





THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

# MWD MEETING AGENDA

## Regular Board Meeting

January 12, 2010

12:00 p.m. -- Board Room

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MWD Headquarters Building

700 N. Alameda Street

Los Angeles, CA 90012

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**1. Call to Order**

- (a) Invocation: (Guest)
- (b) Pledge of Allegiance: Director Robert Wunderlich

**2. Roll Call**

**3. Determination of a Quorum**

**4. Opportunity for members of the public to address the Board on matters within the Board's jurisdiction. (As required by Gov. Code Section 54954.3(a))**

**5. OTHER MATTERS**

- A. Approval of the Minutes of the Meeting for December 8, 2009. (A copy has been mailed to each Director) Any additions, corrections, or omissions
- B. Report on Directors' meetings attended at Metropolitan expense for month of December
- C. Adopt Commendatory Resolutions for state lawmakers for enacting historic water legislation Senator Darrell Steinberg Senator Dennis Hollingsworth Senator Fran Pavley Senator Dave Cogdill Senator Joe Simitian Assembly Member Karen Bass Assembly Member Sam Blakeslee Assembly Member Jared Huffman Assembly Member Jean Fuller Assembly Member Anna Caballero Assembly Member Kevin de Leon Assembly Member Jose Solorio
- D. Approve committee assignments
- E. Chairman's Monthly Activity Report

**6. DEPARTMENT HEADS' REPORTS**

- A. General Manager's summary of Metropolitan's activities for the month of December
- B. General Counsel's summary of Legal Department activities for the month of December
- C. General Auditor's summary of activities for the month of December
- D. Ethics Officer's summary of activities for the month of December

**7. CONSENT CALENDAR ITEMS -- ACTION**

7-1 Appropriate \$1.55 million; and authorize Metropolitan force construction to rehabilitate the Mills Modules Nos. 3 and 4 weir gates and filter valves (Approp. 15452). (E&O)

[7-1 Board Letter and Attachments](#)

7-2 Appropriate \$302,000; and authorize preliminary design of two improvement projects at the Mills plant (Approps. 15381 and

15452). (E&O)

7-2 Board Letter and Attachments

7-3 Appropriate \$526,000; and authorize Metropolitan force construction to replace the Weymouth Reservoir inlet gates (Approp. 15440). (E&O)

7-3 Board Letter and Attachments

7-4 Authorize final design of the Hayfield Groundwater Extraction Project (Approp. 15402). (E&O)

7-4 Board Letter and Attachments

**8. OTHER BOARD ITEMS -- ACTION**

8-1 Set a public hearing date; and receive report on proposed revenue requirements, and water rates and charges. (B&F)

8-1 Board Letter and Attachments

8-2 Authorize payment for calendar year 2010 charges from the State Water Project under terms of water supply contracts with the Department of Water Resources. (B&F)

8-3 Appropriate \$8.1 million; award \$5,181,000 contract to Southern Contracting Company; and authorize agreement with Marrs Services, Inc. for fault current protection upgrades at the Colorado River Aqueduct pumping plants (Approp. 15438). (E&O)

8-4 Appropriate \$2.64 million; award \$1,588,121.55 contract to ERS Industrial Services, Inc. to rehabilitate four filters at the Weymouth plant; and authorize amendment to existing agreement with Montgomery Watson Harza (Approp. 15440). (E&O)

8-5 Adopt resolution to accept funding and authorize entering into a contract as part of the American Recovery and Reinvestment Act with the California Energy Commission on two grant proposals' applications. (E&O) (To be mailed separately)

8-6 Report on Metropolitan Water District v. Bonnie Prouty Castrey; AFSCME Local 1902, Real Party in Interest, LASC Case No. BS 122746. (L&C) [Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)] (To be mailed separately)

8-7 Authorize increase in maximum amount payable under contract with Richard B. Deriso for expert consultant services and litigation support by \$200,000 to a maximum of \$300,000; and report on pending litigation in Metropolitan Water District v. U.S. Fish & Wildlife Service, et al., U.S.D.C. No. 09-631-OWW-DLB (E.D. Cal.) and other litigation relating to restrictions imposed on California's Central Valley and State Water Project operations relating to endangered species. (L&C) [Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)] (To be mailed separately)

8-8 Authorize increase in maximum amount payable under contract with Latham and Watkins for legal services by \$650,000 to a maximum of \$750,000; and report on In re Tronox Incorporated, et al., Chapter 11, Case No. 09-10156 (ALG) and related matter Orange County Water District v. Northrop Corporation, et al., Superior Court of Orange County Case No. 04CC00715. (L&C) [Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)] (To be mailed separately)

**9. BOARD INFORMATION ITEMS**

9-1 Proposed 2010/11 Fiscal year Budget. (B&F)

9-2 Energy Management & Reliability Study Update. (E&O) (To be mailed separately)

**10. FUTURE AGENDA ITEMS**

**11. OTHER MATTERS (Contd.)**

A. AB 1234 and Brown Act Presentation

**12. ADJOURNMENT**

**NOTE:** At the discretion of the committee, all items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the committee.

This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Agendas for the meeting of the Board of Directors may be obtained from the Board Executive Secretary. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.



● **Board of Directors**  
***Business and Finance Committee***

1/12/2010 Board Meeting

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8-1

**Subject**

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Set a public hearing date; and receive report on proposed revenue requirements, and water rates and charges

**Description**

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**SUMMARY**

In April 2009, the Board directed staff to conduct a comprehensive review of Metropolitan's Cost of Service methodology with the intent to ensure that all rates and charges recover the full cost of service when the Board establishes rates for the 2010/11 fiscal year. After conducting this Cost of Service review from June to October of 2009, the Board chose to adopt no changes to the cost of service methodology at this time, although the longer-term IRP Update and Long Range Finance Plan Update may result in future changes. A 12.6 percent overall rate increase would be necessary to achieve the Board's objective to recover the full cost of service in fiscal year 2010/11 without a draw on reserves.

In four of the last five years Metropolitan has not collected sufficient revenues to cover its costs. Instead, in an effort to mitigate rate increases, Metropolitan has been utilizing its reserves to fund expenditures. At the same time, the largest court ordered supply cutback in the history of the State Water Project (SWP) occurred. Supply cutbacks are expected to continue due to hydrology and pumping restrictions imposed to protect endangered fish (e.g. Delta smelt). In July 2009 Metropolitan responded to continued supply constraints by declaring a Level 2 Regional Water Supply Allocation. This allocation imposes a set of penalties for member agencies that use more than their allocation limits. Conservation measures have been implemented throughout Southern California to manage within the limits of the water supply allocation. These conservation measures, combined with lower levels of economic activity due to the recession, have helped to reduce water sales throughout Metropolitan's service area. Metropolitan's water sales in fiscal year 2009/10 are trending at the budgeted levels of 1.9 million acre-feet, significantly lower than water sales of almost 2.3 million acre-feet just three years ago.

At the same time that water supplies and water sales are constrained, Metropolitan's costs are expected to increase in 2010/11 primarily due to the following factors:

- a. **Higher costs for State Water Project deliveries:** The cost payable under the State Water Contract in 2010/11 is estimated to be about \$48 million higher than projected in 2009/10. These cost increases are primarily driven by increases in off-aqueduct power and capital-related costs, as well as Metropolitan's share of the environmental work and preliminary engineering of the Delta Habitat Conservation and Conveyance Program (DHCCP). An additional factor leading to the year-over-year increase is a significant refund from DWR in 2009 that is helping to reduce Metropolitan's 2009/10 costs. This one-time refund will not be available in 2010/11, thus the revenue requirement must be higher to cover the costs without the benefit of the refund.
- b. **Debt service:** The financing costs for Metropolitan's ongoing \$3.85 billion capital program will result in an increase of about \$43 million in debt service from 2009/10. A significant portion of the capital program is to repair and improve treatment processes and to upgrade and repair Metropolitan's aging water delivery system.

- c. **Increase in Pay-as-you-go (PAYGO) capital funding:** PAYGO funding of the CIP is projected to increase by almost \$58 million from about \$37 million in 2009/10 to \$95 million in 2010/11. This increase is necessary to meet the Board's policy of funding \$95 million of capital expenditures associated with replacement and refurbishment of existing facilities from revenues. Funding higher levels of PAYGO is consistent with restoring Metropolitan's revenue bond coverage and fixed charge coverage ratios to board-adopted targets, thus helping to preserve Metropolitan's current bond ratings. In addition, funding more of the CIP from revenues will reduce the long-term cost of the program by reducing interest costs.
- d. **Higher power costs on the Colorado River Aqueduct (CRA):** CRA power costs are projected to be \$13 million higher in 2010/11 as a result of higher flows on the CRA.

In order to help mitigate impacts on member agencies, the proposed 2010/11 departmental operating budget has been reduced by almost \$3 million compared to the 2009/10 budget. Additionally, proposed demand management costs are equal to the 2009/10 budget and Metropolitan's Capital Investment Plan has been reduced by \$85 million from the 2009/10 budget as expenditures for large capital projects like the Inland Feeder and Skinner Oxidation Retrofit Program come to a close.

### **RATES AND CHARGES FOR 2010/11**

Pursuant to Metropolitan's Administrative Code (section 4304), at its January meeting, the Business and Finance Committee is to set a public hearing to receive input on Metropolitan's rates and charges. This hearing is to take place prior to the committee's regularly scheduled meeting in March. In addition to this action, the committee also reviews the General Manager's analysis of the revenue requirement for 2010/11, and the rates and charges needed to meet the revenue requirement. The Cost of Service analysis detailed in [Attachment 1](#), "Metropolitan Water District of Southern California, Fiscal Year 2010/11 Cost of Service", is consistent with the Cost of Service process used since the Board adopted the current rate structure in 2002. This analysis shows that an overall increase of 12.6 percent would be necessary to achieve the Board direction of collecting the full Cost of Service in fiscal year 2010/11 without drawing from reserves to meet expenditures. The Cost of Service analysis also allocates costs to the various rate elements.

The specific elements of an increase of 12.6 percent in water rates and charges for the coming fiscal year are shown in Table 1, "Estimated Rates and Charges." Revenue bond coverage is estimated to be 1.91 times, while fixed charge coverage would be approximately 1.28 times in 2010/11. The estimate of rates and charges for 2010/11 was determined based on a total revenue requirement of \$1.39 billion. The existing rates, which are effective through December 31, 2010, and the rates under a 12.6 percent increase, effective January 1, 2011, would generate combined revenue of \$1.37 billion based on total sales of 1.93 million acre-feet. Due to the continuing need to acquire water transfers, Metropolitan will maintain the Delta Supply Surcharge to fund such purchases and reflect the impact of Delta pumping restrictions. As shown in Table 1, the Delta Supply Surcharge can be expected to decrease over time if a near-term Delta solution is realized that results in increased SWP deliveries or if supply program costs drop. However, any drop in the Delta Supply Surcharge is likely to be more than offset by increases in other rate elements to pay for the costs of Delta improvements.

**Table 1. Estimated Rates and Charges**

	Effective Jan 1, 2010*	Effective Jan 1, 2011
Tier 1 Supply Rate (\$/AF)	\$101	\$112
Delta Supply Surcharge (\$/AF)	\$69	\$51
Tier 2 Supply Rate (\$/AF)	\$280	\$280
System Access Rate (\$/AF)	\$154	\$217
Water Stewardship Rate (\$/AF)	\$41	\$43
System Power Rate (\$/AF)	\$119	\$135
Full Service Untreated Volumetric Cost (\$/AF)		
Tier 1	\$484	\$558
Tier 2	\$594	\$675
Replenishment Water Rate Untreated (\$/AF)	\$366	\$440
Interim Agricultural Water Program Untreated (\$/AF)	\$416	\$513
Treatment Surcharge (\$/AF)	\$217	\$217
Full Service Treated Volumetric Cost (\$/AF)		
Tier 1	\$701	\$775
Tier 2	\$811	\$892
Treated Replenishment Water Rate (\$/AF)	\$558	\$632
Treated Interim Agricultural Water Program (\$/AF)	\$615	\$718
Readiness-to-Serve Charge (\$M)	\$114	\$135
Capacity Charge (\$/cfs)	\$7,200	\$7,200

\* Most rates effective Sept 1, 2009

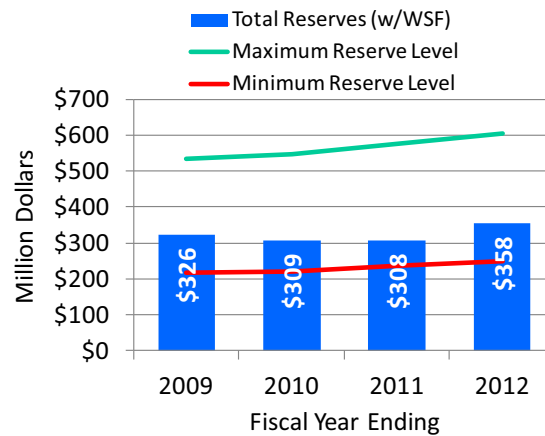
- a. **Tier 1 Supply Rate and Delta Supply Surcharge.** Cost of service allocation would result in a reduction of \$7 per acre-foot in the combined Tier 1 Supply Rate and Delta Supply Surcharge from \$170 per acre-foot to \$163 per acre-foot. The Tier 1 Supply Rate recovers Metropolitan's supply costs that are not recovered by sales at the Tier 2 Supply Rate or reflected in the Delta Supply Surcharge, Replenishment or Agricultural rates. The Delta Supply Surcharge reflects the costs of the additional supply that Metropolitan needs to procure as a result of the pumping restrictions, a portion of SWP costs charged to Supply, and the cost of personnel and consultants working on Delta improvements. These costs are estimated to be around \$87 million in 2010/11, about \$30 million lower than the projection used to set the 2010 Delta Supply Surcharge. The reduced costs reflect lower supply program expenditures, largely due to reduced Drought Water Bank purchases based on actual experience in 2009. It is recommended that the Delta Supply Surcharge be decreased by \$18 per acre-foot to \$51 per acre-foot due to these lower costs. Partially offsetting the reduction in the Delta Supply Surcharge is an increase in the Tier 1 Supply Rate of \$11 per acre-foot. The Delta Supply Surcharge is included in all Tier 1 sales, IAWP, and Replenishment sales. The Tier 1 Supply Rate will be charged on a dollar per acre-foot basis for system supply delivered to meet firm demands that are less than the Tier 1 Annual Limit as shown in Schedule 12, [Attachment 1](#).
- b. **Tier 2 Supply Rate.** The Tier 2 Supply Rate is set at a level that reflects Metropolitan's cost of purchasing new supplies. Preliminary estimates indicate a Tier 2 Supply Rate of \$280 per acre-foot reflects the cost Metropolitan may pay for additional water transfers in fiscal year 2010/11. The Tier 2 Supply Rate will be charged on a dollar-per-acre-foot basis for system supply delivered to meet firm demands that are greater than the Tier 1 Annual Limit. This rate may change as more information about the cost of transfers becomes available.
- c. **System Access Rate.** In order for rates to recover the full cost of service in 2010/11 the System Access Rate would increase by \$63 per acre-foot. The magnitude of this increase reflects cost increases and the under-collection of the System Access Rate in 2009/10 based on the rates that were adopted for 2010.

The System Access Rate recovers a portion of the costs associated with the conveyance and distribution system, including capital and operations and maintenance costs. All users of the Metropolitan system pay the System Access Rate (including member agencies and third-party wheeling entities).

- d. **Water Stewardship Rate.** The Water Stewardship Rate would increase by \$2 per acre-foot to \$43 per acre-foot to recover the costs associated with Metropolitan's demand management programs. The Water Stewardship Rate is charged on a dollar-per-acre-foot basis to collect revenues to support Metropolitan's financial commitment to conservation, water recycling, groundwater recovery and other demand management programs approved by the Board. The Water Stewardship Rate is charged for every acre-foot of water conveyed by Metropolitan, and is used to fund Metropolitan's commitment to local resource and conservation investments in fiscal year 2010/11, including the departmental costs of administering the demand management programs.
- e. **System Power Rate.** The System Power Rate is estimated to increase by \$16 per acre-foot to \$135 per acre-foot. The increase is due to higher projected power unit costs for pumping water on the SWP and higher delivery volumes on the CRA. The System Power Rate will be charged on a dollar-per-acre-foot basis to recover the cost of power necessary to pump water from the State Water Project and Colorado River through the conveyance system. The System Power Rate will be charged for all Metropolitan supplies.
- f. **Treatment Surcharge.** The treatment surcharge would not change, remaining at \$217 per acre-foot. The Treatment Surcharge recovers the cost of providing treated water service, including allocated capital financing costs and operations and maintenance cost.
- g. **Capacity Charge.** The Capacity Charge would remain unchanged at \$7,200 per cubic-foot-second. The Capacity Charge is a fixed charge levied on the maximum summer day demand placed on the system between May 1 and September 30 for the three calendar-year period ending December 31, 2009. The Capacity Charge recovers the cost of providing peak capacity within the distribution system. Daily flow measured between May 1 and September 30 for purposes of billing the Capacity Charge will include all deliveries made by Metropolitan to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries, but excluding replenishment service.
- h. **Readiness-to-Serve Charge.** The Readiness-to-Serve Charge would increase by \$21 million to \$135 million. This increase is due to increases in capital financing costs for conveyance. Metropolitan's Readiness-to-Serve Charge recovers costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge is allocated among the member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). Revenues equal to the amount of Standby Charges will continue to be credited against the member agency's Readiness-to-Serve Charge obligation unless a change is requested by the member agency.
- i. **Replenishment Water Rate.** Consistent with past actions, the untreated replenishment water rate would increase from \$366 per acre-foot to \$440 per acre-foot reflecting the increase in full service rates. Treated replenishment water rates would also increase from \$558 per acre-foot to \$632 per acre-foot, for the same reason. Replenishment service has been curtailed since May 2007 and is not expected to be available through fiscal year 2010/11.
- j. **Agricultural Water Rate.** The untreated agricultural water rate would increase from \$416 per acre-foot to \$513 per acre-foot to reflect the increase in full service rates and the reduction in the IAWP discount as adopted by the Board during the IAWP phase out period. The treated agricultural water rate would also increase from \$615 per acre-foot to \$718 per acre-foot, for the same reasons.

Figure 1 shows the projected reserve levels under the estimated rates and charges. Reserve fund balances include the Revenue Remainder Fund, the Water Rate Stabilization Fund, the Water Treatment Surcharge Stabilization Fund, and the Water Stewardship Fund.

**Figure 1. Reserve Fund Balances**



**REVENUE REQUIREMENTS**

The revenue requirements for 2010/11 are estimated to be \$1.39 billion. As shown in Table 2, this is about \$165 million more than the projected revenue requirements in the current fiscal year, and almost \$290 million higher than costs in 2008/09. Costs are projected to increase from about \$1.40 billion in 2009/10 to about \$1.55 billion in 2010/11. Taxes, interest income, power, and miscellaneous income are expected to generate about \$155 million, reducing the revenue requirement from rates and charges in 2010/11 to about \$1.39 billion.

**Table 2. Revenue Requirements for FY 2010/11 compared to prior year costs**

	\$ Millions			2010/11 Change from:	
	2008/09 Actuals	2009/10 Projected	2010/11 Test Year	2008/09	2009/10
Departmental & Other O&M (w/o Variable Treatment)	\$ 316.2	\$ 310.7	\$ 311.5	\$ (4.8)	\$ 0.7
Chemicals, Sludge & Power for Treatment	28.4	29.5	26.5	(1.9)	(3.0)
State Water Project (without Variable Power)	338.0	356.3	401.2	63.3	45.0
SWP Variable Power	56.7	96.4	99.7	43.0	3.3
CRA Power	37.4	46.3	59.6	22.2	13.3
Supply Programs paid from O&M	76.3	101.7	103.2	26.9	1.4
Demand Management	75.6	76.9	58.2	(17.4)	(18.6)
Debt Service	281.2	305.0	348.1	66.9	43.1
PAYGO	30.1	36.7	95.0	64.9	58.3
Change in Required Reserves	28.8	37.5	42.2	13.4	4.7
<b>Sub-total expenditures</b>	<b>1,268.8</b>	<b>1,397.0</b>	<b>1,545.3</b>	<b>276.5</b>	<b>148.3</b>
Revenue Offsets	168.3	171.3	154.8	(13.4)	(16.5)
<b>Total Revenue Requirement</b>	<b>\$ 1,100.5</b>	<b>\$ 1,225.7</b>	<b>\$ 1,390.4</b>	<b>\$ 289.9</b>	<b>\$ 164.8</b>

Totals may not foot due to rounding

**MAJOR ASSUMPTIONS - REVENUE REQUIREMENTS FOR FY 2010/11**

**Water Sales**

**1.93 million acre-feet**

Cash year water sales (including Tier 1, Tier 2, agricultural, and wheeling/exchange sales) are projected to be about 1.93 million acre-feet in fiscal year 2010/11. This forecast is based on expected demands under average weather conditions. If water sales are less than anticipated, rate stabilization reserves would be used to meet expenditures. Treated water sales are expected to be about 1.3 million acre-feet or 65 percent of total sales. About 1.66 million acre-feet are expected to be sold at the Tier 1 rate, 48 thousand acre-feet are expected to be sold at the higher Tier 2

rate, 62 thousand acre-feet are expected to be sold through the Interim Agricultural Water Program, and no water sales are projected at Replenishment rates.

**State Water Project (including SWP power)**

**\$500.9 million**

Total costs for 2010/11 under the State Water Project are estimated to be approximately \$500.9 million, including about \$100 million for variable power costs, net of projected credits. Costs for OMP&R and capital are expected to be \$45 million higher than in 2009/10. Much of this increase is due to the fact that 2009/10 expenditures will be reduced by a large, one-time refund that will be distributed from DWR back to the contractors. Metropolitan's share of this refund will be approximately \$23 million. State Water Project costs in 2010/11 will not benefit from this refund. Variable power costs for the State Water Project are expected to be \$3.3 million higher than in 2009/10, due to a higher projected power rate on the State Water Project. Costs of off-aqueduct power facilities are also projected to increase by more than \$8 million. SWP cost estimates are based on projected water deliveries of about 0.92 million acre-feet in 2010/11 and estimates provided by DWR.

**Colorado River Power Costs**

**\$59.6 million**

The revenue requirement incorporates costs associated with pumping approximately 1.18 million acre-feet from the Colorado River in 2010/11. Power from Metropolitan's share of Hoover and Parker, plus energy under the contract with Southern California Edison will not be sufficient to move these supplies. Total costs for pumping are estimated to be about \$59.6 million, which includes about \$39 million to procure power on the open market in 2010/11.

**Supply and Storage Programs**

**\$103.2 million**

Total expenditures for water transfer and storage programs are estimated to be about \$103.2 million in 2010/11. Colorado River Supply Program expenditures total \$54.2 million and include \$17.3 million for the Palo Verde Irrigation District (PVID) Program, \$10.1 million for the Imperial Irrigation District/Metropolitan Conservation Program, new agricultural water transfers of \$13.7 million, and \$13.1 million for various other Colorado River-based supply programs. Supply program costs along the State Water Project total \$39.2 million and include approximately \$30.3 million in Drought Water Bank purchases, \$4.2 million for the Arvin-Edison Water Storage Program, \$2.1 million for the Yuba Accord Program, and \$2.6 million for the Semitropic Water Storage Program. An additional \$9.8 million will be used to fund ongoing operating costs for in-basin supply projects including conjunctive use programs within Metropolitan's service area. Drought Water Bank costs reflect expenditures for transfers that will be delivered in calendar year 2011. It is anticipated that 100 thousand acre-feet of transfer water will be purchased through the Drought Water Bank for calendar year 2011.

**Demand Management Programs**

**\$58.2 million**

Demand management program payments made to the member agencies in support of local resources development and active conservation efforts are expected to total \$58.2 million in 2010/11. This reflects incentive payments for conservation of \$19.1 million and local resources development of \$39.1 million. These incentives do not reflect other costs associated with these programs, including labor, administration, and public information and outreach costs of almost \$19.3 million that are included in Metropolitan's departmental O&M estimates. Recycling and groundwater recovery projects supported by Metropolitan are expected to increase annual production by about 27 thousand acre-feet over current year estimates, to a total of 250 thousand acre-feet in 2010/11. Projected expenditures reflect Metropolitan's ongoing commitment to water conservation, local recycling, and groundwater cleanup. These estimates are consistent with efforts to develop local water supplies in cooperation with the member agencies and other local agencies based on the Integrated Resources Plan.

**Capital Financing Program**

**\$443.1 million**

Capital Financing Program costs include \$294 million of water revenue bond debt service payments on approximately \$4.6 billion of outstanding Water Revenue Bond debt as of December 31, 2009. This represents an increase of approximately \$43 million above 2009/10 projected debt service payments, due in part to the issuance of water revenue bonds in 2009/10 and 2010/11 to finance the ongoing CIP. These costs also reflect debt service increases that are the result of higher interest payments for taxable Build America Bonds (BABs). As part of the Federal American Recovery and Reinvestment Act, the Federal government will provide a subsidy to public entities like Metropolitan that issue taxable bonds. While the interest payments on these bonds are higher than tax-exempt bonds, Metropolitan will receive a subsidy from the Federal government equal to 35 percent of the interest payment, making these bonds an attractive funding option for the capital program. The subsidy does not show up in Metropolitan's debt service,

rather it increases Metropolitan's revenue offsets, which reduce the revenue requirement to be generated from rates and charges. Additional capital financing costs include \$39 million of general obligation bond debt service which are paid by ad valorem property taxes, and \$15.1 million for debt administration expenses for remarketing, liquidity support, and administrative costs associated with Metropolitan's variable rate debt program, and State Revolving Fund Loan payments.

In addition to debt service, Metropolitan's capital financing costs include \$95 million of capital expenditures funded from revenues or reserves, also referred to as PAYGO funding. By way of comparison, more than \$170 million of the proposed Capital Improvement Program in 2010/11 is for replacement and refurbishment (R&R). R&R expenditures are reflective of the ongoing cost to maintain Metropolitan's facilities due to the current and previous use of the system. Under prior board policy and direction, \$95 million of these costs would be paid by current users of the system, as opposed to debt-financed. This policy was included in the Long Range Finance Plan, and reflected a compromise between funding all repair and replacement capital costs through revenues and mitigating rate impacts in the near term. As such, it is appropriate for PAYGO levels to be increased from the \$36.7 million in the 2009/10 budget to \$95 million in 2010/11. By restoring PAYGO funding to \$95 million from rates and charges in 2010/11 and beyond, Metropolitan's revenue bond coverage will come closer to meeting the board-adopted target of 2 times debt service coverage. In the future, funding PAYGO through rates at or above \$100 million per year will be an important part of Metropolitan's strategy to maintain its high bond ratings and mitigate long-term debt service costs.

### **Operations and Maintenance**

**\$338 million**

The revenue requirement includes \$338 million for operations and maintenance, including labor and benefits, professional services, operating equipment purchases and water treatment chemicals, power, and solids handling. This estimate is \$2.3 million or about one percent lower than projected 2009/10 costs. A detailed breakdown of departmental budgets is provided in the 2010/11 proposed budget.

### **Adjustments in Reserves**

**\$42.2 million**

Required reserve balances are estimated to increase by \$42.2 million from June 30, 2010 to June 30, 2011, in accordance with board policies contained in Metropolitan's Administrative Code for the State Water Contract Fund, and Revenue Remainder Fund, and in accordance with bond covenants for the Operations and Maintenance Fund and Revenue Bond Reserve Funds. About \$15.3 million of this portion of the revenue requirement is for the increase in the board-adopted minimum reserve levels for rate stabilization purposes. This portion is subtracted from the revenue requirement for the purposes of calculating the necessary rate increases.

### **Other Revenues**

**\$154.8 million**

To determine the rates and charges revenue requirement, the total estimated obligations of \$1.54 billion are reduced by revenue from ad valorem property taxes, interest income, hydropower revenues, CRA power sales, Federal BAB subsidies, and miscellaneous revenues. Ad valorem property taxes levied at the current tax rate of 0.0043 percent of assessed valuations are estimated to be \$80.8 million. Annexation charges are expected to provide \$1 million. BAB subsidies are expected to generate \$10.4 million in 2010/11. Power recoveries, interest on investments and miscellaneous revenue are expected to produce \$62.6 million in 2010/11. Based on the projected expenditure estimates described above, total revenues required from rates and charges in 2010/11 are projected to be \$1.39 billion.

### **OTHER CONSIDERATIONS**

It is important for Metropolitan's rates and charges to cover the full cost of service without relying on continued draws from financial reserves. It is also important however, to acknowledge the challenging economic circumstances that face Metropolitan's member agencies and retail customers throughout the service area. Metropolitan's financial reserves are in better condition than was forecasted a year ago. While a 12.6 percent increase in 2011 would allow Metropolitan to cover costs in fiscal year 2010/11, there may be other alternatives that result in reasonable financial stability for Metropolitan while reducing the immediate strain on ratepayers. A 12.6 percent increase in 2011 would need to be followed by a minor increase in 2012 to continue covering Metropolitan's costs. The Board may consider a two-year rate increase that would lock in rates for 2011 and 2012. This two-year rate increase could smooth out the impact of increases by adopting two successive single digit increases. This approach would likely require a draw from reserves in 2010/11, but rates would cover the

full cost of service during the 2011 calendar year and fiscal year 2011/12. Under this two-year approach, financial ratios would be lower in the first year than with a single 12.6 percent increase, but the second year would achieve revenue bond coverage targets. Staff also believes that a board action to adopt two successive rate increases at one time will demonstrate a commitment to restore revenue bond and fixed charge coverage ratios. Staff will work with the Board in coming weeks to better understand options for a two-year rate increase.

### **RECOMMENDATION**

This letter requests that the Board set a public hearing at which interested parties may provide input regarding Metropolitan's rates and charges to be effective January 1, 2011, for the February meeting of the Business and Finance Committee.

### **Policy**

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Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenues

### **California Environmental Quality Act (CEQA)**

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CEQA determination for Options #1 and #2:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve 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).

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

### **Board Options**

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#### **Option #1**

Adopt the CEQA determination and set a public hearing at which interested parties may provide input regarding Metropolitan's rates and charges to be effective January 1, 2011, for the February meeting of the Business and Finance Committee.

**Fiscal Impact:** None

#### **Option #2**

Take no action.

**Fiscal Impact:** None

**Staff Recommendation**


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Option #1

  
\_\_\_\_\_  
Brian G. Thomas  
Chief Financial Officer

12/29/2009

*Date*

  
\_\_\_\_\_  
Jeffrey Nightlinger  
General Manager

12/29/2009

*Date*

**Attachment 1 – Metropolitan Water District of Southern California, FY 2010/11 Cost of Service**

Reference Number cfo12602747



● **Board of Directors**  
***Business and Finance Committee***

1/12/2010 Board Meeting

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9-1

**Subject**

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Proposed 2010/11 Fiscal Year Budget

**Description**

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

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

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

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

- a. **Sustainability** - Metropolitan will strive to meet the needs of the present by providing a secure and reliable water supply to its member agencies without compromising the ability of future generations to meet their needs. Faced with continuous change and new emerging issues within our communities, economy, and environment, ensuring a sustainable water supply will require Metropolitan and its member agencies to work together with regulatory, wastewater, storm water, and other agencies in the watershed to ensure that water is used efficiently and effectively throughout the water cycle.
- b. **Energy** - Energy (including payments under the State Water Project contract) currently accounts for about one-fourth of the expenditure budget, not including the Capital Investment Plan (CIP). Managing market risk and rising costs is an increasingly important activity. In addition, legislation regarding greenhouse gas emissions and renewable resources, along with expiring contracts, will require new ways to secure reliable, cost-effective supplies of energy.
- c. **Water Supply** - The Integrated Water Resources Plan and the Five-Year Water Supply Reliability Program will support Metropolitan's mission to supply a safe, reliable supply of high quality water emphasizing the need for local resources and conservation. The actions in the Five-Year Supply Reliability Program, however, will result in higher cost water supplies necessary to mitigate losses due to the regulatory restrictions associated with the Delta Smelt Biological Opinion. In particular, additional expenditures on the Bay-Delta and near- and long-term efforts to improve conveyance and reliability are an important part of the proposed budget.
- d. **Communications Technology** - Effective automation and interactive technology are keys to increasing the efficiency of Metropolitan's business processes and communications with the Board, member agencies, and internal as well as external communications with legislators, media, and the public.
- e. **Workforce** - Metropolitan will continue to invest in its employees to prepare for changes in the workforce as long-term employees begin to retire and new employees are hired. The proposed budget has reduced the number of budgeted positions from 2,019 to 1,956, further emphasizing the importance of ensuring that all of our employees are highly skilled and capable of effectively contributing to Metropolitan's objectives and mission.
- f. **Sustainable and Efficient Business Processes** - Metropolitan is committed to minimizing its resource use and environmental impacts associated with its day-to-day business functions. Taking advantage of long-term opportunities to reduce costs and Metropolitan's carbon footprint continues to be an important strategy in the proposed budget.
- g. **Finance** - The foundation for Metropolitan's success in securing water supplies is its strong financial standing. The proposed budget incorporates necessary rate increases to cover the full cost of service in 2010/11 without drawing from financial reserves to meet expenditures. Increasing rates while continuing to manage costs are a necessary part of maintaining Metropolitan's strong credit rating in the face of current economic challenges.

## BUDGET REVIEW SCHEDULE

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

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

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

## FY 2010/11 BUDGET SUMMARY

As summarized in Table 1, the proposed 2010/11 expenditure budget, including CIP, totals \$1.74 billion. This is about \$62 million less than the 2009/10 budget and about \$54 million greater than projected expenditures in 2009/10. As Metropolitan enters the 2010/11 fiscal year, it must contend with the following cost drivers:

- a. **Debt Service** - As Metropolitan funds its ongoing CIP, debt service will continue to rise. It is projected that debt service in 2010/11 will be \$348 million, or \$43 million greater than projected and about \$17 million higher than budgeted in 2009/10. This primarily reflects increased debt, including the planned issuance of \$400 million of fixed rate bonds in 2010/11 to fund the CIP.
- b. **State Water Project Costs** - The cost for the State Water Project continues to rise, even in the face of lower deliveries. The State Water Contract is a “take-or-pay” contract, and Metropolitan is obligated to pay the capital and operating costs, even if no water is delivered. Deliveries on the State Water Project are expected to total 0.92 million acre-feet, including transfers, State Water Project supplies, draws from Central Valley Storage accounts, and exchanges. In 2010/11, Metropolitan’s State Water Project costs are estimated to be \$501 million, about \$48 million more than projected, and \$22 million higher than the 2009/10 budget. The primary drivers of these increases compared to the 2009/10 budget are a \$17.4 million increase in SWC capital charges and a \$7.5 million increase in power cost.
- c. **Water Supply Programs** - Due to restrictions placed on Metropolitan’s Colorado River supplies in 2003 and the continuing pressures on its State Water Project supplies due to hydrology and pumping restrictions imposed to protect endangered fish (e.g., Delta smelt), Metropolitan has continued to emphasize development of alternative supply sources including water transfers and exchanges. The cost of these programs is expected to be \$103 million in 2010/11, about \$11 million lower than projected expenditures in 2009/10, and about \$22 million lower than in the 2009/10 budget. These programs are expected to recover 97 thousand acre-feet (TAF) of previously stored groundwater supplies and generate 405 TAF of net transfer deliveries on the Colorado River Aqueduct and State Water Project.
- d. **Capital Funding** - Ongoing investments in Metropolitan’s infrastructure will total about \$328 million. This is \$85 million less than the 2009/10 budget, reflecting changes in project scheduling and the completion of some major projects in 2009/10 resulting in lower projected 2010/11 expenditures. The 2010/11 budget reflects the issuance of an additional \$400 million of bonds, of which about \$233 million of proceeds will be used to fund the CIP in 2010/11.

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

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

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

Totals may not foot due to rounding.

## FY 2010/11 OPERATIONS AND MAINTENANCE BUDGET SUMMARY

In response to both the cost drivers noted above, and the need to meet the Board's priorities, the proposed 2010/11 departmental operations and maintenance (O&M) budget is \$2.9 million less than the \$340.9 million 2009/10 budget, and \$2.3 million less than projected O&M expenditures. In order to meet these targets, several actions are reflected in the proposed O&M budget, including:

- Zero increase in base salaries** - The proposed budget does not include an increase in base salaries with the exception of a previously negotiated increase for employees in the Supervisors Association totaling \$0.4 million. The budget includes increases in benefit costs, including retirement and medical, of \$2.3 million. In addition, an allowance for merit increases is included in the budget, leading to another \$2.2 million increase in labor costs.
- Increased O&M work** - A reduction in capital work has permitted renewed emphasis on deferred water system O&M work and support of programs in the Bay-Delta. This resulted in a shift from capital to O&M work in these areas of \$2.8 million and \$2.4 million, respectively.
- Reduced positions and vacancy rates** - The total personnel budget includes a reduction of 63 net positions. The combined effect of increased benefit costs, merit increases, increased O&M work, and a reduced vacancy rate offset by a reduction of 63 positions is an \$8.3 million overall increase in the labor budget.
- Reduced conservation outreach expenditures** - The 2010/11 budget includes \$1.2 million for conservation advertising. This is about \$2.5 million less than in the 2009/10 budget. Given the current water supply conditions, earned media is expected to provide a significant share of the conservation message over the next fiscal year. As a result, this area of Metropolitan's program has been reduced. Conservation incentives and the administrative costs of the conservation incentives programs are maintained at the same levels in the 2009/10 budget of about \$19.1 million and 1.7 million, respectively.
- Operating Equipment** - Operating equipment expenditures will be reduced by almost \$3.2 million from the 2009/10 budget. This will be the second year operating equipment purchases have been reduced by this magnitude. The 2008/09, 2009/10, and 2010/11 budgets for operating equipment totaled \$9.0 million, \$5.3 million, and \$2.1 million, respectively. Staff will need to continue to optimize the use of equipment that has experienced lower utilization in an effort to limit replacements to the oldest, least reliable equipment and manage the potentially increasing maintenance cost on older equipment. As mentioned

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

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

**Table 2. Budget Summary – Operations and Maintenance**

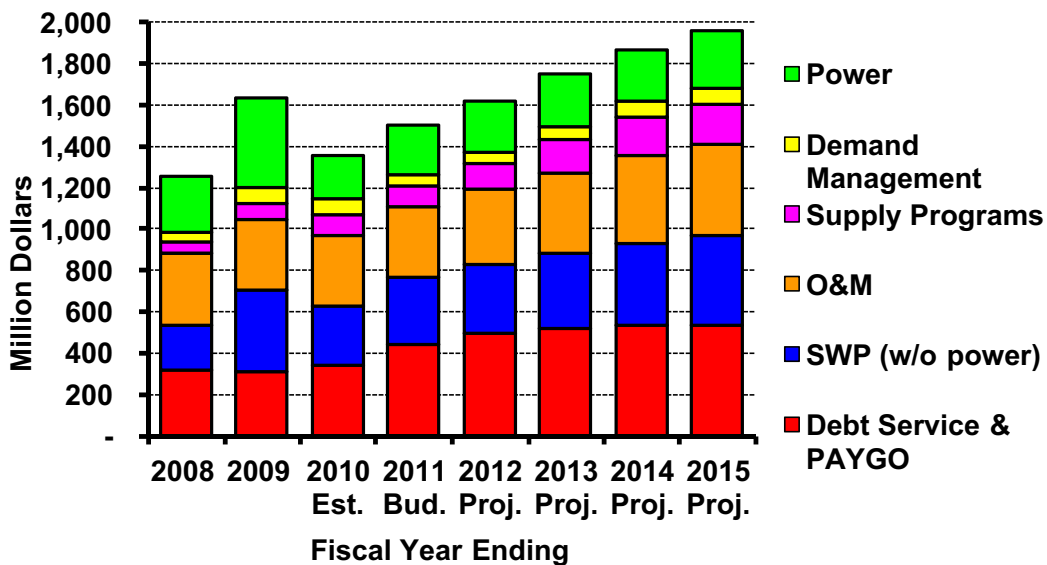
	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Proposed	Change from:	
					2009/10 Budget	2009/10 Projected
Salaries & Benefits	207,977,100	204,714,300	205,974,400	212,976,600	8,262,300	7,002,200
Chemicals, Solids, and Power *	24,933,500	32,837,200	29,492,300	26,493,300	(6,343,900)	(2,999,000)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

\* Costs associated with treatment plants only.

**BUDGET TREND**

To provide a longer-term picture of Metropolitan’s costs, Figure 1 shows the major expenditure categories over the past two years, the estimate for the current fiscal year, as well as the projection for the following four years. From 2007/08 through 2014/15, expenditures are forecast to increase by about \$706 million, or about 7 percent annually. The primary cost drivers from 2008/09 to 2013/14 are a \$218 million increase in debt service and PAYGO expenditures, a \$212 million increase in fixed State Water Project Costs, \$139 million increase in supply program costs, and a \$96 million increase in departmental O&M.

**Figure 1. Seven-year Expenditure Trend**



## **USES OF FUNDS**

### **Total**

As shown in Table 1, the total FY 2010/11 cash outlays for State Water Contract (SWC) payments, supply programs, Colorado River Aqueduct (CRA) power, debt service, demand management programs, O&M, and the CIP are budgeted at \$1.74 billion. This is \$61.9 million (3.4 percent) less than the 2009/10 budget and \$54.1 million (3.3 percent) greater than projected. Under this financing package, \$95 million of water revenues will be deposited to the Replacement and Refurbishment fund to pay for a portion of this work in the CIP. This is \$58.3 million more than budgeted for 2009/10.

### **State Water Project**

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

### **Supply Programs**

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

### **CRA Power**

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

### **Conservation and Recycled Water**

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

### **Operations and Maintenance**

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

The total personnel complement for 2010/11 is 1,956 positions, decreasing by 63 positions from the 2009/10 budget, which was reduced by 33 positions compared to 2008/09. A total of 114 positions have been eliminated from Metropolitan's budget since the 2006/07 budget year. Additional changes in personnel will depend on long-range staffing plan inputs related primarily to CIP impacts and a continued emphasis on maintenance management best practices. The proposed 2010/11 budget assumes a vacancy rate of approximately 2.6 percent across the organization, which is significantly lower than the 5.5 percent vacancy rate assumed for the 2009/10 budget.

### **Capital Investment Plan**

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

### **Sources of Funds**

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

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

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

### **RESERVES**

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

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

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

Totals may not foot due to rounding.

**Attachment 1**, FY 2010/11 Proposed Budget Summary, discusses the sources of funds, including receipts and fund withdrawals, and uses of funds including expenditures and fund deposits in more detail.

**Policy**

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Metropolitan Water District Administrative Code Section 5107: Annual Budget

**Fiscal Impact**

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None

  
\_\_\_\_\_  
Brian G. Thomas  
Chief Financial Officer

12/29/2009  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Jeffrey Lightinger  
General Manager

12/29/2009  
\_\_\_\_\_  
Date

**Attachment 1 – 2010/11 Proposed Budget Summary**

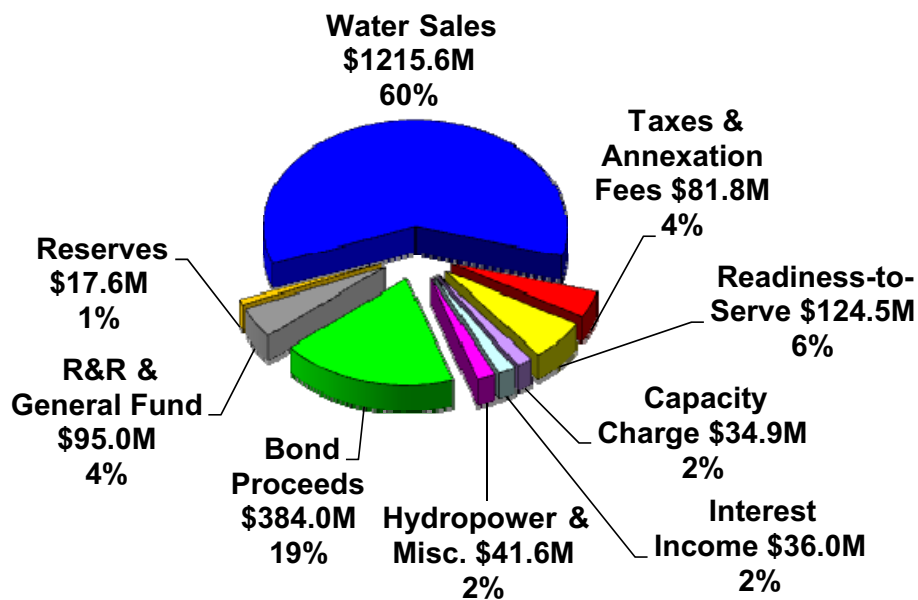
Reference Number 633928526495335538

## Budget Summary

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

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

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



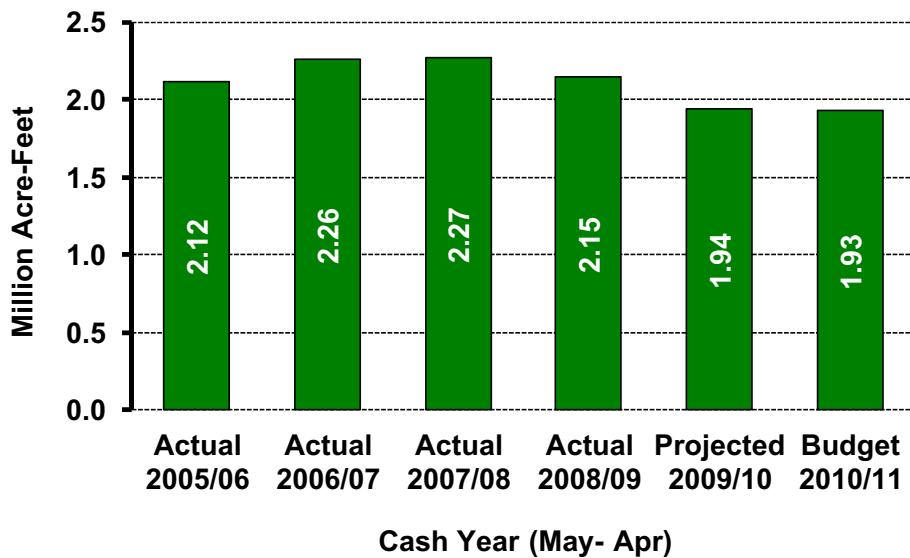
## SOURCES OF FUNDS

Estimated receipts from water sales, the readiness-to-serve (RTS) charge, the capacity charge, taxes, annexation fees, interest income, power recoveries, and other miscellaneous income are projected to be \$1.53 billion for fiscal year 2010/11 and constitute the major revenue sources for Metropolitan. This is \$160.9 million more than the 2009/10 Budget. The increase in revenues is primarily due to increases in water rates in 2010 and 2011. Figure 1 shows the major sources of funds. Summaries of sources and uses of funds are shown in Tables 5 and 6 at the end of this section. A description of each revenue source is included in the Glossary of Terms.

### Water Sales

Receipts from water sales are budgeted at \$1,215.6 million and are based on rates and charges adopted by the Board for January 1, 2010 and an increase in base rates and charges of 12.6 percent on January 1, 2011. These rates would fully recover the cost-of-service in 2010/11.

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

**Figure 2. Five-Year Trend of Water Sales**

The 2010/11 cash year water sales include 1.71 MAF of firm sales, zero replenishment sales, 62 thousand acre-feet (TAF) of agricultural sales, and 156 TAF in wheeled / exchanged sales. Treated sales are estimated to be 1.25 MAF or 65 percent of total sales. Figure 2 shows the five-year trend of water sales.

#### **Taxes and Annexation Fees**

Revenues from taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the State Water Contract (SWC), are estimated to be \$81.8 million.

#### **Capacity and Readiness-to-Serve Charges**

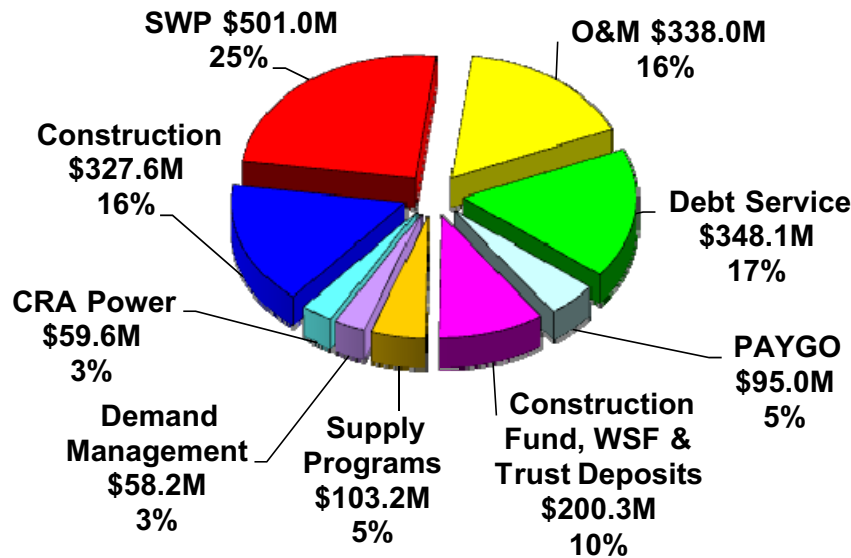
The Capacity Charge and Readiness-to-Serve Charge for 2010/11 are estimated to generate \$124.5 million and \$34.9 million, respectively, or \$23.1 million more in total than in the 2009/10 budget.

#### **Other Revenue**

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

#### **Other Sources**

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

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

## USES OF FUNDS

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

### Colorado River Aqueduct Power

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

### State Water Contract

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

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

SWC minimum operations, maintenance, power, and replacement charges are \$2.6 million lower than the 2009/10 Budget. Capital charges are expected to be \$17.4 million higher than the 2009/10 Budget.

### Demand Management Costs

Metropolitan provides financial assistance to its member agencies for the development of local water recycling and groundwater recovery projects through the Local Resource Program (LRP). Metropolitan also provides financial assistance for the development of conservation programs through the Conservation Credits Program (CCP).

As part of the LRP, Metropolitan has entered into agreements to provide financial assistance to 63 water-recycling projects. Fifty-eight of these projects are in operation and the remaining five projects are under design or construction. Recycling projects that receive Metropolitan contributions are expected to produce 194 TAF of recycled water, principally for landscape irrigation, groundwater recharge, and industrial uses. In 2010/11, Metropolitan is expected to spend \$29.4 million on these efforts.

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

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

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

#### **OPERATIONS AND MAINTENANCE**

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

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

increase is the result of various upward pressures including:

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

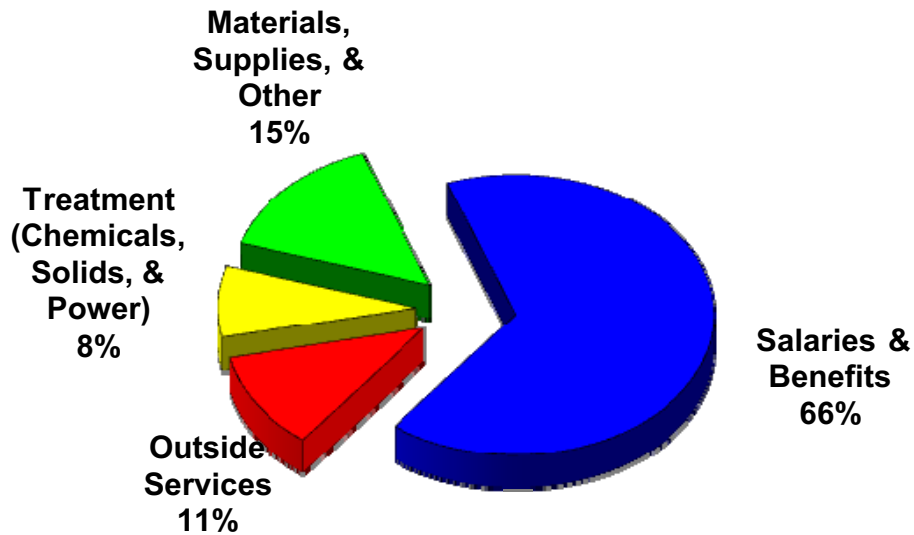
While these factors lead to labor cost increases, the 2010/11 budget assumes no cost-of-living adjustments in salaries for the workforce. The budget also reflects a total net reduction of 63 budgeted positions. Most of these positions had been held vacant in the 2009/10 budget, and eliminating these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

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

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

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

**Figure 4. 2010/11 Departmental Budget by Expenditure Type**



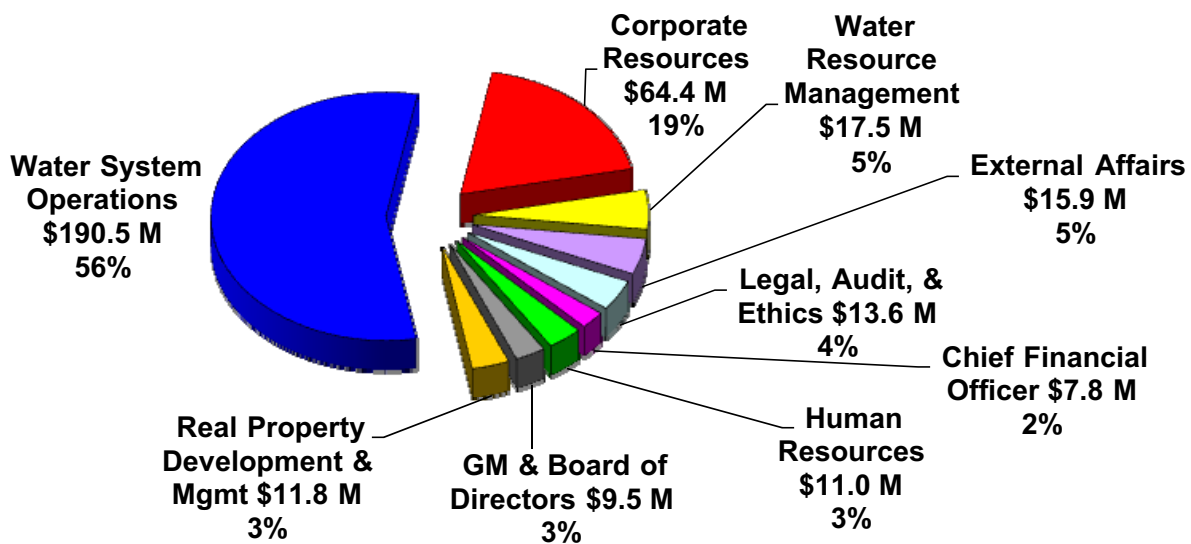
A summary of the 2010/11 O&M Budget by organization is shown in Table 2. Vendor administration of the Conservation Credits Program (CCP) is now reflected as Other O&M for greater visibility. These expenditures were part of the 2009/10 O&M budget for the Water Resource Management (WRM) Group. As a result,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

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

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

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

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



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

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

Totals may not foot due to rounding

## LABOR

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

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

**Table 2. Regular and Temporary Positions**

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

**Table 3. O&M and Capital Staffing Levels**

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

## Supply Programs

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

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

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

## ANNUAL CAPITAL INVESTMENT PLAN

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

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

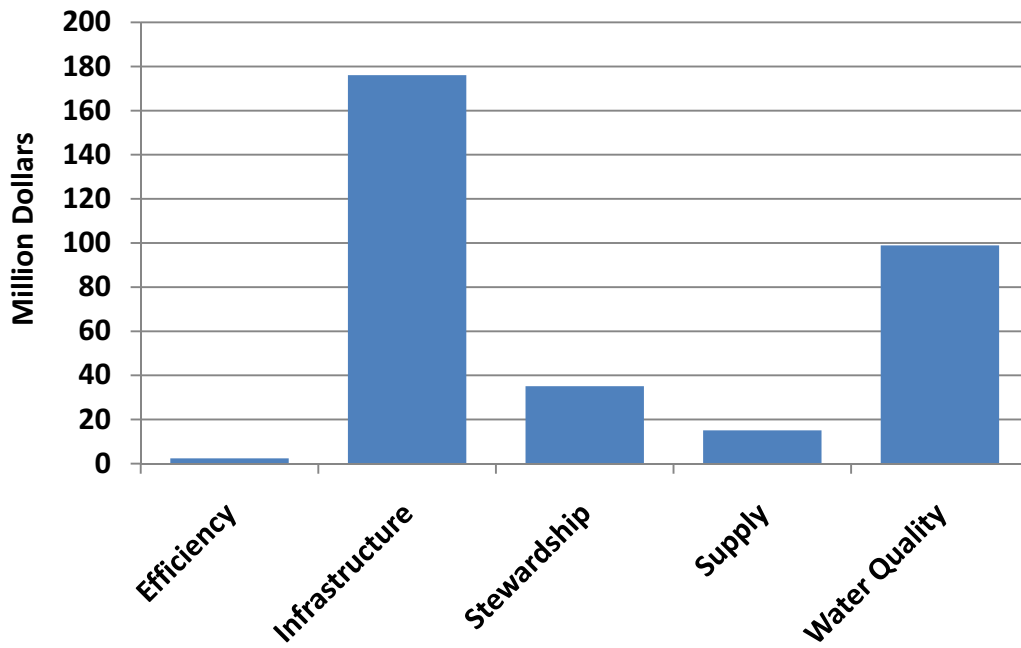
There are 335 projects included in the 2010/11 CIP. Major CIP projects that will be in design and/or construction next fiscal year include:

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

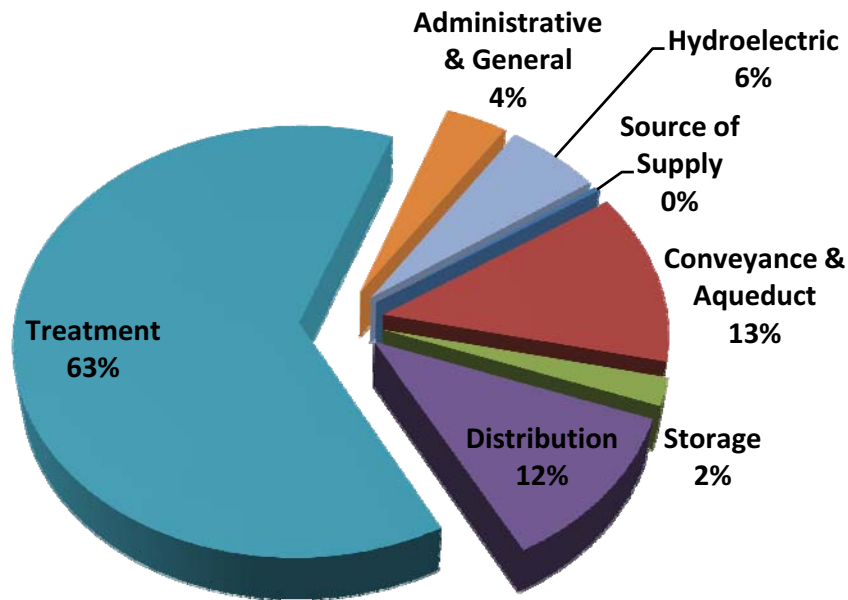
The projects listed above account for 83 percent of the total 2010/11 CIP expenditures. Figure 5 shows the planned expenditures in the 2010/11 CIP under the five project driver categories.

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

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



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



### **Cash Funded Capital**

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

### **Debt Service**

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

Debt service payments are budgeted to be \$348.1 million and include \$39.0 million in G.O. bond debt service, \$294.0 million in revenue bond debt service, \$12.5 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and \$2.6 million for State Revolving Fund Loan payments. Total debt service costs are \$17.4 million more than the 2009/10 Budget.

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

### **Reserve Transfers**

The 2010/11 budget could require use of just under \$100,000 of reserves plus the 12.6 percent rate increase in January 2010. While in total, there will be close to no draws from Metropolitan's reserve funds, there will be some transfers among the funds. The Water Rate Stabilization Fund (WRSF) and the Treatment Surcharge Stabilization Fund (TSSF) are expected to be drawn down by about \$17.6 million. Conversely, the Revenue Remainder Fund is expected to increase by \$15.3 million and the Water Stewardship Fund (WSF) is expected to increase to \$2.1 million.

### **FUND BALANCES AND RESERVE LEVELS**

Metropolitan operates as a single enterprise fund for financial statements and budgeting purposes. Through its Administrative Code, Metropolitan identifies a number of accounts, which are referred to as funds, to separately track uses of monies for specific purposes as summarized in Table 6. Fund balances are budgeted to be \$1,234.2 million at June 30, 2011. Of that total, \$894.1 million is restricted by bond covenants, contracts, or board policy, and \$340.1 million is unrestricted. Table 4 shows a breakdown of reserves by fund type. Figure 7 shows the distribution of funds by type.

The minimum and maximum reserve fund targets are estimated to be \$235.3 million and \$576.0 million, respectively, at June 30, 2011. Based on projected receipts and expenditures, it is estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF will total about \$308.5 million, about \$73.2 million over the minimum target.

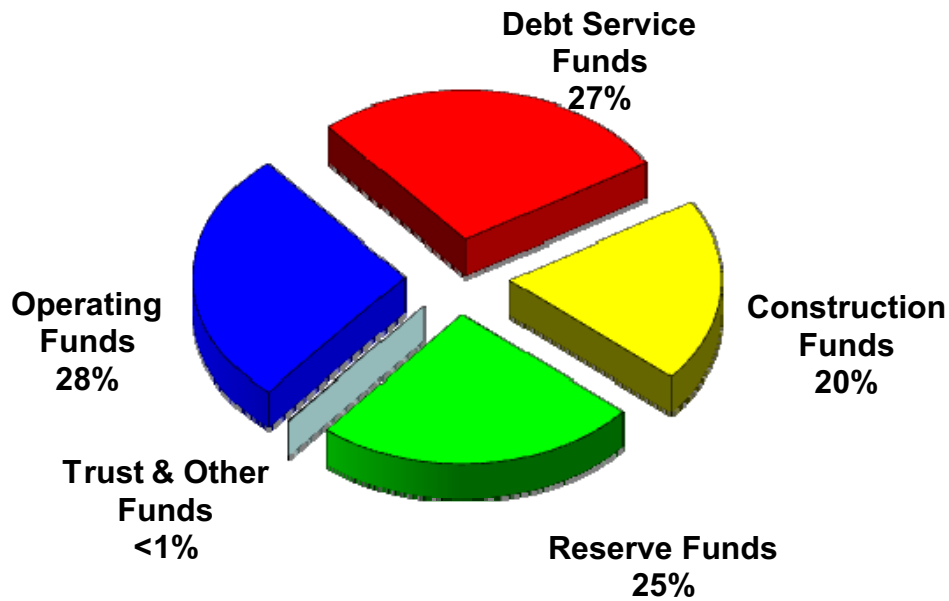
**Table 4. Projected Fund Balances at June 30, 2011 (dollars in millions)**

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

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

Totals may not foot due to rounding.

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



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

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

Totals may not foot due to rounding.

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

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

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