet in the 2012/13, of which 87 thousand acre-feet are received via exchange. Metropolitan’s SWC costs are estimated to be \$552.7 million in 2012/13. The primary drivers of the \$35.6 million increase in 2012/13 as compared to 2011/12 approved budget are an \$18.6-million increase in SWC power costs due to higher SWP deliveries and higher rates and a \$17-million increase in fixed charges as a result of higher costs for the Delta Habitat Conservation and Conveyance Program, scheduled debt service and maintenance, Perris Dam and Edmonston pumps and Oroville FERC relicensing partially offset by lower off-aqueduct charges.
- b. **Water Supply Programs** – The estimated cost of water supply programs is expected to be \$73.7 million lower in 2012/13 than in the 2011/12 approved budget as a result of lower demands for supplemental water stemming from the lower 1.8 million acre-feet sales assumption. These programs include Colorado River programs, the PVID Land Management Program, SWP transfer programs, and the IID/MWD conservation agreement.
- c. **Colorado River Power** – Similar to the supply program costs, Colorado River power costs are also lower in 2012/13 as compared to the 2011/12 approved budget as a result of lower estimated flows in the Colorado River Aqueduct. The 2012/13 proposed budget includes an estimated 0.99 million acre-feet pumping volume while the 2011/12 approved budget included an estimated 1.16 million acre-feet.
- d. **Debt Service** – As Metropolitan continues to fund its ongoing Capital Investment Plan (CIP), debt service will continue to rise. It is projected that debt service in 2012/13 will be \$355.3 million, a \$3.4-million increase over the 2011/12 approved budget.
- e. **Demand Management** – Metropolitan financial assistance to its member agencies for the development of local water recycling and groundwater projects and for the development of conservation programs is expected to continue with a \$1.7 million increase in funding in 2012/13 over the 2011/12 approved budget.

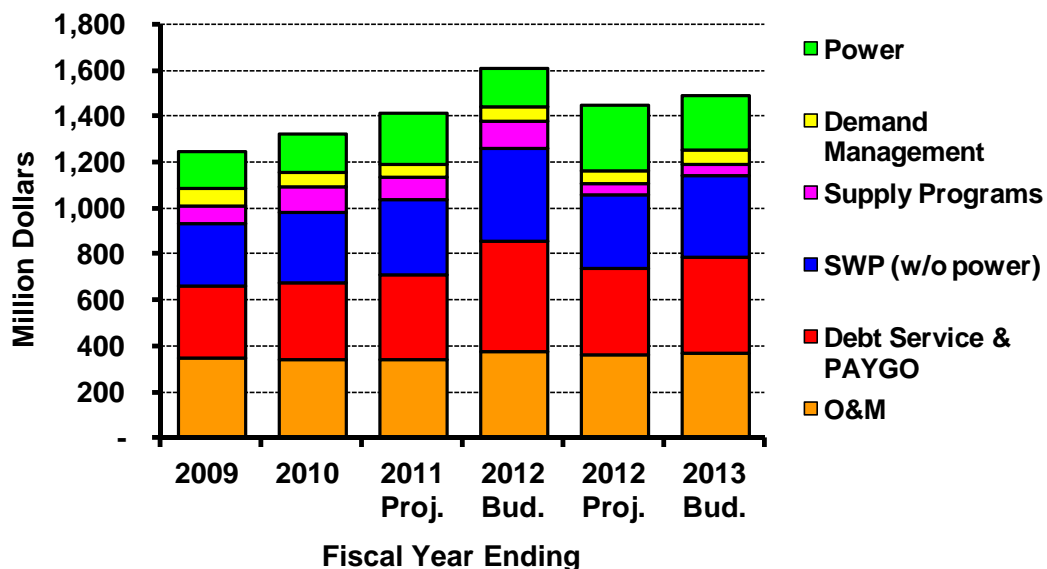
- f. **Operations and Maintenance (O&M) Costs** – O&M costs total \$368 million in 2012/13, \$5.9 million less than the 2011/12 approved budget. The primary drivers for this reduction are deferral of \$10 million to begin funding other post-employment benefits (OPEB), a reduction of \$5.1 million in variable treatment costs related to reduced treated water sales, and elimination of \$4.5 million of the \$7.3 million contingency. These reductions were partially offset by a \$5.3-million increase in employee and retiree medical costs, a \$3.3-million increase in retirement contribution costs, \$1.2 million for merit increases for eligible employees, and a \$1.3-million reduction in the construction overhead credit as a result of reductions in the CIP described below. The 2011/12 approved budget, 2011/12 projected, and the 2012/13 proposed budget do not include any base salary increases (COLA).
- g. **CIP Expenditures** – The CIP is estimated to be \$346.8 million in 2012/13. As a result of lower water sales forecasts, capital spending for fiscal years 2011/12 and 2012/13 was reduced \$97 million by deferring growth related projects and focusing on infrastructure reliability and water quality/regulatory projects. Over the five-year period from fiscal year 2011/12 through 2015/16, capital expenditure projections have been reduced by \$156 million. Driving this reduction is the rescheduling of a number of growth driven projects including the Mills Capacity Upgrade projects, San Diego Pipeline No. 6, the Central Pool Augmentation Program, and the final tunnel connection on the Perris Valley Pipeline South Reach. Additionally, the construction schedules for the Weymouth Oxidation Retrofit Program and the Jensen Solids Handling Facilities have been staged to reflect updated demand projections.

Additional detail regarding Metropolitan’s budget is contained in the Proposed Budget Summary ([Attachment 1](#)).

BUDGET TREND

To provide a longer term picture of Metropolitan’s costs, Figure 1 shows the major expenditure categories (excluding bond-funded CIP) over a five year period from 2008/09 actual through the 2012/13 proposed budget. From 2008/09 through 2012/13, expenditures are forecasted to increase by about \$235 million, or about 4 percent annually. The primary cost drivers from 2008/09 to 2012/13 are a \$98-million increase in debt service and PAYGO expenditures, an \$88-million increase in fixed SWP costs, a \$79-million increase in power costs, and a \$23 million increase in departmental O&M partially offset by a \$15-million decrease in demand management costs and a \$39-million decrease in supply program costs.

Figure 1. ExpenditureTrend



OPERATIONS AND MAINTENANCE BUDGET SUMMARY

In response to the need to meet the Board's priorities, the 2012/13 proposed O&M budget is \$5.9 million lower than the \$374 million 2011/12 approved budget. Significant factors that are reflected in the proposed O&M budget include:

- a. **Other Post-Employment Benefits (OPEB)** – Fiscal year 2011/12 included \$10 million to begin to fund Metropolitan's OPEB obligation to its current and future retirees. This funding was deferred as part of the 2011/12 projection in response to lower projected water sales. The 2012/13 proposed budget also defers that commitment until water sales return to levels forecasted in Metropolitan's IRP. It is anticipated that OPEB obligations will be funded at \$10 million in 2012/13 if water sales exceed 1.8 million acre-feet by a sufficient amount to ensure coverage of Metropolitan's full cost of service.
- b. **Zero increase in base salaries** – The proposed budget assumes no across-the-board salary increases, subject to labor negotiations. The O&M budget does, however, reflect an \$8.6-million increase in the cost of employee benefits driven primarily by increases in retirement contributions and employee and retiree medical insurance costs. The O&M budget also reflects a \$1.2-million increase for merit increases for eligible employees, a \$1.3-million decrease in the construction overhead credit charged to capital, and a \$0.3-million increase for two additional positions in Water Resources Management for SWP finance and contract management.
- c. **PC Replacement Program** – Consistent with Metropolitan's IT Strategic Plan, the 2011/12 approved budget included \$1.4 million to complete the PC Replacement Program to replace outdated desktop workstations at the end of their anticipated useful life. This program has been deferred an additional year, resulting in deferral of the \$1.4 million included in the 2011/12 budget to the 2012/13 proposed budget.
- d. **Budget Contingency** – The 2012/13 proposed budget includes a \$2.8 million budget contingency, a \$4.5-million decrease as compared to the 2011/12 approved budget. This contingency is less than 1% of the total O&M budget. Although less than past practice, the contingency will help mitigate the risk of cost increases including those associated with volatility in fuel costs, outstanding bargaining unit agreements, and increases in water treatment costs over the longer planning horizon of this biennial budget period.
- e. **Water Treatment Costs** – The cost of chemicals, power, and sludge disposal incurred in the water treatment process in the 2012/13 proposed budget is anticipated to decrease by \$5.1 million as compared to the 2011/12 approved budget as a result of lower treated water sales. This decrease will be partially offset by higher unit costs, particularly for ammonia, the unit price of which nearly doubled in March 2011.

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

Table 2. Budget Summary – Operations and Maintenance

Expenditure Type	2009/10 Actuals	2010/11 Approved Budget	2011/12 Approved Budget	2011/12 Projected	2012/13 Proposed Budget	Change	
						2011/12 Approved vs. 2010/11 Approved	2012/13 Proposed vs. 2011/12 Approved
Salaries & Benefits	212,319,770	212,803,200	218,779,200	225,487,800	229,850,100	5,976,000	11,070,900
Chemicals, Solids, and Power	23,128,078	26,493,300	29,406,000	22,891,400	24,281,700	2,912,700	(5,124,300)
Outside Services	40,175,825	37,652,000	40,054,600	39,750,900	40,140,500	2,402,600	85,900
Materials & Supplies	21,073,662	22,547,800	22,777,200	22,219,000	22,734,800	229,400	(42,400)
Cargill Settlement / OPEB	600,727	500,000	10,500,000	500,000	-	10,000,000	(10,500,000)
Other	32,551,457	34,676,900	45,409,500	37,898,300	43,685,500	10,732,600	(1,724,000)
Operating Equipment	5,520,268	2,091,500	7,035,600	7,489,400	7,344,700	4,944,100	309,100
Total	335,369,787	336,764,700	373,962,100	356,236,800	368,037,300	37,197,400	(5,924,800)
Total Budgeted Positions	2,019	1,924	1,921	1,921	1,928	(3)	7

Totals may not foot due to rounding

IMPACT OF LOWER WATER SALES

In January 2011, the 2012/13 proposed budget was presented to the Finance and Insurance Committee based on 2 million acre-feet of water sales consistent with the 2010 IRP. However, because water sales for 2010/11 are currently trending at about 1.7 million acre-feet, the 2012/13 proposed budget has been adjusted to reflect water sales of 1.8 million acre-feet. This 200,000 acre-feet reduction in water sales results in about \$140 million reduction in revenues. In order to mitigate for the impact of these lower water sales while maintaining the approved rate increase of 7.5% in 2012 and the estimated rate increase of 5% in 2013, expenditures were reduced \$147.8 million as shown in Table 3.

Table 3. Budget Reductions to Mitigate Reduced Water Sales

Action	Reduction to 2012/13 Proposed Budget
State Water Contract costs	\$6.2 million
Reduce supply programs	(\$47.1 million)
Eliminate OPEB Funding	(\$15.0 million)
Reduced power costs	(\$10.6 million)
Reduce O&M budget	(\$4.9 million)
Defer PC Replacement Program	(\$1.9 million)
Reduced treatment costs	(\$1.3 million)
Reduce PAYGO	(\$65.0 million)
Reduce CIP / Defer debt	(\$8.2 million)
Total	(\$147.8 million)

While these actions address the expenditures side of the budget, other actions, including raising rates, obtaining grant funding, and increasing other revenues such as leases, could also help mitigate the impact of sales that are lower than anticipated in the budget. In contrast, if water sales exceed the 1.8 million acre-feet forecast for the 2011/12 projected and 2012/13 proposed budgets, restoration of some of these reductions could be considered, beginning with OPEB and PAYGO funding.

SOURCES OF FUNDS

As shown in Table 4, the 2012/13 proposed budget sources of funds are expected to total \$1.91 billion. This includes receipts of \$1.56 billion, net of bond proceeds and reimbursements. Water sales receipts of \$1.23 billion account for 74 percent of receipts. These receipts are based on projected water sales of 1.8 million acre-feet and include an increase in base rates and charges of 7.5 percent, effective January 1, 2012. In addition, a 5% rate increase would be required on January 1, 2013.

Other revenues include readiness-to-serve charge revenues of \$150.5 million, revenues from the capacity charge of \$35.2 million, and tax and annexation revenues of about \$82.6 million. Interest earnings are expected to be \$18.7 million based on an average interest rate of 1.83%. Power and other miscellaneous revenues are expected to generate about \$20.5 million and \$19.5 million, respectively.

To meet the ongoing funding requirements of the CIP, Metropolitan plans to issue \$250 million of fixed rate bonds in 2011/12 and \$100 million of fixed rate bonds in 2012/13. Any remaining CIP funding requirements will be met from current operating funds (i.e., PAYGO from the R&R and General Fund).

The revenue bond debt service coverage ratio is forecast to be just below the Board's adopted target of 2 times revenue bond debt service. Given a 7.5-percent increase in rates and charges and water sales of 1.8 million acre-feet, the debt service coverage ratio is expected to be about 1.9 times coverage in 2012/13, increasing from a low

of 1.4 times in 2010/11 and 1.7 times in 2011/12. Metropolitan's fixed charge coverage is expected to be about 1.3 times, which meets the board-adopted objective of 1.2 times coverage, increasing from 0.9 times in 2010/11 and 1.2 times in 2011/12.

RESERVES

Based on projected receipts and expenditures, the total balance in the Water Rate Stabilization, Revenue Remainder, the Treatment Surcharge Stabilization Fund, and Water Stewardship funds is estimated to be about \$234.9 million, about \$8 million over the minimum target. Total restricted and unrestricted reserves are estimated to be \$1,020.8 million on June 30, 2013.

Table 4. 2010/11 Annual Budget Uses and Sources of Funds – Cash Basis (Dollars in Millions)

	2009/10 Actual	2010/11 Budget	2010/11 Projected	2011/12 Approved Budget	2011/12 Projected	2012/13 Proposed Budget	2011/12 Approved	2012/13 Proposed
							Budget Compared to	Budget Compared to
							2010/11 Budget	2011/12 Approved Budget
USES OF FUNDS								
Expenditures								
State Water Contract	\$ 438.2	\$ 488.5	\$ 501.8	\$ 517.1	\$ 557.5	\$ 552.7	\$ 28.5	\$ 35.6
Supply Programs	121.9	101.4	103.0	119.1	47.5	45.4	17.7	(73.7)
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Demand Management	62.4	58.2	54.5	59.1	59.1	60.7	0.8	1.7
Departmental O&M	293.8	294.6	295.4	302.7	309.8	316.2	8.1	13.4
Treatment Chemicals, Solids & Power	23.1	26.5	26.5	29.4	22.9	24.3	2.9	(5.1)
Other O&M	18.5	15.7	15.0	41.8	23.6	27.6	26.2	(14.2)
Sub-total Expenditures	1,294.0	1,376.3	1,366.7	1,482.6	1,398.5	1,428.6	106.4	(54.0)
Capital Investment Plan	316.4	259.9	222.0	341.0	281.9	346.8	81.1	5.8
Fund Deposits								
R&R and General Fund	36.7	95.0	45.0	125.0	45.0	60.0	30.0	(65.0)
Revenue Bond Construction	44.9	199.1	71.0	-	20.9	-	(199.1)	-
Water Stewardship Fund	0.0	4.2	-	3.0	-	-	(1.2)	(3.0)
Interest for Construction & Trust Funds	5.4	7.0	4.7	7.8	3.6	2.5	0.8	(5.4)
Increase in Required Reserves	27.6	62.6	-	57.1	44.5	61.0	(5.5)	3.9
Increase in Rate Stabilization Fund	-	-	-	-	-	8.0	-	8.0
Other Fund Activity	11.8	-	-	-	-	-	-	-
Sub-total Fund Deposits	126.4	367.9	120.7	192.9	114.0	131.5	(175.1)	(61.4)
TOTAL USES OF FUNDS	\$ 1,736.7	\$ 2,004.2	\$ 1,709.3	\$ 2,016.5	\$ 1,794.5	\$ 1,906.9	\$ 12.4	\$ (109.6)
SOURCES OF FUNDS								
Receipts								
Taxes	\$ 96.6	\$ 80.8	\$ 80.8	\$ 81.0	\$ 80.0	\$ 81.6	\$ 0.3	\$ 0.6
Annexations	0.7	1.0	1.0	1.0	1.0	1.0	-	-
Interest Income	23.9	37.2	29.1	41.4	18.0	18.7	4.2	(22.7)
Hydro Power	18.8	22.4	25.0	22.1	21.5	20.5	(0.2)	(1.6)
Fixed Charges (RTS & Capacity Charge)	135.3	154.4	154.4	171.3	170.2	185.7	16.9	14.4
Water Sales Revenue	1,011.1	1,199.9	1,023.1	1,331.6	1,155.4	1,228.9	131.7	(102.7)
Miscellaneous Revenue	31.6	8.8	27.0	13.2	18.2	19.5	4.4	6.3
Bond Proceeds and Reimbursements	342.5	384.0	248.0	-	268.0	99.2	(384.0)	99.2
Sub-total Receipts	1,660.3	1,888.4	1,588.4	1,661.7	1,732.4	1,655.2	(226.7)	(6.4)
Fund Withdrawals								
Water Transfer Fund	11.9	-	-	-	-	-	-	-
R&R and General Fund	36.7	95.0	45.0	125.0	45.0	60.0	30.0	(65.0)
Bond Funds for Construction	-	-	-	216.0	-	191.7	216.0	(24.3)
Water Stewardship Fund	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	11.5	-	-	-	-	-
Decrease in Rate Stabilization Fund	27.8	20.8	64.4	13.9	17.1	-	(6.9)	(13.9)
Sub-total Fund Withdrawals	76.4	115.8	120.9	354.9	62.1	251.7	239.1	(103.2)
TOTAL SOURCES OF FUNDS	\$ 1,736.7	\$ 2,004.2	\$ 1,709.3	\$ 2,016.5	\$ 1,794.5	\$ 1,906.9	\$ 12.4	\$ (109.6)

Totals may not foot due to rounding.

ATTACHMENT 1: The Proposed Budget Summary for FY 2011/12 and 2012/13 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

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA, because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). For those anticipated projects listed in the budget that may require subsequent board approval, a CEQA review will be carried out, and if appropriate, environmental documentation for such projects will be prepared and processed in accordance with CEQA and the State CEQA Guidelines.

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and

- a. Provisionally approve the 2012/13 Budget for a total of \$1.49 billion for the projected annual cash outlays for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs; debt service on Metropolitan general obligation and revenue bonds; and the use of operating revenues to fund Replacement and Refurbishment expenditures.
- b. Provisionally approve the use of up to \$10 million in operating revenues to fund Metropolitan's OPEB liability and the use of up to \$125 million in operating revenues to fund Replacement and Refurbishment expenditures if sales exceed 1.8 million acre-feet in fiscal year 2012/13 and all other budget and financial targets authorized in the 2012/13 Budget can be met.
- c. Direct staff to update the 2012/13 Budget to reflect any changed conditions and revised forecasts and to submit it to the Board for formal approval in April 2012.

Fiscal Impact: \$1.49 billion in FY 2012/13, pending final approval in April 2012

Business Analysis: Funds will be necessary for the continuing business operations of Metropolitan.

Option #2

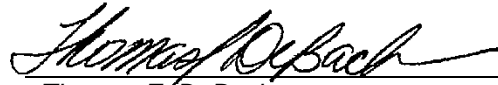
Adopt the CEQA determination and provisionally approve the 2012/13 Budget with changes as recommended by the Board.

Fiscal Impact: Impact depends on adopted changes.

Business Analysis: Funds will be necessary for the continuing business operations of Metropolitan.

Staff Recommendation

Option #1



3/29/2011

Thomas E. DeBacker
Interim Chief Financial Officer



3/30/2011

Jeffrey Kightlinger
General Manager

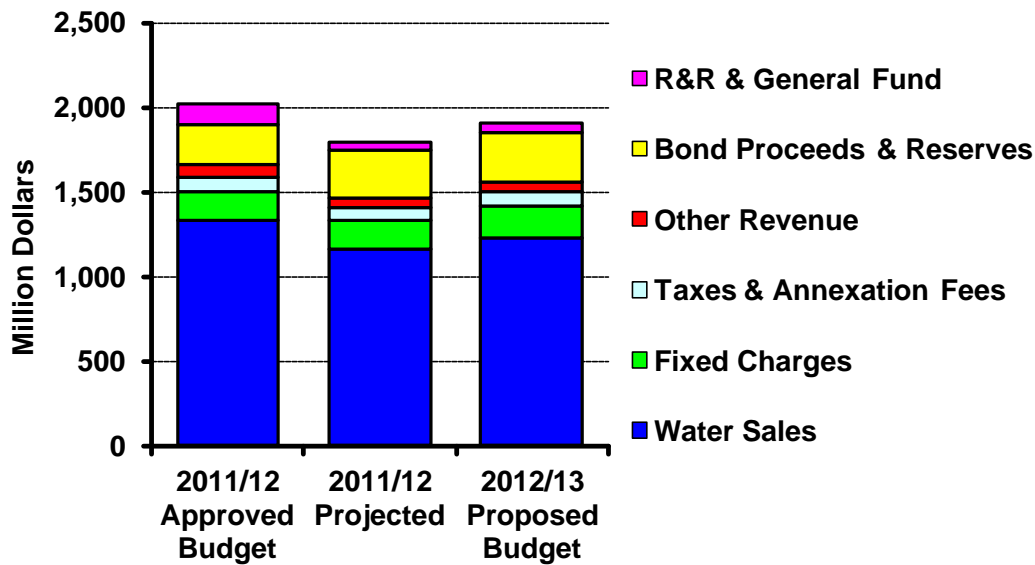
Attachment 1 – Proposed Budget Summary FY 2011/12 and 2012/13

Ref# cfo12610927

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. Sources of Funds



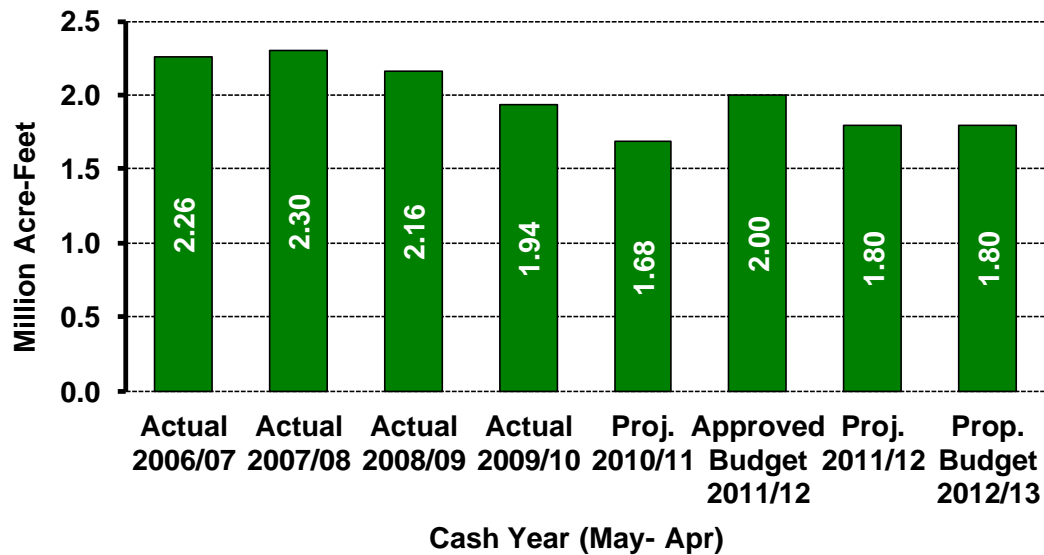
SOURCES OF FUNDS

Estimated receipts from water sales, fixed charges (readiness-to-serve charge and capacity charge), taxes and annexation fees, and other miscellaneous income (interest income, power recovery, etc) were projected to be \$1.66 billion for the 2011/12 approved budget. The 2012/13 proposed budget estimates receipts from water sales, fixed charges, taxes and annexation fees, and other miscellaneous income at \$1.56 billion. For the 2011/12 approved budget this is \$157.3 million more than the 2010/11 budget and for the 2012/13 proposed budget this is \$105.6 million less than the 2011/12 approved budget. The variance is due to a combination of water sales assumptions (see Figure 2) and increases in water rates in 2011, 2012 and 2013. Figure 1 shows the major sources of funds. Summaries of sources and uses of funds are shown in Tables 6, 7 and 8 at the end of this section.

Water Sales

Receipts from water sales were budgeted at \$1,331.6 million for the 2011/12 approved budget and are estimated at \$1,228.9 million in the 2012/13 proposed budget. Receipts from water sales are based on rates and charges adopted by the Board for January 1, 2011 and January 1, 2012. In addition, a 5% rate increase was estimated for January 1, 2013.

Water sales (including exchange water) was estimated at 2 million acre-feet (MAF) for the 2011/12 approved budget during the May through April period (cash year). The 2012/13 proposed budget includes an estimated 1.80 million acre-feet (MAF) of sales (including exchange water) 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 2011/12 approved budget cash year water sales include 1.76 MAF of firm sales, zero replenishment sales, 62 thousand acre-feet (TAF) of agricultural sales, and 177 TAF in wheeled / exchanged sales. Treated sales were estimated to be 1.29 MAF or 65 percent of total sales in 2011/12. The 2012/13 proposed budget cash year water sales include 1.56 MAF of firm sales, zero replenishment sales, 52 thousand acre-feet (TAF) of agricultural sales, and 190 TAF in wheeled / exchanged sales. Treated sales are estimated to be 1.03 MAF or 57 percent of total sales in 2012/13. Figure 2 shows the 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) were estimated to be \$82 million in 2011/12 approved budget and are estimated to be \$82.6 million for the 2012/13 proposed budget.

Fixed Charges

The fixed charges are comprised of the Capacity Charge and Readiness-to-Serve Charge. In the 2011/12 approved budget,

these charges were estimated to generate \$34.9 million and \$119.5 million, respectively. In the 2012/13 proposed budget, these charges are estimated to generate \$35.2 million and \$150.5 million, respectively. In total, this represents a \$16.9-million increase from the 2010/11 budget to the 2011/12 approved budget and a \$14.4-million increase from the 2011/12 approved budget to the 2012/13 proposed budget.

Other Revenue

Interest earnings were estimated to total \$41.4 million for the 2011/12 approved budget (including trust accounts and construction funds) and were based on an average 3.46% interest rate. For the 2012/13 proposed budget, interest earnings are estimated to total \$18.7 million (including trust accounts and construction funds) and are based on an average 1.83% interest rate.

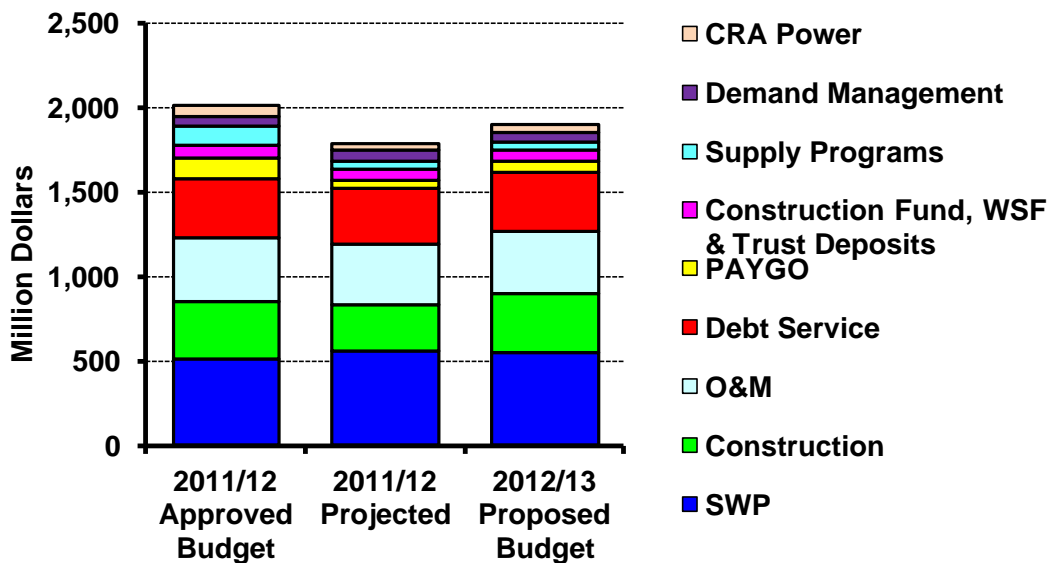
Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales were estimated to be \$22.1 million for the 2011/12 approved budget, about \$0.2 million lower than the 2010/11 budget. For the 2012/13 proposed budget, receipts from hydroelectric and CRA power sales are estimated to be \$20.5 million, about \$1.6 million lower than the 2011/12 approved budget.

Other Sources

To meet the ongoing funding requirements of the CIP, the 2011/12 approved budget assumed a \$400-million fixed rate bond issue in 2010/11 with no issue in 2011/12. The 2011/12 approved budget assumed a \$400-million fixed rate bond issue in 2010/11 with no issue in 2011/12. The 2012/13 proposed budget includes the \$250-million fixed rate bond issued in 2010/11, an estimated

\$250-million fixed rate bond for 2011/12, and an estimated \$100-million fixed rate bond for 2012/13. The remaining CIP funding requirements will be met from current operating funds (i.e., PAYGO from the R&R and General Fund). In the 2011/12 approved budget, a total of \$2 billion was available for expenditures and other obligations and in the 2012/13 proposed budget this figure will decrease to \$1.91 billion.

Figure 3. Uses of Funds



USES OF FUNDS

Total uses of funds were estimated at \$2 billion for the 2011/12 approved budget and are estimated at \$1.91 billion for the 2012/13 proposed budget. Figure 3 shows the breakdown of expenditures and other obligations that make up the Uses of Funds.

Colorado River Aqueduct Power

CRA power costs were projected to be \$61.5 million for the 2011/12 approved budget based on pumping 1.16 MAF at Whitsett Intake Pumping Plant. This is \$1.6 million higher than the 2010/11 budget due to higher purchased power prices. For the 2012/13 proposed budget, CRA power costs are estimated to be \$46.5 million based on a pumping volume of 0.99 MAF. This is

\$15 million less than the 2011/12 approved budget as a result of the lower volumes.

State Water Contract

State Water Contract (SWC) expenditures were budgeted at \$517.1 million for the 2011/12 approved budget and were based on total deliveries of 0.95 MAF, of which 77 TAF were received via exchange. The 2012/13 proposed budget includes SWC expenditures of \$552.7 million and is based on total deliveries of 0.99 MAF, of which 87 TAF are received via exchange.

For the 2011/12 approved budget, the average total unit cost of SWC power was \$214 per acre-foot, which included \$88 per acre-foot for

fixed power costs and \$126 per acre-foot for variable pumping costs. For the 2012/13 proposed budget, the average total unit cost of SWC power is expected to be about \$216 per acre-foot, which includes \$73 per acre-foot for fixed power costs and \$143 per acre-foot for variable pumping costs.

SWC minimum operations, maintenance, power, and replacement (OMP&R) and capital charges were estimated to increase \$0.6 million and \$11.8, million respectively in the 2011/12 approved budget. The 2012/13 proposed budget estimates an increase of \$11.8 million for OMP&R and an increase of \$16.4 million for capital when compared to the 2011/12 approved 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 62 water-recycling projects. Sixty of these projects are in operation and the remaining two projects are under design or construction. Recycling projects that receive Metropolitan contributions are expected to produce 177 TAF of recycled water, principally for landscape irrigation, groundwater recharge, and industrial uses in 2011/12 and 181 TAF in 2012/13. Metropolitan is expected to spend \$28.9 million in 2011/12 and \$29.1 million on these efforts in 2012/13.

Metropolitan has also entered into agreements to provide financial assistance to 22 projects to recover contaminated groundwater. All of these groundwater recovery projects are in operation and are expected to produce about 54 TAF in 2011/12 at a cost to Metropolitan of \$10.5 million. In 2012/13, twenty-two groundwater recovery projects are expected to produce about 61 TAF at a cost to Metropolitan of \$11.2 million.

The CCP provides financial assistance to customers in Metropolitan's service area for water conservation programs. The budget for CCP provides rebate funding for residential, commercial, industrial, and landscape conservation activities. The 2011/12 and 2012/13 funding for CCP has been budgeted at \$19.8 million and \$20.5 million, respectively.

OPERATIONS AND MAINTENANCE

The 2012/13 proposed O&M budget, including operating equipment purchases, is estimated to be \$368 million. This is \$5.9 million less than the 2011/12 approved budget of \$374 million and \$31.3 million more than the 2010/11 approved budget of \$336.8 million. 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. Figure 4 summarizes the total departmental O&M budget by expenditure type, of which 62 percent is for salaries and benefits.

Labor costs, not including those charged to construction, are \$229.9 million. Although the budget assumes no cost-of-living adjustments in salaries for the workforce during fiscal year 2012/13, this is \$11.1 million, or 5.1 percent, higher than the 2011/12 approved budget of \$218.8 million. This increase is primarily the result of the following factors:

- Increases in the cost of employee and retiree medical insurance of \$5.3 million;
- Increase in the PERS employee retirement contribution of \$3.3 million;
- Merit increases for eligible employees of \$1.2 million; and
- The construction overhead, which is applied as a credit reducing O&M labor, decreased by \$1.3 million as a result of reductions in the CIP.

Reductions in non-labor O&M costs in the 2012/13 proposed budget total \$17.3 million as compared to the 2011/12 approved budget and more than offset proposed labor cost increases. The largest of the reductions is the result of deferring \$10 million to begin

funding Metropolitan's OPEB obligation one more year.

The 2012/13 proposed budget also eliminates \$1.4 million from the 2011/12 approved budget by deferring the PC Replacement Program to the 2012/13 proposed budget. This program was intended to replace outdated computer workstations at the end of their anticipated useful life.

The 2012/13 budget also includes a \$5.1-million decrease in the cost of chemicals, electricity, and sludge disposal for the water treatment process driven by a reduction in budgeted water sales from 2 million acre-feet to 1.8 million acre-feet.

The 2012/13 proposed budget includes a \$2.8-million budget contingency equal to less than 1% of the total O&M budget. This is a \$4.5 million reduction as compared with the 2011/12 approved budget, which at the time of its approval contained a \$7.3-million contingency. The 2011/12 projected budget includes no budget contingency. The budget contingency helps mitigate the risk of cost increases associated with water supply uncertainty, changes in water sales, resolution of outstanding bargaining unit agreements, unanticipated employee benefit cost changes, and changes in treatment chemical unit costs over a two-year budget planning horizon.

Table 1. 2012/13 Operations & Maintenance Annual Budget (dollars) by Expenditure Type

Expenditure Type	2009/10 Actuals	2010/11 Approved Budget	2011/12 Approved Budget	2011/12 Projected	2012/13 Proposed Budget	Change	
						2011/12 Approved vs. 2010/11 Approved	2012/13 Proposed vs. 2011/12 Approved
Salaries & Benefits	212,319,770	212,803,200	218,779,200	225,487,800	229,850,100	5,976,000	11,070,900
Chemicals, Solids, and Power	23,128,078	26,493,300	29,406,000	22,891,400	24,281,700	2,912,700	(5,124,300)
Outside Services	40,175,825	37,652,000	40,054,600	39,750,900	40,140,500	2,402,600	85,900
Materials & Supplies	21,073,662	22,547,800	22,777,200	22,219,000	22,734,800	229,400	(42,400)
Cargill Settlement / OPEB	600,727	500,000	10,500,000	500,000	-	10,000,000	(10,500,000)
Other	32,551,457	34,676,900	45,409,500	37,898,300	43,685,500	10,732,600	(1,724,000)
Operating Equipment	5,520,268	2,091,500	7,035,600	7,489,400	7,344,700	4,944,100	309,100
Total	335,369,787	336,764,700	373,962,100	356,236,800	368,037,300	37,197,400	(5,924,800)
Total Budgeted Positions	2,019	1,924	1,921	1,921	1,928	(3)	7

Totals may not foot due to rounding

Figure 4. Departmental Budget by Expenditure Type

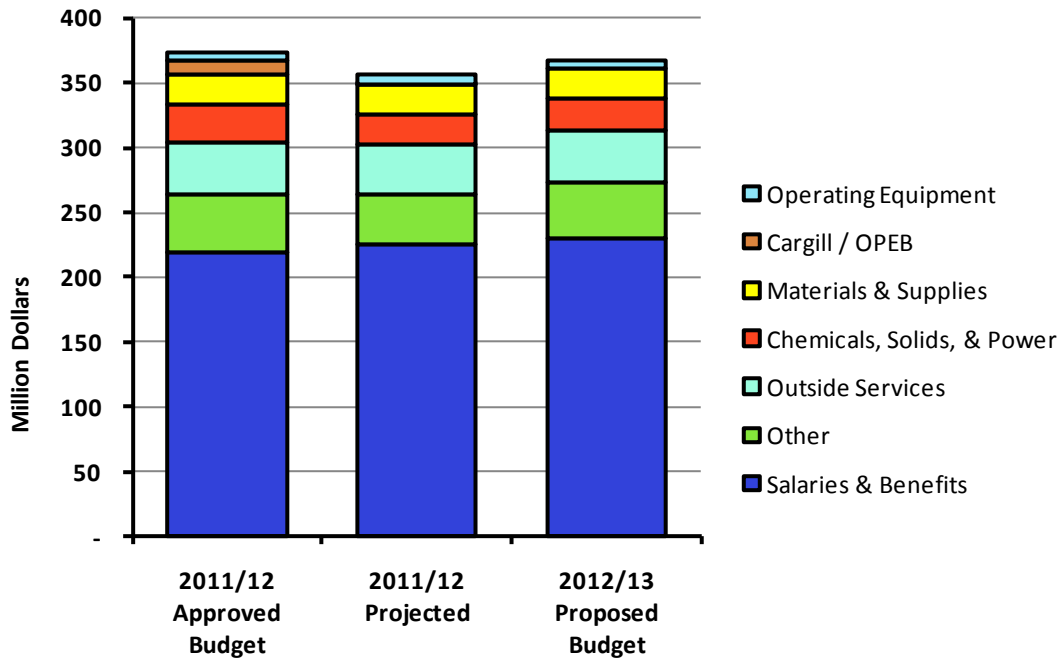


Figure 5 depicts the distribution of the departmental O&M by organization without other O&M, the overhead credit, and operating equipment. Including treatment costs, the Water System Operations (WSO) Group accounts for 56 percent of the total

departmental budget for both 2011/12 and 2012/13.

A summary of the O&M budget by organization is shown in Table 2.

**Figure 5. Departmental Budget by Organization
(without Other O&M, operating equipment, and overhead credit)**

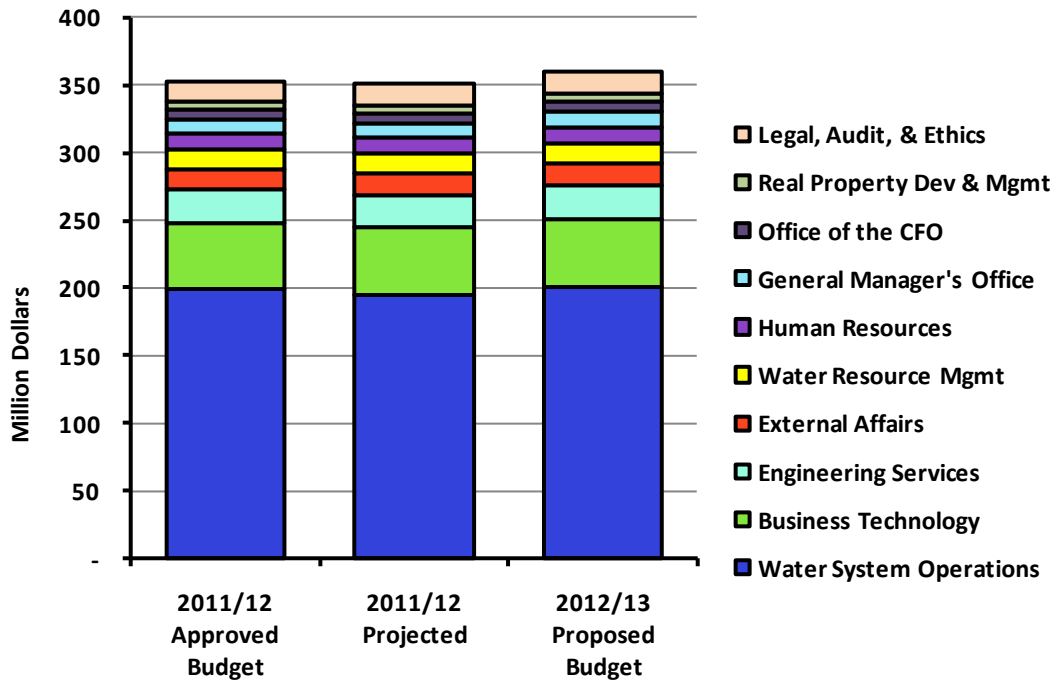


Table 2. Operations & Maintenance Budget by Organization

Organization	2010/11 Approved Budget	2011/12 Approved Budget	2011/12 Projected	2012/13 Proposed Budget	Change		Change	
					2011/12 Approved vs. 2010/11 Approved	%	2012/13 Proposed vs. 2011/12 Approved	%
Office of the General Manager	\$ 10,102,000	\$ 10,532,600	\$ 10,450,800	\$ 10,601,700	\$ 430,600	4.3%	\$ 69,100	0.7%
Water System Operations w/o Variable Treatment	166,099,800	169,745,900	172,304,600	176,710,700	3,646,100	2.2%	6,964,800	4.1%
Water Resource Management	15,374,200	14,461,800	14,470,700	15,444,900	(912,400)	(5.9%)	983,100	6.8%
Engineering Services	22,755,400	23,734,400	23,916,400	24,764,900	979,000	4.3%	1,030,500	4.3%
Business Technology	47,041,800	49,538,200	49,747,200	50,340,500	2,496,400	5.3%	802,300	1.6%
Real Property Development & Mgmt	5,641,400	5,732,000	5,623,800	5,770,800	90,600	1.6%	38,800	0.7%
Human Resources	11,046,800	11,349,500	11,477,400	11,672,800	302,700	2.7%	323,300	2.8%
Office of the Chief Financial Officer	7,788,000	8,146,300	8,262,300	8,385,200	358,300	4.6%	238,900	2.9%
External Affairs	15,275,100	15,903,800	15,920,600	16,079,900	628,700	4.1%	176,100	1.1%
Subtotal - General Manager's Dep.	301,124,500	309,144,500	312,173,800	319,771,400	8,020,000	2.7%	10,626,900	3.4%
General Counsel	10,376,000	10,826,800	12,552,600	12,535,900	450,800	4.3%	1,709,100	15.8%
General Auditor	2,682,100	2,784,400	2,682,000	2,682,000	102,300	3.8%	(102,400)	(3.7%)
Ethics Office	624,200	657,100	573,800	573,700	32,900	5.3%	(83,400)	(12.7%)
Overhead Credit from Construction	(20,249,000)	(20,700,000)	(18,230,600)	(19,408,300)	(451,000)	2.2%	1,291,700	(6.2%)
Total Departmental Budget	294,557,800	302,712,800	309,751,600	316,154,700	8,155,000	2.8%	13,441,900	4.4%
Other O&M								
Cargill Settlement	500,000	500,000	500,000	-	-	0.0%	(500,000)	(100.0%)
PC Replacement	-	1,400,000	-	1,400,000	1,400,000	-	-	0.0%
CCP Vendor Administration	2,006,100	1,947,800	1,839,100	1,589,100	(58,300)	(2.9%)	(358,700)	(18.4%)
Performance Programs	650,000	673,000	673,000	673,000	23,000	3.5%	-	0.0%
Association Dues	2,200,000	4,433,200	4,432,500	4,849,700	2,233,200	101.5%	416,500	9.4%
OPEB Funding	-	10,000,000	-	-	10,000,000	-	(10,000,000)	(100.0%)
Contingency	-	7,297,700	-	2,750,000	7,297,700	-	(4,547,700)	(62.3%)
Insurance	7,250,000	7,504,000	7,504,000	7,766,600	254,000	3.5%	262,600	3.5%
Leases	475,000	499,000	600,000	630,000	24,000	5.1%	131,000	26.3%
Taxes	541,000	553,000	555,800	597,800	12,000	2.2%	44,800	8.1%
Subtotal - Other	13,622,100	34,807,700	16,104,400	20,256,200	21,185,600	155.5%	(14,551,500)	(41.8%)
TOTAL OPERATIONS & MAINTENANCE	308,179,900	337,520,500	325,856,000	336,410,900	29,340,600	9.5%	(1,109,600)	(0.3%)
Operating Equipment	2,091,500	7,035,600	7,489,400	7,344,700	4,944,100	236.4%	309,100	4.4%
Variable Treatment	26,493,300	29,406,000	22,891,400	24,281,700	2,912,700	11.0%	(5,124,300)	(17.4%)
GRAND TOTAL	\$ 336,764,700	\$ 373,962,100	\$ 356,236,800	\$ 368,037,300	37,197,400	11.0%	\$ (5,924,800)	(1.6%)

Totals may not foot due to rounding

LABOR

The total personnel complement (including temporary workers) for 2012/13 is 1,928 positions, an increase of two regular and four temporary full time equivalent positions from 2011/12. The two regular positions are proposed for the Water Resources Management Group for work on State Water Project finance and contract management. The four district temporary equivalent positions are seasonal recurrent positions in the Water System Operations Desert Region.

Total O&M personnel are up by 19 positions to 1,643 in 2012/13. Positions dedicated to capital work are down by twelve, reflecting rescheduling of a number of primarily growth driven projects in the CIP. Both the 2011/12 approved and 2012/13 proposed budgets assume a vacancy rate of approximately 3.2 percent across the organization, which is slightly above the 2.6 percent rate assumed for 2010/11.

The personnel complement is broken down on Tables 3 and 4.

Table 3. Regular and Temporary Positions

	2009/10 Budget	2010/11 Budget	2011/12 Approved Budget	2012/13 Proposed Budget	Change from 2011/12
Regular Full Time Positions	2,000	1,899	1,898	1,900	2
District Temporary Positions	16	22	18	22	4
Agency Temporary Positions	3	3	6	6	0
Total	2,019	1,924	1,921	1,928	6

Totals may not foot due to rounding.

Table 4. O&M and Capital Staffing Levels

	2010/11 Budget	2011/12 Approved Budget	2012/13 Proposed Budget
O&M Positions			
Regular Full Time Positions	1,610	1,605	1,618
District & Agency Temporary Positions	24	19	25
Total O&M	1,634	1,624	1,643
Capital Positions			
Regular Full Time Positions	289	293	282
District & Agency Temporary Positions	1	4	3
Total Capital	290	297	285
GRAND TOTAL	1,924	1,921	1,928

Totals may not foot due to rounding.

Supply Programs

Supply program expenditures for the 2011/12 approved budget and the 2012/13 proposed budget total \$119.1 million and \$45.4 million respectively and include (may not foot due to rounding):

- \$44.6 million in 2011/12 and \$14.8 million in 2012/13 for Colorado Programs;
- \$20 million in 2011/12 and \$13.2 million in 2012/13 for the Palo Verde Irrigation District (PVID) Land Management Program;
- \$10.5 million in 2011/12 and \$12.3 million in 2012/13 for operating and maintaining the IID/MWD conservation agreement;
- \$33.5 million in 2011/12 and \$4.7 million in 2012/13 for State Water Project (SWP) Transfer Programs;
- \$3.7 million in 2011/12 for Central Valley Storage Program; and
- \$6.7 million in 2011/12 and \$0.3 million in 2012/13 for In-Basin Projects.

For the 2011/12 approved budget these supply programs were expected to generate 419 TAF of transfer deliveries on the CRA and SWP. For the 2012/13 proposed budget these supply programs are expected to generate 242 TAF of transfer deliveries on the CRA and SWP.

ANNUAL CAPITAL INVESTMENT PLAN

The CIP for the 2011/12 approved budget and 2012/13 proposed budget are \$341 million and \$348 million, respectively. The CIP budget estimates for 2011/12 projected has been lowered to \$283 million to reflect rescheduling of a number of primarily growth driven projects.

The CIP is funded by a combination of debt and current operating revenues (R&R and General Fund). Overall, the capital expenditure estimates for 2011/12 and 2012/13 have been reduced by approximately \$97 million from last year's estimates. Over the five-year period from fiscal year 2011/12 through 2015/16, capital expenditure projections have been reduced by \$156 million.

The two largest areas of expenditures in the 2011/12 and 2012/13 CIP are infrastructure reliability and water quality/regulatory projects. It is currently anticipated that infrastructure expenditures will continue to grow as more facilities reach the end of their service life.

Debt Service

The portion of the CIP that is not funded from cash will be funded from bond proceeds and grants. In the 2011/12 approved budget, \$216 million of capital was estimated to be funded from bond proceeds. For the 2012/13 proposed budget, \$286.8 million of capital is estimated to be funded from bond proceeds.

The 2011/12 approved budget assumed a \$400-million fixed rate bond issue in 2010/11 with no issue in 2011/12. The 2012/13 proposed budget includes the \$250-million fixed rate bond issued in 2010/11, an estimated \$250-million fixed rate bond for 2011/12, and an estimated \$100-million fixed rate bond for 2012/13.

Debt service payments estimated for the 2011/12 approved budget total \$351.9 million and include \$39.2 million in G.O. bond debt service, \$296 million in revenue bond debt service, \$14.1 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and \$2.6 million for State Revolving Fund Loan payments. A total debt service cost in the 2011/12 approved budget is \$20.2 million more than the 2010/11 budget.

The estimated debt service payments in the 2012/13 proposed budget total \$355.3 million and include \$40.4 million in G.O. bond debt service, \$303.2 million in revenue bond debt service, \$9.2 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and \$2.6 million for State Revolving Fund Loan payments. Total debt service costs in 2012/13 are expected to be \$22.5 million more than the 2011/12 approved budget.

Metropolitan currently has \$5 billion in outstanding debt. Of this amount, \$4.7 billion is revenue bond debt, of which 12 percent is in a variable rate mode.

Reserve Transfers

The 2011/12 approved budget forecasted overall reserves to remain flat at June 30, 2012. The Water Rate Stabilization Fund (WRSF) and the Treatment Surcharge Stabilization Fund (TSSF) were expected to be drawn down \$13.9 million. The Revenue Remainder Fund was expected to increase by \$10.9 million and the Water Stewardship Fund (WSF) was expected to increase \$3 million.

The 2011/12 projected reserves are expected to total \$195.1 million on June 30, 2012. The 2011/12 projections are used to estimate the beginning fund balances for the 2012/13 proposed budget.

The 2012/13 proposed budget forecasts a \$39.8-million increase in reserves by June 30, 2013. The WRSF and TSSF are expected to increase by \$8 million. The Revenue Remainder Fund is expected to increase by \$31.8 million and the WSF is expected to remain at zero.

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 5. Figure 6 shows the distribution of these funds by type.

Fund balances were budgeted to be \$1,181.0 million at June 30, 2012, based on the 2011/12 approved budget. Of that total, \$859.2 million was restricted by bond covenants, contracts, or board policy, and \$321.8 million was unrestricted. Fund balances for the 2012/13 proposed budget are estimated at \$1,020.8 million at June 30, 2013. Of that total, \$752.1 million is restricted by bond covenants, contracts, or board policy, and \$268.7 million is unrestricted.

The 2011/12 approved budget estimated that on June 30, 2012 the minimum and maximum reserve fund targets would be \$246.1 million and \$602 million, respectively. Based on projected receipts and expenditures, it was estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF would total about \$295.1 million, about \$49 million over the minimum target.

The 2012/13 proposed budget estimates the June 30, 2013, minimum and maximum reserve fund targets to be \$226.9 million and \$552.1 million, respectively. Based on projected receipts and expenditures, it is estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF will total about \$234.9 million, about \$8 million over the minimum target.

Table 5. Projected Fund Balances (dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
2011/12 Approved Budget				
Operating Funds	247.1	129.8		376.9
Debt Service Funds	346.0			346.0
Construction Funds	135.2		33.8	168.9
Rate Stabilization Funds*			288.0	288.0
Trust and Other Funds	1.1			1.1
Total June 30, 2012	729.4	129.8	321.8	1,181.0
2012/13 Proposed Budget				
Operating Funds	235.7	122.0		357.7
Debt Service Funds	345.7			345.7
Construction Funds	47.6		33.8	81.4
Rate Stabilization Funds*			234.9	234.9
Trust and Other Funds	1.1			1.1
Total June 30, 2013	630.1	122.0	268.7	1,020.8

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

Totals may not foot due to rounding.

Figure 6. Fund Distribution by Type

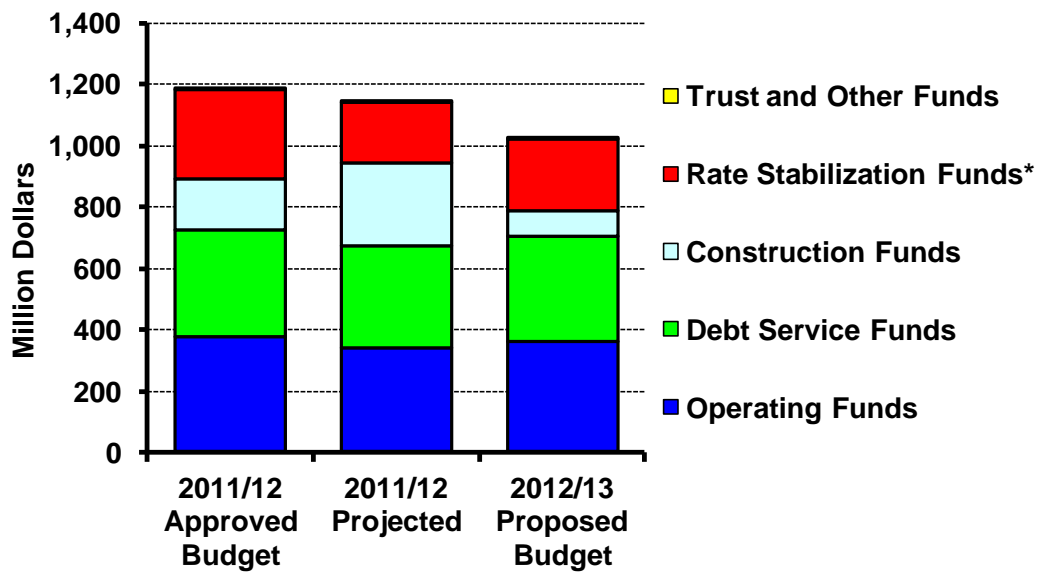


Table 6. Sources and Uses of Funds (dollars in millions)

	2009/10 Actual	2010/11 Budget	2010/11 Projected	2011/12 Approved Budget	2011/12 Projected	2012/13 Proposed Budget	2011/12 Approved Budget	2012/13 Proposed Budget
							Compared to 2010/11 Budget	Compared to 2011/12 Approved Budget
USES OF FUNDS								
Expenditures								
State Water Contract	\$ 438.2	\$ 488.5	\$ 501.8	\$ 517.1	\$ 557.5	\$ 552.7	\$ 28.5	\$ 35.6
Supply Programs	121.9	101.4	103.0	119.1	47.5	45.4	17.7	(73.7)
Colorado River Power	42.4	59.6	49.0	61.5	45.4	46.5	1.9	(15.0)
Debt Service	293.7	331.7	321.5	351.9	332.8	355.3	20.2	3.4
Demand Management	62.4	58.2	54.5	59.1	59.1	60.7	0.8	1.7
Departmental O&M	293.8	294.6	295.4	302.7	309.8	316.2	8.1	13.4
Treatment Chemicals, Solids & Power	23.1	26.5	26.5	29.4	22.9	24.3	2.9	(5.1)
Other O&M	18.5	15.7	15.0	41.8	23.6	27.6	26.2	(14.2)
Sub-total Expenditures	1,294.0	1,376.3	1,366.7	1,482.6	1,398.5	1,428.6	106.4	(54.0)
Capital Investment Plan	316.4	259.9	222.0	341.0	281.9	346.8	81.1	5.8
Fund Deposits								
R&R and General Fund	36.7	95.0	45.0	125.0	45.0	60.0	30.0	(65.0)
Revenue Bond Construction	44.9	199.1	71.0	-	20.9	-	(199.1)	-
Water Stewardship Fund	0.0	4.2	-	3.0	-	-	(1.2)	(3.0)
Interest for Construction & Trust Funds	5.4	7.0	4.7	7.8	3.6	2.5	0.8	(5.4)
Increase in Required Reserves	27.6	62.6	-	57.1	44.5	61.0	(5.5)	3.9
Increase in Rate Stabilization Fund	-	-	-	-	-	8.0	-	8.0
Other Fund Activity	11.8	-	-	-	-	-	-	-
Sub-total Fund Deposits	126.4	367.9	120.7	192.9	114.0	131.5	(175.1)	(61.4)
TOTAL USES OF FUNDS	\$ 1,736.7	\$ 2,004.2	\$ 1,709.3	\$ 2,016.5	\$ 1,794.5	\$ 1,906.9	\$ 12.4	\$ (109.6)
SOURCES OF FUNDS								
Receipts								
Taxes	\$ 96.6	\$ 80.8	\$ 80.8	\$ 81.0	\$ 80.0	\$ 81.6	\$ 0.3	\$ 0.6
Annexations	0.7	1.0	1.0	1.0	1.0	1.0	-	-
Interest Income	23.9	37.2	29.1	41.4	18.0	18.7	4.2	(22.7)
Hydro Power	18.8	22.4	25.0	22.1	21.5	20.5	(0.2)	(1.6)
Fixed Charges (RTS & Capacity Charge)	135.3	154.4	154.4	171.3	170.2	185.7	16.9	14.4
Water Sales Revenue	1,011.1	1,199.9	1,023.1	1,331.6	1,155.4	1,228.9	131.7	(102.7)
Miscellaneous Revenue	31.6	8.8	27.0	13.2	18.2	19.5	4.4	6.3
Bond Proceeds and Reimbursements	342.5	384.0	248.0	-	268.0	99.2	(384.0)	99.2
Sub-total Receipts	1,660.3	1,888.4	1,588.4	1,661.7	1,732.4	1,655.2	(226.7)	(6.4)
Fund Withdrawals								
Water Transfer Fund	11.9	-	-	-	-	-	-	-
R&R and General Fund	36.7	95.0	45.0	125.0	45.0	60.0	30.0	(65.0)
Bond Funds for Construction	-	-	-	216.0	-	191.7	216.0	(24.3)
Water Stewardship Fund	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	11.5	-	-	-	-	-
Decrease in Rate Stabilization Fund	27.8	20.8	64.4	13.9	17.1	-	(6.9)	(13.9)
Sub-total Fund Withdrawals	76.4	115.8	120.9	354.9	62.1	251.7	239.1	(103.2)
TOTAL SOURCES OF FUNDS	\$ 1,736.7	\$ 2,004.2	\$ 1,709.3	\$ 2,016.5	\$ 1,794.5	\$ 1,906.9	\$ 12.4	\$ (109.6)

Totals may not foot due to rounding.

Table 7. June 30, 2012 Sources and Uses by Fund Based on the 2011/12 Approved Budget (dollars in millions)

Fiscal Year Ending June 30th, 2012 (\$ 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	1,343.0	59.6	-	174.7	1.2	4.2	25.2	79.2	329.7	291.0	33.8	343.4	1.0
USES OF FUNDS													
Expenditures													
State Water Contract	517.1	-	-	337.1	-	-	-	179.9	-	-	-	-	-
Supply Programs	119.1	-	-	119.1	-	-	-	-	-	-	-	-	-
Colorado River Power	61.5	-	-	61.5	-	-	-	-	-	-	-	-	-
Debt Service	351.9	2.6	-	14.1	-	-	-	-	335.3	-	-	-	-
Demand Management	59.1	-	-	59.1	-	-	-	-	-	-	-	-	-
Departmental O&M	302.7	-	-	302.7	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	29.4	-	-	29.4	-	-	-	-	-	-	-	-	-
Other O&M	41.8	7.0	-	34.8	-	-	-	-	-	-	-	-	-
Sub-total Expenditures	1,482.6	9.6	-	957.8	-	-	-	179.9	335.3	-	-	-	-
Capital Investment Plan	341.0	50.8	-	-	-	-	-	-	-	-	74.2	216.0	-
Fund Deposits													
R&R and General Fund	125.0	50.8	-	-	-	-	-	-	-	-	74.2	-	-
Revenue Bond Construction	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	3.0	-	-	-	-	3.0	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	7.8	-	-	-	-	-	-	-	-	-	-	7.8	0.0
Increase in Required Reserves	57.1	-	-	12.8	-	-	-	17.1	16.3	10.9	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Deposits	192.9	50.8	-	12.8	-	3.0	-	17.1	16.3	10.9	74.2	7.8	0.0
TOTAL USES OF FUNDS	2,016.5	111.2	-	970.6	-	3.0	-	197.0	351.6	10.9	148.5	223.8	0.0
SOURCES OF FUNDS													
Receipts													
Taxes	81.0	-	-	-	-	-	-	41.8	39.2	-	-	-	-
Annexations	1.0	-	-	-	-	-	-	1.0	-	-	-	-	-
Interest Income	41.4	2.0	-	6.0	0.0	0.2	0.8	2.9	11.2	9.4	1.1	7.8	0.0
Hydro Power	22.1	-	22.1	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	171.3	-	171.3	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,331.6	-	1,331.6	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	13.2	13.2	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Receipts	1,661.7	15.1	1,525.0	6.0	0.0	0.2	0.8	45.7	50.4	9.4	1.1	7.8	0.0
Fund Withdrawals													
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	125.0	50.8	-	-	-	-	-	-	-	-	74.2	-	-
Bond Funds for Construction	216.0	-	-	-	-	-	-	-	-	-	-	216.0	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	13.9	-	-	-	-	-	-	-	-	13.9	-	-	-
Sub-total Fund Withdrawals	354.9	50.8	-	-	-	-	-	-	-	13.9	74.2	216.0	-
TOTAL SOURCES OF FUNDS	2,016.5	65.9	1,525.0	6.0	0.0	0.2	0.8	45.7	50.4	23.3	75.3	223.8	0.0
Inter-Fund Transfers	-	55.2	(1,525.0)	954.6	(0.0)	2.8	(0.8)	151.4	301.2	(12.4)	73.1	-	-
End of Year Balance	1,181.0	59.6	-	187.5	1.2	7.1	25.2	96.3	346.0	288.0	33.8	135.2	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.

Table 8. June 30, 2013 Sources and Uses by Fund based on the 2012/13 Proposed Budget (dollars in millions)

Fiscal Year Ending June 30th, 2013 (\$ 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	1,141.0	59.6	-	164.7	1.2	-	25.2	90.3	333.1	195.1	33.8	236.9	1.0
USES OF FUNDS													
Expenditures													
State Water Contract	552.7	-	-	360.5	-	-	-	192.1	-	-	-	-	-
Supply Programs	45.4	-	-	45.4	-	-	-	-	-	-	-	-	-
Colorado River Power	46.5	-	-	46.5	-	-	-	-	-	-	-	-	-
Debt Service	355.3	2.6	-	9.2	-	-	-	-	343.5	-	-	-	-
Demand Management	60.7	-	-	60.7	-	-	-	-	-	-	-	-	-
Departmental O&M	316.2	-	-	316.2	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	24.3	-	-	24.3	-	-	-	-	-	-	-	-	-
Other O&M	27.6	7.3	-	20.3	-	-	-	-	-	-	-	-	-
Sub-total Expenditures	1,428.6	9.9	-	883.0	-	-	-	192.1	343.5	-	-	-	-
Capital Investment Plan	346.8	18.0	-	-	-	-	-	-	-	-	42.0	286.8	-
Fund Deposits													
R&R and General Fund	60.0	18.0	-	-	-	-	-	-	-	-	42.0	-	-
Revenue Bond Construction	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	2.5	-	-	-	-	-	-	-	-	-	-	2.4	0.0
Increase in Required Reserves	61.0	-	-	11.4	-	-	-	5.3	12.6	31.8	-	-	-
Increase in Rate Stabilization Fund	8.0	-	-	-	-	-	-	-	-	8.0	-	-	-
Sub-total Fund Deposits	131.5	18.0	-	11.4	-	-	-	5.3	12.6	39.8	42.0	2.4	0.0
TOTAL USES OF FUNDS	1,906.9	46.0	-	894.4	-	-	-	197.4	356.1	39.8	83.9	289.3	0.0
SOURCES OF FUNDS													
Receipts													
Taxes	81.6	-	-	-	-	-	-	41.3	40.4	-	-	-	-
Annexations	1.0	-	-	-	-	-	-	1.0	-	-	-	-	-
Interest Income	18.7	1.0	-	3.0	0.0	-	0.4	1.6	5.9	3.7	0.6	2.4	0.0
Hydro Power	20.5	-	20.5	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	185.7	-	185.7	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,228.9	-	1,228.9	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	19.5	19.5	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	99.2	-	-	-	-	-	-	-	4.1	-	-	95.1	-
Sub-total Receipts	1,655.2	20.5	1,435.2	3.0	0.0	-	0.4	43.9	50.3	3.7	0.6	97.6	0.0
Fund Withdrawals													
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	60.0	18.0	-	-	-	-	-	-	-	-	42.0	-	-
Bond Funds for Construction	191.7	-	-	-	-	-	-	-	-	-	-	191.7	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Withdrawals	251.7	18.0	-	-	-	-	-	-	-	-	42.0	191.7	-
TOTAL SOURCES OF FUNDS	1,906.9	38.6	1,435.2	3.0	0.0	-	0.4	43.9	50.3	3.7	42.5	289.3	0.0
Inter-Fund Transfers	-	7.4	(1,435.2)	891.5	(0.0)	-	(0.4)	153.5	305.8	36.1	41.4	-	-
End of Year Balance	1,020.8	59.6	-	176.1	1.2	-	25.2	95.6	345.7	234.9	33.8	47.6	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.