THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

COMMITTEE ITEM

- ***Executive Committee***

7/24/2012 Committee Meeting

7f

Subject

Transmittal of biennial budget and General Manager's Business Plan for FY 2012/13 and 2013/14

Executive Summary

The FY 2012/13 and FY 2013/14 biennial budget marks Metropolitan's final transition to a formal biennial budget, providing the Board and staff with the means to address budgetary planning over a longer horizon than the traditional annual budget process. The budget process provides an opportunity to align objectives and actions in each department and group level business plans to Metropolitan's longer-term mission, values, and priorities and the needs of our member agencies. Each department is required to identify the extent to which its proposed budget supports the strategic priorities as outlined in the General Manager's Business Plan. This letter presents the General Manager's Business Plan, biennial budget summary, and five-year financial forecast. The budget, that includes chapters on each department and the Capital Investment Plan, can be found on Metropolitan's website.

Description

The FY 2012/13 and FY 2013/14 biennial budget marks Metropolitan's final transition to a formal biennial budget, providing the Board and staff with the means to address budgetary planning over a longer horizon than the traditional annual budget process. The biennial budget reflects board adoption of the water rates and charges to be effective on January 1, 2013 and January 1, 2014.

The biennial budget reflects input from and participation by the Board, member agencies, and the public over a four-month period. The Board, Finance and Insurance (F&I) Committee, and member agencies reviewed and evaluated Metropolitan's biennial budget and the required rates necessary to support the budget beginning with a presentation at the F&I Committee meeting on January 9, 2012. Subsequently, the Board held two board workshops on January 23 and February 13, as well as discussed the budget and rates and charges options at the February 28 Executive Committee. Finally, a public hearing on proposed rates and charges was held on March 12, 2012, where member agencies and members of the public addressed the F&I Committee and provided comments. The budget and water rates and charges adopted by the Board on April 10, 2012 provide for the following priorities:

- Funding for the Capital Investment Plan (CIP) of $257 million in FY 2012/13 and $295 million in FY 2013/14. The CIP is carefully prioritized to fund projects that primarily focus on necessary refurbishment and replacement of aging infrastructure that are critical to maintaining water quality, reliability, and worker safety and continues to reflect the deferral of facility expansion and other projects that neither enhance reliability nor provide an adequate return on investment.
- Funding for Metropolitan to continue rebuilding storage reserves utilizing storage agreements in the region, the Central Valley, and the Colorado River system if current year supplies exceed demands. This reduces the likelihood that Metropolitan will need to declare a Water Supply Allocation in coming years.
- Full funding of conservation programs at $20 million annually to help ensure that our member agencies and retail water agencies meet the 20 percent by 2020 goal of reduced per capita water consumption.
- Full funding of incentives for existing Local Resources Program and Groundwater Recovery Program projects. By FY 2016/17, it is anticipated that additional projects, which are eligible for incentives based on project cost, will come on-line to meet the 2010 Integrated Resources Plan goals for local resource development.

- Continued focus on the Sacramento and San Joaquin Bay-Delta with increased funding to aggressively pursue near-term and long-term Bay-Delta solutions that will help ensure a greater degree of water supply reliability for Metropolitan's State Water Project supplies. Funding is directed at technical evaluations and science modeling habitat restoration surveys and studies, and environmental documentation activities to support the Bay Delta Conservation Plan and the Delta Habitat Conservation and Conveyance Program.
- Initiate funding of Other Post-Employment Benefits (OPEB) by setting aside $5 million in FY 2012/13, and increasing that to $10 million in FY 2013/14. Increases of $5 million each year through FY 2016/17 are proposed to reach full funding of the actuarial required contribution for OPEB.
- O&M expenditures were reduced in each fiscal year by eliminating 20 positions, eliminating the funding for 28 additional positions, and reducing debt administration costs, primarily due to reduced liquidity costs. Reserves are anticipated to stay close to the minimum level throughout the five-year planning horizon and projected rate increases in later years are expected to be in the 3 percent to 5 percent range.

Additional detail regarding these and other priorities is contained in the General Manager's Business Plan summary (**Attachment 1**).

SUMMARY OF BUDGETED EXPENDITURES

With water sales trending below historic averages, the budget reflects water sales of 1.7 million acre-feet, about 300 thousand acre-feet below what is forecast in Metropolitan's Integrated Resources Plan (IRP). The FY 2012/13 budget expenditures shown in Table 1 total $1.68 billion, including operating expenditures, capital expenditures, and debt service, an increase of $4.3 million (0.3 percent) as compared to the FY 2011/12 Revised 1.8 MAF Budget. Similarly, the FY 2013/14 budget expenditures total $1.71 billion, an increase of $23.1 million (1.4 percent) as compared to the FY 2012/13 budget. This reflects a careful prioritization of expenditures and programs in light of these reduced water sales projections.

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

	2010/11 Actual	2011/12 Revised 1.8 MAF Budget	2011/12 Projected	2012/13 Provisional Budget	2012/13 Budget	2013/14 Budget	2012/13 Budget vs. 2011/12 Revised 1.8 MAF Budget	2013/14 Budget vs. 2012/13 Budget
Expenditures								
State Water Contract	$ 491.9	$ 557.5	$ 508.3	$ 552.7	$ 593.5	$ 564.0	$ 36.0	$ (29.4)
Supply Programs	101.5	47.5	64.0	45.4	36.3	37.0	(11.2)	0.7
Colorado River Power	46.9	45.4	33.0	46.5	36.2	24.9	(9.2)	(11.3)
Debt Service	314.0	332.8	333.3	355.3	341.2	343.4	8.5	2.2
Demand Management	48.2	59.1	55.1	60.7	53.2	53.6	(5.9)	0.4
Departmental O&M	296.7	309.8	317.9	316.2	312.4	326.3	2.6	14.0
Treatment Chemicals, Solids & Power	23.2	22.9	32.2	24.3	25.5	26.4	2.6	0.9
Other O&M	10.7	23.6	22.8	27.6	29.2	37.5	5.6	8.3
Sub-total Expenditures	**1,333.1**	**1,398.5**	**1,366.5**	**1,428.6**	**1,427.4**	**1,413.3**	**28.9**	**(14.2)**
Capital Investment Plan	**250.4**	**281.9**	**192.5**	**346.8**	**257.3**	**294.6**	**(24.7)**	**37.3**
TOTAL Expenditures	**$ 1,583.5**	**$ 1,680.5**	**$ 1,558.9**	**$ 1,775.5**	**$ 1,684.7**	**$ 1,707.9**	**$ 4.3**	**$ 23.1**

Totals may not foot due to rounding.

Significant factors driving the budget include:

a. **State Water Contract (SWC) Costs** – State Water Project (SWP) costs are forecasted to stabilize and largely reflect anticipated changes 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 1.26 million acre-feet in the FY 2012/13, of which 111 thousand acre-feet are received via exchange, dropping to 1.14 million acre-feet in FY 2013/14, of which 101 thousand acre-feet are received via exchange. Mirroring those deliveries, Metropolitan's SWC costs are estimated to be $593.5 million in FY 2012/13 dropping to $564.0 million in FY 2013/14. The primary driver of the

$28.5 million decrease in FY 2013/14 as compared to FY 2012/13 is a $40.4-million decrease in SWC power costs are due primarily to lower SWP deliveries and an overall reduction in the total unit cost of SWC power of $15 per acre-foot to about $221 per acre-foot in FY 2013/14.

b. **Water Supply Programs** – The estimated cost of water supply programs is expected to average $37 million per year. These programs include between $12 million and $14 million each for the IID/MWD conservation agreement and Colorado River programs and about $5 million each for Central Valley Storage Programs and the PVID Land Management Program in each of the two fiscal years.

c. **Colorado River Power** – CRA power costs are projected to be $36.2 million and $24.9 million based on pumping 728 TAF and 890 TAF at Whitsett Intake Pumping Plant respectively in FY 2012/13 and FY 2013/14. The $11.2 million decrease in 2013/14 despite the increase in pumping is a result of the expected use of exchange energy in FY 2013/14.

d. **Debt Service** – As Metropolitan continues to fund its ongoing Capital Investment Plan (CIP), debt service will rise modestly during the biennium. It is projected that debt service will be $341.2 million in FY 2012/13 and $343.4 million in FY 2013/14.

e. **Demand Management** – Metropolitan financial assistance to its member agencies for the development of local water recycling and groundwater is budgeted at $33.2 million in FY 2012/13 and $33.6 million in FY 2013/14, and is expected to produce local water supplies of about 220 thousand acre-feet in FY 2012/13 and 231 thousand acre-feet in 2013/14. Conservation program budgets are maintained at $20 million in each fiscal year.

f. **Operations and Maintenance (O&M) Costs** – O&M costs total $367.1 million in FY 2012/13, $10.8 million higher than the FY 2011/12 Revised 1.8 MAF budget. The primary drivers for this increase are $5 million to begin funding other post-employment benefits (OPEB), a $2.7 million increase in variable treatment costs related primarily to higher chemical commodity prices and higher electricity rates, and $1.4 million for initiation of the Personal Computer Replacement Program. O&M costs for FY 2013/14 total $390.3 million, $23.2 million higher than the FY 2012/13 budget. The primary drivers for this increase are $13.2 million in merit increases for eligible employees, a $5-million increase for funding of other post-employment benefits (OPEB), a $2.1-million increase to complete the PC Replacement Program, and a $0.9-million increase in variable treatment costs due to modest inflationary pressure on chemical commodity prices and electricity rates. Neither the FY 2012/13 nor the FY 2013/14 budget includes any base salary cost-of-living increases (COLA). The budgets for both FY 2012/13 and FY 2013/14 do assume, however, that over 100 regular positions will be held vacant to offset these merit increases. The result is that no more than 1,780 regular employee positions will be filled during the biennium.

g. **CIP Expenditures** – The CIP is estimated to be $257.3 million in FY 2012/13 and $294.6 million in FY 2013/14. The CIP was carefully prioritized to fund projects that primarily focus on necessary refurbishment and replacement of aging infrastructure that are critical to maintaining water quality, reliability, and worker safety and continues to reflect the deferral of facility expansion and other projects that neither enhance reliability nor provide an adequate return on investment. As a result, capital expenditure projections were reduced by $165 million over the biennial budget period. Over the five-year period from FY 2011/12 through FY 2015/16, capital expenditure projections have been reduced by $182 million. Driving these reductions are the rescheduling and reassessment of a number of demand and capacity-related projects including the Mills Capacity Upgrade, the Jensen Solids Handling Facilities, the Weymouth Oxidation Retrofit Program, San Diego Pipeline No. 6, the Central Pool Augmentation Program, and the final tunnel connection on the Perris Valley Pipeline South Reach.

Additional detail regarding Metropolitan's budget is contained in the Budget Summary (**Attachment 2**).

SUMMARY OF BUDGETED RECEIPTS

As shown in Table 2, the FY 2012/13 budgeted receipts are expected to total $1.66 billion. This includes water sales receipts of $1.18 billion accounting for 71 percent of receipts. Budgeted receipts for FY 2013/14 are expected to total $1.72 billion, of which $1.24 billion, or about 72 percent, come from water sales revenues. Receipts for both fiscal years are based on projected water sales of 1.7 million acre-feet and include an increase in base rates and charges averaging 5 percent, effective January 1, 2013 and January 1, 2014.

Table 2. Biennial Budget Summary – Total Receipts (Dollars in Millions)

	2010/11 Actual	2011/12 Revised 1.8 MAF Budget	2011/12 Projected	2012/13 Provisional Budget	2012/13 Budget	2013/14 Budget	2012/13 Budget vs. 2011/12 Revised 1.8 MAF Budget	2013/14 Budget vs. 2012/13 Budget
Revenues								
Taxes	$ 87.3	$ 80.0	$ 80.0	$ 81.6	$ 81.6	$ 80.1	$ 1.6	$ (1.5)
Annexations	0.6	1.0	1.0	1.0	1.0	1.0	-	-
Interest Income	20.0	18.0	18.2	18.7	13.7	14.1	(4.3)	0.3
Hydro Power	22.1	21.5	26.0	20.5	23.6	20.9	2.1	(2.6)
Fixed Charges (RTS & Capacity Charge)	153.5	170.2	170.2	186.9	174.4	182.1	4.1	7.8
Water Sales Revenue	995.6	1,155.4	1,069.5	1,228.3	1,183.7	1,240.7	28.3	57.0
Miscellaneous Revenue	68.2	18.2	35.9	19.5	6.0	6.1	(12.2)	0.1
Bond Proceeds and Reimbursements	288.2	268.0	20.0	99.2	179.3	178.6	(88.7)	(0.6)
TOTAL Receipts	**$ 1,635.6**	**$ 1,732.4**	**$ 1,420.8**	**$ 1,655.7**	**$ 1,663.3**	**$ 1,723.7**	**$ (69.0)**	**$ 60.4**

Totals may not foot due to rounding.

Water sales for the last three years have been trending below historic averages. Therefore, the biennial budget has adopted a more conservative water sales projection of 1.7 million acre-feet for both fiscal years. In order to mitigate for the rate impact of these lower water sales projections, expenditures in the FY 2012/13 budget were reduced $90.8 million as compared to the FY 2012/13 provisional budget previously approved by the Board (refer to Table 1).

Other revenues include readiness-to-serve charge revenues of $144 million and $154 million, revenues from the capacity charge of $30.4 million and $28.1 million, and tax and annexation revenues of $82.6 million and $81.1 million in FY 2012/13 and FY 2013/14, respectively. Interest earnings are expected to be $13.7 million and $14.1 million, respectively, based on an average interest rate of about 1.5 percent.

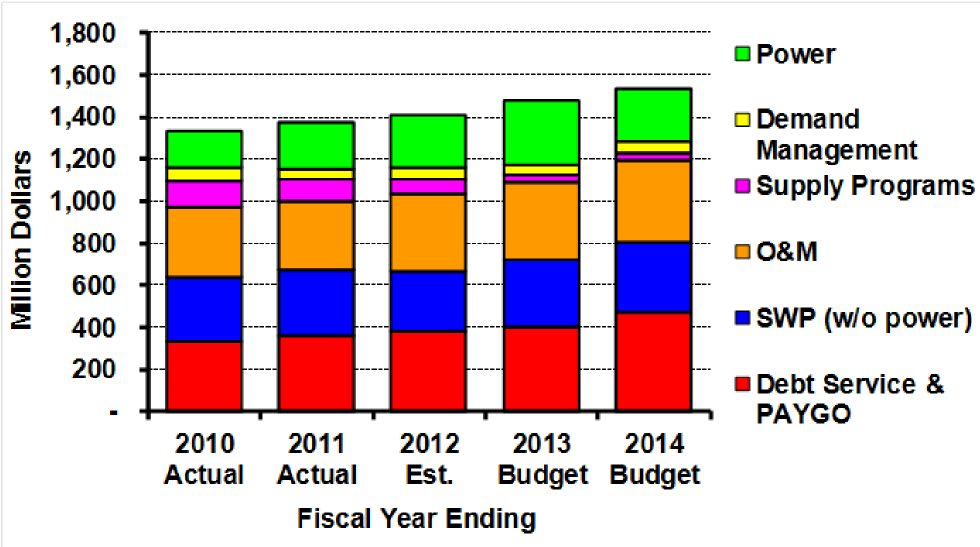
To meet the ongoing funding requirements of the CIP, Metropolitan plans to issue $180 million of commercial paper in FY 2012/13 and an additional $20 million in FY 2013/14. In addition, Metropolitan plans to issue $160 million of fixed rate bonds in 2013/14. Any remaining CIP funding requirements will 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 about 1.6 times in FY 2012/13 increasing to 1.9 times coverage in FY 2013/14. This compares favorably to a low of 1.4 times in FY 2010/11. Metropolitan's fixed charge coverage is expected to be about 1.2 times in FY 2012/13 and 1.3 times in FY 2013/14, which meets the board-adopted objective of 1.2 times coverage, increasing from 0.9 times in 2010/11.

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 FY 2009/10 actual through the FY 2013/14 proposed budget. From FY 2009/10 through FY 2013/14, expenditures are forecasted to increase by about $208 million, or about 3.7 percent annually. The primary cost drivers during this period are a $138-million increase in debt service and PAYGO expenditures, an $82-million increase in power costs, and a $55-million increase in departmental O&M partially offset by an $85-million decrease in supply program costs.

Figure 1. ExpenditureTrend



Additional detail regarding Metropolitan's five-year budget projections is contained in the Five-Year Financial Forecast (**Attachment 3**).

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 on June 30, 2013 is estimated to be about $220.8 million, about $22.8 million over the minimum target. Similarly, the total balance of these funds on June 30, 2014 is estimated to be about $204.6 million, about $2.5 million over the minimum target. Total restricted and unrestricted reserves are estimated to be $965.8 million on June 30, 2013 and $981.7 million on June 30, 2014.

Gary Breaux *Chief Financial Officer*	7/20/2012 *Date*
Jeffrey Kightlinger *General Manager*	7/20/2012 *Date*

Attachment 1 – General Manager's Business Plan

Attachment 2 – Budget Summary

Attachment 3 – Five-Year Financial Forecast

Ref# cfo12619818

General Manager's Business Plan For Fiscal Year 2012/13

The adopted biennial budget approved by the Board on April 10, 2012, has been finalized, will be posted to Metropolitan's web-site, and hard copies will be available in the Office of the Executive Secretary. The key strategic priorities that the Office of the General Manger will be focused on for the period covered by the biennial budget are addressed below. An update and any revisions to those strategic priorities will be provided at the close of the 2012/13 fiscal year.

Strategic Priority #1: Complete the Bay-Delta Conservation Plan (BDCP) and the associated Environmental Impact Report/Environmental Impact Statement

Metropolitan staff will continue to provide leadership in the BDCP process to restore the reliability of the State Water Project (SWP), with the goal to complete the public draft and final BDCP and associated Environmental Impact Report/Environmental Impact Statement (including Record of Decision and Notice of Determination) and the project finance and cost allocation plans by the end of this period.

In addition, staff will continue to aggressively pursue near-term Bay-Delta actions that will ensure a greater degree of water supply reliability for Metropolitan's State Water Project supplies. These actions will include identifying and developing early-action habitat projects that will satisfy current regulatory obligations and contribute toward the BDCP. Completion of the environmental review and planning process in the upcoming year is targeted for the Yolo Ranch Project that would provide both delta smelt and salmon habitat.

Efforts will also be targeted toward finalization of the State Department of Water Resources' Delta Flood Emergency Preparedness, Response and Recovery Plan by December 2012 which has been coordinated with Metropolitan. This plan is expected to include measures to support resumption of State Water Project operations in the Delta at an earlier point in time in the event of catastrophic failure of Delta levees.

Finally, staff will continue to support furthering the scientific understanding of the Sacramento-San Joaquin Bay Delta system, through technical studies and published scientific reports, in order to help support solutions to environmental protection and water supply reliability challenges.

Strategic Priority #2: Conclude Rate Refinement process

Metropolitan's current rate structure relies heavily on volumetric water charges, and as a result approximately 82% of revenues are variable while close to 80% of all costs are fixed. This mismatch between revenues and costs has resulted in declining financial reserves, lower debt coverage ratios that do not meet our financial policies and significant rate hikes due to lower water sales. The variability in revenues has also been a concern raised by the bond rating agencies and investors. Also, 24 of our customers entered into ten-year purchase orders with Metropolitan in 2002 that will expire at the end of calendar year 2012, and a decision will need to be made on their continued use in the future.

To address these concerns staff will look at the current rate structure and purchase order process with the following goals:

- Improve revenue stability and certainty;
- Determine how best to meet water management objectives through the rate structure;
- Determine when Tier 2 rates will apply;
- Establish a rate and program for replenishment sales when water is available; and
- Develop additional fixed revenues with particular emphasis on the water treatment surcharge and fixing the ad valorem tax rate at its current rate.

Meetings will be held with the member agencies to review alternatives and receive their input. In addition, throughout the process the Finance and Insurance Committee will receive regular updates and workshops will be held, as needed, to receive direction and input from the Board.

A presentation on recommended changes to the rate structure and rate administration will be presented to the Finance and Insurance Committee by October 2012.

Strategic Priority #3: Employee Development

Metropolitan's reliability depends on the knowledge and skills of a dedicated workforce. Strategic initiatives will focus on both management and employee development to meet the changes in the workplace resulting from increased retirements and changing skills requirements. We will continue preparing new employees and managers to work effectively in their new roles, and will focus on preparing the organization to address future workforce needs by: (a) assessing current talent and potential retirement gaps and implementing effective succession planning tools to address them; and (b) aggressively cross-train staff so they are capable of stepping into vacancies and meeting ever-changing work and compliance requirements.

Plans are underway to complete the comprehensive succession planning effort for all groups during this period. HR will develop better tools and processes to strategically align management and the workforce with the business plan priorities and to the changing needs of Metropolitan during the upcoming fiscal year. Expanded opportunities for learning and expanded internship and apprenticeship programs will build specialized internal staff capabilities.

Finally, expanding knowledge-capture processes for key technical and management positions will be implemented to help staff record the experience of those that came before them.

Strategic Priority #4: Infrastructure Reliability

Metropolitan's infrastructure system includes the Colorado River Aqueduct, over 800 miles pipelines with diameters up to 20 feet, five water treatment plants with a total capacity of 2.5 billion gallons per day, sixteen hydropower plants, and nine reservoirs, including Diamond Valley Lake. These assets have a replacement value of approximately $15 billion dollars, not including environmental mitigation and right-of-way acquisition.

Metropolitan staff will continue to maintain a reliable infrastructure system for the delivery of high-quality water to meet the current and future needs of its service area. Our water delivery and treatment system is critical in providing public health protection, water supply reliability, economic development, and a high quality of life for consumers. With the majority of Metropolitan's infrastructure greater than 50 years old, it is critical that the necessary capital investments be made to extend the reliable service life over the next 50 years to ensure Metropolitan continues to maintain full capability to deliver water under normal and emergency conditions.

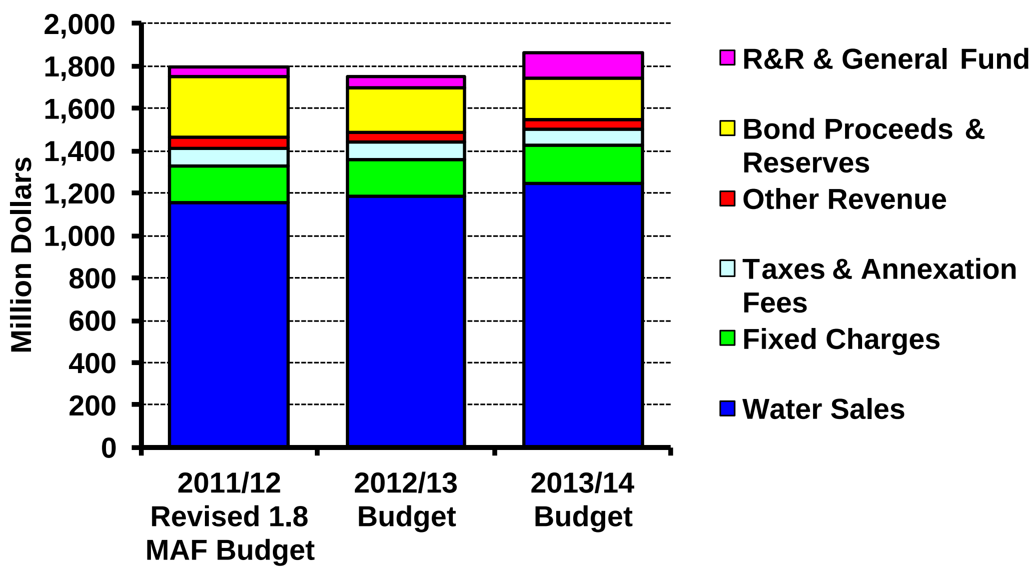
Under the Capital Investment Plan, Metropolitan has budgeted more than $350 million over the next two fiscal years to enhance reliability of the conveyance and distribution system and all five water treatment plants. The aging conveyance and distribution system requires field investigations, facility repair and replacement, and site improvements to comply with current operational, seismic, safety and regulatory requirements. The treatment plants require upgrades so that they may continue to operate efficiently and provide Metropolitan's customers with high water quality that meets increasingly stringent regulatory standards. In addition, Metropolitan is proactively supporting the operations and maintenance of the State Water Project with fabrication and coating services and engineering and operations support to expedite repairs and upgrades in the most cost-effective manner. Finally, key investments will be made to improve security protection and emergency response capability at all facility sites.

Budget Summary

The biennial budget includes a discussion of sources and uses of funds. The budget is developed and monitored on a modified accrual basis. This means that revenues and expenses are recognized in the period they are earned and incurred regardless of whether cash has been received or disbursed. Differences between the basis of budgeting and the financial statements are minimal.

Depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. The modified-accrual basis of accounting is in accordance with Generally Accepted Accounting Principles (GAAP) and provides a better match of revenues and expenses for budgeting and reporting.

Figure 1. Sources of Funds



SOURCES OF FUNDS

Estimated revenues 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) are projected to be $1.48 billion for fiscal year 2012/13 and $1.55 billion for fiscal year 2013/14. For 2012/13 this is $19.7 million more than the 2011/12 revised budget and for 2013/14 this is $61.1 million more than 2012/13. The increase in revenues is due to increases in water rates and charges in 2012, 2013 and 2014. 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. A description of each revenue source is included in the Glossary of Terms.

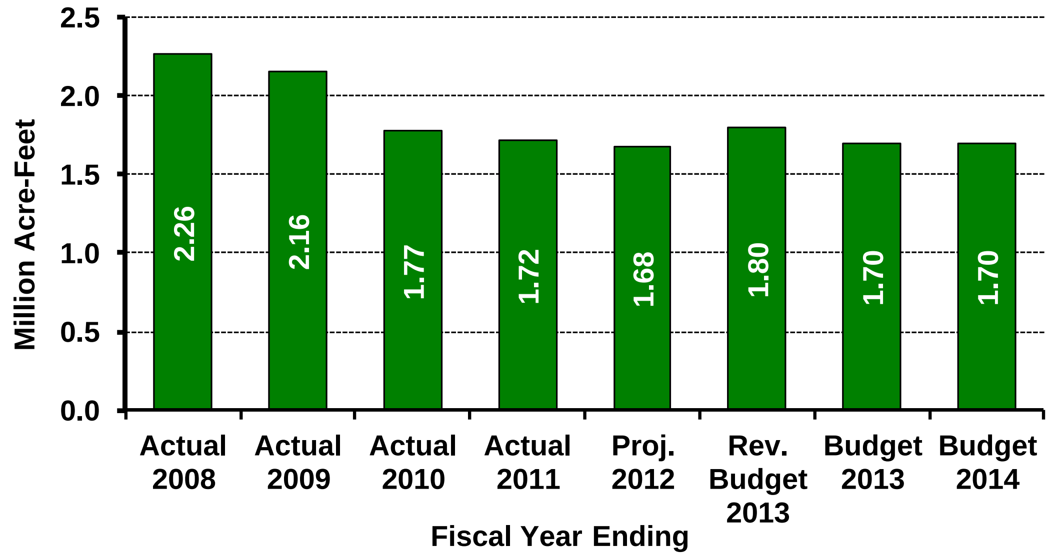
Water Sales

Revenues from water sales are budgeted at $1,183.7 million in 2012/13 and $1,240.7 million in 2013/14 and are based on rates and charges adopted by the Board for January 1, 2012, January 1, 2013 and January 1, 2014.

Water sales for both 2012/13 and 2013/14 are estimated to be 1.70 million acre-feet (MAF) during the July through June fiscal year period.

Biennial Budget Summary
FY 2012/13 & 2013/14

Figure 2. Water Sales Trend



The 2012/13 fiscal year water sales include 1.52 MAF of firm sales, zero replenishment sales, zero agricultural sales, and 185 thousand acre-feet (TAF) of exchange sales. Treated sales are estimated to be 973 TAF or 57 percent of total sales in 2012/13. The 2013/14 fiscal year water sales include 1.50 MAF of firm sales, zero replenishment sales, zero agricultural sales, and 198 TAF of exchange sales. Treated sales are estimated to be 973 TAF or 57 percent of total sales in 2013/14. 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) are estimated to be $82.6 million in 2012/13 and $81.1 million in 2013/14.

Fixed Charges

The fixed charges are comprised of the Capacity Charge and Readiness-to-Serve Charge. In 2012/13 these charges are estimated to generate $30.4 million and $144.0 million, respectively. In 2013/14 these charges are estimated to generate $28.1 million and $154.0 million, respectively. In total this represents a $4.1-million increase from the 2011/12 to the 2012/13 and a $7.8-million increase from the 2012/13 to the 2013/14 budget.

Other Revenue

Interest earnings are estimated to total $13.7 and $14.1 million for 2012/13 and 2013/14 respectively (including trust accounts and construction funds).

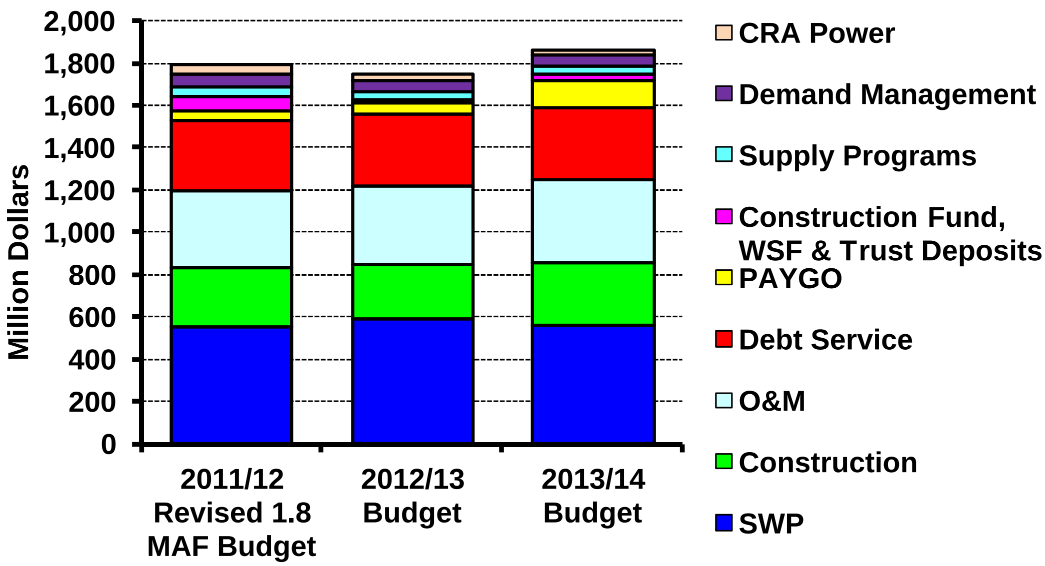
Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales are estimated to be $23.6 million for 2012/13 and $20.9 million for 2013/14.

Biennial Budget Summary
FY 2012/13 & 2013/14

Other Sources

To meet the on-going funding requirements of the CIP, Metropolitan plans to issue $180 million of commercial paper in 2012/13 and roll an additional $20 million in 2013/14. In addition, $160 million of fixed rate bonds are budgeted for 2013/14. These bonds are expected to generate $351.8 million in bond proceeds, after about $2.1 million to cover the cost of issuance and $6.1 million to fund reserves. The remaining CIP funding requirements will be met from current operating funds (i.e., PAYGO from the R&R and General Fund). In 2012/13, a total of $1.75 billion will be available for expenditures and other obligations and in 2013/14 this figure will increase to $1.87 billion.

Figure 3. Uses of Funds



USES OF FUNDS

Total uses of funds are $1.75 billion for 2012/13 and $1.87 billion for 2013/14. Figure 3 shows the breakdown of expenditures and other obligations that make up the Uses of Funds for 2012/13 and 2013/14.

Colorado River Aqueduct Power

CRA power costs are projected to be $36.2 million and $24.9 million based on pumping 727 TAF and 890 TAF at Whitsett Intake Pumping Plant, respectively, in 2012/13 and 2013/14. 2013/14 is $11.2 million lower despite the increase in pumping as a result of the expected use of exchange energy in 2013/14.

State Water Contract

State Water Contract (SWC) expenditures are budgeted at $593.5 million for 2012/13 and $564.0 million in 2013/14. This is based on total deliveries of 1.26 MAF for 2012/13, of which 111 TAF are received via exchange, and 1.14 MAF for 2013/14, of which 101 TAF are received via exchange.

SWC power costs are expected to be $270.7 million for 2012/13 and $230.3 million for 2013/14 and include the cost of pumping 1.15 MAF and 1.04 MAF, respectively.

For 2012/13 the average total unit cost of SWC power is expected to be about $236 per acre-foot, which includes $61 per acre-foot for fixed power costs and $175 per acre-foot for variable pumping costs. For 2013/14 the average total unit cost of SWC power is expected to be about $221 per acre-foot, which includes $29 per acre-foot for fixed power costs and $192 per acre-foot for variable pumping costs.

SWC minimum operations, maintenance, power, and replacement charges are estimated to increase $5.1 million to $184.6 million in 2013/14. Capital charges are expected to increase $5.9 million to $149.2 million in 2013/14.

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 water-recycling projects. Recycling projects that receive Metropolitan contributions are expected to produce 162 TAF of recycled water, principally for landscape irrigation, groundwater recharge, and industrial uses in 2012/13 and 169 TAF in 2013/14. Metropolitan is expected to spend $24.7 million in 2012/13 and $24.9 million on these efforts in 2013/14.

Metropolitan has also entered into agreements to provide financial assistance to projects to recover contaminated groundwater. These groundwater recovery projects are expected to produce about 58 TAF in 2012/13 at a cost to Metropolitan of $8.5 million. In 2013/14 groundwater recovery projects are expected to produce about 62 TAF at a cost to Metropolitan of $8.7 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 2012/13 and 2013/14 funding for CCP has been budgeted at $20.0 million per year.

OPERATIONS AND MAINTENANCE

The 2012/13 operations and maintenance (O&M) budget, including operating equipment purchases, is estimated to be $367.1 million. This is $10.8 million higher than the 2011/12 Revised 1.8 MAF budget of $356.3 million presented to the Board in April 2011. The 2013/14 O&M budget is $390.2 million, an increase of $23.1 million as compared to the 2012/13 budget. Table 1 summarizes the O&M budget by expenditure type. A more detailed discussion of significant factors impacting the O&M budgets follows Table 1.

Biennial Budget Summary
FY 2012/13 & 2013/14

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

	2011/12 Revised 1.8 MAF Budget	2012/13 Provisional Budget	2012/13 Budget	2013/14 Budget	2012/13 Provisional Budget vs. 2012/13 Budget	2012/13 Budget vs. 2013/14 Budget
Salaries & Benefits *	225,554,800	229,248,400	223,482,200	235,964,300	(5,766,200)	12,482,100
Chemicals, Solids, and Power **	22,891,400	24,281,700	25,512,700	26,409,500	1,231,000	896,800
Outside Services	40,118,700	38,868,200	43,028,100	42,828,400	4,159,900	(199,700)
Materials & Supplies ***	22,278,961	48,106,900	22,598,950	24,263,112	(25,507,950)	1,664,162
Cargill & OPEB	500,000	-	5,000,000	10,000,000	5,000,000	5,000,000
Other	37,470,539	20,187,400	40,408,450	43,628,188	20,221,050	3,219,738
Operating Equipment	7,489,400	7,344,700	7,041,600	7,124,600	(303,100)	83,000
Total	**356,303,800**	**368,037,300**	**367,072,000**	**390,218,100**	**(965,300)**	**23,146,100**
Total Budgeted Positions	1,923	1,921	1,908	1,904	(13)	(4)

* Includes Overhead Credit for Construction.
** Costs associated with treatment plants only.
*** Without chemicals associated with treatment plants.

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2012/13 Revised O&M Budget

The proposed 2012/13 O&M budget includes $367.1 million for labor and benefits, water treatment chemicals, power, and solids handling, materials and supplies, professional services, and operating equipment purchases. This is $10.8 million higher than the 2011/12 Revised 1.8 MAF budget of $356.3 million reviewed by the Board in April 2011 due primarily to initial funding of Metropolitan's Other Post-Employment Benefits (OPEB) obligation; variable treatment costs; initiation of the PC Replacement Program; promotion of key initiatives and legal costs related to the Bay-Delta; and increased litigation costs related to water quality, employment, and water rates.

The proposed 2012/13 budget is $1.0 million lower than the provisional 2012/13 budget of $368.0 million approved by the Board in April 2011 due primarily the elimination of 20 positions and the unfunding of 28 positions.

Salaries and Benefits – Labor costs, not including those charged to construction, are $223.5 million. Although the 2012/13 budget assumes no across-the-board salary increases, consistent with the bargaining unit contracts approved by the Board, overall O&M labor is $2.1 million lower than the Revised 1.8 MAF 2011/12 budget. This decrease reflects an effort by management at reducing positions as well as closely monitoring future vacancies for potential elimination. The O&M budget also reflects $1.6 million for merit increases for eligible employees and a $0.9-million increase in overtime for planned shutdown support and an increase in the construction overhead applied as a credit reducing O&M labor by $4.8 million.

The total personnel complement for 2012/13 is 1,908 budgeted positions, including 25 agency and district temporary full-time equivalents (FTEs), and reflects a decrease of 13 regular positions from the 2011/12 budget. Total regular budgeted employee positions are 137 positions below the 2008/09 budget. The proposed 2012/13 budget assumes a vacancy rate of approximately 2.5 percent. Although this is slightly less than the 3.2 percent assumed for the 2011/12 budget, 28 regular employee positions are held unfunded in lieu of a vacancy rate. The value of these 10 positions is equivalent to an overall vacancy rate of about 4.5 percent.

Other O&M – As a result of reduced revenues from water sales, initial funding of Metropolitan's OPEB obligation to its current and future retirees was eliminated from the Revised 1.8 MAF 2011/12 budget. The proposed 2012/13 budget includes $5 million to renew that commitment. Consistent with Metropolitan's IT Strategic Plan, the proposed 2012/13 budget includes $1.4 million to initiate replacement of outdated desktop workstations that are at the end of their anticipated useful life as part of the two-year PC Replacement Program. This program was deferred one year beyond the planned refresh cycle to mitigate budget increases, but now needs to proceed as many computers will be approximately six years old by the time of replacement. The General Manager's costs in support of Bay-Delta activities for near-term and long-term activities and the General Counsel's legal costs related to water quality, employment, and water rates are expected to increase by $2.2 million. Chemicals, solids, and power reflect the cost of the water treatment process and is anticipated to increase by $2.7 million in 2012/13 driven primarily by an overall increase in chemical unit commodity prices, increased treated water volumes, higher electricity rates, and refined assumptions on solids removal.

2013/14 O&M Budget

The proposed 2013/14 O&M budget is $390.3 million, an increase of $23.2 million as compared to the 2012/13 budget. This is primarily due to merit increases for eligible employees, an increase in funding of OPEB, variable treatment costs, and completion of the PC Replacement Program.

Biennial Budget Summary
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Salaries and Benefits – The 2013/14 O&M labor budget is about $12.5 million higher than the 2012/13 budget driven primarily by $13.2 million in merit increases for eligible employees partially offset by an increase in the construction overhead applied as a credit reducing O&M labor by $0.4 million and reductions in overtime, agency temporary, and district temporary employees.

The total budgeted personnel complement for 2013/14 is further reduced by four positions to 1,904 positions, including 23 agency and district temporary FTEs. The proposed 2013/14 budget assumes a vacancy rate of approximately 2.9 percent. The 2013/14 budget retains 24 regular employee positions held unfunded in lieu of a vacancy rate, resulting in an effective vacancy rate of about 4.4 percent. Additional changes in personnel will depend on long-range staffing plan inputs related primarily to CIP impacts, a continued emphasis on maintenance management best practices, and careful review of vacated positions as a result of increasing employee retirements.

Other O&M – The proposed 2013/14 budget increases the ongoing funding of Metropolitan's OPEB obligation to $10 million, a $5-million increase as compared to 2012/13. The proposed 2013/14 budget also funds $3.5 million for completion of the two-year PC Replacement Program to replace outdated desktop workstations at the end of their anticipated useful life, an increase of $2.1 million as compared to 2012/13. The cost of chemicals, power, and sludge disposal incurred in the water treatment process is anticipated to increase by $0.9 million in 2013/14 driven primarily by modest inflationary pressure on chemical commodity prices and electricity rates.

Biennial Budget Summary
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Figure 4. Departmental Budget by Expenditure Type

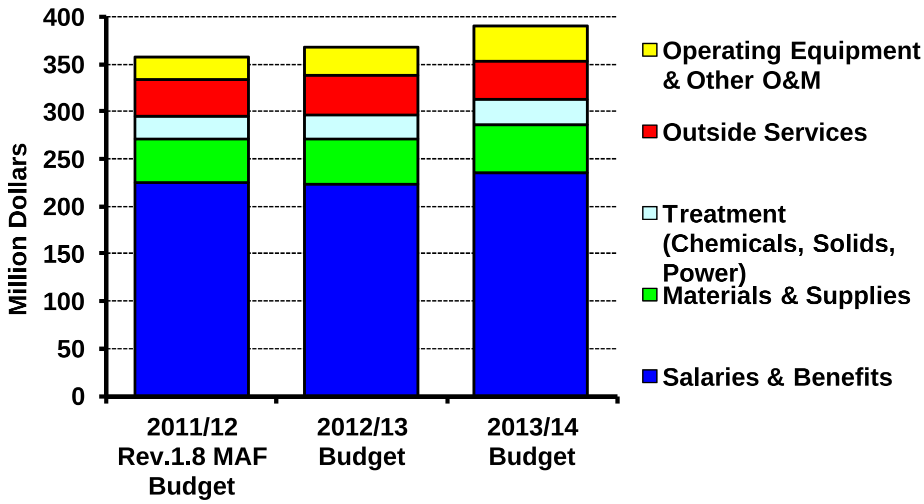
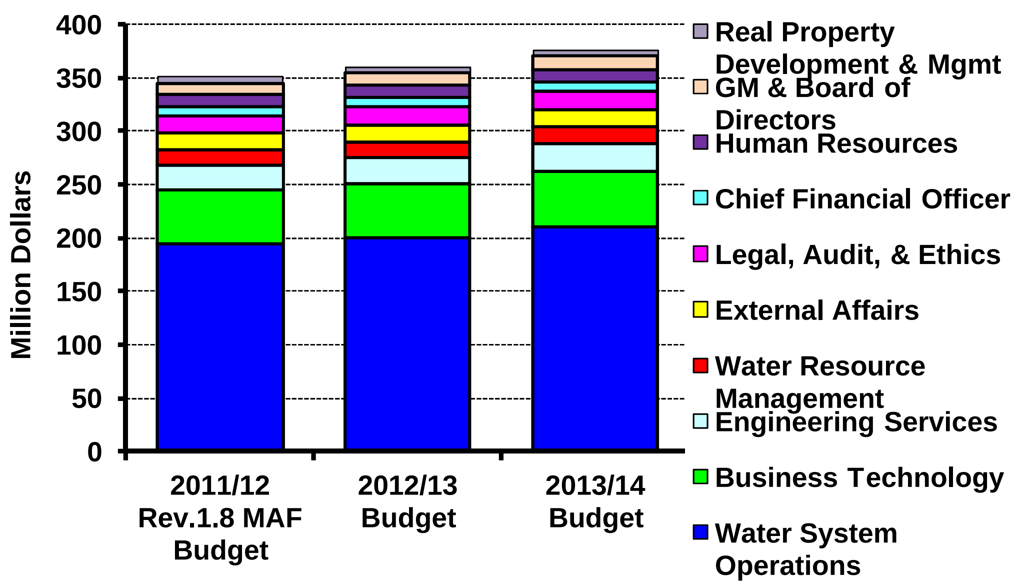


Figure 4 summarizes the total departmental O&M budget by expenditure type, of which 60 percent is for salaries and benefits.

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 2012/13 and 2013/14.

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)



Biennial Budget Summary
FY 2012/13 & 2013/14

Table 2. Operations & Maintenance Budget by Organization

Departmental Units	2011/12 Rev.1.8 MAF Budget	2012/13 Provisional Budget	2012/13 Budget	2013/14 Budget	2012/13 Provisional Budget vs. 2012/13 Budget	%	2012/13 Budget vs. 2013/14 Budget	%
Office of the General Manager	$ 10,450,800	$ 10,601,700	$ 12,287,200	$ 12,666,200	$ 1,685,500	15.9%	$ 379,000	3.1%
Water System Operations w/o Variable Treatment	172,304,600	176,710,700	175,947,200	184,581,500	(763,500)	(0.4%)	8,634,300	4.9%
Water Resource Management	14,470,700	15,444,900	14,903,500	15,197,200	(541,400)	(3.5%)	293,700	2.0%
Engineering Services	23,916,400	24,764,900	24,476,000	25,759,100	(288,900)	(1.2%)	1,283,100	5.2%
Business Technology	49,877,100	50,340,500	49,321,700	52,106,300	(1,018,800)	(2.0%)	2,784,600	5.6%
Real Property Development & Mgmt	5,560,900	5,839,600	5,021,000	5,288,300	(818,600)	(14.0%)	267,300	5.3%
Human Resources	11,477,400	11,672,800	11,545,800	11,500,000	(127,000)	(1.1%)	(45,800)	(0.4%)
Office of the Chief Financial Officer	8,262,300	8,385,200	8,396,500	8,728,600	11,300	0.1%	332,100	4.0%
External Affairs	15,920,600	16,079,900	15,521,800	15,998,100	(558,100)	(3.5%)	476,300	3.1%
Subtotal - General Manager's Dep.	**312,240,800**	**319,840,200**	**317,420,700**	**331,825,300**	**(2,419,500)**	**(0.8%)**	**14,404,600**	**4.5%**
General Counsel	12,552,600	12,535,900	14,666,300	14,555,900	2,130,400	17.0%	(110,400)	(0.8%)
General Auditor	2,682,000	2,682,000	2,688,500	2,759,500	6,500	0.2%	71,000	2.6%
Ethics Office	573,800	573,700	570,800	592,400	(2,900)	(0.5%)	21,600	3.8%
Overhead Credit from Construction	(18,230,600)	(19,408,300)	(22,981,400)	(23,407,100)	(3,573,100)	18.4%	(425,700)	1.9%
Total Departmental Budget	**309,818,600**	**316,223,500**	**312,364,900**	**326,326,000**	**(3,858,600)**	**(1.2%)**	**13,961,100**	**4.5%**
Other O&M								
Cargill Settlement	500,000	-	-	-	-	NA	-	NA
PC Replacement	-	1,400,000	1,400,000	3,525,000	-	NA	2,125,000	151.8%
CCP Vendor Administration	1,839,100	1,589,100	1,589,100	1,589,100	-	NA	-	NA
Performance Programs	673,000	673,000	173,000	673,000	(500,000)	(74.3%)	500,000	289.0%
Association Dues	4,432,500	4,849,700	4,849,700	4,981,000	-	NA	131,300	2.7%
OPEB Funding	-	-	5,000,000	10,000,000	5,000,000	NA	5,000,000	100.0%
Contingency	-	2,681,200	-	421,300	(2,681,200)	(100.0%)	421,300	NA
Insurance	7,504,000	7,766,600	7,766,600	7,766,600	-	NA	-	NA
Leases	600,000	630,000	776,600	790,000	146,600	23.3%	13,400	1.7%
Taxes	555,800	597,800	597,800	612,000	-	NA	14,200	2.4%
Subtotal - Other	**16,104,400**	**20,187,400**	**22,152,800**	**30,358,000**	**1,965,400**	**9.7%**	**8,205,200**	**37.0%**
TOTAL OPERATIONS & MAINTENANCE	**325,923,000**	**336,410,900**	**334,517,700**	**356,684,000**	**(1,893,200)**	**(0.6%)**	**22,166,300**	**6.6%**
Operating Equipment	7,489,400	7,344,700	7,041,600	7,124,600	(303,100)	(4.1%)	83,000	1.2%
Variable Treatment	22,891,400	24,281,700	25,512,700	26,409,500	1,231,000	5.1%	896,800	3.5%
GRAND TOTAL	**$ 356,303,800**	**$ 368,037,300**	**$ 367,072,000**	**$ 390,218,100**	**$ (965,300)**	**(0.3%)**	**$ 23,146,100**	**6.3%**

Totals may not foot due to rounding

Biennial Budget Summary
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LABOR

The total personnel complement (including temporary workers) for 2012/13 and 2013/14 is 1,908 and 1,904 positions, respectively, a reduction of 15 regular full time equivalent positions from 2011/12. Total O&M personnel are down by 15 positions to 1,619 in 2012/13 and drop one more position to a total of 1,618 in 2013/14. Positions dedicated to capital work remain relatively flat during the biennium. The proposed 2012/13 budget assumes a vacancy rate of approximately 2.7 percent and holds 10 regular employee positions unfunded. When the value of these 10 positions is taken into account, the effective overall vacancy rate is about 3.3 percent, which is about the same as the 3.2 percent rate assumed for the 2011/12 budget. Similarly, the proposed 2013/14 budget assumes a vacancy rate of approximately 2.9 percent and holds 6 regular employee positions unfunded in lieu of a vacancy rate, resulting in an effective vacancy rate of about 3.3 percent. The personnel complement is broken down on Tables 3 and 4.

Table 3. Regular and Temporary Positions

	2010/11 Budget	2011/12 Budget	2012/13 Budget	2013/14 Budget	2011/12 Budget vs. 2012/13 Budget	2012/13 Budget vs. 2013/14 Budget
Regular Full Time Positions	1,899	1,898	1,883	1,881	-15	-2
District Temporary Positions	22	18	19	18	2	-1
Agency Temporary Positions	3	7	6	5	-1	-1
Total	**1,924**	**1,923**	**1,908**	**1,904**	**-15**	**-4**

Totals may not foot due to rounding.

Table 4. O&M and Capital Staffing Levels

	2011/12 Budget	2012/13 Budget	2013/14 Budget
O&M Positions			
Regular Full Time Positions	1,614	1,601	1,598
District & Agency Temporary Positions	21	22	20
Total O&M	**1,635**	**1,623**	**1,618**
Capital Positions			
Regular Full Time Positions	284	282	283
District & Agency Temporary Positions	3	3	3
Total Capital	**288**	**285**	**286**
GRAND TOTAL	**1,923**	**1,908**	**1,904**

Totals may not foot due to rounding.

Supply Programs

Major supply program expenditures for 2012/13 and 2013/14 are estimated to be $36.3 million and $37.0 million, respectively, and include (may not foot due to rounding):

- $13.0 million in 2012/13 and $13.7 million in 2013/14 for operating and maintaining the IID/MWD conservation agreement;
- $13.3 million in 2012/13 and $12.2 million in 2013/14 for Colorado Programs;
- $4.9 million in 2012/13 and $5.5 million in 2013/14 for Central Valley Storage Programs;
- $4.8 million in 2012/13 and $4.7 million in 2013/14 for the Palo Verde Irrigation District (PVID) Land Management Program;
- $0.1 million in 2012/13 and $0.6 million in 2013/14 for State Water Project Transfer Programs; and
- $0.3 million in 2012/13 and $0.3 million in 2013/14 for In-Basin Programs.

ANNUAL CAPITAL INVESTMENT PLAN

The CIP budget for 2012/13 and 2013/14 is estimated to be $257.3 million and $294.6 million in 2013/14 and is funded by a combination of debt and current operating revenues (R&R and General Fund). The 2012/13 capital budget is $89.5 million lower than the 2011/12 budget and the 2013/14 capital budget is $37.3 million higher than the 2012/13 budget.

The CIP is funded by a combination of debt and current operating revenues (PAYGO). The two largest areas of expenditures in the 2012/13 and 2013/14 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.

Cash Funded Capital

The CIP includes R&R and other projects that are funded from current operating revenues in the R&R and General Fund. In total these funds are commonly referred to as Pay-As-You-Go (PAYGO) funding. The PAYGO funding for 2012/13 has been budgeted at $55 million. In 2013/14 PAYGO funding has been budgeted at $125 million and enables the majority of R&R projects to be funded from PAYGO in 2013/14.

Debt Service

The portion of the CIP that is not funded from cash will be funded from bond proceeds. In 2012/13, $202.3 million of capital will be funded with bond and commercial paper proceeds. In 2013/14, $169.6 million of capital will be funded with bond and commercial paper proceeds.

Metropolitan plans to issue $180 million of commercial paper in 2012/13 and roll an additional $20 million in 2013/14. In addition, $160 million of fixed rate bonds are budgeted for 2013/14. These bonds are expected to generate $351.8 million in bond proceeds, after about $2.1 million to cover the cost of issuance and $6.1 million to fund reserves.

Debt service payments in 2012/13 are budgeted to be $341.2 million and include $40.4 million in G.O. bond debt service, $291.8 million in revenue bond and commercial paper debt service, $7.7 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and $1.3 million for State Revolving Fund Loan payments. Total debt service costs in 2012/13 are expected to be $8.5 million more than the revised 2011/12 budget.

Debt service payments in 2013/14 are budgeted to be $343.4 million and include $40.4 million in G.O. bond debt service, $294.4 million in revenue bond and commercial paper debt service, $7.3 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and $1.3 million for

State Revolving Fund Loan payments. Total debt service costs in 2013/14 are expected to be $2.2 million more than the 2012/13 budget.

Metropolitan currently has $4.8 billion in outstanding debt. Of this amount, $4.6 billion is revenue bond debt, of which 11 percent is in a variable rate mode.

Reserve Transfers

The 2012/13 budget forecasts a $0.3 million decrease in reserves by June 30, 2013. The Water Rate Stabilization Fund (WRSF) and the Treatment Surcharge Stabilization Fund (TSSF) are expected to be drawn down $11.9 million. The Revenue Remainder Fund is expected to increase by $7.6 million and the Water Stewardship Fund (WSF) is expected to increase by $4.0 million.

The 2013/14 budget forecasts a $16.2-million decrease in reserves by June 30, 2014. The Water Rate Stabilization Fund (WRSF) and the Treatment Surcharge Stabilization Fund (TSSF) are expected to be drawn down $15.0 million. The Revenue Remainder Fund is expected to decrease by $1.5 million and the Water Stewardship Fund (WSF) is expected to increase by $0.3 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 5. Figure 6 shows the distribution of these funds by type.

Fund balances are budgeted to be $965.8 million at June 30, 2013. Of that total, $719.1 million is restricted by bond covenants, contracts, or board policy, and $246.7 million is unrestricted. In addition, fund balances are budgeted to be $981.7 million at June 30, 2014. Of that total, $751.4 million is restricted by bond covenants, contracts, or board policy, and $230.2 million is unrestricted.

On June 30, 2013 the minimum and maximum reserve fund targets are estimated to be $198.0 million and $473.5 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF will total about $220.8 million, about $22.8 million over the minimum target.

On June 30, 2014 the minimum and maximum reserve fund targets are estimated to be $202.1 million and $487.0 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF will total about $204.6 million, about $2.5 million over the minimum target.

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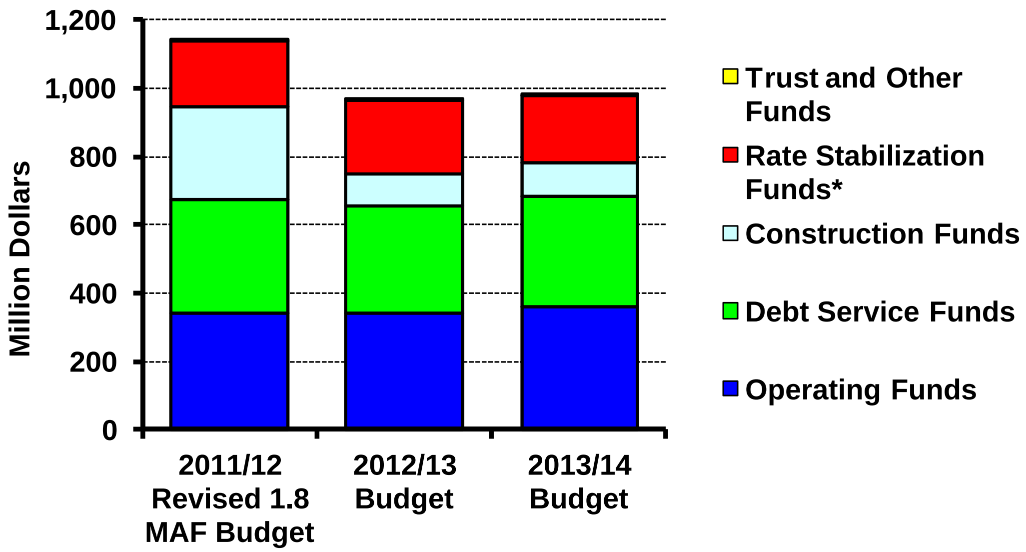
Table 5. Projected Fund Balances (dollars in millions)

	Restricted			
	Contractual	Board	Unrestricted	Total
2012/13 Budget				
Operating Funds	229.2	114.9		344.1
Debt Service Funds	311.2			311.2
Construction Funds	62.8		33.8	96.6
Rate Stabilization Funds*			212.9	212.9
Trust and Other Funds	1.0			1.0
Total June 30, 2013	**604.2**	**114.9**	**246.7**	**965.8**
2013/14 Budget				
Operating Funds	238.9	122.3		361.3
Debt Service Funds	322.6			322.6
Construction Funds	66.6		33.8	100.4
Rate Stabilization Funds*			196.5	196.5
Trust and Other Funds	1.0			1.0
Total June 30, 2014	**629.1**	**122.3**	**230.2**	**981.7**

Based on modified accrual accounting.
Totals may not foot due to rounding.
* includes Water Rate Stabilization Fund (including SDCWA litigation amount), Water Treatment Surcharge Stabilization Fund and Revenue Remainder.

Figure 6. Fund Distribution by Type



* Includes Water Rate Stabilization Fund (including SDCWA litigation amount), Water Treatment Surcharge Stabilization Fund and Revenue Remainder.

Biennial Budget Summary
FY 2012/13 & 2013/14

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

	2010/11 Actual	2011/12 Revised 1.8 MAF Budget	2011/12 Projected	2012/13 Provisional Budget	2012/13 Budget	2013/14 Budget	2012/13 Budget Compared to 2011/12 Revised 1.8 MAF Budget	2013/14 Budget Compared to 2012/13 Budget
USES OF FUNDS								
Expenditures								
State Water Contract	$ 491.9	$ 557.5	$ 508.3	$ 552.7	$ 593.5	$ 564.0	$ 36.0	$ (29.4)
Supply Programs	101.5	47.5	64.0	45.4	36.3	37.0	(11.2)	0.7
Colorado River Power	46.9	45.4	33.0	46.5	36.2	24.9	(9.2)	(11.3)
Debt Service	314.0	332.8	333.3	355.3	341.2	343.4	8.5	2.2
Demand Management	48.2	59.1	55.1	60.7	53.2	53.6	(5.9)	0.4
Departmental O&M	296.7	309.8	317.9	316.2	312.4	326.3	2.6	14.0
Treatment Chemicals, Solids & Power	23.2	22.9	32.2	24.3	25.5	26.4	2.6	0.9
Other O&M	10.7	23.6	22.8	27.6	29.2	37.5	5.6	8.3
Sub-total Expenditures	**1,333.1**	**1,398.5**	**1,366.5**	**1,428.6**	**1,427.4**	**1,413.3**	**28.9**	**(14.2)**
Capital Investment Plan	**250.4**	**281.9**	**192.5**	**346.8**	**257.3**	**294.6**	**(24.7)**	**37.3**
Fund Deposits								
R&R and General Fund	45.0	45.0	45.0	60.0	55.0	125.0	10.0	70.0
Revenue Bond Construction	73.0	20.9	-	-	-	2.9	(20.9)	2.9
Water Stewardship Fund	1.6	-	2.3	-	4.0	0.3	4.0	(3.7)
Interest for Construction & Trust Funds	3.4	3.6	2.5	2.5	1.0	0.9	(2.6)	(0.1)
Increase in Required Reserves	-	44.5	12.9	58.2	8.5	28.2	(36.0)	19.7
Increase in Rate Stabilization Fund	-	-	-	11.3	-	-	-	-
Sub-total Fund Deposits	**127.4**	**114.0**	**62.8**	**132.0**	**68.5**	**157.3**	**(45.5)**	**88.8**
TOTAL USES OF FUNDS	**$ 1,710.9**	**$ 1,794.5**	**$ 1,621.7**	**$ 1,907.4**	**$ 1,753.3**	**$ 1,865.2**	**$ (41.2)**	**$ 111.9**
SOURCES OF FUNDS								
Revenues								
Taxes	$ 87.3	$ 80.0	$ 80.0	$ 81.6	$ 81.6	$ 80.1	$ 1.6	$ (1.5)
Annexations	0.6	1.0	1.0	1.0	1.0	1.0	-	-
Interest Income	20.0	18.0	18.2	18.7	13.7	14.1	(4.3)	0.3
Hydro Power	22.1	21.5	26.0	20.5	23.6	20.9	2.1	(2.6)
Fixed Charges (RTS & Capacity Charge)	153.5	170.2	170.2	186.9	174.4	182.1	4.1	7.8
Water Sales Revenue	995.6	1,155.4	1,069.5	1,228.3	1,183.7	1,240.7	28.3	57.0
Miscellaneous Revenue	68.2	18.2	35.9	19.5	6.0	6.1	(12.2)	0.1
Bond Proceeds and Reimbursements	288.2	268.0	20.0	99.2	179.3	178.6	(88.7)	(0.6)
Sub-total Receipts	**1,635.6**	**1,732.4**	**1,420.8**	**1,655.7**	**1,663.3**	**1,723.7**	**(69.0)**	**60.4**
Fund Withdrawals								
R&R and General Fund	45.0	45.0	45.0	60.0	55.0	125.0	10.0	70.0
Bond Funds for Construction	-	-	127.5	191.7	23.0	-	23.0	(23.0)
Water Stewardship Fund	-	-	-	-	-	-	-	-
Decrease in Required Reserves	7.1	-	-	-	-	1.5	-	1.5
Decrease in Rate Stabilization Fund	23.2	17.1	28.4	-	11.9	14.9	(5.2)	3.0
Sub-total Fund Withdrawals	**75.3**	**62.1**	**200.9**	**251.7**	**89.9**	**141.5**	**27.8**	**51.5**
TOTAL SOURCES OF FUNDS	**$ 1,710.9**	**$ 1,794.5**	**$ 1,621.7**	**$ 1,907.4**	**$ 1,753.3**	**$ 1,865.2**	**$ (41.2)**	**$ 111.9**

FY2012 is based on cash, FY2013 and beyond are based on modified accrual accounting.
Totals may not foot due to rounding.

Biennial Budget Summary
FY 2012/13 & 2013/14

Table 7. June 30, 2013 Sources and Uses by Fund (dollars in millions)

Fiscal Year Ending June 30th, 2013 ($ in Millions)	All Funds	Operating Funds: General	Operating Funds: Water Revenue	Operating Funds: O&M	Operating Funds: Water Standby	Operating Funds: Water Stewardship	Operating Funds: Self-Insured Retention	Operating Funds: State Contract	Debt Service Funds	Reserve Funds (1)	Construction Funds: R&R	Construction Funds: Revenue Bond Construction	Trust & Other Funds
Beginning of Year Balance	**987.2**	**64.4**	**-**	**167.1**	**1.1**	**3.9**	**25.1**	**79.8**	**309.0**	**217.3**	**33.8**	**84.8**	**1.0**
USES OF FUNDS													
Expenditures													
State Water Contract	593.5	-	-	424.6	-	-	-	168.9	-	-	-	-	-
Supply Programs	36.3	-	-	36.3	-	-	-	-	-	-	-	-	-
Colorado River Power	36.2	-	-	36.2	-	-	-	-	-	-	-	-	-
Debt Service	341.2	1.3	-	7.7	-	-	-	-	332.3	-	-	-	-
Demand Management	53.2	-	-	53.2	-	-	-	-	-	-	-	-	-
Departmental O&M	312.4	-	-	312.4	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	25.5	-	-	25.5	-	-	-	-	-	-	-	-	-
Other O&M	29.2	7.0	-	22.2	-	-	-	-	-	-	-	-	-
Sub-total Expenditures	**1,427.4**	**8.3**	**-**	**917.9**	**-**	**-**	**-**	**168.9**	**332.3**	**-**	**-**	**-**	**-**
Capital Investment Plan	**257.3**	**27.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27.6**	**202.3**	**-**
Fund Deposits													
R&R and General Fund	55.0	27.4	-	-	-	-	-	-	-	-	27.6	-	-
Revenue Bond Construction	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	4.0	-	-	-	-	4.0	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	1.0	-	-	-	-	-	-	-	-	-	-	1.0	0.0
Increase in Required Reserves	8.5	-	-	(2.3)	-	-	-	1.0	2.2	7.6	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Deposits	**68.5**	27.4	-	(2.3)	-	4.0	-	1.0	2.2	7.6	27.6	1.0	0.0
TOTAL USES OF FUNDS	**1,753.3**	**63.2**	**-**	**915.6**	**-**	**4.0**	**-**	**169.9**	**334.5**	**7.6**	**55.1**	**203.3**	**0.0**
SOURCES OF FUNDS													
Revenues													
Taxes	81.6	-	-	-	-	-	-	41.3	40.4	-	-	-	-
Annexations	1.0	-	-	-	-	-	-	1.0	-	-	-	-	-
Interest Income	13.7	0.9	-	2.3	0.0	0.1	0.4	1.1	4.4	3.0	0.5	1.0	0.0
Hydro Power	23.6	-	23.6	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	174.4	-	174.4	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,183.7	-	1,183.7	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	6.0	6.0	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	179.3	-	-	-	-	-	-	-	-	-	-	179.3	-
Sub-total Receipts	**1,663.3**	**6.9**	**1,381.7**	**2.3**	**0.0**	**0.1**	**0.4**	**43.4**	**44.7**	**3.0**	**0.5**	**180.3**	**0.0**
Fund Withdrawals													
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	55.0	27.4	-	-	-	-	-	-	-	-	27.6	-	-
Bond Funds for Construction	23.0	-	-	-	-	-	-	-	-	-	-	23.0	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	11.9	-	-	-	-	-	-	-	-	11.9	-	-	-
Sub-total Fund Withdrawals	**89.9**	**27.4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11.9**	**27.6**	**23.0**	**-**
TOTAL SOURCES OF FUNDS	**1,753.3**	**34.3**	**1,381.7**	**2.3**	**0.0**	**0.1**	**0.4**	**43.4**	**44.7**	**14.9**	**28.0**	**203.3**	**0.0**
Inter-Fund Transfers	**-**	**33.8**	**(1,381.7)**	**908.3**	**(0.0)**	**3.9**	**(0.4)**	**126.5**	**289.8**	**(7.3)**	**27.1**	**-**	**-**
End of Year Balance	**965.8**	**64.4**	**-**	**164.8**	**1.1**	**7.9**	**25.1**	**80.8**	**311.2**	**212.9**	**33.8**	**62.8**	**1.0**

Based on modified accrual accounting.
Totals may not foot due to rounding.
(1) includes Water Rate Stabilization Fund (including SDCWA litigation amount), Water Treatment Surcharge Stabilization Fund and Revenue Remainder.

Biennial Budget Summary
FY 2012/13 & 2013/14

Table 8. June 30, 2014 Sources and Uses by Fund (dollars in millions)

Fiscal Year Ending June 30th, 2014 ($ in Millions)	All Funds	Operating Funds: General	Operating Funds: Water Revenue	Operating Funds: O&M	Operating Funds: Water Standby	Operating Funds: Water Stewardship	Operating Funds: Self-Insured Retention	Operating Funds: State Contract	Debt Service Funds	Reserve Funds (1)	Construction Funds: R&R	Construction Funds: Revenue Bond Construction	Trust & Other Funds
Beginning of Year Balance (2)	**965.8**	**64.4**	**-**	**164.8**	**1.1**	**7.9**	**25.1**	**80.8**	**311.2**	**212.9**	**33.8**	**62.8**	**1.0**
USES OF FUNDS													
Expenditures													
State Water Contract	564.0	-	-	400.5	-	-	-	163.6	-	-	-	-	-
Supply Programs	37.0	-	-	37.0	-	-	-	-	-	-	-	-	-
Colorado River Power	24.9	-	-	24.9	-	-	-	-	-	-	-	-	-
Debt Service	343.4	1.3	-	7.3	-	-	-	-	334.9	-	-	-	-
Demand Management	53.6	-	-	53.6	-	-	-	-	-	-	-	-	-
Departmental O&M	326.3	-	-	326.3	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	26.4	-	-	26.4	-	-	-	-	-	-	-	-	-
Other O&M	37.5	7.1	-	30.4	-	-	-	-	-	-	-	-	-
Sub-total Expenditures	**1,413.3**	**8.4**	**-**	**906.4**	**-**	**-**	**-**	**163.6**	**334.9**	**-**	**-**	**-**	**-**
Capital Investment Plan	**294.6**	**22.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**102.4**	**169.6**	**-**
Fund Deposits													
R&R and General Fund	125.0	22.6	-	-	-	-	-	-	-	-	102.4	-	-
Revenue Bond Construction	2.9	-	-	-	-	-	-	-	-	-	-	2.9	-
Water Stewardship Fund	0.3	-	-	-	-	0.3	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	0.9	-	-	-	-	-	-	-	-	-	-	0.9	0.0
Increase in Required Reserves	28.2	-	-	9.7	-	-	-	7.2	11.3	-	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Deposits	**157.3**	22.6	-	9.7	-	0.3	-	7.2	11.3	-	102.4	3.8	0.0
TOTAL USES OF FUNDS	**1,865.2**	**53.7**	**-**	**916.1**	**-**	**0.3**	**-**	**170.8**	**346.2**	**-**	**204.7**	**173.4**	**0.0**
SOURCES OF FUNDS													
Revenues													
Taxes	80.1	-	-	-	-	-	-	39.7	40.4	-	-	-	-
Annexations	1.0	-	-	-	-	-	-	1.0	-	-	-	-	-
Interest Income	14.1	0.9	-	2.5	0.0	0.1	0.4	1.2	4.6	2.9	0.5	0.9	0.0
Hydro Power	20.9	-	20.9	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	182.1	-	182.1	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,240.7	-	1,240.7	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	6.1	6.1	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	178.6	-	-	-	-	-	-	-	6.1	-	-	172.5	-
Sub-total Receipts	**1,723.7**	**7.1**	**1,443.8**	**2.5**	**0.0**	**0.1**	**0.4**	**41.9**	**51.1**	**2.9**	**0.5**	**173.4**	**0.0**
Fund Withdrawals													
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	125.0	22.6	-	-	-	-	-	-	-	-	102.4	-	-
Bond Funds for Construction	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Required Reserves	1.5	-	-	-	-	-	-	-	-	1.5	-	-	-
Decrease in Rate Stabilization Fund	14.9	-	-	-	-	-	-	-	-	14.9	-	-	-
Sub-total Fund Withdrawals	**141.5**	**22.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16.5**	**102.4**	**-**	**-**
TOTAL SOURCES OF FUNDS	**1,865.2**	**29.7**	**1,443.8**	**2.5**	**0.0**	**0.1**	**0.4**	**41.9**	**51.1**	**19.4**	**102.8**	**173.4**	**0.0**
Inter-Fund Transfers	**-**	**34.0**	**(1,443.8)**	**903.7**	**(0.0)**	**0.1**	**(0.4)**	**128.8**	**295.1**	**(19.4)**	**101.9**	**-**	**-**
End of Year Balance	**981.7**	**64.4**	**-**	**174.5**	**1.1**	**8.1**	**25.1**	**88.0**	**322.6**	**196.5**	**33.8**	**66.6**	**1.0**

Based on modified accrual accounting.
Totals may not foot due to rounding.
(1) includes Water Rate Stabilization Fund (including SDCWA litigation amount), Water Treatment Surcharge Stabilization Fund and Revenue Remainder.

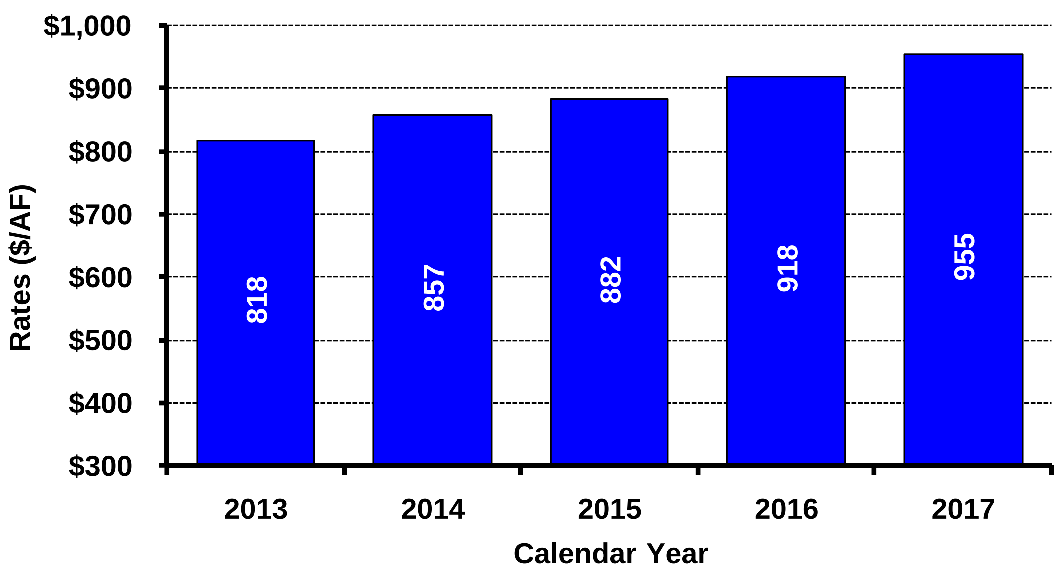
Projected costs and revenues for the period 2012/13 to 2016/17 are estimates and subject to variations inherent in all such projections. Consequently, the estimates should not be viewed as precise predictions but rather as indications of expected trends, given certain expenditure, receipt, and financing assumptions. These assumptions are based on current board policies, goals, and objectives representing management's best estimates at this time.

Rates and Charges

Annual rate increases from 2013 to 2017 are expected to range from 3.0 to 5.0 percent when normalized for the annual changes in water sales. The primary drivers for the expected increases include higher SWP costs, higher debt financing costs, and higher O&M costs. The higher SWP costs are driven by increases in the OMP&R costs and higher capital cost partially driven by the costs associated with the Delta Habitat Conservation and Conveyance Program.

Debt financing costs are expected to increase as a result of financing the $1.45 billion five-year CIP. This includes both the cost of additional debt and the increase in PAYGO funding. O&M costs are expected to increase as a result of increasing labor, benefits and treatment costs. The expected average water rate is shown in Figure 8. The average water rate is equal to estimated water revenues, including revenues from water sales, Capacity Charge, and the Readiness-to-Serve Charge, divided by total estimated sales. From the 2012/13 average rate of $818 per acre-foot, the average rate is expected to increase to $955 per acre-foot by 2016/17.

Figure 8. Average Water Rate



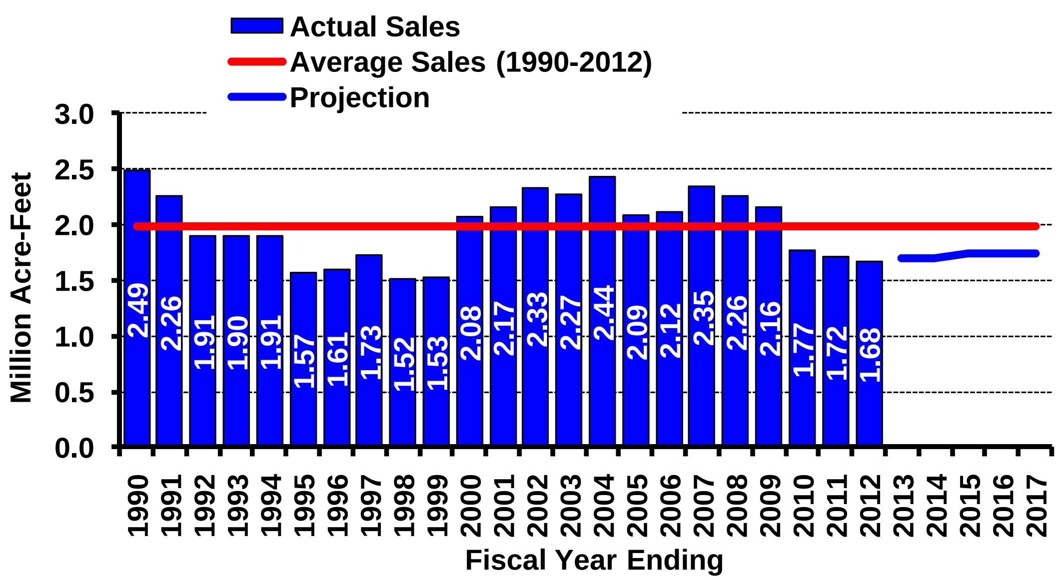
Sales forecast

Historically, Metropolitan's total water sales have varied +/- 30 percent from expected conditions. The highest sales on record occurred in 1989/90 at the peak of the 1987-1992 drought when high retail demand and low local supplies caused many agencies to use more imported water. Metropolitan sold 2.5 MAF in 1989/90. Since 1989/90 Metropolitan's sales have been as low as about 1.5 MAF during the El Niño winters in 1995/96 and 1998/99, when extremely wet weather decreased sales.

In 2012/13, Metropolitan sales (including exchange sales) are expected to equal 1.70 MAF. From 2012/13 to 2016/17, sales are expected to increase to 1.75 MAF in 2014/15 and remain at 1.75 through 2016/17. Figure 9 illustrates historical and forecasted sales.

In addition to hydrology, other major factors affecting sales include retail demand, local supply production and Metropolitan supply constraints. The level of water sales is the most influential variable affecting future water rates.

Figure 9. Water Sales*



*** Includes Exchange sales**

SOURCES OF FUNDS

Water Sales Receipts

Water sales receipts are expected to increase from $1.1 billion in 2012/13 to $1.4 billion in 2016/17. This increase is due to anticipated rate increases and a 50 TAF increase in water sales.

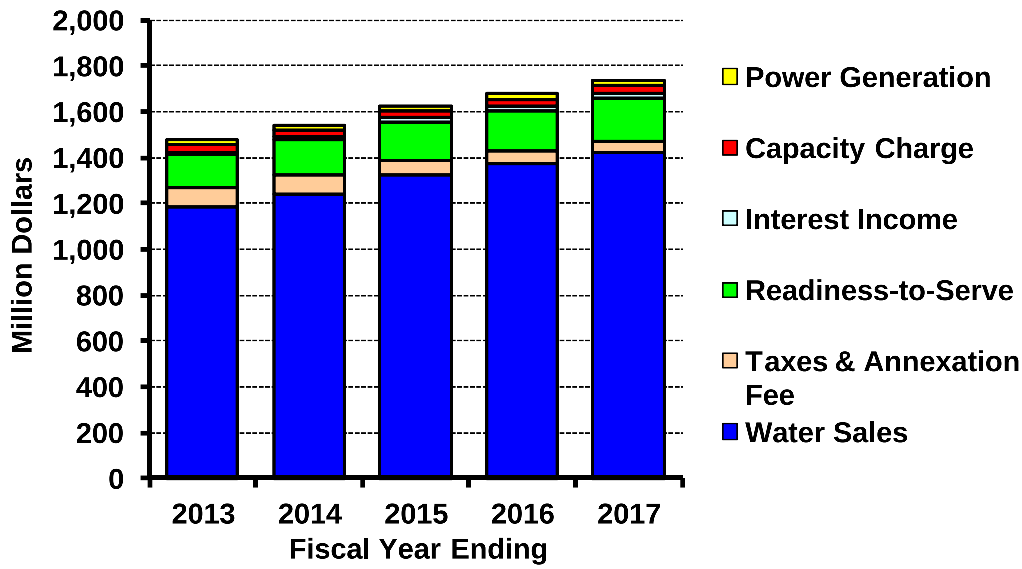
Fixed charge receipts (readiness-to-serve and capacity charge) are expected to increase from about $174.4 million in 2012/13 to $220.5 million in 2016/17. A forecast of the major receipts categories for the next five years is shown in Figure 10.

Property tax and annexation revenue is expected to decrease from $81.6 million in 2012/13 to $49.8 million in 2016/17. This is based on the maximum tax rate allowed under Section 124.5 of the Metropolitan Water District Act.

Power sales from Metropolitan's hydroelectric power recovery plants, excess Colorado River power, and DVL power generation are projected to average about $23.2 million per year over this period.

Interest income is projected to increase from $13.7 million in 2012/13 to $18.2 million in 2016/17 as a result of increased balances and as the average return on the investment portfolio is expected to increase from 1.5% to 1.8% from 2012/13 to 2016/17.

Figure 10. Receipts Forecast



Other Funding Sources

Other sources of funds include withdrawals from bond construction funds, Refurbishment and Replacement (R&R) Fund, General Fund, Water Stewardship Fund (WSF), Rate Stabilization Fund (RSF), and Revenue Remainder Fund.

Higher than expected water sales will result in higher RSF balances, and lower than expected water sales would result draws from the RSF and Revenue Remainder Fund.

The CIP will be funded by a combination of PAYGO and bond proceeds. The R&R Fund will be the primary source for funding R&R projects, although bond proceeds will be utilized for these purposes as well.

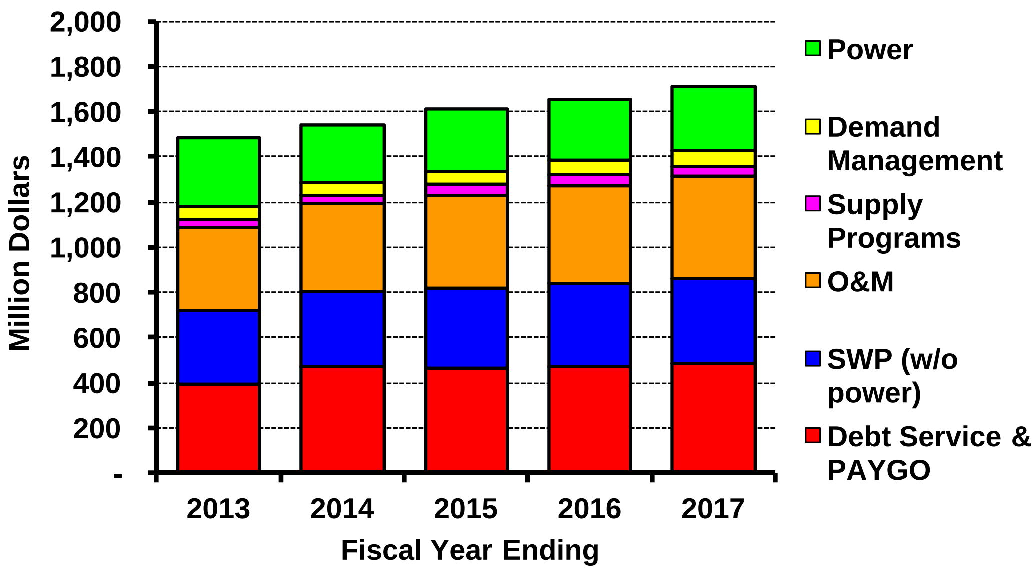
USES OF FUNDS

Over the next five years, total uses of funds are projected to range from $1.7 billion to $2.1 billion.

Expenditures

Expenditures are grouped into six major categories: State Water Contract (SWC, not including power), O&M, demand management programs, power costs (SWC and Colorado River Aqueduct), supply programs, and debt service & PAYGO funding. Figure 11 illustrates the general trends in expenditures over the five-year period from 2012/13 to 2016/17.

Figure 11. Expenditure Forecast



State Water Contract

SWC expenditures (not including variable power) are projected to increase from $322.7 million in 2012/13 to $378.0 in 2016/17. The projection includes Delta Habitat Conservation and Conveyance Program costs. These costs account for $15.6 million in 2016/17. The remainder of the capital costs is based upon information provided by the Department of Water Resources (DWR).

Operations and Maintenance

O&M costs in 2016/17 are projected to be $451.2 million. This represents an average annual increase of 5.3 percent from 2012/13 as a result of increasing labor, benefits, and treatment costs.

Demand Management

Demand management costs include funding for the LRP and CCP are projected to increase from $53.2 million in 2012/13 to $73.6 million in 2016/17. The LRP costs are projected to increase from $33.2 million in 2011/12 to $52.2 million in 2016/17. The yield from the LRP is expected to increase from 220 TAF in 2012/13 to 338 TAF in 2016/17. The CCP costs are projected to increase from $20.0 million in 2012/13 to $21.4 in 2016/17 and provide continued funding of residential, commercial, and outdoor conservation programs.

Power Costs

Power costs include the cost of energy to pump water on both the CRA and SWP. Power costs are projected to average $276.9 million in 2012/13 to 2016/17. Power costs will vary depending on the price of electricity, total system deliveries, storage operations, and the amount of water pumped on the SWP and the CRA.

Colorado River diversions are expected to average 834 TAF from 2012/13 to 2016/17. Net flows through the SWP that incur power are expected to average 1.0 MAF per year.

Water Transfers and Supply Programs

Table 9 summarizes supply program costs. The estimates shown in the table represent expenditures for expected conditions. If extreme weather conditions are experienced, these cost estimates could be much higher or lower. If higher than normal demand is coupled with lower than normal supply, supply program costs could be more than four times higher.

Table 9. Supply Programs (dollars in millions)

Program Name	2012/13 Budget	2013/14 Budget	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	Total
Imperial Irrigation District/MWD Conservation Agreement	$ 13.0	$ 13.7	$ 14.1	$ 14.6	$ 15.0	$ 70.4
Central Valley Storage Programs	4.9	5.5	18.7	19.1	13.8	62.0
Colorado Programs	13.3	12.2	8.5	6.9	6.5	47.3
Palo Verde Irrigation District Program	4.8	4.7	4.8	4.9	5.1	24.3
State Water Project Transfer Programs	0.1	0.6	2.1	2.1	2.1	6.9
In Basin Programs	0.3	0.3	0.3	0.3	0.3	1.6
Total Supply Programs	**$ 36.3**	**$ 37.0**	**$ 48.5**	**$ 47.9**	**$ 42.8**	**$ 212.5**

Totals may not foot due to rounding.

Capital Investment Plan

New facilities included in the CIP over the five-year period account for 45 percent of the projected expenditures. Table 10 shows the CIP by service function, driver and funding source.

Table 10. CIP Five year Forecast and Funding Sources (dollars in millions)

Fiscal Year Ending	2013 Budget	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast	Total
Major Service Functions						
Supply	$ 0.3	$ -	$ -	$ -	$ -	0.3
Conveyance & Aqueduct	49.3	37.5	27.1	9.7	2.0	125.6
Storage	8.3	8.0	5.8	8.2	9.6	39.9
Distribution	35.2	42.7	54.8	70.5	82.5	285.8
Treatment	131.7	163.3	208.6	193.8	171.8	869.3
Administrative & General	25.0	21.2	22.2	15.0	5.5	88.8
Hydroelectric	7.4	22.0	3.5	1.2	5.7	39.9
Total	**257.3**	**294.6**	**322.0**	**298.5**	**277.2**	**1,449.6**
By Driver						
Efficiency	2.2	0.5	3.7	3.0	2.3	11.8
Infrastructure	174.2	224.0	239.1	233.7	254.1	1,125.0
Regulatory	80.9	70.1	79.2	61.8	20.8	312.8
Supply	-	-	-	-	-	-
Water Quality	-	-	-	-	-	-
Total	**257.3**	**294.6**	**322.0**	**298.5**	**277.2**	**1,449.6**
By System Improvements and R&R						
System Improvements	125.7	140.6	195.3	114.6	76.9	653.2
Rehabilitation and Replacements	131.6	154.0	126.7	183.9	200.2	796.4
Total	**257.3**	**294.6**	**322.0**	**298.5**	**277.2**	**1,449.6**
Funding Sources						
Bonds	202.3	169.6	197.0	173.5	152.2	894.6
PAYGO	55.0	125.0	125.0	125.0	125.0	555.0
Total	**$ 257.3**	**$ 294.6**	**$ 322.0**	**$ 298.5**	**$ 277.2**	**$1,449.6**

Totals may not foot due to rounding.

Debt Financing

As shown in Table 10, it is anticipated that there will be about $1.45 billion of capital expenditures over this period. Of this, $894.6 million, or 62 percent of future capital expenditures are anticipated to be funded by debt proceeds. Outstanding revenue bond debt currently represents $4.6 billion, or 73 percent of Metropolitan's $6.3 billion equity as of June 30, 2011. Metropolitan may not have outstanding revenue bond debt in amounts greater than 100 percent of its equity.

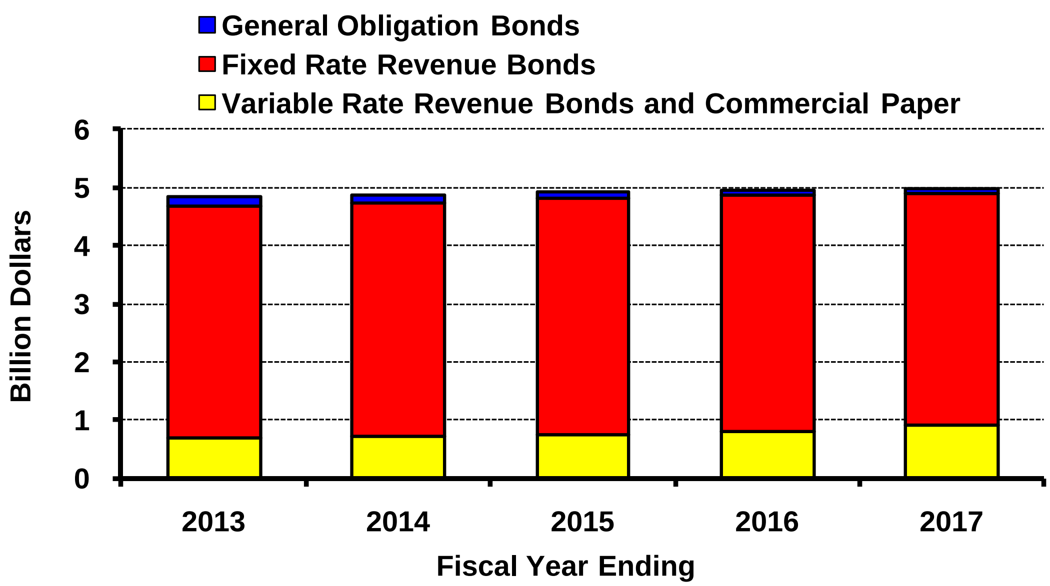
Total outstanding debt is illustrated in Figure 12. Total outstanding debt is estimated to increase to $5.0 billion by 2016/17.

Metropolitan's variable rate debt as a percentage of total revenue bond debt is projected to average about 15 percent over this time period. The appropriate amount of variable rate debt will continue to be monitored and adjusted depending on market rates, financing needs, available short-term investments, and fund levels in the investment portfolio with which variable rate interest exposure can be hedged.

Replacement and Refurbishment

The annual deposits to the R&R and General Funds are expected to increase from $55.0 million in 2012/13 to $125 million in 2013/14 and beyond. The increased PAYGO will fund a larger share of the R&R expenditures and enable Metropolitan to maintain its revenue bond coverage targets of 2.0 times.

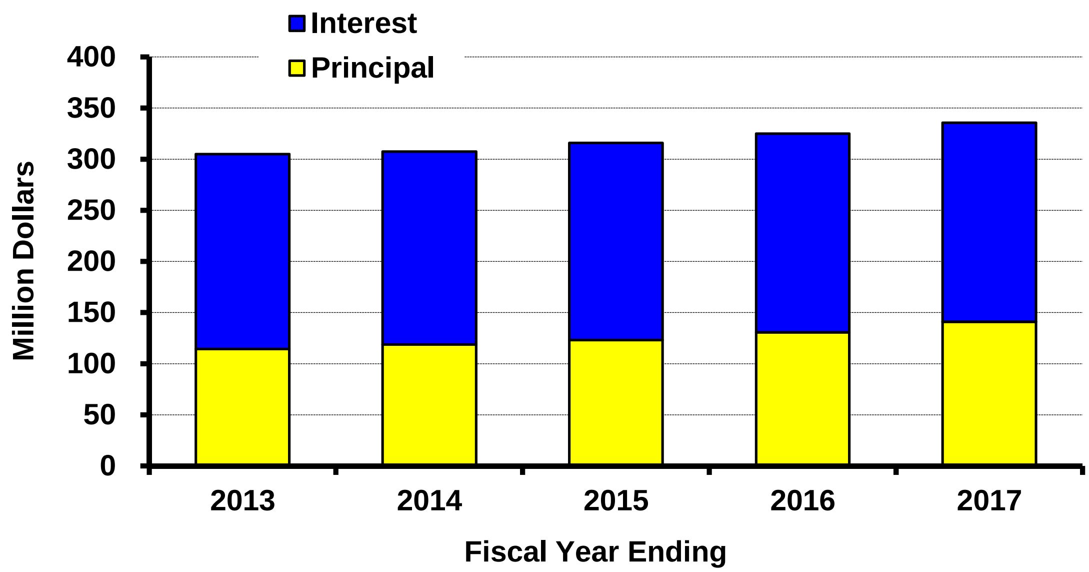
Figure 12. Outstanding Debt



Debt Service
Revenue bond and commercial paper debt service is projected to increase about $30.8 million over the next five years. The increase in debt service reflects future debt sales of $930 million to finance the CIP. Total outstanding revenue bond debt is expected to rise to $5.0 billion by 2016/17.

A mix of fixed rate debt and variable rate debt will be issued to help manage debt service costs. Figure 13 illustrates the expected trend in revenue bond debt service principal and interest payments over the next five years. General Obligation (GO) bond debt service will decrease from $40.4 million to $23.3 million per year as Metropolitan does not have any authority to issue additional GO bonds and voter approved indebtedness matures.

Figure 13. Revenue Bond and Commercial Paper Debt Service

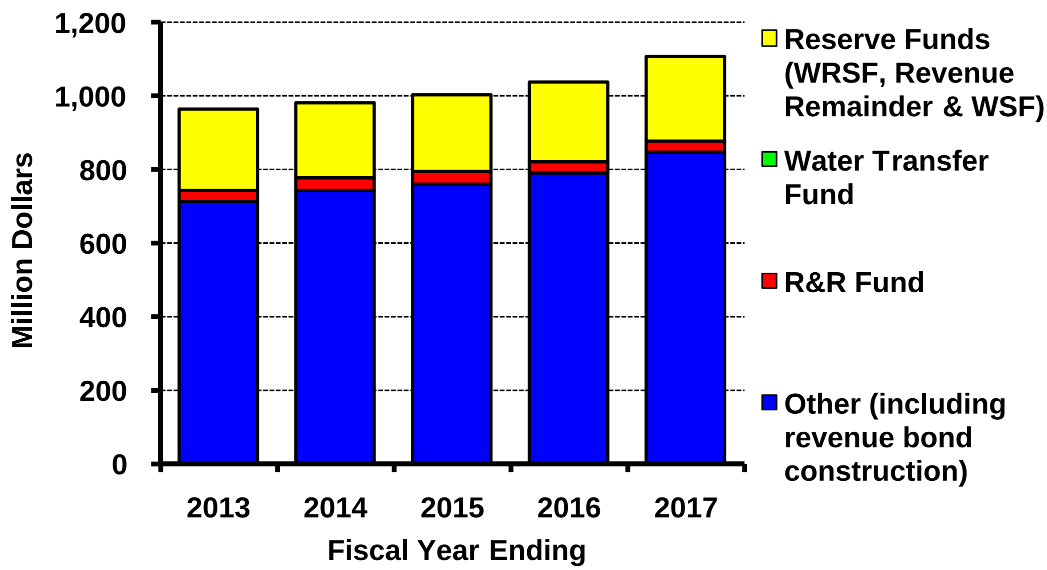


Other Obligations
The forecast accounts for required transfers to and from operating funds to meet revenue bond covenants and board policies. Over the next five years, as costs continue to increase (most notably the reserve requirements for debt service funds, O&M Fund, and State Water Contract Fund) the annual required transfer is estimated to average about $22.8 million per year.

Fund Balances and Reserves

As shown in Figure 14, over the next five years, total fund balances are projected to increase to $1.11 billion in 2016/17.

Figure 14. End of Year Fund Balances



Financial Ratios

Metropolitan's financial objective is to maintain a minimum revenue bond coverage ratio of 2.0 times. However, the revenue bond coverage ratio is projected to be 1.4 times in 2011/12. This ratio is expected to increase to two times as anticipated water rate increases are implemented. Revenue bond debt service coverage is the primary indicator of credit quality and is equal to the ratio of net operating revenues to revenue bond debt service.

Fixed charge coverage measures the amount by which net-operating revenues "cover" all recurring fixed costs including SWC capital obligations. This is a broader ratio than the revenue bond coverage ratio and is one measure used to gauge Metropolitan's overall financial strength. Metropolitan's financial policy goal is to maintain a minimum fixed charge coverage ratio of 1.2 times. For fiscal year 2011/12 through 2016/17 the fixed charge coverage is projected to range from 1.1 times to 1.3 times. Table 11 summarizes uses and sources of funds over the five-year period.

Table 11. Five year Financial Forecast (dollars in millions)

Fiscal Year Ending	2012 Projected	2013 Budget	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast
USES OF FUNDS						
Expenditures						
State Water Contract	$ 508.3	$ 593.5	$ 564.0	$ 596.1	$ 605.5	$ 625.3
Supply Programs	64.0	36.3	37.0	48.5	47.9	42.8
Colorado River Power	33.0	36.2	24.9	33.0	31.9	32.9
Debt Service	333.3	341.2	343.4	336.1	345.3	357.6
Demand Management	55.1	53.2	53.6	61.2	66.9	73.6
Departmental O&M	317.9	312.4	326.7	339.1	351.5	364.2
Treatment Chemicals, Solids & Power	32.2	25.5	26.4	28.2	29.2	30.2
Other O&M	22.8	29.2	37.1	44.6	50.7	56.8
Sub-total Expenditures	**1,366.5**	**1,427.4**	**1,413.3**	**1,486.9**	**1,529.0**	**1,583.4**
Capital Investment Plan	**192.5**	**257.3**	**294.6**	**322.0**	**298.5**	**277.2**
Fund Deposits						
R&R and General Fund	45.0	55.0	125.0	125.0	125.0	125.0
Revenue Bond Construction	-	-	2.9	-	-	32.9
Water Stewardship Fund	2.3	4.0	0.3	-	-	-
Interest for Construction & Trust Funds	2.5	1.0	0.9	1.1	1.0	1.3
Increase in Required Reserves	12.9	8.5	28.2	28.1	37.7	37.5
Increase in Rate Stabilization Fund	-	-	-	-	-	2.4
Sub-total Fund Deposits	**62.8**	**68.5**	**157.3**	**154.2**	**163.7**	**199.1**
TOTAL USES OF FUNDS	**$ 1,621.7**	**$ 1,753.3**	**$ 1,865.2**	**$ 1,963.1**	**$ 1,991.2**	**$ 2,059.6**
SOURCES OF FUNDS						
Revenues						
Taxes	$ 80.0	$ 81.6	$ 80.1	$ 59.7	$ 55.3	$ 49.8
Annexations	1.0	1.0	1.0	1.0	1.0	1.0
Interest Income	18.2	13.7	14.1	16.5	17.1	18.2
Hydro Power	26.0	23.6	20.9	21.4	24.9	24.9
Fixed Charges (RTS & Capacity Charge	170.2	174.4	182.1	200.2	209.6	220.5
Water Sales Revenue	1,069.5	1,183.7	1,240.7	1,319.4	1,363.2	1,415.3
Miscellaneous Revenue	35.9	6.0	6.1	12.9	13.2	13.5
Bond Proceeds	20.0	179.3	178.6	198.4	178.6	188.9
Sub-total Receipts	**1,420.8**	**1,663.3**	**1,723.7**	**1,829.5**	**1,862.9**	**1,932.1**
Fund Withdrawals						
R&R and General Fund	45.0	55.0	125.0	125.0	125.0	125.0
Bond Funds for Construction	127.5	23.0	-	6.3	1.8	-
Water Stewardship Fund	-	-	-	2.4	1.5	2.5
Decrease in Required Reserves	-	-	1.5	-	-	-
Decrease in Rate Stabilization Fund	28.4	11.9	14.9	-	-	-
Sub-total Fund Withdrawals	**200.9**	**89.9**	**141.5**	**133.7**	**128.3**	**127.5**
TOTAL SOURCES OF FUNDS	**$ 1,621.7**	**$ 1,753.3**	**$ 1,865.2**	**$ 1,963.1**	**$ 1,991.2**	**$ 2,059.6**
Fiscal Year Sales & Exchange (MAF)	**1.77**	**1.70**	**1.70**	**1.75**	**1.75**	**1.75**

FY2012 is based on cash, FY2013 and beyond are based on modified accrual accounting.
Totals may not foot due to rounding.

Table 11. Five year Financial Forecast(dollars in millions) (Continued)

Fiscal Year Ending	2012 Projected	2013 Budget	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast
RATIOS						
Fixed Charge Coverage	1.1	1.2	1.3	1.3	1.3	1.3
Revenue Bond Coverage	1.5	1.6	1.9	1.9	2.0	2.0
Var. Rate Debt as % of Rev. Bond Debt	11%	15%	15%	16%	16%	19%
RESTRICTED FUNDS EOY balance						
General Fund	64.4	64.4	64.4	64.4	64.4	64.4
Water Stewardship Fund	3.9	7.9	8.1	5.8	4.3	1.7
Other	667.9	646.8	678.9	697.0	724.4	781.0
Sub-total Restricted Funds	**736.2**	**719.1**	**751.4**	**767.2**	**793.1**	**847.2**
UNRESTRICTED FUNDS EOY balance						
R&R Fund	33.8	33.8	33.8	33.8	33.8	33.8
Reserve Funds (1)	217.3	212.9	196.5	201.2	210.7	228.2
Sub-total Unrestricted Funds	**251.0**	**246.7**	**230.2**	**235.0**	**244.4**	**261.9**
TOTAL FUNDS	**$ 987.2**	**$ 965.8**	**$ 981.7**	**$ 1,002.2**	**$ 1,037.6**	**$ 1,109.1**

FY2012 is based on cash, FY2013 and beyond are based on modified accrual accounting.
Totals may not foot due to rounding.
(1) includes Water Rate Stabilization Fund (including SDCWA litigation amount), Water Treatment Surcharge Stabilization Fund and Revenue Remainder.