THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

BOARD ACTION

- **Board of Directors**
  Finance and Insurance Committee

2/11/2014 Board Meeting

8-1

Subject

Proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16; proposed water rates and charges for calendar years 2015 and 2016; and setting public hearings

Executive Summary

This letter presents the proposed biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16 (FY 2014/15 and FY 2015/16), proposed water rates and charges for calendar years 2015 and 2016, and a ten-year financial forecast. This budget and ten-year forecast provides funding for Metropolitan's key priorities while meeting all financial policy guidelines, with proposed overall rate increases of 1.5 percent in each year of the proposed biennial budget, and overall rate increases in the range of 3 percent to 5 percent thereafter for the ten-year financial forecast. The proposed overall rate increases of 1.5 percent are at their lowest level in the past ten years. The proposed rates meet cost of service, as shown in the attached Cost-of-Service report for each fiscal year of the biennial budget.

Figure 1: Historic and Projected Overall Rate Increases

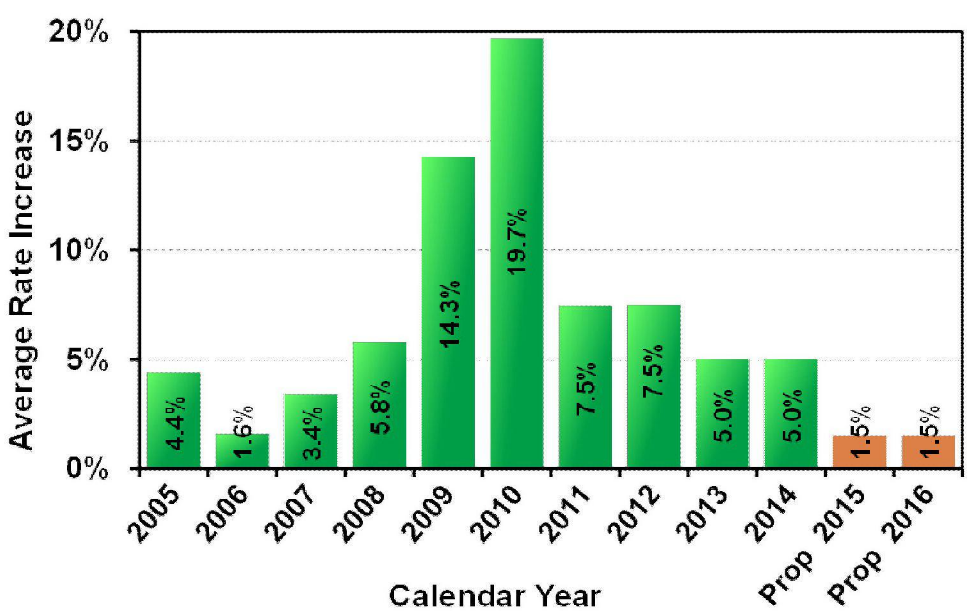


Table 1: Full Service and Exchange Rates and Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost ($/AF)					
Tier 1	$593	$582	(1.9%)	$594	2.1%
Tier 2	$735	$712	(3.1%)	$729	2.4%
Full Service Treated Volumetric Cost ($/AF)					
Tier 1	$890	$925	3.9%	$946	2.3%
Tier 2	$1,032	$1,055	2.2%	$1,081	2.5%
Untreated Exchange Cost ($/AF)	$445	$422	(5.2%)	$439	4.0%
Readiness-to-Serve Charge ($M)	$166	$158	(4.8%)	$152	(3.8%)
Capacity Charge ($/cfs)	$8,600	$10,700	24.4%	$10,300	(3.7%)

Key Assumptions

The Governor of the state of California recently declared a drought emergency and has called for all Californians to reduce consumption by 20 percent, and there are indications that the State Water Project allocation for calendar year 2014 will remain at 5 percent or possibly even go lower in the near future. Metropolitan fully supports the Governor's declaration and will be working with our member agencies to achieve this goal. In addition, staff is recommending that the Metropolitan Board adopt a formal Water Supply Alert Resolution for Metropolitan's service area, which embraces the Governor's call on all Californians to voluntarily reduce water use by 20 percent. While it is certainly possible that weather conditions may improve in the months ahead and reduce the severity of the drought, it will be a difficult year.

Metropolitan is prepared to meet these challenges. Metropolitan is producing reliable water supplies to the region throughout a variety of hydrologic conditions. Metropolitan has a diversity of water supplies and has made substantial investments in storage programs to help meet customer demands if the next several years are dry. Past experience is that during drought periods, Metropolitan's water sales can vary widely. It is, therefore, reasonable for Metropolitan to base the proposed biennial budget and revenue requirement on more normal conditions as outlined below:

Water sales projection – Water sales are projected to be 1.75 million acre-feet (MAF) for both years of the biennial budget, the same estimate used in the previous biennial budget projections. These projections assume an average year hydrology. In addition, it assumes that the implementation of local projects, such as the San Diego County Water Authority Carlsbad desalination project and Orange County Groundwater Replenishment System expansion project, will become operational in 2016 and annually produce 50 thousand acre-feet (TAF) and 30 TAF, respectively.

State Water Project (SWP) – Assumes deliveries of 955 TAF for both years of the biennial budget, which is a 50-percent allocation.

Colorado River Aqueduct (CRA) – Assumes deliveries of approximately 880 TAF for both years of the biennial budget.

Potential impact of drought on water sales projections and water supplies – Water sales in the current year are trending towards 2 MAF due to increased demands by our customers. However, with the Governor's drought declaration, and working in concert with our member agencies, sales could decline in the near future to 1.6 to 1.8 MAF that is reasonably close to the 1.75 MAF used as projected water sales. Likewise, lower water deliveries from SWP can be made up in part by higher deliveries from the CRA, and drawdowns of water storage. Overall, any change in revenues or costs can be covered by financial reserves established for this purpose for the next biennial budget period.

Use of projected reserves over target – It is projected that the water rate stabilization reserves will be $320 million over the target on June 30, 2014 due to higher water sales and lower costs in the current fiscal year. To help keep future rate increases low and provide reserves for funding our water storage and supply programs should the drought continue, it is proposed to use the $320 million as follows:

- Deposit $100M in the Replacement and Refurbishment (R&R) fund to make up for lower funding of the PAYGO in past budgets of approximately $300 million. This will eliminate the need to issue new debt for the capital program for the next three years, and allows for lower rate increases in the future;
- Deposit $100M into the Other Post Employment Benefit (OPEB) Trust. This would reduce the annual required contribution (ARC) by $6.5 million annually beginning in FY 2015/16, make up for past underfunding of this benefit, improve the funded percentage from 13 percent to 43 percent, and reduce the need for water rate increases by $6.5 million; and
- Deposit the balance of any amount over the reserve target, after the deposits to OPEB and PAYGO, (currently estimated at $120 million) in a water transfer and management fund to cover future costs associated with replenishing storage and related drought response activities should the current drought conditions continue.

STEPS TAKEN TO KEEP RATES LOW

The proposed rate increases of 1.5 percent in both years of the biennial budget are one-half the previous projections of 3 percent annually. The proposed biennial budget takes several steps to keep rates low for the next two years as well as within a 3-percent to 5-percent range over later years of the ten-year financial forecast. These steps include:

Greater reliance on PAYGO funding for Capital Program – The proposed biennial budget includes an increase to PAYGO funding from $250 million ($125 million each year) for the current biennial budget to $466 million for the proposed biennial budget. For the years beyond the biennial budget, it is recommended that the Board establish a PAYGO target of 60 percent of the projected expenditures in the Capital Investment Plan (CIP). This level of PAYGO funding is appropriate given the significant portion of the capital program that is focused on replacement and refurbishment of capital facilities, and lessens the pressure on water rates from debt service payments in future years. In addition, it allows the amount of PAYGO to adjust to changes in the capital program over time. This higher level of PAYGO funding combined with withdrawals from the R&R Fund will cover 100 percent of the projected capital spending for the next three years, and reduce the need for rate increases in future years.

Improve funding of OPEB – The prior biennial budget began the process to fund Metropolitan's OPEB liability, which was then estimated at $400 million. That budget incorporated a plan to phase in over a five-year period the additional $25 million that was required to be set aside annually. The proposed biennial budget accelerates this time period by providing full funding of the annual required contribution to the OPEB Trust as determined by the actuary, three years earlier than the previous budget. This change along with the proposed deposit of $100 million into the OPEB Trust at the end of the current fiscal year lowers future annual costs by $6.5 million beginning in FY 2015/16, and improves the funded percentage from 13 percent to 43 percent.

Maintain the ad valorem tax rate at the current level – It is proposed that the Board continue to suspend the ad valorem tax limit pursuant to the MWD Act, as the Board did for the FY 2013/14 tax levy, to maintain the ad valorem tax rate at the current level of .0035 percent of assessed value. This is projected to generate ad valorem tax revenues of $90.2 million in FY 2014/15 and $92.2 million in FY 2015/16. Over the biennial budget period, maintaining the ad valorem tax rate at the current level will provide revenues that can be used to pay for growing state water contract costs, help to maintain a balance between fixed and variable revenues, and reduce the need for future water rate increases.

CONTINUED FUNDING OF KEY PRIORITIES

Management of Water Storage Accounts

Metropolitan has made significant investments in the ability to store water, and as the past year has demonstrated, these investments have greatly increased the reliability of the water supply for the entire region Metropolitan serves. At the end of FY 2013/14, approximately $120 million are proposed to be transferred to a water transfer and management fund to offset costs of responding to drought conditions should they continue, and refilling our water storage once the drought is over.

The proposed biennial budget provides funding for continued use of storage in Metropolitan's service area, the Central Valley, and the Colorado River system. Supply programs are budgeted at $69 million for FY 2014/15 and $65 million for FY 2015/16.

Demand Management Incentives to Meet 20 Percent by 2020

Funding for the conservation programs continues at the previously budgeted level of $20 million annually to help ensure that our member agencies and retail water agencies meet the 20 percent by 2020 goal of reduced per capita water consumption. Local Resource Program (LRP) expenditures of approximately $42 million in each fiscal year of the biennial budget continue to reflect incentives for LRP projects, existing and anticipated, which are eligible for incentives based on project costs.

Capital Investment Plan (CIP)

The proposed capital spending over the biennial budget period totals $513 million and would fund projects that are critical to maintaining water quality, reliability and safety. This is $39 million less than the prior biennial budget projections. Projects have been evaluated and ranked and the most critical projects have been prioritized. The CIP continues to reflect the deferral of facility expansion and other projects that do not enhance reliability while focusing on necessary refurbishment and replacement of aging infrastructure.

Operations and Maintenance

The FY 2014/15 budget includes $422.8 million for Operations and Maintenance (O&M), including labor and benefits, water treatment chemicals, power, solids handling, professional services, and operating equipment purchases. This is $32.3 million, or 8.3 percent, higher than the FY 2013/14 budget of $390.5 million due primarily to:

- Increased benefit costs, including retirement-related benefits, and merit increases for qualified employees;
- Funding additional positions to assist with succession planning;
- Three new positions for Water System Operations to provide engineering support for wholesale power transactions and regulatory initiatives (1 position), and O&M technical assistance (2 positions); and
- Funding for two positions to provide additional interim support for the Bay-Delta initiative.

The FY 2015/16 budget includes $427.2 million for O&M, an increase of $4.4 million, or 1.0 percent, compared to the FY 2014/15 budget. This increase is due primarily to merit increases for qualified employees and an increase in the cost of retirement-related benefits and forecasted increases in chemical and power costs to operate the treatment plants.

A summary of Metropolitan's FY 2014/15 and FY 2015/16 biennial budget is presented in **Attachment 1**. This summary discusses sources and uses of funds, including revenues and fund withdrawals and expenses and fund deposits.

REVENUE REQUIREMENTS

To support Metropolitan's financial plan, biennial budget and ten-year forecast, the revenue requirements for FY 2014/15 and FY 2015/16 are estimated to be $1.52 billion each year. As shown in Table 2, the revenue requirement for FY 2014/15 is about $83 million more than the revenue requirement used to set rates for the current fiscal year. Expenditures are projected to increase from about $1.56 billion in the FY 2013/14 revenue requirement to about $1.66 billion in FY 2014/15. The main drivers for the increase are the increase in budgeted PAYGO to fund the CIP and increased O&M expenditures. Revenue offsets (ad valorem taxes, interest income, hydroelectric power sales, and miscellaneous income) are expected to generate about $135.7 million, reducing the revenue requirement from water rates and charges in FY 2014/15 to about $1.52 billion.

In FY 2015/16, expenditures are projected at $1.67 billion, basically unchanged from FY 2014/15. Capital paid for with operating revenues (PAYGO) decreases by $24.4 million, offset by higher costs for SWP and CRA power. With $149.6 million in revenue offsets, the revenue requirement from water rates and charges is $1.52 billion in FY 2015/16.

Table 2: Revenue Requirements for FY 2014/15 and FY 2015/16

	$ Millions		
	2013/14 Adopted	**2014/15 Proposed**	**2015/16 Proposed**
Departmental and Other O&M	$363.8	$396.2	$399.6
Variable Treatment	26.4	26.6	27.6
State Water Project (without Variable Power)	364.0	328.4	328.0
SWP Variable Power	200.0	167.3	187.0
CRA Power	24.9	29.2	36.5
Supply Programs	37.0	69.3	64.6
Demand Management	53.6	62.2	61.7
Debt Service	343.4	325.8	324.7
PAYGO	125.0	245.4	221.0
Change in Required Reserves	26.1	11.2	18.2
Subtotal Expenditures	**$1,564.5**	**$1,661.5**	**$1,668.9**
Revenue Offsets	121.2	135.7	149.6
Total Revenue Requirement	**$1,443.2**	**$1,525.8**	**$1,519.3**

RATES AND CHARGES FOR 2015 AND 2016

Pursuant to Metropolitan's Administrative Code (section 4304), the Finance and Insurance Committee and Board will set a public hearing in March to receive input on Metropolitan's rates and charges ahead of the adoption of the biennial budget and water rates by the Board at the regularly scheduled meeting in April. In addition to this action, the committee also reviews the General Manager's analysis of the revenue requirement for FY 2014/15 and FY 2015/16, and the rates and charges needed to meet the revenue requirement. The Cost of Service analysis detailed in **Attachment 2** and **Attachment 3** is consistent with the Cost of Service process used since the Board adopted the current rate structure in October 2001. This analysis shows that an overall rate increase of 1.5 percent in 2015 and 1.5 percent in 2016 is appropriate to achieve the Board direction of collecting the full cost of service in FY 2014/15 and FY 2015/16, continue to meet all financial policy guidelines, and maintain steady rates for the future.

The specific elements of the proposed rate increase effective January 1, 2015 and January 1, 2016, shown in Table 3, "Estimated Rates and Charges," were determined pursuant to the Cost of Service analysis shown in **Attachment 2** and **Attachment 3**. The estimate of rates and charges for FY 2014/15 was based on a total revenue requirement of $1.52 billion. The existing rates, which are effective through December 31, 2014, and the rates under a 1.5-percent increase, effective January 1, 2015, would generate combined revenue of $1.49 billion based on total sales of 1.75 MAF, of which 910 TAF is treated and 181 TAF is untreated Exchange Water delivered pursuant to the 2003 Amended and Restated Exchange Agreement between Metropolitan and SDCWA.

The estimate of rates and charges for FY 2015/16 was determined on a total revenue requirement of $1.52 billion. Projected revenues from rates and charges in FY 2015/16 are $1.50 billion on total sales of 1.75 MAF, of which 898 TAF is treated and 179 TAF are untreated Exchange Water.

Table 3: Estimated Rates and Charges

Effective January 1	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate ($/AF)	$148	$160	$155
Tier 2 Supply Rate ($/AF)	$290	$290	$290
System Access Rate ($/AF)	$243	$256	$261
Water Stewardship Rate ($/AF)	$41	$41	$41
System Power Rate ($/AF)	$161	$125	$137
Full Service Untreated Volumetric Cost ($/AF)			
Tier 1	$593	$582	$594
Tier 2	$735	$712	$729
Treatment Surcharge ($/AF)	$297	$343	$352
Full Service Treated Volumetric Cost ($/AF)			
Tier 1	$890	$925	$946
Tier 2	$1,032	$1,055	$1,081
Readiness-to-Serve Charge ($M)	$166	$158	$152
Capacity Charge ($/cfs)	$8,600	$10,700	$10,300

Due to the decrease in projected power costs, the Tier 1, full service untreated water cost is forecasted to decrease to $582 per AF effective January 1, 2015, a 1.9 percent decrease, and then rise to $594 per AF effective January 1, 2016, a 2.1 percent increase, due to the increase in the System Access Rate and the System Power Rate. The increase in the System Power rate in FY 2015/16 reflects higher SWP and CRA power costs. The System Access Rate increases in FY 2015/16 due to higher CRA and SWP transportation costs.

The Tier 1 full service treated water cost is forecasted to increase to $925 per AF effective January 1, 2015 and $946 per AF effective January 1, 2016, an increase of 3.9 percent and 2.3 percent, respectively. The Treatment Surcharge reflects increasing treatment costs due to higher costs for chemicals, power and solids handling, labor and capital.

The Exchange Price under the terms of the MWD/SDCWA Exchange Agreement will decrease to $422 per AF effective January 1, 2015, a 5.2 percent decrease, then rise to $439 per AF effective January 1, 2016, a 4-percent increase. The Exchange Price is comprised of the System Access Rate, the Water Stewardship Rate and the System Power Rate.

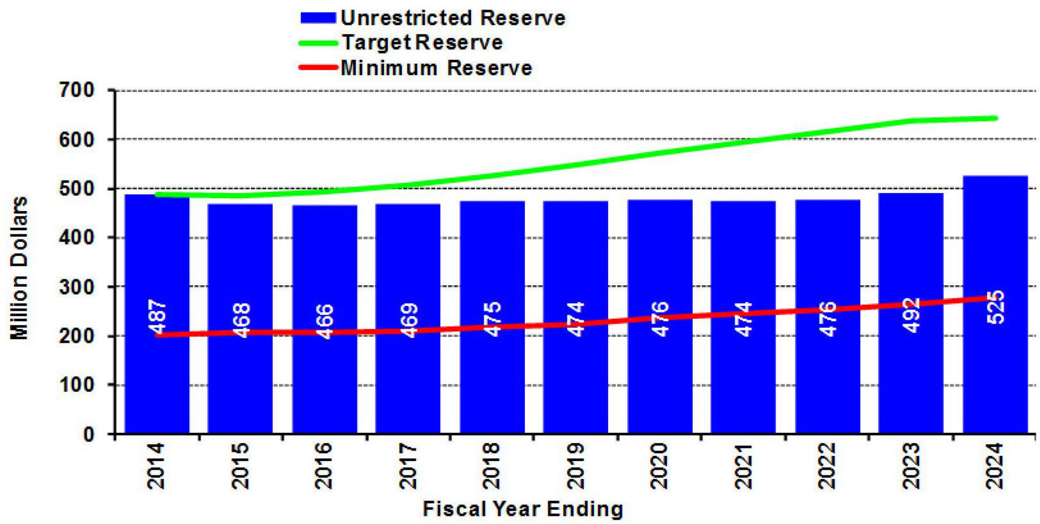
The Readiness-to-Serve (RTS) Charge decreases effective January 1, 2015 as more capital costs are associated with average and peak system use and less is allocated to standby service. Standby costs relate to Metropolitan's role in ensuring system reliability during emergencies and major facility outages. Standby costs include emergency storage capacity and standby capacity within the conveyance and distribution systems. Additionally, some costs recovered through the RTS were reclassified. The decrease in the RTS Charge effective January 1, 2016 reflects the impact of lower amounts of operating revenues used to fund the capital program (PAYGO).

The Capacity Charge recovers the cost of providing peaking capacity on Metropolitan's distribution system. The Capacity Charge increases effective January 1, 2015 as more capital costs are allocated to peak system use, reflecting member agency usage of the distribution system to meet summer season demands. In FY 2014/15, operating revenues used to fund the capital program (PAYGO) rise to $245 million, and this increase is reflected in the allocation of costs to the Capacity Charge. The decrease effective January 1, 2016 reflects the impact of lower amounts of operating revenues used to fund the capital program (PAYGO).

TEN-YEAR FORECAST

The proposed biennial budget sets the foundation for consistent, reasonable rate increases over the ten-year planning period. Investments to address underfunded liabilities in FY 2013/14 will result in lower costs in the out years of the forecast, and combined with maintaining the ad valorem tax rate at its current level throughout the ten-year period, help offset Metropolitan's share of the cost of the Bay Delta Conservation Plan (BDCP) should that project move forward. Rate increases from FY 2016/17 to FY 2023/24 are projected to be 3 percent to 5 percent each year. The ten-year forecast is presented in **Attachment 4.**

Figure 2: Projected Rate Increases, Reserves and Financial Indicators



Ave Rate Increase	5.0%	1.5%	1.5%	3.0%	3.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, $M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, $M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, $M	81	90	92	94	96	99	101	103	105	108	110
BDCP, $M				15	24	46	91	148	204	259	302

NEXT STEPS

The following sets forth the proposed schedule for the biennial budget and revenue requirements for fiscal years 2014/15 and 2015/16, and proposed water rates and charges for calendar years 2015 and 2016.

February 10, 2014	F&I Committee, Biennial Budget and Rates presentation
February 11, 2014	Board action to set public hearing
February 25, 2014	Workshop, Budget and Rates
February 28, 2014	Notice to Legislature
March 10, 2014	Additional Workshop, if needed
March 11, 2014	Public Hearing on proposed water rates and charges and suspension of the tax limit pursuant to Section 124.5 of the MWD Act
March 25, 2014	Additional Workshop, if needed
April 7, 2014	F&I Committee, Approve Biennial Budget and Calendar Year rates
April 8, 2014	Board action, Approve Biennial Budget and Calendar Year rates

RECOMMENDATION

This letter requests that the Board set a public hearing for the March 2014 meeting of the Board at which interested parties may provide input regarding Metropolitan's rates and charges to be effective January 1, 2015 and January 1, 2016, and input regarding action on ad valorem tax rates pursuant to Section 124.5 of the MWD Act.

Policy

Metropolitan Water District Act Section 124.5

Metropolitan Water District Administrative Code Sections 4304 and 5107: Apportionment of Revenues and Setting of Water Rates, and Biennial Budget Process

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

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

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

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not subject to CEQA and set a public hearing for the March 2014 meeting of the Board at which interested parties may provide input regarding Metropolitan's rates and charges to be effective January 1, 2015 and January 1, 2016, and input regarding action on ad valorem tax rates pursuant to Section 124.5 of the MWD Act.
Fiscal Impact: None

Option #2

Adopt the CEQA determination that the proposed action is not subject to CEQA and set a public hearing for another date.
Fiscal Impact: None

Staff Recommendation

Option #1

Gary Breaux	*Date*
Chief Financial Officer	

Jeffrey Kightlinger	*Date*
General Manager	

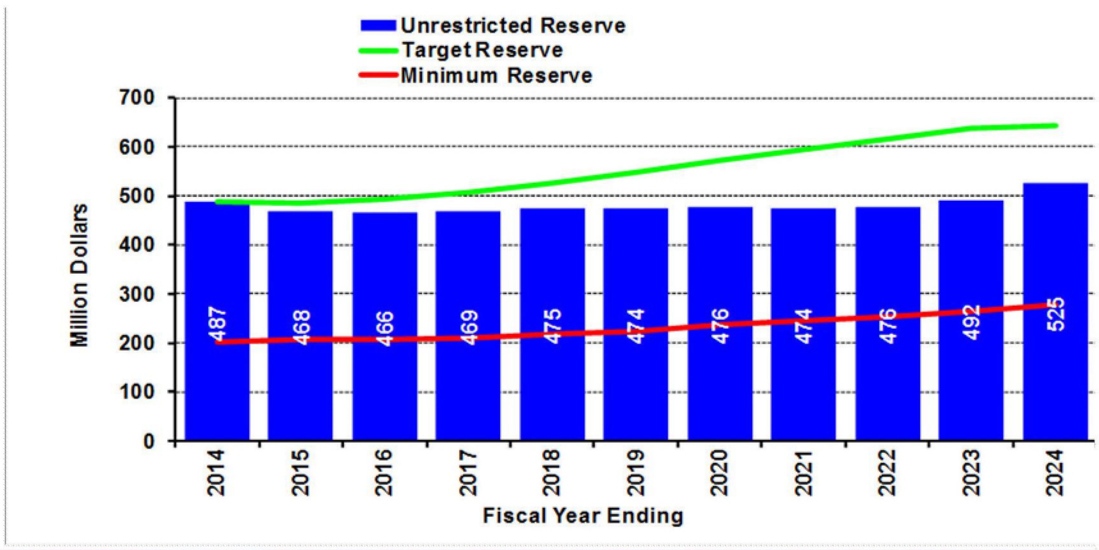
Attachment 1 – Biennial FY 2014/15 and FY 2015/16 Budget Summary
Attachment 2 – Metropolitan Water District of Southern California, FY 2014/15 Cost of Service
Attachment 3 – Metropolitan Water District of Southern California, FY 2015/16 Cost of Service
Attachment 4 – Ten-Year Financial Forecast

Ref# cfo12628922

Ten-Year Financial Forecast

The ability to ensure a reliable supply of high quality water for Metropolitan's 26 member agencies depends on the Metropolitan's ongoing ability to fund operations and maintenance, maintain and augment local and imported water supplies, fund replacements and refurbishment of existing infrastructure, and invest in system improvements. This ten-year plan supports long range resource, capital investment and operational planning. As such, it includes a forecast of future costs and the revenues necessary to support operations and investments in infrastructure and resources that are derived from the 2010 Update to the Integrated Resources Plan (2010 IRP Update) and other planning processes while conforming to Metropolitan's financial policies. These financial policies, which address reserve levels, financial indicators, and capital funding strategies, ensure sound financial management and fiscal stability for Metropolitan.

Figure 7. Projected Rate Increases, Reserves and Financial Indicators



Ave Rate Increase	5.0%	1.5%	1.5%	3.0%	3.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, $M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, $M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, $M	81	90	92	94	96	99	101	103	105	108	110
BDCP, $M				15	24	46	91	148	204	259	302

Figure 7 summarizes the financial metrics of the ten-year financial forecast. The ten-year forecast includes a rate forecast, based on Metropolitan's existing cost-of-service and rate structure. The forecast shows that the overall increase in water rates and charges will vary from 1.5 percent to 5 percent over the next ten years.

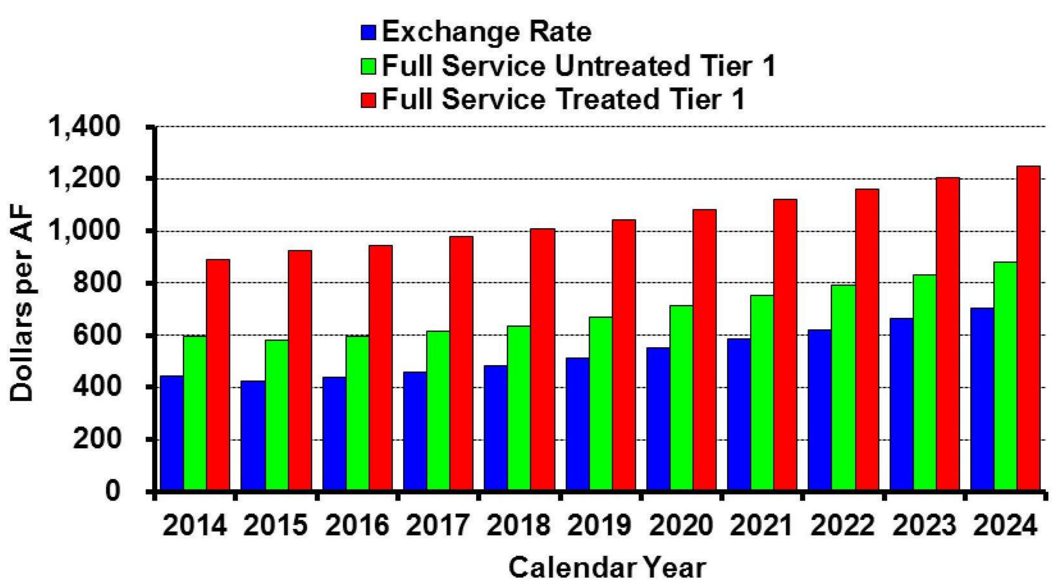
Table 9 shows the projected unbundled water rates and charges. Components of the rate structure may increase at different rates depending on the costs recovered. The full-service treated Tier 1 water rate is estimated to be approximately $1,248 per acre-foot by January 1, 2024, compared to $890 per acre-foot on January 1, 2014, an average increase of 3.4 percent per year over the ten-year period.

Table 9. Projected Water Rates and Charges

Rates and Charges Effective January 1st	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Tier 1 Supply Rate ($/AF)	$148	$160	$155	$155	$155	$157	$161	$164	$168	$171	$176
Tier 2 Supply Rate ($/AF)	$290	$290	$290	$290	$290	$290	$290	$290	$290	$290	$290
System Access Rate ($/AF)	$243	$256	$261	$269	$278	$292	$310	$331	$354	$377	$403
Water Stewardship Rate ($/AF)	$41	$41	$41	$41	$41	$41	$41	$41	$41	$41	$41
System Power Rate ($/AF)	$161	$125	$137	$148	$163	$180	$201	$216	$227	$244	$258
Full Service Untreated Volumetric Cost ($/AF)											
Tier 1	$593	$582	$594	$613	$637	$670	$713	$752	$790	$833	$878
Tier 2	$735	$712	$729	$748	$772	$803	$842	$878	$912	$952	$992
Exchange	$445	$422	$439	$458	$482	$513	$552	$588	$622	$662	$702
Treatment Surcharge ($/AF)	$297	$343	$352	$365	$370	$370	$370	$370	$370	$370	$370
Full Service Treated Volumetric Cost ($/AF)											
Tier 1	$890	$925	$946	$978	$1,007	$1,040	$1,083	$1,122	$1,160	$1,203	$1,248
Tier 2	$1,032	$1,055	$1,081	$1,113	$1,142	$1,173	$1,212	$1,248	$1,282	$1,322	$1,362
Readiness-to-Serve Charge ($M)	$166	$158	$152	$152	$152	$157	$167	$187	$212	$234	$258
Capacity Charge ($/cfs)	$8,600	$10,700	$10,300	$10,400	$10,500	$11,100	$11,100	$11,400	$11,800	$12,000	$12,100

Figure 8 shows the volumetric cost per acre-foot for Tier 1 Full Service untreated water, Tier 1 Full Service treated water, and untreated Exchange Water delivered pursuant to the 2003 Amended and Restated Exchange Agreement between Metropolitan and SDCWA.

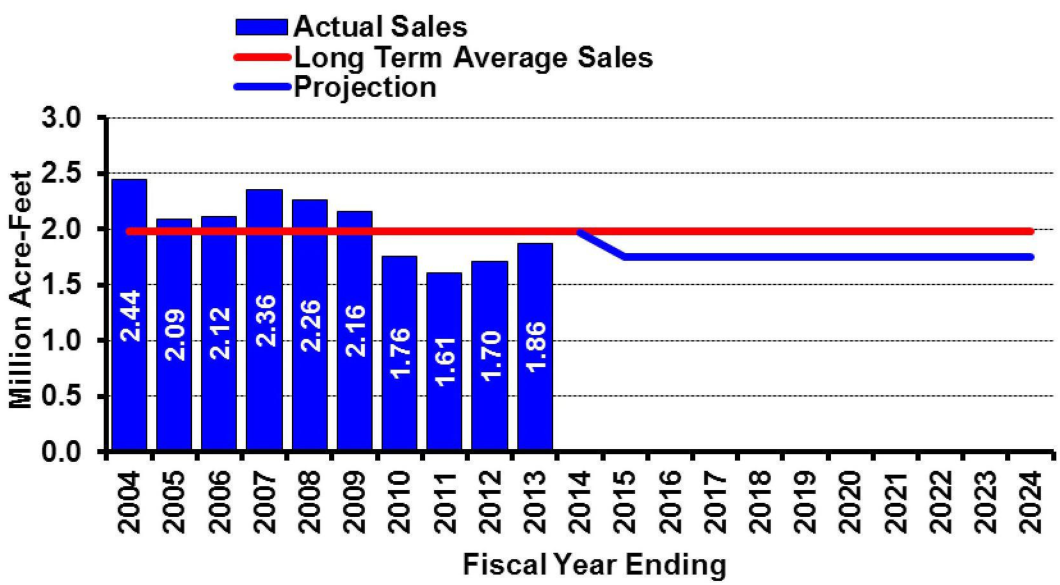
Figure 8. Projected volumetric Rates



These estimated rate increases result from increasing investments for the SWP and the BDCP, investments in reliability through conservation and local resources, system improvements to water treatment, investments to maintain the conveyance and distribution system, and increasing operating and maintenance costs. Annual expenditures, excluding funding of the Capital Investment Plan (CIP), are expected to increase from $1.4 billion in FY 2014/15 to $2.0 billion by FY 2023/24, or an annual average increase of about 4 percent. Metropolitan's share of the costs for the Bay Delta Conservation Plan (BDCP) is expected to increase to about $300 million by FY 2023/24. During this same period, capital investments are expected to be about $2.9 billion. To finance these capital investments, the ten-year forecast anticipates funding 100 percent of the CIP from PAYGO and Replacement and Refurbishment (R&R) funds for the first three fiscal years, then transitioning to funding 60% of the CIP from water sales revenues, or PAYGO. The balance of the CIP, or $0.7 billion, would be financed by issuing revenue bond debt.

Consistent with the 2010 IRP Update, future growth in retail demands is expected to be met either by the development of local supply resources or by conservation efforts necessary to meet state policy to reduce per capita retail water use by 20 percent by 2020. These impacts result in flat projected annual water sales over the ten-year period of 1.75 MAF, as shown in Figure 9.

Figure 9. Water Sales



SOURCES OF FUNDS

Revenues

Volumetric water revenues are expected to increase from $1.3 billion in FY 2014/15 to $1.8 billion in FY 2023/24. This increase is due to anticipated rate increases.

Fixed water charges (Readiness-to-Serve and Capacity Charge) are expected to increase from about $198.7 million in FY 2014/15 to $293.4 million in FY 2023/24.

Property tax revenue is expected to increase from $90.2 million in FY 2014/15 to $110.2 million in FY 2023/24. This projection assumes the Board maintains the ad valorem tax rate at .0035 percent of assessed valuations. By FY 2023/24 almost all of the revenues are used to pay SWP costs, which would include Metropolitan's share of BDCP costs.

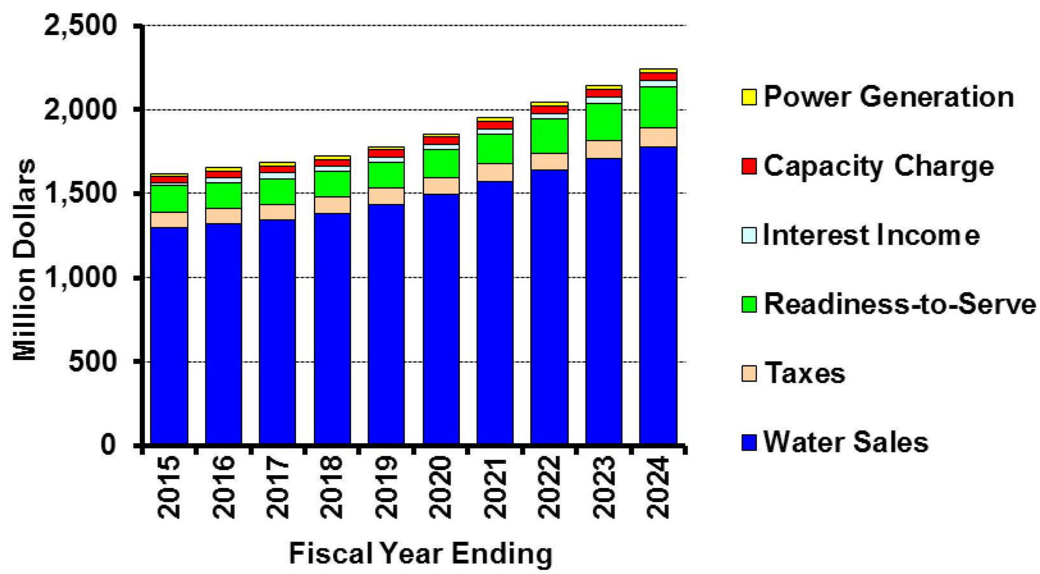
Power sales from Metropolitan's hydroelectric power recovery plants and excess CRA power are projected to average about $20.9 million per year over this period.

Interest income is projected to increase from $16.1 million in FY 2014/15 to $35.3 million in FY 2023/24 as a result of increased balances and higher average returns of 1.2 percent to 2.5percent from FY 2014/15 to FY 2023/24.

Overall, volumetric water revenues continue to approximate 80% of total revenues throughout the period.

Forecasted revenues by major category are shown in Figure 10.

Figure 10. Revenue Forecast



Other Funding Sources

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

USES OF FUNDS

Over the next ten years, total uses of funds are projected to range from $1.9 billion to $2.6 billion.

Expenses

Expenses are grouped into six major categories: SWP, O&M, demand management programs, CRA power costs, supply programs, and debt service & PAYGO funding. Figure 11 illustrates the general trends in expenses over the ten-year period from FY 2014/15 to FY 2023/24. Figure 12 shows the comparison of FY 2014/15 to FY 2023/24 in terms of the contribution of expenses to the total.

Figure 11. Expenditure Forecast

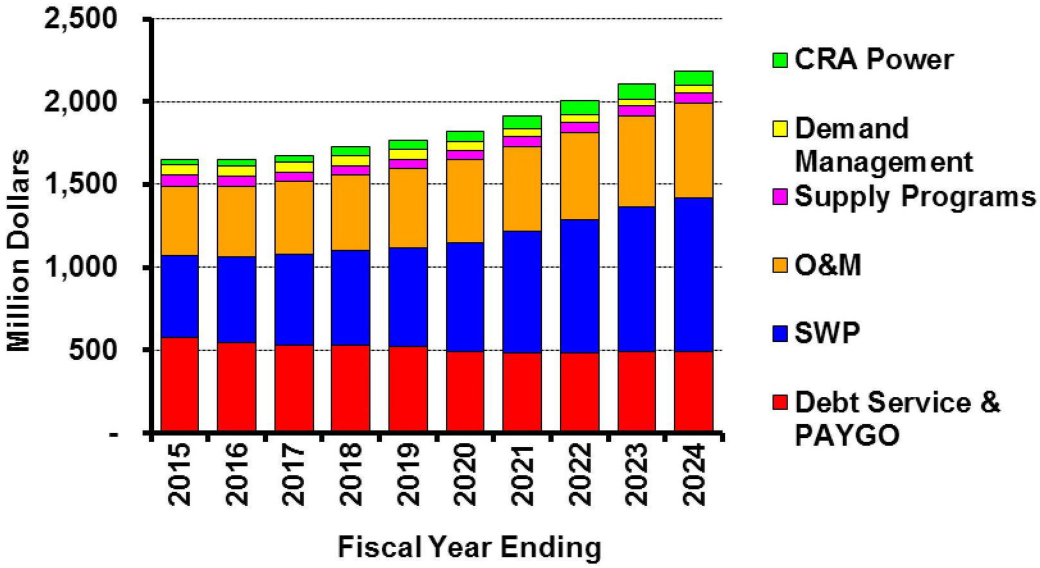
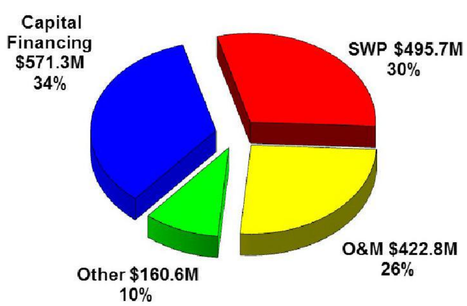
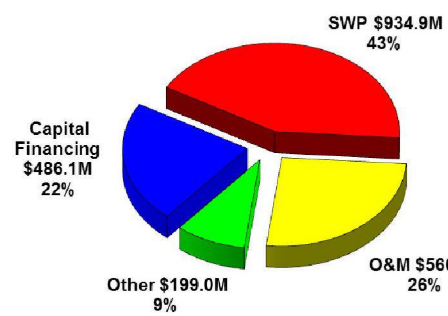


Figure 12. Expenditure Forecast, Contribution by Major Area

FY 2014/15: $1.65B



FY 2023/24: $2.19B



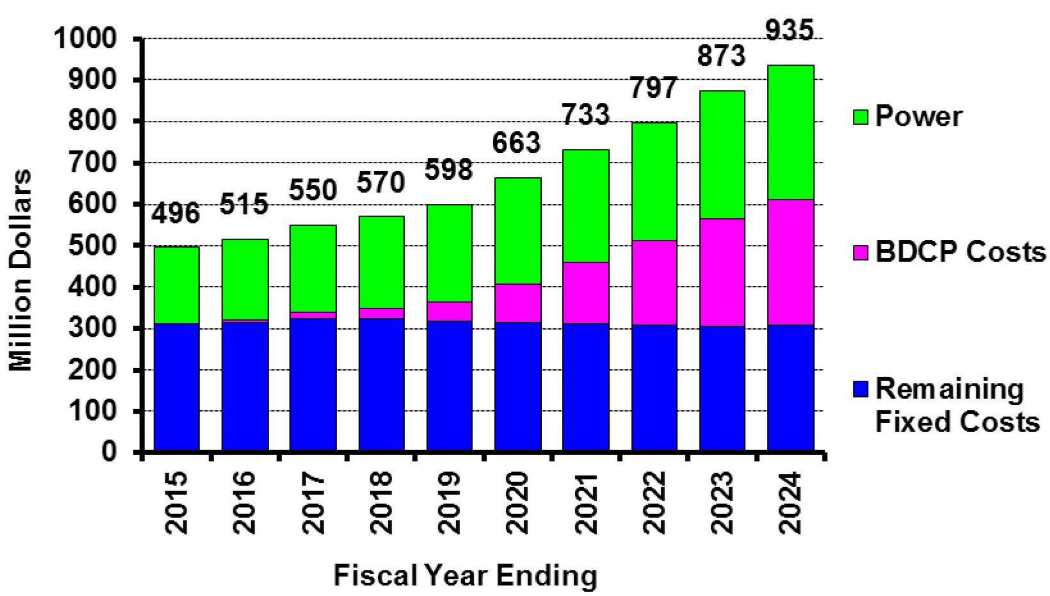
State Water Project

SWP expenditures are projected to increase from $496 million in FY 2014/15 to $935 million in FY 2023/24. The projection assumes the BDCP moves forward. These costs account for $302.0 million in FY 2023/24. The remainder of the fixed costs is based upon information provided by the DWR, and is associated with Transportation Capital and Minimum Operations & Maintenance, and the Delta Water Supply Capital and Minimum Operations & Maintenance. After adjusting downward in FY 2013/14, variable SWP power costs are projected to increase steadily beginning in FY 2014/15.

Power costs will vary depending on the price of electricity, total system deliveries, storage operations, and the amount of water pumped on the SWP. Increasing costs affecting the SWP include the cost of emissions allowance purchases directly and indirectly, the cost of adding renewable energy to the SWP power portfolio, and the cost of using the California Independent System Operator grid to transmit power from generation sources to the SWP load locations. Net flows through the SWP that incur power are expected to average 923 TAF per year.

The total SWP costs are shown in Figure 13.

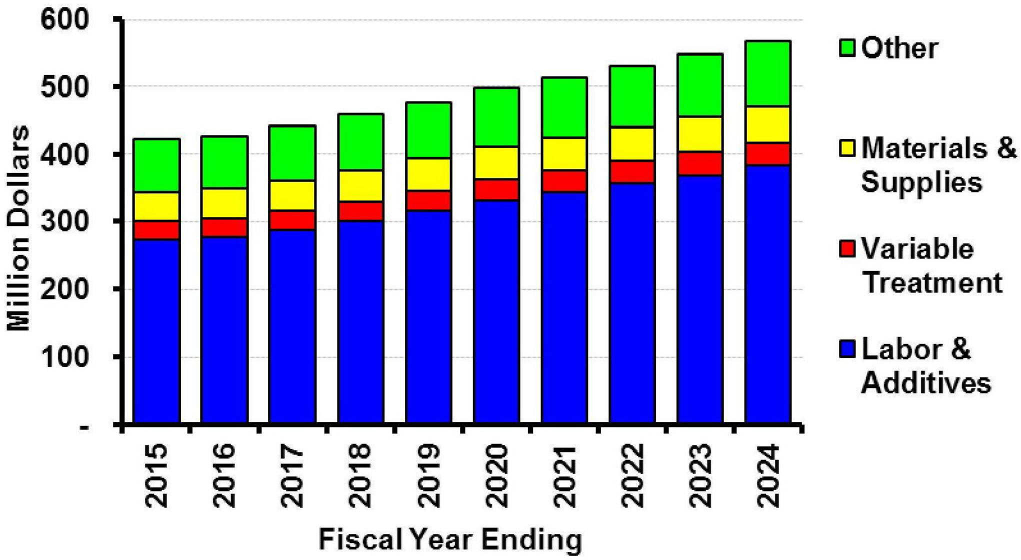
Figure 13. SWP Forecast



Operations and Maintenance

O&M costs in FY 2023/24 are projected to be $566.5 million. This represents an average annual increase of 3.3 percent from FY 2014/15 as a result of increasing labor, benefits, and treatment costs. During this time frame, inflation is assumed to be 2.5 percent. Items that are driving overall O&M costs up more rapidly than the rate of inflation include rising benefit costs for pensions and medical costs for active and retired employees. In addition, the ten-year forecast assumes Metropolitan fully funds the annual required contribution to meet future retiree medical costs (OPEB) much like promised retirement benefits, rather than paying for retiree medical costs on a pay-as-you-go basis.

Figure 14. O&M Forecast



Demand Management

Demand management costs include funding for the local resource programs (LRP) and Conservation Credit Program (CCP) are projected to decrease from $62.2 million in FY 2014/15 to $45.9 million in FY 2023/24. The LRP costs are projected to decrease from $42.2 million in FY 2014/15 to $25.9 million in FY 2023/24. The yield from the LRP is expected to decrease from 275 TAF in FY 2014/15 to 184 TAF in FY 2016/17 as more projects become cost effective when compared to Metropolitan's water rates. The CCP costs are projected to remain at $20.0 million throughout the ten-year period and provide continued funding of residential, commercial, and outdoor conservation programs.

CRA Power Costs

CRA Power costs are projected to increase from $29 million in FY 2014/15 to $90 million in FY 2023/24. Power costs will vary depending on the price of electricity, total system deliveries, storage operations, and the amount of water pumped on the CRA.

Colorado River diversions are expected to average 909 TAF from FY 2016/17 to FY 2023/24.

Water Transfers and Supply Programs

Supply programs vary slightly throughout the ten-year period from $69.3 million in FY 2014/15 to $63.2 million in FY 2023/24. The estimates represent expenditures for expected conditions. If extreme weather conditions are experienced, these cost estimates could be much higher or lower. If higher than normal demand is coupled with lower than normal supply, supply program costs could be more than four times higher. The proposed deposit of approximately $120 million of projected reserves over the target into a water transfer and management fund in FY 2013/14 will help ensure sufficient funds are available for these programs in the near term.

Capital Investment Plan

Metropolitan will be investing in infrastructure necessary to treat, store, and deliver water. Many of these investments will be required to repair and replace aging facilities, or Rehabilitation & Replacements (R&R). The ten-year projected CIP through FY 2023/24 is estimated at $2.9 billion. The major elements of the ten-year projected capital program are shown in Table 10. This table shows the CIP by major service function, driver and funding source. The CIP continues to reflect the deferral of facility expansion. The CIP focuses on projects that enhance reliability or provide an adequate return on investment while focusing on necessary refurbishment and replacement of aging infrastructure.

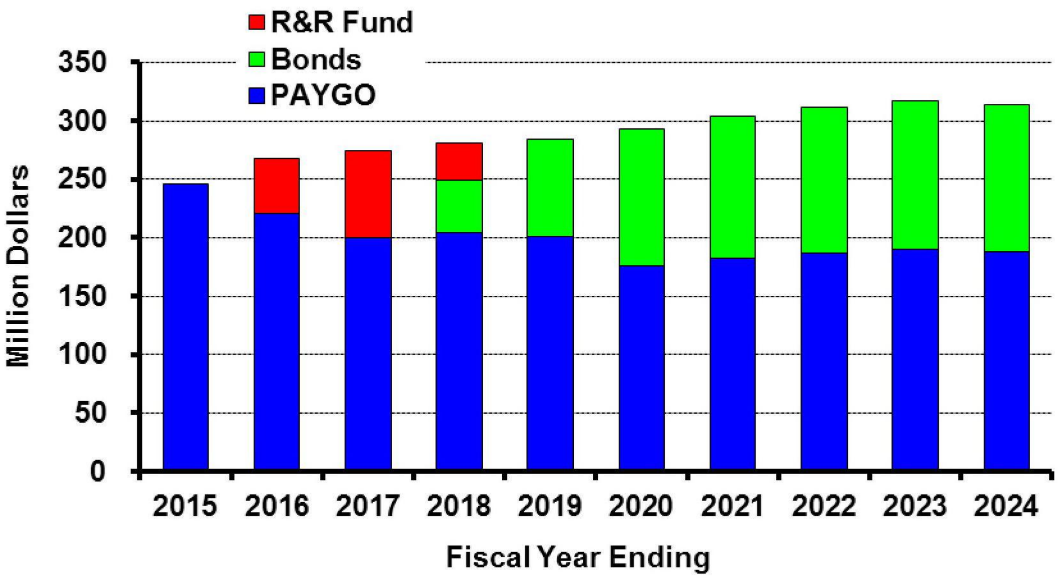
Figure 15 shows the funding source for the ten-year CIP.

Table 10. CIP Ten-Year Forecast and Funding Sources (dollars in millions)

Fiscal Year Ending	2015 Proposed	2016 Proposed	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast	Total
Major Service Functions											
Supply	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Conveyance & Aqueduct	27.2	22.3	27.2	46.3	46.1	44.6	44.2	63.0	58.0	59.6	438.4
Storage	12.2	12.6	2.0	-	-	-	-	-	-	-	26.8
Distribution	43.5	51.6	69.8	112.7	135.7	157.6	191.6	178.8	199.4	204.1	1,344.8
Treatment	126.1	148.7	121.4	95.1	79.3	73.8	57.3	58.8	48.4	49.7	858.5
Administrative & General	28.1	30.4	50.4	26.5	23.2	16.7	11.0	11.4	11.7	-	209.4
Hydroelectric	8.2	2.3	4.1	0.5	0.1	0.7	0.1	-	-	-	15.9
Total	**245.4**	**267.9**	**274.8**	**281.1**	**284.4**	**293.4**	**304.1**	**312.0**	**317.4**	**313.4**	**2,893.8**
By Driver											
Efficiency	-	0.2	0.8	4.0	1.7	0.0	-	-	-	-	6.7
Infrastructure	193.5	212.3	240.4	269.3	279.2	292.0	304.1	312.0	317.4	313.4	2,733.6
Regulatory	7.4	10.1	12.3	1.5	-	-	-	-	-	-	31.3
Supply	1.1	-	-	-	-	-	-	-	-	-	1.1
Water Quality	43.5	45.3	21.2	6.2	3.5	1.4	0.0	-	-	-	121.1
Total	**245.4**	**267.9**	**274.8**	**281.1**	**284.4**	**293.4**	**304.1**	**312.0**	**317.4**	**313.4**	**2,893.8**
By System Improvements and R&R											
System Improvements	106.8	105.7	116.2	58.2	34.8	26.6	12.8	13.2	12.3	-	486.5
Rehabilitation and Replacements	138.6	162.1	158.6	222.9	249.6	266.8	291.3	298.8	305.1	313.4	2,407.3
Total	**245.4**	**267.9**	**274.8**	**281.1**	**284.4**	**293.4**	**304.1**	**312.0**	**317.4**	**313.4**	**2,893.8**
Funding Sources											
Bonds	-	-	-	45.2	83.4	117.4	122.1	125.0	127.4	125.4	745.8
R&R Fund	-	46.9	74.8	31.9	-	-	-	-	-	-	153.5
PAYGO	245.4	221.0	200.0	204.0	201.0	176.0	182.0	187.0	190.0	188.0	1,994.4
Total	**$ 245.4**	**$ 267.9**	**$ 274.8**	**$ 281.1**	**$ 284.4**	**$ 293.4**	**$ 304.1**	**$ 312.0**	**$ 317.4**	**$ 313.4**	**$ 2,893.8**

Totals may not foot due to rounding.

Figure 15. CIP Ten-Year Forecast and Funding Sources (dollars in millions)



The CIP will be funded from a combination of bond proceeds and operating revenues. In order to mitigate increases in water rates, provide financial flexibility, and support Metropolitan's high credit ratings including maintaining revenue bond debt service and fixed charge coverage ratios, it is proposed that 60 percent of the CIP be funded from current revenues. This level of CIP funding is appropriate given that the 80 percent of the ten-year CIP is identified as R&R projects. Bond funded expenditures will include a combination of variable and fixed rate debt. Debt has been structured to mitigate near-term rate impacts and smooth out long-term debt service. Variable rate debt is used to mitigate interest cost over the long term, while mitigating interest rate exposure.

Debt Financing

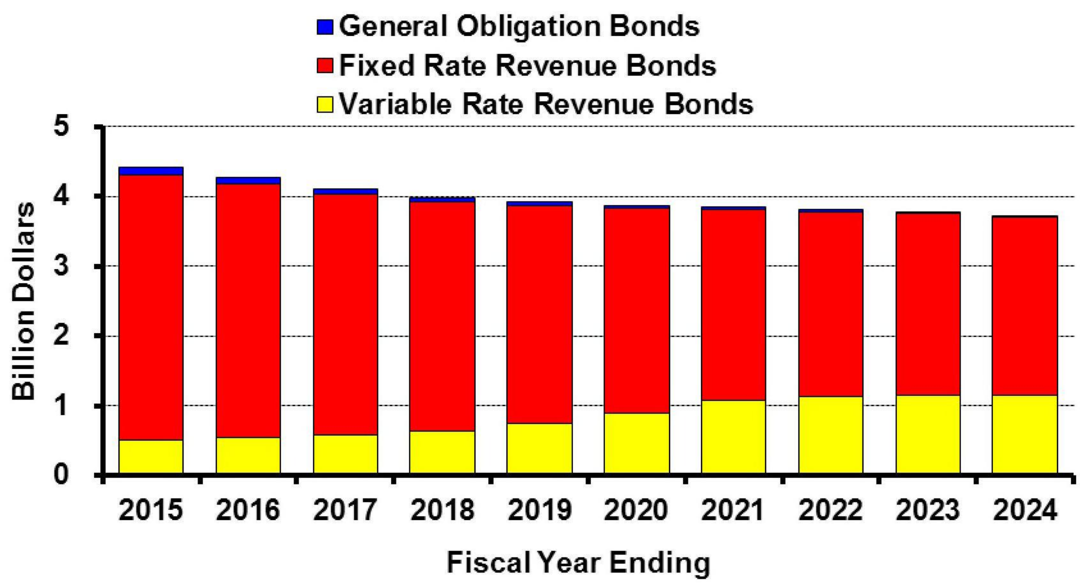
As shown in Table 10, it is anticipated that there will be about $2.9 billion of capital expenditures over this period. Of this, $745.8 million, or 26 percent of future capital expenditures, are anticipated to be funded by debt proceeds. Outstanding revenue bond debt currently represents $4.5 billion, or 63 percent of Metropolitan's $6.8 billion equity as of June 30, 2013. Metropolitan may not have outstanding revenue bond debt in amounts greater than 100 percent of its equity.

Total outstanding debt is illustrated in Figure 16. Total outstanding debt is estimated to decrease to $3.7 billion by FY 2023/24.

Metropolitan's variable rate debt as a percentage of total revenue bond debt is projected to increase to 31 percent over this time period as fixed rate debt is retired and new variable rate debt is issued. The appropriate amount of variable rate debt will continue to be monitored and adjusted depending on market rates, financing needs, available short-term investments, and fund levels in the investment portfolio with which variable rate interest exposure can be hedged.

General Obligation (GO) bond debt service will decrease from $23.2 million to $2.5 million per year as voter approved indebtedness matures.

Figure 16. Outstanding Debt



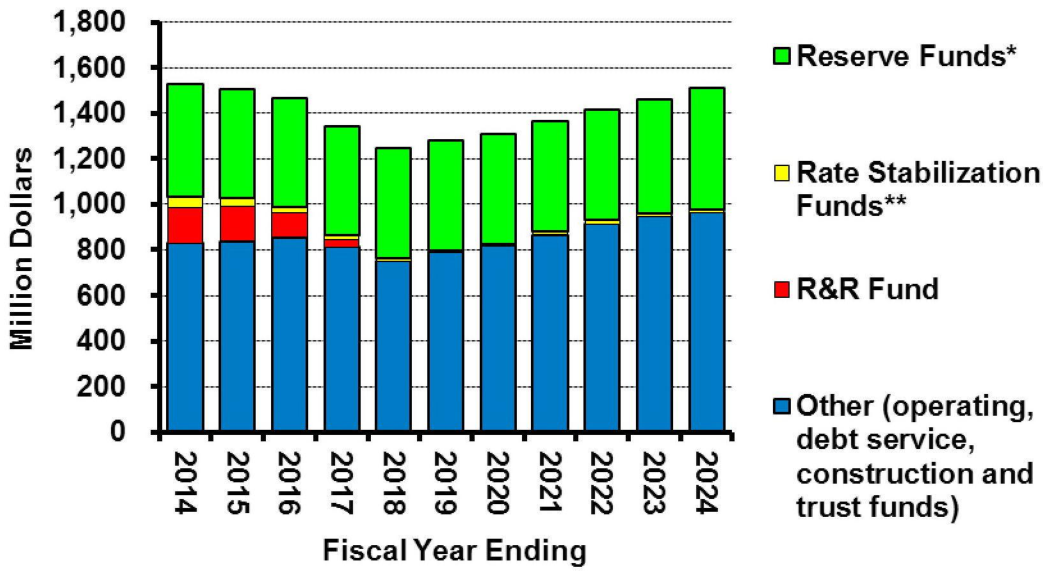
Other Obligations

The forecast accounts for required transfers to and from operating funds to meet revenue bond covenants and board policies. Over the next ten years, as costs continue to increase (most notably the reserve requirements for O&M Fund and State Water Contract Fund), the annual required transfer is estimated to average about $23.4 million per year.

FUND BALANCES AND RESERVES

As shown in Figure 16, over the next ten years, total fund balances are projected to increase to $1.63 billion in FY 2023/24.

Figure 16. End of Year Fund Balances



* includes Water Rate Stabilization Fund and Revenue Remainder Fund.
** includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund.

FINANCIAL RATIOS

Metropolitan's financial objective is to maintain a minimum revenue bond coverage ratio of 2.0 times. The revenue bond coverage ratio is projected to be 2.0 times in FY 2014/15 and increase to 2.9 times in FY 2023/24. Revenue bond debt service coverage is the primary indicator of credit quality and is equal to the ratio of net operating revenues to revenue bond debt service.

Fixed charge coverage measures the amount by which net-operating revenues "cover" all recurring fixed costs including SWC capital obligations. This is a broader ratio than the revenue bond coverage ratio and is one measure used to gauge Metropolitan's overall financial strength. Metropolitan's financial policy goal is to maintain a minimum fixed charge coverage ratio of 1.2 times. For FY 2014/15 through FY 2023/24, the fixed charge coverage is projected to decrease from 1.6 times to 1.4 times. Table 11 summarizes uses and sources of funds over the ten-year period.

Table 11. Ten-Year Financial Forecast, Sources and Uses of Funds (dollars in millions)

Fiscal Year Ending	2014 Projected	2015 Proposed	2016 Proposed	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
USES OF FUNDS											
Expenses											
State Water Contract	$ 426.0	$ 495.7	$ 515.0	$ 549.6	$ 569.8	$ 598.4	$ 663.0	$ 733.0	$ 797.1	$ 873.2	$ 934.9
Supply Programs	76.5	69.3	64.6	57.7	54.9	56.5	57.9	58.9	60.2	61.7	63.2
Colorado River Power	24.9	29.2	36.5	39.3	52.2	59.4	68.9	76.0	81.3	86.3	89.8
Debt Service	369.0	325.8	324.7	327.2	327.0	316.5	311.4	297.7	298.2	297.2	298.1
Demand Management	53.6	62.2	61.7	59.8	59.3	58.5	48.7	48.2	48.4	45.8	45.9
Departmental O&M	336.1	368.7	379.4	392.9	409.0	426.1	443.6	458.5	473.9	489.8	506.4
Treatment Chemicals, Solids & Power	26.4	26.6	27.6	27.7	28.4	29.4	30.7	32.1	32.8	33.5	34.2
Other O&M	128.0	27.5	20.1	20.8	21.5	22.2	22.9	23.6	24.4	25.2	26.0
Sub-total Expenses	**1,440.6**	**1,404.9**	**1,429.7**	**1,475.0**	**1,522.2**	**1,566.9**	**1,647.0**	**1,728.1**	**1,816.4**	**1,912.8**	**1,998.6**
Capital Investment Plan	**200.0**	**245.4**	**267.9**	**274.8**	**281.1**	**284.4**	**293.4**	**304.1**	**312.0**	**317.4**	**313.4**
Fund Deposits											
Water Transfer Fund	95.0	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	225.0	245.4	221.0	200.0	204.0	201.0	176.0	182.0	187.0	190.0	188.0
Revenue Bond Construction	-	-	-	-	-	16.3	-	7.5	0.3	-	-
Water Stewardship Fund	14.1	-	-	-	-	-	1.6	1.5	0.9	3.7	3.2
Treatment Surcharge Stabilization Fund	-	-	-	-	-	-	3.7	5.0	-	-	-
Interest for Construction & Trust Funds	0.2	0.1	0.4	0.7	0.9	1.0	1.2	1.2	1.3	1.4	1.5
Increase in Required Reserves	10.7	11.2	18.2	19.8	10.7	33.3	41.9	49.9	53.7	44.3	40.1
Increase in Water Rate Stabilization Fun	-	-	-	-	-	-	-	-	-	4.6	20.0
Other Fund Activity											
Sub-total Fund Deposits	**345.0**	**256.8**	**239.6**	**220.5**	**215.6**	**251.6**	**224.3**	**247.2**	**243.3**	**244.0**	**252.9**
Member Agency Credit	-	-	-	-	-	-	-	-	-	-	-
TOTAL USES OF FUNDS	**$ 1,985.6**	**$ 1,907.1**	**$ 1,937.1**	**$ 1,970.3**	**$ 2,018.8**	**$ 2,102.9**	**$ 2,164.7**	**$ 2,279.4**	**$ 2,371.7**	**$ 2,474.3**	**$ 2,564.8**
SOURCES OF FUNDS											
Revenues											
Taxes	$ 81.1	$ 90.2	$ 92.2	$ 94.3	$ 96.4	$ 98.6	$ 100.8	$ 103.1	$ 105.4	$ 107.8	$ 110.2
Annexations	-	-	-	-	-	-	-	-	-	-	-
Interest Income	7.7	16.1	27.6	33.2	31.8	31.5	32.1	32.8	33.6	34.5	35.3
Hydro Power	17.0	19.3	18.9	20.0	20.5	20.7	21.6	21.0	21.7	22.2	22.7
Fixed Charges (RTS & Capacity Charge	182.1	198.7	196.3	192.7	193.1	197.0	205.7	221.3	245.2	269.9	293.4
Water Sales Revenue	1,437.5	1,290.6	1,310.8	1,335.1	1,374.6	1,424.0	1,488.5	1,563.9	1,627.8	1,695.5	1,769.1
Miscellaneous Revenue	6.1	10.2	11.3	12.0	12.3	12.7	13.4	14.2	14.6	15.1	16.0
Bond Proceeds	-	-	-	-	39.9	99.7	109.7	129.6	129.1	129.0	119.0
Sub-total Revenues	**1,731.7**	**1,625.2**	**1,657.1**	**1,687.4**	**1,768.6**	**1,884.3**	**1,971.8**	**2,085.9**	**2,177.5**	**2,273.9**	**2,365.8**
Fund Withdrawals											
R&R and General Fund	130.0	245.4	267.9	274.8	235.9	201.0	176.0	182.0	187.0	190.0	188.0
Bond Funds for Construction	70.0	-	-	-	5.3	-	7.7	-	-	3.5	10.9
Water Stewardship Fund	-	9.8	9.2	7.9	7.9	8.6	-	-	-	-	-
Treatment Surcharge Stabilization Fund	0.5	4.4	-	-	-	-	-	-	1.8	6.9	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	53.4	22.3	2.9	0.3	1.1	9.0	9.2	11.5	5.4	-	-
Sub-total Fund Withdrawals	**253.9**	**281.9**	**280.0**	**283.0**	**250.2**	**218.7**	**192.9**	**193.5**	**194.2**	**200.4**	**198.9**
TOTAL SOURCES OF FUNDS	**$ 1,985.6**	**$ 1,907.1**	**$ 1,937.1**	**$ 1,970.3**	**$ 2,018.8**	**$ 2,102.9**	**$ 2,164.7**	**$ 2,279.4**	**$ 2,371.7**	**$ 2,474.3**	**$ 2,564.8**
Fiscal Year Sales & Exchange (MAF)	**1.97**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**	**1.75**

Totals may not foot due to rounding.

Table 12. Ten-Year Financial Forecast, Coverage Ratios and Fund Balances (dollars in millions)

Fiscal Year Ending	2014 Projected	2015 Proposed	2016 Proposed	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
RATIOS											
Fixed Charge Coverage	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Revenue Bond Coverage	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Var. Rate Debt as % of Rev. Bond Debt	11%	12%	13%	15%	16%	19%	23%	28%	30%	31%	31%
RESTRICTED FUNDS EOY balance											
General Fund	116.1	116.1	116.1	116.1	116.1	116.1	116.1	116.1	116.1	116.1	116.1
Water Transfer Fund	119.9	119.9	119.9	60.0	-	-	-	-	-	-	-
Other	593.1	600.5	618.7	635.5	634.9	677.7	701.4	750.4	798.5	830.0	847.3
Sub-total Restricted Funds	**829.1**	**836.5**	**854.7**	**811.6**	**751.0**	**793.8**	**817.5**	**866.5**	**914.6**	**946.1**	**963.4**
UNRESTRICTED FUNDS EOY balance											
Reserve Funds (1)	494.0	475.5	473.0	476.5	482.2	481.0	483.5	481.5	483.5	498.8	532.2
Treatment Surcharge Stabilization Fund	4.4	0.0	0.0	0.0	0.0	0.0	3.7	8.7	6.9	0.0	0.0
Water Stewardship Fund	48.2	38.4	29.2	21.3	13.5	4.8	6.4	7.9	8.9	12.6	15.8
R&R Fund	153.5	153.5	106.7	31.9	-	-	-	-	-	-	-
General Fund	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Sub-total Unrestricted Funds	**701.0**	**668.5**	**609.9**	**530.6**	**496.6**	**486.8**	**494.5**	**499.1**	**500.2**	**512.3**	**549.0**
TOTAL FUNDS	**$ 1,530.1**	**$ 1,505.0**	**$ 1,464.6**	**$1,342.2**	**$1,247.6**	**$1,280.6**	**$1,312.0**	**$1,365.7**	**$1,414.8**	**$1,458.4**	**$1,512.3**

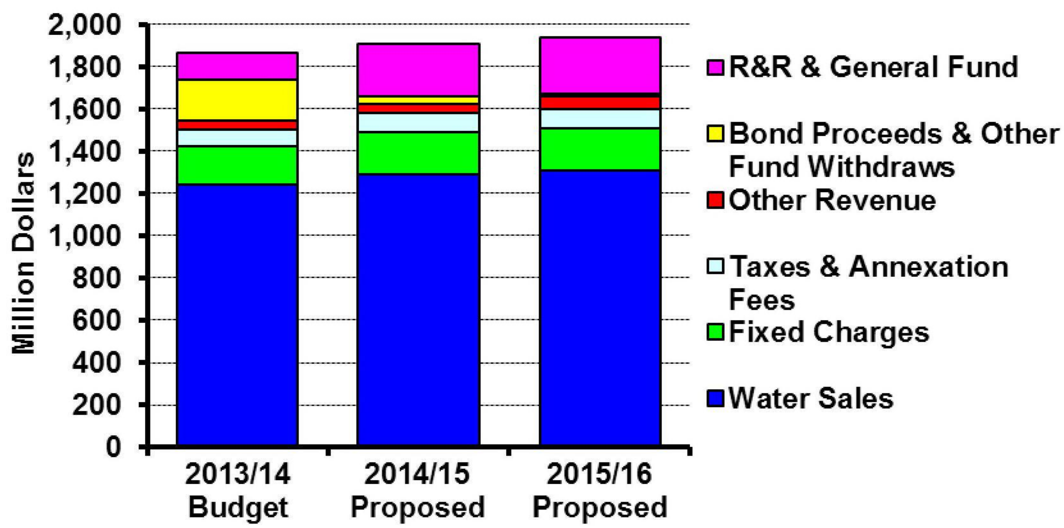
Totals may not foot due to rounding.
(1) includes Water Rate Stabilization Fund and Revenue Remainder Fund.

Biennial Budget Summary
FY 2014/15 & 2015/16

The proposed biennial budget for fiscal years 2014/15 and 2015/16 (FY 2014/15 and FY 2015/16) provides funding for Metropolitan's key priorities while meeting or exceeding all financial policy guidelines, with proposed overall rate increases of 1.5 percent in each year of the proposed biennial budget. The proposed overall rate increases of 1.5 percent are at their lowest level in the past ten years.

The biennial budget presents the sources and uses of funds. The budget is developed and monitored on a modified accrual basis. Revenues and expenses are recognized in the period they are earned and incurred. Depreciation and amortization are not included; payment of debt service is included. The modified-accrual basis of accounting provides a better match of revenues and expenses for budgeting and reporting.

Figure 1. Sources of Funds



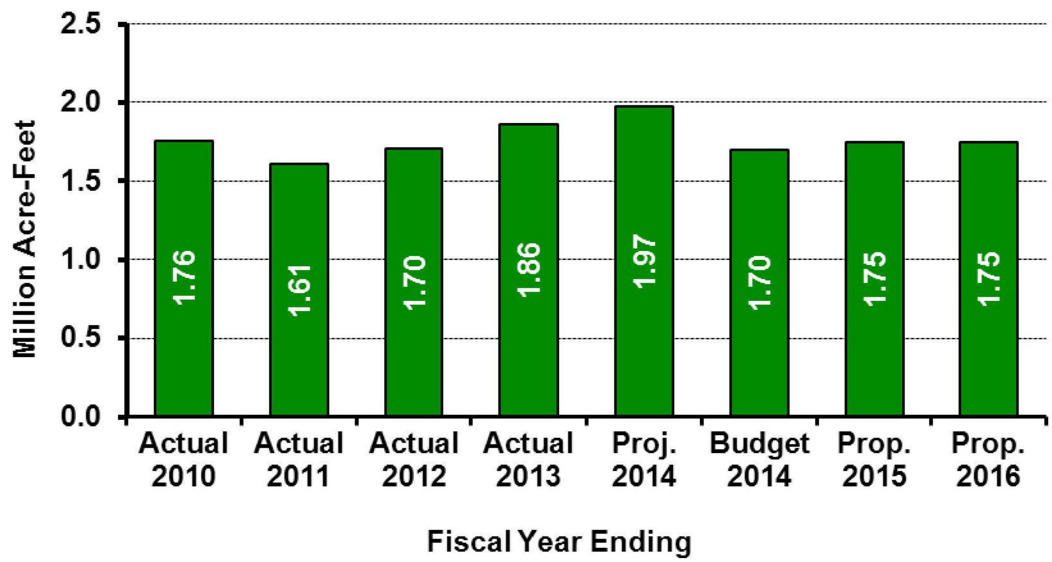
SOURCES OF FUNDS

Estimated revenues from water sales, fixed charges (readiness-to-serve charge and capacity charge), taxes and annexation fees, and other miscellaneous income (interest income, power recovery, etc.) are projected to be $1.63 billion for FY 2014/15 and $1.66 billion for FY 2015/16. For FY 2014/15, this is $80.1 million more than the FY 2013/14 budget, and for FY 2015/16, this is $31.9 million more than FY 2014/15. The increase in revenues is due to increases in water rates and charges in calendar year 2015 and calendar year 2016 and maintaining the ad valorem tax rate at .0035percent of assessed valuations. Figure 1 shows the major sources of funds. Summaries of sources and uses of funds are shown in Tables 6, 7 and 8 at the end of this section. A description of each revenue source is included in the Glossary of Terms.

Water Sales

Revenues from water sales are budgeted at $1,290.6 million in FY 2014/15 and $1,310.8 million in FY2015/16, and are based on rates and charges adopted by the Board for January 1, 2014. In addition, water rates and charges are proposed to increase by 1.5 percent overall effective January 1, 2015 and 1.5 percent overall effective January 1, 2016. Water sales for both 2014/15 and 2015/16 are estimated to be 1.75 million acre-feet (MAF), an increase of 50 thousand acre-fee (TAF) from the FY 2013/14 budget.

Figure 2. Water Sales Trend



The FY 2014/15 fiscal year water sales include 1.57 MAF of firm sales and 181 thousand acre-feet (TAF) of Exchange Water. Treated sales are estimated to be 910 TAF, or 52 percent of total sales in FY 2014/15. The FY 2015/16 fiscal year water sales include 1.57 MAF of firm sales and 179 TAF of Exchange Water. Treated sales are estimated to be 898 TAF, or 51 percent of total sales in FY 2015/16. Figure 2 shows the trend of water sales.

Taxes and Annexation Fees

Revenues from taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the State Water Project (SWP), are estimated to be $90.2 million in FY 2014/15 and $92.2 million in FY 2015/16. The ad valorem tax rate is assumed to remain at the current level of .0035 percent of assessed value; assessed valuations are projected to increase by 2.5 percent each fiscal year.

Fixed Charges

Fixed charges include the Capacity Charge and Readiness-to-Serve Charge. In FY 2014/15, these charges are estimated to generate $36.7 million and $162.0 million, respectively. In FY 2015/16, these charges are estimated to generate $41.3 million and $155.0 million, respectively. In total this represents a $16.6 million increase from the FY 2013/14 to FY 2014/15, and a $2.4 million decrease from the FY 2014/15 to the FY 2015/16 budget.

Other Revenue

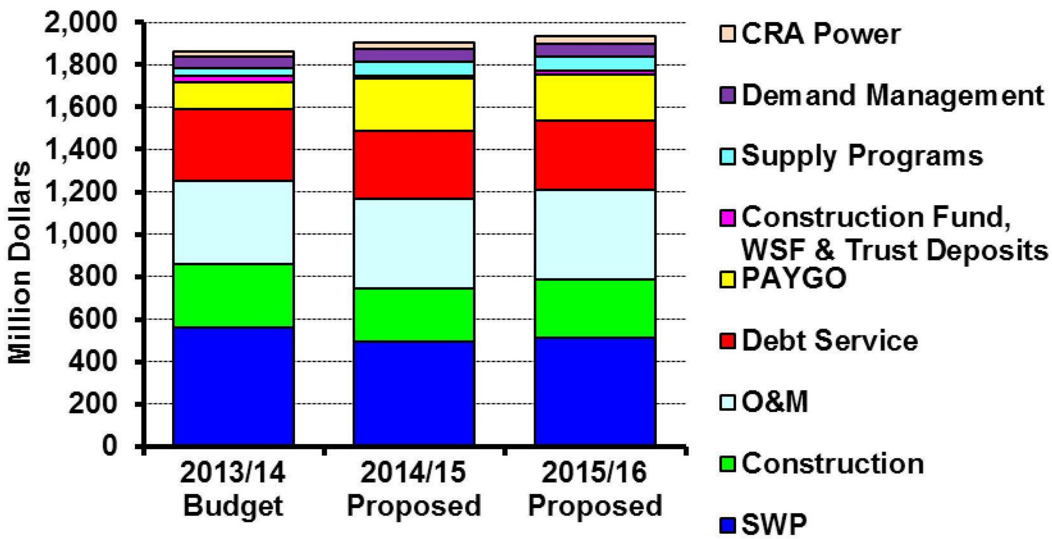
Interest earnings are estimated to total $16.1 million and $27.6 million for FY 2014/15 and FY 2015/16 respectively (including trust accounts and construction funds), primarily due to higher assumed interest rates.

Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales are estimated to be $19.3 million for FY 2014/15 and $18.9 million for FY 2015/16.

Other Sources

For FY 2014/15 and FY 2015/16 Metropolitan does not plan to issue any new debt. The funding requirements of the CIP will be met from current operating revenues (i.e., budgeted PAYGO) and by drawing down the R&R fund balance. In FY 2014/15, a total of $1.91 billion will be available for expenditures and other obligations and in FY 2015/16 this figure will increase to $1.94 billion.

Figure 3. Uses of Funds



USES OF FUNDS

Total uses of funds are $1.91 billion for FY 2014/15 and $1.94 billion for FY 2015/16. Figure 3 shows the breakdown of expenditures and other obligations that make up the Uses of Funds.

Colorado River Aqueduct Power

CRA power costs are projected to be $29.2 million in FY 2014/15 and $36.5 million in FY 2015/16 based on pumping 882 TAF and 876 TAF, respectively, through the CRA. FY 2015/16 is $7.3 million higher despite similar pumping as a result of the need to purchase supplemental energy.

State Water Project

State Water Project (SWP) expenditures are budgeted at $495.7 million for FY 2014/15 and $515.0 million in FY 2015/16. This is based on total deliveries of 1.03 MAF for FY 2014/15, of which 94 TAF are received via exchange, and 1.02 TAF for FY 2015/16, of which 94 TAF are received via exchange.

SWP power costs are expected to be $183.8 million for FY 2014/15 and $194.0 million for FY 2015/16 and include the cost of pumping 912 TAF and 907 TAF respectively.

For FY 2014/15, the average total unit cost of SWP power is expected to be about $202 per acre-foot, which includes $18 per acre-foot for fixed power costs and $183 per acre-foot for variable pumping costs. For FY 2015/16, the average total unit cost of SWP power is expected to be about $214 per acre-foot, primarily for variable pumping costs.

SWP minimum operations, maintenance, power, and replacement charges are estimated to be about $183.4 million in both FY 2014/15 and FY 2015/16. FY 2014/15 capital charges are expected to decrease $19.5 million from the FY 2013/14 budget but then increase $6.7 million in FY 2015/16. The initial decrease reflects incorporation of rate management credits into the forecast of SWP costs. Rate management credits result from a provision of the State Water Contract that provides for the reduction of capital charges based on differences between the Department of Water Resources' collections from the SWP contractors and the actual amounts paid for capital-related charges.

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 entered into agreements to provide financial assistance to water-recycling projects, principally for landscape irrigation, groundwater recharge, and industrial uses. Metropolitan expects to spend about $30 million annually for the production of about 187 TAF of recycled water in FY 2014/15 and FY 2015/16.

Metropolitan also entered into agreements to provide financial assistance to projects to treat contaminated groundwater for potable uses. Metropolitan expects to spend about $9 million annually for the production of about 77 TAF of recovered groundwater in FY 2014/15 and FY 2015/16.

The CCP provides financial assistance to customers in Metropolitan's service area for water conservation programs. The budget for CCP provides rebate funding for residential, commercial, industrial, and landscape conservation activities. The FY 2014/15 and FY 2015/16 funding for CCP is budgeted at $20 million per year.

OPERATIONS AND MAINTENANCE

The FY 2013/14 operations and maintenance (O&M) budget has been restated to reflect the redistribution of a portion of the $10 million in OPEB funding in FY 2013/14 to salaries and benefits in the same manner that retirement-related expenses are reflected in the FY 2014/15 and FY 2015/16 budgets. The O&M portion, or $8.4 million of the $10 million OPEB funding, was redistributed to the Department budgets with $1.6 million remaining in Other O&M. The FY 2013/14 Restated budget also includes an additional $0.2M of Ethics department expenses authorized by the Board in August 2013.

The FY 2014/15 O&M budget, including operating equipment purchases, is $422.8 million. This is $32.3 million, or 8.3 percent, higher than the FY 2013/14 restated budget of $390.5 million. The FY 2015/16 O&M budget is $427.2 million, an increase of $4.4 million, or 1.0 percent. Table 1 summarizes the O&M budget by expenditure type. A more detailed discussion of significant factors impacting the O&M budget follows Table 1.

Table 1. 2014/15 Operations & Maintenance Annual Budget (dollars) by Expenditure Type

	2013/14 Restated Budget	2014/15 Proposed	2015/16 Proposed	2013/14 Restated Budget vs. 2014/15 Proposed	2014/15 Proposed vs. 2015/16 Proposed
Salaries & Benefits (1)	244,650.8	273,746.1	277,020.1	29,095.3	3,274.0
Chemicals, Solids, and Power (2)	25,413.4	26,565.7	27,644.2	1,152.3	1,078.5
Outside Services	41,232.5	43,426.4	43,814.2	2,193.9	387.8
Materials & Supplies (3)	24,807.5	25,379.9	25,767.7	572.4	387.8
Other	47,234.5	46,004.0	44,760.4	(1,230.5)	(1,243.6)
Operating Equipment	7,124.6	7,640.9	8,190.3	516.3	549.4
Total	**390,463.3**	**422,763.1**	**427,196.9**	**32,299.7**	**4,433.8**

Totals may not foot due to rounding
(1) Includes overhead credit for construction and savings from liability reduction
(2) Costs associated with treatment only.
(3) Without chemicals associated with treatment plants.

FY 2014/15 O&M Budget

The proposed FY 2014/15 O&M budget includes $422.8 million for labor and benefits, water treatment chemicals, power, and solids handling, materials and supplies, professional services, and operating equipment purchases. This is $32.3 million, or 8.3 percent, higher than the FY 2013/14 restated budget of $390.5 million due primarily to an increase in retirement-related benefit costs and merit increases for qualified employees, variable treatment costs, and outside services.

Salaries and Benefits – Labor costs, not including those charged to construction, are $273.7 million. This is $29.1 million, or 12 percent, higher than the FY 2013/14 restated budget of $244.6 million. This increase is primarily the result of an increase in retirement-related benefit costs and merit increases for qualified employees; three additional positions for Water Systems Operations, funding of two additional positions in the Bay-Delta program and funding additional positions to assist with succession planning.

Salaries not including fringe benefits or the overhead credit are 4 percent higher than the FY 2013/14 restated budget. Fringe benefits are $19.7 million, or 21 percent higher, than the FY 2013/14 restated budget primarily as a result of full funding of the annual actuarial required contribution (ARC) for Metropolitan's Other Post-Employment Benefits (OPEB) liability. Future annual ARC amounts are mitigated by a proposed additional deposit to the OPEB Trust of $100 million in FY 2013/14. The FY 2015/16 budget reflects $6.5 million reduction in the anticipated ARC due to this deposit.

The total personnel complement for the FY 2014/15 budget is 1,905 authorized positions, including 19 agency and district temporary full-time equivalents (FTEs), and reflects an increase of 2 net positions from the FY 2013/14 budget. Total regular authorized employee positions are 137 positions below the FY 2008/09 budget. The proposed FY 2014/15 budget assumes a vacancy rate of approximately 3.2 percent and 3 regular employee positions remain unfunded.

Other O&M – Outside services is anticipated to increase $2.2 million in FY 2014/15 primarily as a result of an increase for security equipment maintenance and Emergency Maintenance System (EMS) storage costs.

Chemicals, solids, and power reflect the cost of the water treatment process and are anticipated to increase by $1.1 million in FY 2014/15, driven by an overall increase in chemical unit commodity prices and higher electricity rates.

FY 2015/16 O&M Budget

The proposed FY 2015/16 O&M budget is $427.2 million, an increase of $4.4 million, or 1 percent, compared to the FY 2014/15 budget. This increase is primarily due to merit increases for qualified employees, increase in fringe benefit costs, and forecasted increases in chemical and power costs to operate the treatment plants.

Salaries and Benefits – The FY 2015/16 O&M labor budget includes $6.5 million of anticipated savings on retirement related benefit costs as a result of the proposed $100 million deposit to the OPEB Trust in FY 2013/14.

The FY 2015/16 O&M labor budget is about $3.3 million higher than the FY 2014/15 budget driven primarily by an increase in overall fringe benefit costs and merit increases for qualified employees offset by savings on retirement related benefits costs.

Salaries not including fringe benefits or the overhead credit are 2 percent higher than the FY 2014/15 budget. Fringe benefits are only .2 percent higher than the FY 2014/15 budget as a result of the $6.5 million in anticipated savings on retirement related benefit costs.

The total budgeted personnel complement for FY 2015/16 is reduced by 1 position to 1,904 positions, including 19 agency and district temporary FTEs. The proposed FY 2015/16 budget assumes a vacancy rate of approximately 3.2 percent and 3 regular employee positions remain unfunded.

Other O&M –The cost of chemicals, power, and sludge disposal incurred in the water treatment process is anticipated to increase by $1.1 million in FY 2015/16 driven primarily by modest inflationary pressure on chemical commodity prices and electricity rates.

Figure 4. Departmental Budget by Expenditure Type

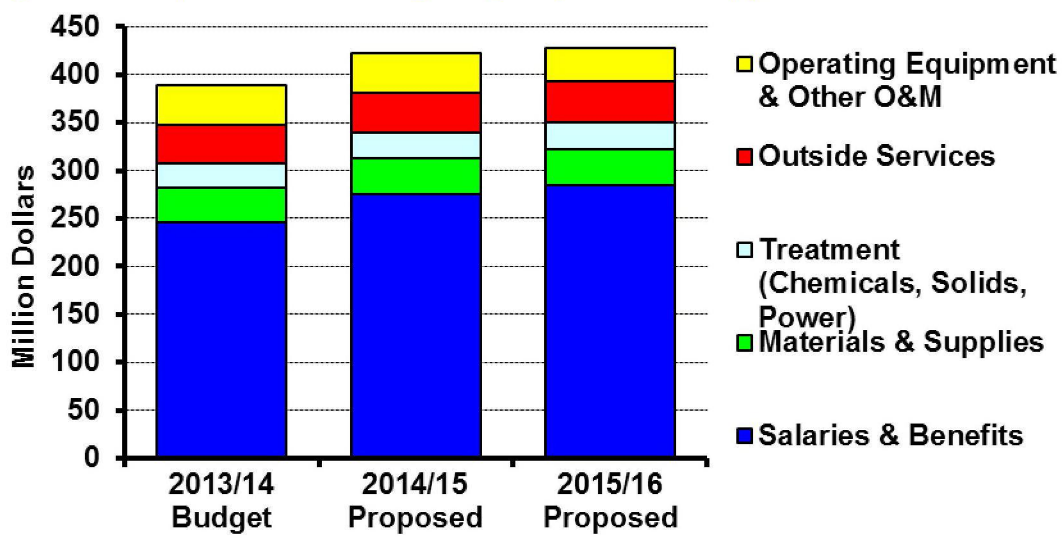


Figure 4 summarizes the total departmental O&M budget by expenditure type, of which 66 percent is for salaries and benefits.

Figure 5 depicts the distribution of the departmental O&M by organization without other O&M, the overhead credit, and operating equipment. Including treatment costs, the Water System Operations (WSO) Group accounts for 55 percent of the total departmental budget for both FY 2014/15 and FY 2015/16. A summary of the O&M budget by organization is shown in Table 2.

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

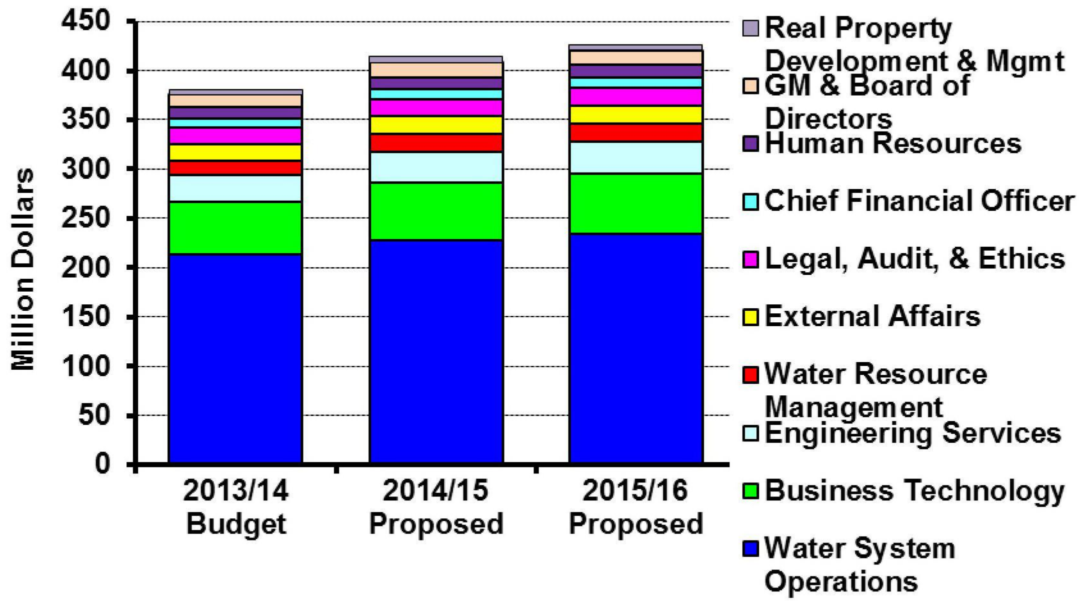


Table 2. Operations & Maintenance Budget by Organization

Departmental Units	2013/14 Restated Budget	2014/15 Proposed	2015/16 Proposed	2013/14 Restated Budget vs. 2014/15 Proposed	%	2014/15 Proposed vs. 2015/16 Proposed	%
Office of the General Manager	$ 12,854.2	$ 14,807.5	$ 15,255.7	$ 1,953.3	15.2%	$ 448.2	3.0%
Water System Operations w/o Variable Treatment	188,578.0	201,227.8	207,027.9	12,649.9	6.7%	5,800.1	2.9%
Water Resource Management	15,272.8	17,580.7	17,970.6	2,308.0	15.1%	389.9	2.2%
Engineering Services	26,289.7	31,998.9	33,008.3	5,709.2	21.7%	1,009.4	3.2%
Business Technology	53,167.8	58,224.2	60,216.6	5,056.4	9.5%	1,992.4	3.4%
Real Property Development & Mgmt	4,797.5	5,703.3	5,801.3	905.8	18.9%	98.1	1.7%
Human Resources	11,865.2	12,633.5	12,856.2	768.3	6.5%	222.7	1.8%
Office of the Chief Financial Officer	8,901.4	9,660.5	10,133.7	759.1	8.5%	473.1	4.9%
External Affairs	16,456.4	18,207.7	18,628.9	1,751.3	10.6%	421.2	2.3%
Subtotal - General Manager's Dep.	**338,182.9**	**370,044.2**	**380,899.2**	**31,861.3**	**9.4%**	**10,855.0**	**2.9%**
General Counsel	13,355.0	13,262.3	13,748.9	(92.6)	(0.7%)	486.6	3.7%
General Auditor	2,811.7	3,101.9	3,224.9	290.3	10.3%	122.9	4.0%
Ethics Office	846.4	1,070.1	1,092.6	223.8	26.4%	22.5	2.1%
Overhead Credit from Construction	(20,807.0)	(18,744.3)	(19,547.7)	2,062.7	(9.9%)	(803.5)	4.3%
Total Departmental Budget	**334,388.9**	**368,734.4**	**379,417.9**	**34,345.4**	**10.3%**	**10,683.5**	**2.9%**
Other O&M							
PC Replacement	3,525.0	-	-	(3,525.0)	(100.0%)	-	NA
CCP Vendor Administration	1,589.1	1,550.0	1,550.0	(39.1)	(2.5%)	-	NA
Performance Programs	673.0	673.0	673.0	-	NA	-	NA
Association Dues	4,981.0	5,065.9	5,184.8	84.9	1.7%	118.9	2.3%
Contingency	2,057.1	-	-	(2,057.1)	(100.0%)	-	NA
Insurance	9,566.6	11,344.0	9,800.0	1,777.4	18.6%	(1,544.0)	(13.6%)
Leases	532.6	565.0	600.0	32.4	6.1%	35.0	6.2%
Property Taxes	612.0	624.2	636.7	12.2	2.0%	12.5	2.0%
Subtotal - Other	**23,536.4**	**19,822.1**	**18,444.5**	**(3,714.3)**	**(15.8%)**	**(1,377.6)**	**(6.9%)**
TOTAL OPERATIONS & MAINTENANCE	**357,925.3**	**388,556.5**	**397,862.4**	**30,631.1**	**8.6%**	**9,305.9**	**2.4%**
Operating Equipment	7,124.6	7,640.9	8,190.3	516.3	7.2%	549.4	7.2%
Variable Treatment	25,413.4	26,565.7	27,644.2	1,152.3	4.5%	1,078.5	4.1%
Savings from Liability Reduction	-	-	(6,500.0)	-	NA	(6,500.0)	NA
GRAND TOTAL	**$ 390,463.3**	**$ 422,763.1**	**$ 427,196.9**	**$ 32,299.7**	**8.3%**	**$ 4,433.8**	**1.0%**

Totals may not foot due to rounding

LABOR

Total authorized positions (including temporary workers) for FY 2014/15 and FY 2015/16 are 1,905 and 1,904 positions respectively. Total O&M personnel are up by 2 district temporary positions (rounded) to 1,905 in 2014/15 and drop 1 regular full time position to a total of 1,904 in FY 2015/16. Positions dedicated to capital work are expected to decrease slightly during the biennium while positions dedicated to O&M will increase slightly. The proposed FY 2014/15 and FY 2015/16 budget assumes a vacancy rate of approximately 3.2 percent and 3 positions remain unfunded in each budget year. Therefore, funded positions are lower than the authorized complement.

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

Table 3. Regular and Temporary Positions

	2012/13 Budget	2013/14 Budget	2014/15 Proposed	2015/16 Proposed	2013/14 Budget vs. 2014/15 Proposed	2014/15 Proposed vs. 2015/16 Proposed
Regular Full Time Positions	1,883	1,881	1,886	1,885	5	-1
District Temporary Positions	19	18	19	19	2	0
Agency Temporary Positions	6	5	-	-	-5	0
Total	**1,908**	**1,904**	**1,905**	**1,904**	**2**	**-1**

Totals may not foot due to rounding.

Table 4. O&M and Capital Staffing Levels

	2013/14 Budget	2014/15 Proposed	2015/16 Proposed
O&M Positions			
Regular Full Time Positions	1,598	1,608	1,604
District & Agency Temporary Positions	20	19	19
Total O&M	**1,618**	**1,627**	**1,623**
Capital Positions			
Regular Full Time Positions	283	278	281
District & Agency Temporary Positions	3	-	-
Total Capital	**286**	**278**	**281**
GRAND TOTAL	**1,904**	**1,905**	**1,904**

Totals may not foot due to rounding.

Supply Programs

Major supply program expenditures for FY 2014/15 and FY 2015/16 are estimated to be $69.3 million and $64.6 million respectively and include (may not foot due to rounding):

- $12.2 million in FY 2014/15 and $12.6 million in FY 2015/16 for operating and maintaining the IID/MWD conservation agreement;
- $27.2 million in FY 2014/15 and $21.1 million in FY 2015/16 for Colorado Programs;
- $18.0 million in FY 2014/15 and $18.3 million in FY 2015/16 for Central Valley Storage Programs;
- $8.6 million in FY 2014/15 and $9.4 million in FY 2015/16 for the Palo Verde Irrigation District (PVID) Land Management Program;
- $1.9 million in FY 2014/15 and $1.9 million in FY 2015/16 for State Water Project Transfer Programs; and
- $1.3 million in FY 2014/15 and $1.3 million in FY 2015/16 for In-Basin Programs.

ANNUAL CAPITAL INVESTMENT PLAN

The CIP budget for FY 2014/15 and FY 2015/16 is estimated to be $245.4 million and $267.9 million respectively. It is proposed to be funded by current operating revenues (i.e., budgeted PAYGO) and by drawing down the R&R fund balance. The FY 2014/15 capital budget is $49.2 million lower than the FY 2013/14 budget and the FY 2015/16 capital budget is $22.5 million higher than the FY 2014/15 budget.

The two largest areas of expenditures in the FY 2014/15 and FY 2015/16 CIP are Infrastructure Reliability and Water Quality. It is currently anticipated that infrastructure expenditures will continue to grow as more facilities reach the end of their service life.

Cash Funded Capital

The CIP is proposed to be funded by current operating revenues (budgeted PAYGO) and by drawing down the R&R fund balance. The PAYGO funding for FY 2014/15 has been budgeted at $245 million. In FY 2015/16, PAYGO funding has been budgeted at $221 million and in addition to a $47 million draw from the R&R fund will fund the $268 million CIP.

Debt Service

For FY 2014/15 and FY 2015/16 Metropolitan does not plan to issue any new debt. Debt service payments in FY 2014/15 are budgeted to be $325.8 million and include $23.2 million in G.O. bond debt service, $297.5 million in revenue bond debt service, $3.9 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and $1.3 million for State Revolving Fund Loan payments. Total debt service costs in FY 2014/15 are expected to be $17.6 million less than the FY 2013/14 budget.

Debt service payments in FY 2015/16 are budgeted to be $324.7 million and include $23.3 million in G.O. bond debt service, $296.4 million in revenue bond debt service, $3.7 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and $1.3 million for State Revolving Fund Loan payments. Total debt service costs in FY 2015/16 are expected to be $1.1 million less than the FY 2014/15 budget.

Metropolitan currently has $4.5 billion in outstanding debt. Of this amount, $4.3 billion is revenue bond debt, of which 9 percent is in an unhedged variable rate mode.

Reserve Transfers

The FY 2014/15 budget forecasts an $18.4 million decrease in reserves by June 30, 2015 and includes the Water Rate Stabilization Fund (WRSF) and the Revenue Remainder Fund. In addition, the Treatment Surcharge Stabilization Fund (TSSF) is expected to decrease $4.4 million and the Water Stewardship Fund (WSF) is expected to decrease by $9.8 million.

The FY 2015/16 budget forecasts a $2.5 million decrease in reserves by June 30, 2016 and includes the Water Rate Stabilization Fund (WRSF) and the Revenue Remainder Fund. In addition the Treatment Surcharge Stabilization Fund (TSSF) is expected to remain at zero and the Water Stewardship Fund (WSF) is expected to decrease by $9.2 million.

FUND BALANCES AND RESERVE LEVELS

Metropolitan operates as a single enterprise fund for financial statements and budgeting purposes. Through its administrative code, Metropolitan identifies a number of accounts, which are referred to as funds, to separately track uses of monies for specific purposes as summarized in Table 5. Figure 6 shows the distribution of these funds by type.

Fund balances are budgeted to be $1.51 billion at June 30, 2015. Of that total, $836.5 million is restricted by bond covenants, contracts, or board policy, and $668.5 million is unrestricted. In addition, fund balances are budgeted to be $1.46 billion at June 30, 2016. Of that total, $854.7 million is restricted by bond covenants, contracts, or board policy, and $609.9 million is unrestricted.

On June 30, 2015, the minimum and target reserve fund targets are estimated to be $206.0 million and $484.7 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about $468.3 million, about $16.4 million under the target.

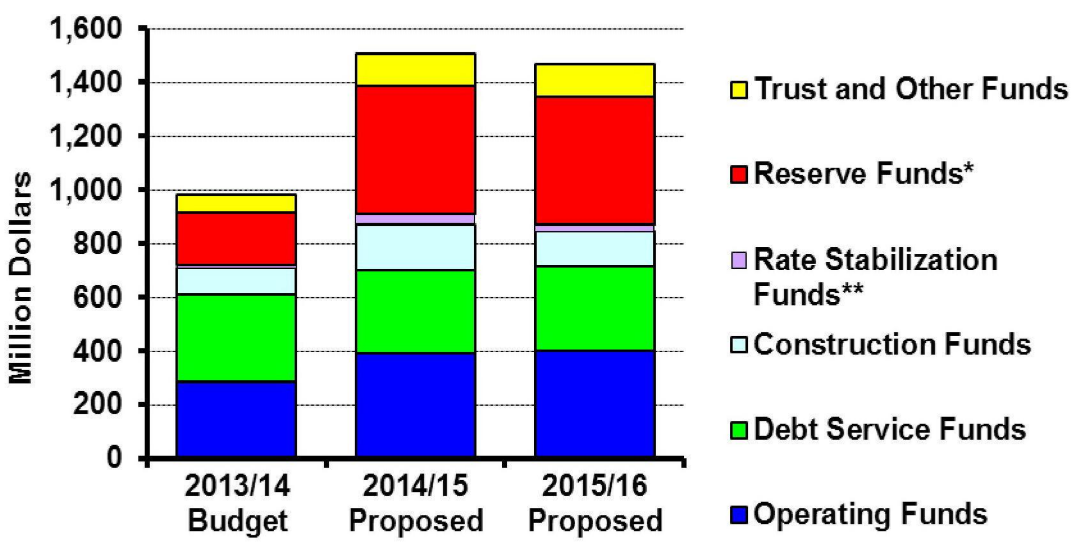
On June 30, 2016, the minimum and target reserve fund targets are estimated to be $206.4 million and $492.6 million, respectively. Based on projected revenues and expenditures, it is estimated that the balance in the WRSF and Revenue Remainder Fund will total about $465.8 million, about $26.8 million under the target.

Table 5. Projected Fund Balances (dollars in millions)

	Restricted		Unrestricted		
	Contractual	Board	Designated	Undesignated	Total
2014/15 Proposed					
Operating Funds	175.7	216.4	-	-	392.1
Debt Service Funds	309.0	-	-	-	309.0
Construction Funds	18.4	-	153.5	-	171.9
Reserve Funds*	-	-	-	475.5	475.5
Rate Stabilization Funds**	-	-	38.4	-	38.4
Trust and Other Funds	67.0	50.1	-	0.9	118.0
Total June 30, 2015	**570.0**	**266.5**	**192.0**	**476.5**	**1,505.0**
2015/16 Proposed					
Operating Funds	181.5	222.4	-	-	403.9
Debt Service Funds	314.8	-	-	-	314.8
Construction Funds	18.9	-	106.7	-	125.6
Reserve Funds*	-	-	-	473.1	473.1
Rate Stabilization Funds**	-	-	29.2	-	29.2
Trust and Other Funds	67.0	50.1	-	0.9	118.0
Total June 30, 2016	**582.2**	**272.5**	**135.9**	**474.0**	**1,464.6**

Based on modified accrual accounting.
Totals may not foot due to rounding.
* includes Water Rate Stabilization Fund and Revenue Remainder Fund.
** includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund

Figure 6. Fund Distribution by Type



* includes Water Rate Stabilization Fund and Revenue Remainder Fund.
** includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund

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

	2013/14 Budget	2013/14 Projected	2014/15 Proposed	2015/16 Proposed	2014/15 Proposed Compared to 2013/14 Budget	2015/16 Proposed Compared to 2014/15 Proposed
USES OF FUNDS						
Expenses						
State Water Contract	$ 564.0	$ 426.0	$ 495.7	$ 515.0	$ (68.3)	$ 19.3
Supply Programs	37.0	76.5	69.3	64.6	32.2	(4.7)
Colorado River Power	24.9	24.9	29.2	36.5	4.3	7.3
Debt Service	343.4	369.0	325.8	324.7	(17.6)	(1.1)
Demand Management	53.6	53.6	62.2	61.7	8.5	(0.5)
Departmental O&M	326.3	336.1	368.7	379.4	42.4	10.7
Treatment Chemicals, Solids & Power	26.4	26.4	26.6	27.6	0.2	1.1
Other O&M	37.5	128.0	27.5	20.1	(10.0)	(7.3)
Sub-total Expenses	**1,413.3**	**1,440.6**	**1,404.9**	**1,429.7**	**(8.3)**	**24.7**
Capital Investment Plan	**294.6**	**200.0**	**245.4**	**267.9**	**(49.2)**	**22.5**
Fund Deposits						
Water Transfer Fund	-	95.0	-	-	-	-
R&R and General Fund	125.0	225.0	245.4	221.0	120.4	(24.4)
Revenue Bond Construction	2.9	-	-	-	(2.9)	-
Water Stewardship Fund	0.3	14.1	-	-	(0.3)	-
Treatment Surcharge Stabilization Fund	-	-	-	-	-	-
Interest for Construction & Trust Funds	0.9	0.2	0.1	0.4	(0.8)	0.3
Increase in Required Reserves	28.2	10.7	11.2	18.2	(17.0)	7.0
Increase in Water Rate Stabilization Fund	-	-	-	-	-	-
Other Fund Activity	-	-	-	-	-	-
Sub-total Fund Deposits	**157.3**	**345.0**	**256.8**	**239.6**	**99.4**	**(17.2)**
Member Agency Credit	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL USES OF FUNDS	**$ 1,865.2**	**$ 1,985.6**	**$ 1,907.1**	**$ 1,937.1**	**$ 41.9**	**$ 30.0**
SOURCES OF FUNDS						
Revenues						
Taxes	$ 80.1	$ 81.1	$ 90.2	$ 92.2	$ 10.1	$ 2.0
Annexations	1.0	-	-	-	(1.0)	-
Interest Income	14.1	7.7	16.1	27.6	2.1	11.4
Hydro Power	20.9	17.0	19.3	18.9	(1.7)	(0.4)
Fixed Charges (RTS & Capacity Charge)	182.1	182.1	198.7	196.3	16.6	(2.4)
Water Sales Revenue	1,240.7	1,437.5	1,290.6	1,310.8	49.9	20.2
Miscellaneous Revenue	6.1	6.1	10.2	11.3	4.1	1.1
Bond Proceeds and Reimbursements	178.6	-	-	-	(178.6)	-
Sub-total Revenues	**1,723.7**	**1,731.7**	**1,625.2**	**1,657.1**	**(98.6)**	**31.9**
Fund Withdrawals						
R&R and General Fund	125.0	130.0	245.4	267.9	120.4	22.5
Bond Funds for Construction	-	70.0	-	-	-	-
Water Stewardship Fund	-	-	9.8	9.2	9.8	(0.6)
Treatment Surcharge Stabilization Fund	-	0.5	4.4	-	4.4	(4.4)
Decrease in Required Reserves	1.5	-	-	-	(1.5)	-
Decrease in Water Rate Stabilization Fund	14.9	53.4	22.3	2.9	7.4	(19.4)
Sub-total Fund Withdrawals	**141.5**	**253.9**	**281.9**	**280.0**	**140.4**	**(1.9)**
TOTAL SOURCES OF FUNDS	**$ 1,865.2**	**$ 1,985.6**	**$ 1,907.1**	**$ 1,937.1**	**$ 41.9**	**$ 30.0**

Totals may not foot due to rounding.

Table 7. June 30, 2015 Sources and Uses by Fund (dollars in millions)

Fiscal Year Ending June 30th, 2015 ($ in Millions)	All Funds	Operating Funds: General	Operating Funds: Water Revenue	Operating Funds: O&M	Operating Funds: Water Standby	Operating Funds: Water Transfer	Operating Funds: Self-Insured Retention	Operating Funds: State Contract	Debt Service Funds	Stabilization Funds: Water Stewardship	Stabilization Funds: Water Treatment Surcharge Stab.	Reserve Funds (1)	Construction Funds: R&R	Construction Funds: Revenue Bond Construction	Trust & Other Funds
Beginning of Year Balance	**1,530.1**	**117.0**	**-**	**171.3**	**0.6**	**119.9**	**24.9**	**68.2**	**323.1**	**48.2**	**4.4**	**494.0**	**153.5**	**4.0**	**0.9**
USES OF FUNDS															
Expenses															
State Water Contract	495.7	-	-	360.8	-	-	-	134.9	-	-	-	-	-	-	-
Supply Programs	69.3	-	-	69.3	-	-	-	-	-	-	-	-	-	-	-
Colorado River Power	29.2	-	-	29.2	-	-	-	-	-	-	-	-	-	-	-
Debt Service	325.8	1.3	-	3.9	-	-	-	-	320.7	-	-	-	-	-	-
Demand Management	62.2	-	-	62.2	-	-	-	-	-	-	-	-	-	-	-
Departmental O&M	368.7	-	-	368.7	-	-	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	26.6	-	-	26.6	-	-	-	-	-	-	-	-	-	-	-
Other O&M	27.5	7.6	-	19.8	-	-	-	-	-	-	-	-	-	-	-
Sub-total Expenses	**1,404.9**	**8.9**	**-**	**940.4**	**-**	**-**	**-**	**134.9**	**320.7**	**-**	**-**	**-**	**-**	**-**	**-**
Capital Investment Plan	**245.4**	**15.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**229.8**	**-**	**-**
Fund Deposits															
R&R and General Fund	245.4	15.7	-	-	-	-	-	-	-	-	-	-	229.8	-	-
Revenue Bond Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treatment Surcharge Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.0
Increase in Required Reserves	11.2	-	-	4.4	-	-	-	2.8	0.1	-	-	3.9	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Deposits	**256.8**	15.7	-	4.4	-	-	-	2.8	0.1	-	-	3.9	229.8	0.1	0.0
TOTAL USES OF FUNDS	**1,907.1**	**40.2**	**-**	**944.8**	**-**	**-**	**-**	**137.7**	**320.8**	**-**	**-**	**3.9**	**459.5**	**0.1**	**0.0**
SOURCES OF FUNDS															
Revenues															
Taxes	90.2	-	-	-	-	-	-	67.0	23.2	-	-	-	-	-	-
Annexations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	16.1	1.3	-	2.0	0.0	1.4	0.3	0.8	3.6	0.5	0.0	4.3	1.8	0.1	0.0
Hydro Power	19.3	-	19.3	-	-	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	198.7	-	198.7	-	-	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,290.6	-	1,290.6	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	10.2	10.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Revenues	**1,625.2**	**11.6**	**1,508.6**	**2.0**	**0.0**	**1.4**	**0.3**	**67.8**	**26.7**	**0.5**	**0.0**	**4.3**	**1.8**	**0.1**	**0.0**
Fund Withdrawals															
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	245.4	15.7	-	-	-	-	-	-	-	-	-	-	229.8	-	-
Bond Funds for Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	9.8	-	-	-	-	-	-	-	-	9.8	-	-	-	-	-
Treatment Surcharge Stabilization Fund	4.4	-	-	-	-	-	-	-	-	-	4.4	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	22.3	-	-	-	-	-	-	-	-	-	-	22.3	-	-	-
Sub-total Fund Withdrawals	**281.9**	**15.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9.8**	**4.4**	**22.3**	**229.8**	**-**	**-**
TOTAL SOURCES OF FUNDS	**1,907.1**	**27.2**	**1,508.6**	**2.0**	**0.0**	**1.4**	**0.3**	**67.8**	**26.7**	**10.3**	**4.4**	**26.6**	**231.5**	**0.1**	**0.0**
Inter-Fund Transfers	**-**	**13.0**	**(1,508.6)**	**942.8**	**(0.0)**	**(1.4)**	**(0.3)**	**69.9**	**279.8**	**(10.3)**	**(4.4)**	**(22.7)**	**228.0**	**14.2**	**-**
End of Year Balance	**1,505.0**	**117.0**	**-**	**175.7**	**0.6**	**119.9**	**24.9**	**71.0**	**309.0**	**38.4**	**0.0**	**475.5**	**153.5**	**18.4**	**0.9**

Totals may not foot due to rounding

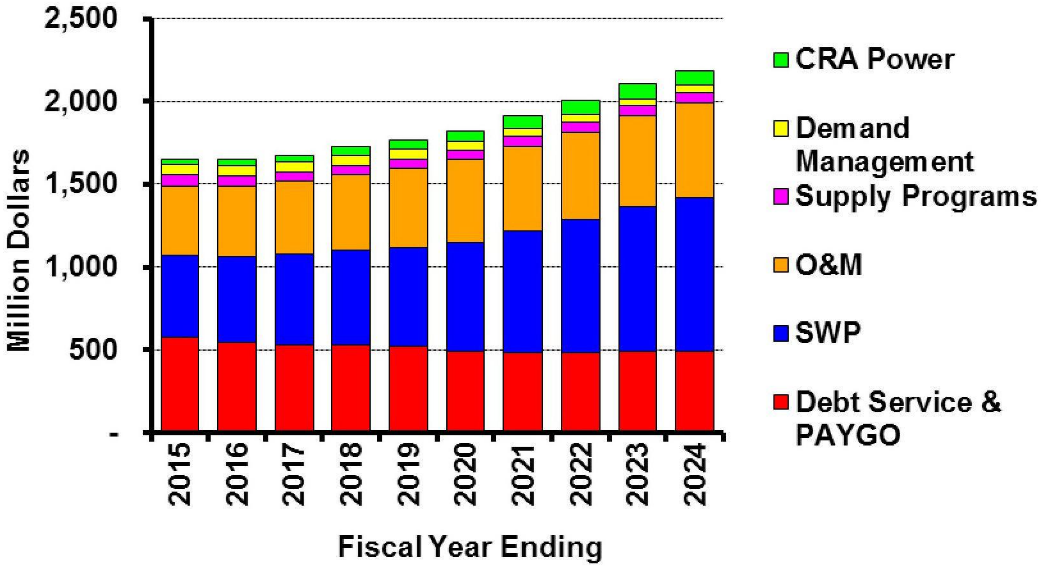
(1) Includes Water Rate Stabilization Fund and Revenue Remainder Fund

Table 8. June 30, 2016 Sources and Uses by Fund (dollars in millions)

Fiscal Year Ending June 30th, 2016 ($ in Millions)	All Funds	Operating Funds: General	Operating Funds: Water Revenue	Operating Funds: O&M	Operating Funds: Water Standby	Operating Funds: Water Transfer	Operating Funds: Self-Insured Retention	Operating Funds: State Contract	Debt Service Funds	Stabilization Funds: Water Stewardship	Stabilization Funds: Water Treatment Surcharge Stab.	Reserve Funds (1)	Construction Funds: R&R	Construction Funds: Revenue Bond Construction	Trust & Other Funds
Beginning of Year Balance	**1,505.0**	**117.0**	**-**	**175.7**	**0.6**	**119.9**	**24.9**	**71.0**	**309.0**	**38.4**	**0.0**	**475.5**	**153.5**	**18.4**	**0.9**
USES OF FUNDS															
Expenses															
State Water Contract	515.0	-	-	373.7	-	-	-	141.3	-	-	-	-	-	-	-
Supply Programs	64.6	-	-	64.6	-	-	-	-	-	-	-	-	-	-	-
Colorado River Power	36.5	-	-	36.5	-	-	-	-	-	-	-	-	-	-	-
Debt Service	324.7	1.3	-	3.7	-	-	-	-	319.7	-	-	-	-	-	-
Demand Management	61.7	-	-	61.7	-	-	-	-	-	-	-	-	-	-	-
Departmental O&M	379.4	-	-	379.4	-	-	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	27.6	-	-	27.6	-	-	-	-	-	-	-	-	-	-	-
Other O&M	20.1	1.7	-	18.4	-	-	-	-	-	-	-	-	-	-	-
Sub-total Expenses	**1,429.7**	**3.0**	**-**	**965.7**	**-**	**-**	**-**	**141.3**	**319.7**	**-**	**-**	**-**	**-**	**-**	**-**
Capital Investment Plan	**267.9**	**12.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255.3**	**-**	**-**
Fund Deposits															
R&R and General Fund	221.0	12.5	-	-	-	-	-	-	-	-	-	-	208.5	-	-
Revenue Bond Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treatment Surcharge Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	0.4	-	-	-	-	-	-	-	-	-	-	-	-	0.4	0.0
Increase in Required Reserves	18.2	-	-	5.8	-	-	-	6.0	6.0	-	-	0.4	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Deposits	**239.6**	12.5	-	5.8	-	-	-	6.0	6.0	-	-	0.4	208.5	0.4	0.0
TOTAL USES OF FUNDS	**1,937.1**	**28.0**	**-**	**971.5**	**-**	**-**	**-**	**147.3**	**325.7**	**-**	**-**	**0.4**	**463.8**	**0.4**	**0.0**
SOURCES OF FUNDS															
Revenues															
Taxes	92.2	-	-	-	-	-	-	68.9	23.3	-	-	-	-	-	-
Annexations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	27.6	2.4	-	3.6	0.0	2.4	0.5	1.5	6.2	0.7	-	7.3	2.6	0.4	0.0
Hydro Power	18.9	-	18.9	-	-	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	196.3	-	196.3	-	-	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,310.8	-	1,310.8	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	11.3	11.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Revenues	**1,657.1**	**13.6**	**1,526.0**	**3.6**	**0.0**	**2.4**	**0.5**	**70.4**	**29.5**	**0.7**	**-**	**7.3**	**2.6**	**0.4**	**0.0**
Fund Withdrawals															
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	267.9	12.5	-	-	-	-	-	-	-	-	-	-	255.3	-	-
Bond Funds for Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	9.2	-	-	-	-	-	-	-	-	9.2	-	-	-	-	-
Treatment Surcharge Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	2.9	-	-	-	-	-	-	-	-	-	-	2.9	-	-	-
Sub-total Fund Withdrawals	**280.0**	**12.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9.2**	**-**	**2.9**	**255.3**	**-**	**-**
TOTAL SOURCES OF FUNDS	**1,937.1**	**26.2**	**1,526.0**	**3.6**	**0.0**	**2.4**	**0.5**	**70.4**	**29.5**	**9.9**	**-**	**10.2**	**258.0**	**0.4**	**0.0**
Inter-Fund Transfers	**-**	**1.8**	**(1,526.0)**	**967.8**	**(0.0)**	**(2.4)**	**(0.5)**	**76.9**	**296.1**	**(9.9)**	**-**	**(9.8)**	**205.8**	**0.2**	**-**
End of Year Balance	**1,464.6**	**117.0**	**-**	**181.5**	**0.6**	**119.9**	**24.9**	**77.0**	**314.8**	**29.2**	**0.0**	**473.0**	**106.7**	**18.9**	**1.0**

Totals may not foot due to rounding
(1) Includes Water Rate Stabilization Fund and Revenue Remainder Fund

Expenditure Trend



June 2012

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

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

- Funding for the Capital Investment Plan (CIP) of $257 million in FY 2012/13 and $295 million in FY 2013/14. The CIP is carefully prioritized to fund projects that primarily focus on necessary refurbishment and replacement of aging infrastructure that are critical to maintaining water quality, reliability, and worker safety and continues to reflect the deferral of facility expansion and other projects that neither enhance reliability nor provide an adequate return on investment.
- Funding for Metropolitan to continue rebuilding of storage reserves utilizing storage agreements in the region, the Central Valley, and the Colorado River system if current year supplies exceed demands. This reduces the likelihood that Metropolitan will need to declare a Water Supply Allocation in coming years.
- Full funding of conservation programs at $20 million annually to help ensure that our member agencies and retail water agencies meet the 20 percent by 2020 goal of reduced per capita water consumption.
- Full funding of incentives for existing Local Resources Program and Groundwater Recovery Program projects. By FY 2016/17, it is anticipated that additional projects, which are eligible for incentives based on project cost, will come on-line to meet the 2010 Integrated Resources Plan goals for local resource development.
- Continued focus on the Bay-Delta with increased funding to aggressively pursue near-term and long-term Bay-Delta solutions that will ensure a greater degree of water supply reliability for Metropolitan's State Water Project supplies. Funding is directed at habitat restoration surveys and studies, environmental documentation activities, technical evaluations and science modeling to support the Bay Delta Conservation Plan and the Delta Habitat Conservation and Conveyance Program.
- Initiate funding of Other Post-Employment Benefits (OPEB) by setting aside $5 million in FY 2012/13, and increasing that to $10 million in FY 2013/14. Increases of $5 million each year through FY 2016/17 are proposed to reach full funding of the actuarial required contribution for OPEB.
- O&M expenditures were reduced in each fiscal year by eliminating 20 positions, eliminating the funding for 28 additional positions, and reducing debt administration costs, primarily due to reduced liquidity costs. Reserves are anticipated to stay close to the minimum level throughout the five-year planning horizon and projected rate increases in later years are expected to be in the 3 percent to 5 percent range.

SUMMARY OF BUDGETED EXPENDITURES

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

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

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

Totals may not foot due to rounding.

Significant factors driving the budget include:

a. **State Water Contract (SWC) Costs** – State Water Project (SWP) costs are forecasted to stabilize and largely reflect anticipated changes in water allocations. The SWC is a "take-or-pay" contract, which obligates Metropolitan to pay the capital and operating costs even if no water is delivered. Deliveries on the SWP are expected to total 1.26 million acre-feet in the 2012/13, of which 111 thousand acre-feet are received via exchange, dropping to 1.14 million acre-feet in 2013/14, of which 101 thousand acre-feet are received via exchange. Mirroring those deliveries, Metropolitan's SWC costs are estimated to be $593.5 million in 2012/13 dropping to $564.0 million in 2013/14. The primary driver of the $28.5 million decrease in 2013/14 as compared to 2012/13 is a $40.4-million decrease in SWC power costs due primarily to lower SWP deliveries and an overall reduction in the total unit cost of SWC power of $15 per acre-foot to about $221 per acre-foot in 2013/14.

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

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

d. **Debt Service** – As Metropolitan continues to fund its ongoing Capital Investment Plan (CIP), debt service will rise modestly during the biennium. It is projected that debt service will be $341.2 million in 2012/3 and $343.4 million in 2013/14.

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

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

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

Additional detail regarding Metropolitan's budget is contained in the Budget Summary section.

SUMMARY OF BUDGETED RECEIPTS

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

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

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

Totals may not foot due to rounding.

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

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

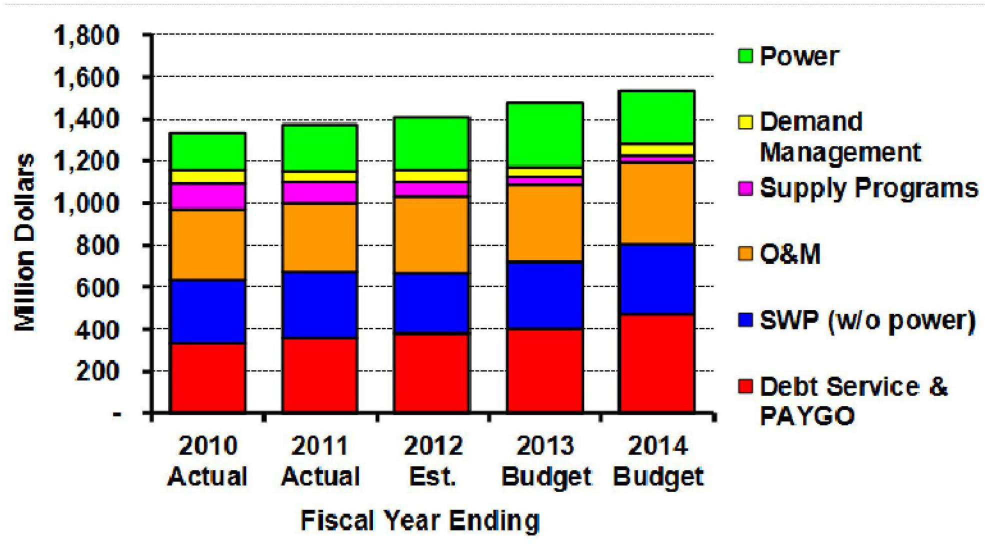
To meet the ongoing funding requirements of the CIP, Metropolitan plans to issue $180 million of commercial paper in FY 2012/13 and an additional $20 million in FY 2013/14. In addition, Metropolitan plans to issue $160 million of fixed rate bonds in 2013/14. Any remaining CIP funding requirements will be met from current operating funds (i.e., PAYGO from the R&R and General Fund).

The revenue bond debt service coverage ratio is forecast to be about 1.6 times in FY 2012/13 increasing to 1.9 times coverage in FY 2013/14. This compares favorably to a low of 1.4 times in FY 2010/11. Metropolitan's fixed charge coverage is expected to be about 1.2 times in FY 2012/13 and 1.3 times in FY 2013/14, which meets the board-adopted objective of 1.2 times coverage, increasing from 0.9 times in 2010/11.

BUDGET TREND

To provide a longer term picture of Metropolitan's costs, Figure 1 shows the major expenditure categories (excluding bond-funded CIP) over a five year period from 2009/10 actual through the 2013/14 proposed budget. From 2009/10 through 2013/14, expenditures are forecasted to increase by about $208 million, or about 3.7 percent annually. The primary cost drivers during this period are a $138 million increase in debt service and PAYGO expenditures, an $82 million increase in power costs, and a $55 million increase in departmental O&M partially offset by an $85 million decrease in supply program costs.

Figure 1. ExpenditureTrend



RESERVES

Based on projected receipts and expenditures, the total balance in the Water Rate Stabilization, Revenue Remainder, the Treatment Surcharge Stabilization Fund, and Water Stewardship funds on June 30, 2013 is estimated to be about $220.8 million, about $22.8 million over the minimum target. Similarly, the total balance of these funds on June 30, 2014 is estimated to be about $204.6 million, about $2.5 million over the minimum target. Total restricted and unrestricted reserves are estimated to be $965.8 million on June 30, 2013 and $981.7 million on June 30, 2014.

Jeffrey Kightlinger	Gary Breaux
General Manager	Chief Financial Officer

Jan.31, 2014

Tier 1: the Tier 1 Supply Rate recovers all supply-related costs. Compared to rates in effect January 1, 2014, the Tier 1 Supply Rate in 2015 is increasing due to higher supply programs' costs. The Tier 1 Supply Rate decreases in 2016 due to lower supply programs' costs.

Tier 2: the Tier 2 Supply Rate recovers the cost of acquiring additional supplies. The Tier 2 Supply Rate is set at the cost of a north-of-Delta transfer. The last multi-year period these transfers occurred was 2008-2010. No such transfers are projected. The forecast does not include any Tier 2 sales. The price as currently set is sufficient.

System Access Rate: The SAR is a volumetric system-wide rate levied on each AF of water that moves through the Metropolitan system. All users of MWD's conveyance and distribution system pay the SAR, which recovers the cost of providing conveyance and distribution capacity to meet average system demands. The SAR increases in FY 2015 and 2016 due to higher CRA and SWP transportation costs, and due to more capital costs being associated with serving average demands.

Water Stewardship Rate: The WSR recovers the costs of providing financial incentives for existing and future investments in local resources including conservation and recycled water. The WSR is a volumetric rate levied on each AF of water that moves through Metropolitan's system. The WSR remains the same in 2015 even though LRP increases by $9M because of $9M draws from the WSF. The WSR remains the same in 2016, as LRP and CCP stay the same.

System Power Rate: The SPR is a volumetric rate that recovers the costs of pumping water. The SPR recovers the energy costs of the CRA and the SWP variable and OAPF costs. The SPR decreases in 2015 because SWP variable power decreases. The SPR increases in 2016 because SWP variable power and CRA power increase.

Treatment Surcharge: The Treatment Surcharge is a system-wide volumetric rate set to recover the cost of providing treated water service. Treatment surcharge increase in 2015 and 2016, due to higher Capital costs due to capital improvements, including Ozone retrofit at Weymouth and treatment plants R&R, which result in additional capital financing costs being allocated to the treatment surcharge.

RTS: The RTS recovers the cost of providing standby service and emergency storage. The RTS is forecasted to decrease in 2015, reflecting less of the system being allocated to standby service. This outweighs the increase in capital costs via the increase in PAYGO. The RTS decreases in 2016 because PAYGO decreases.

CC: The CC recovers the cost of providing peaking capacity on Metropolitan's distribution system. The CC is levied based on the maximum summer day demand on the system between May 1 and September 30 for a three-calendar year period. Demands included in the calculation of peak day include all firm demand, exchange deliveries and wheeling. The total dollar amount to be collected through the CC is increasing in 2015, as peaking behavior on the system is increasing, and PAYGO increases. The CC decreases in 2016 because PAYGO decreases.

Tier 1: the Tier 1 Supply Rate recovers all supply-related costs. The current Tier 1 Supply Rate and Delta Surcharge total $164/AF. Compared to rates in effect January 1, 2012, the Tier 1 Supply Rate is decreasing due to lower supply costs. The Tier 1 Supply Rate increases in 2014 due to higher supply costs.

Delta Supply Surcharge: The Delta Supply Surcharge is proposed to be suspended. The Delta Supply Surcharge was implemented to recover the cost impacts of pumping restrictions in the Delta associated with Biological Opinions to address endangered species. Projected SWP and CRA supplies will meet demands and additional transfers are not projected to be necessary.

Tier 2: the Tier 2 Supply Rate recovers the cost of developing additional supplies. The Tier 2 Supply Rate is set at the cost of a north-of-Delta transfer. For FY 2013, and 2014, no such transfers are projected nor does the forecast include any Tier 2 sales. The price as currently set is sufficient.

System Access Rate: The SAR is a volumetric system-wide rate levied on each AF of water that moves through the Metropolitan system. All users of MWD's conveyance and distribution system pay the SAR, which recovers the cost of providing conveyance and distribution capacity to meet average system demands. The SAR increases in FY 2013 to adjust to the lower sales target, then increases to recover system improvement costs allocated to average demands.

Water Stewardship Rate: The WSR recovers the costs of providing financial incentives for existing and future investments in local resources including conservation and recycled water. The WSR is a volumetric rate levied on each AF of water that moves through Metropolitan's system. The WSR decreases slightly in fy 2013 due to expectation that less LRP incentives will be paid out.

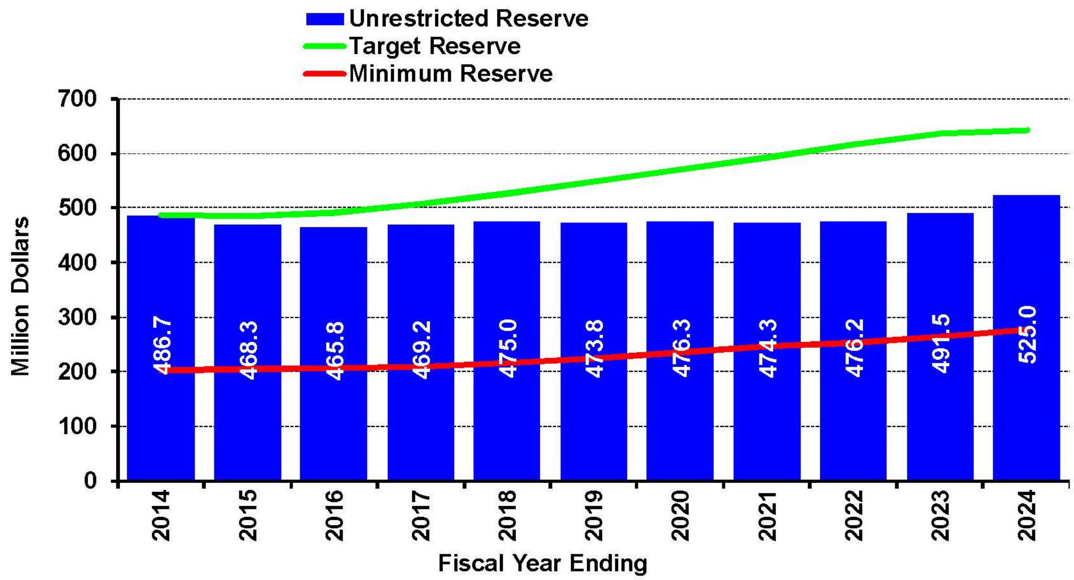
System Power Rate: The SPR is a volumetric rate that recovers the costs of pumping water. The SPR recovers the energy costs of the CRA and the SWP variable and OAPF costs. The SPR increases in fy 2013 due to higher contractual costs in fy 2013.

Treatment Surcharge: The Treatment Surcharge is a system-wide volumetric rate set to recover the cost of providing treated water service. Capital improvements, including Ozone Retrofit at Diemer and Weymouth, result in additional capital financing costs being allocated to the treatment surcharge.

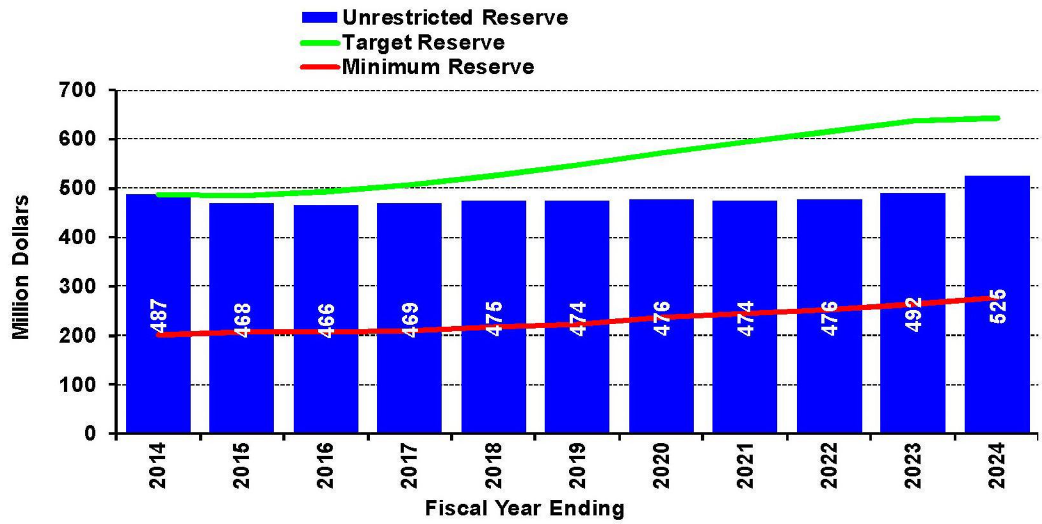
RTS: The RTS recovers the cost of providing standby service and emergency storage. The RTS is forecasted to increase in fy 2014, reflecting capital financing costs associated with providing standby service.

CC: The CC recovers the cost of providing peaking capacity on Metropolitan's system. The CC is levied based on the maximum summer day demand on the system between May 1 and September 30 for a three-calendar year period. Demands included in the calculation of peak day include all firm demand, agricultural demands, exchange deliveries and wheeling. The total dollar amount to be collected through the CC is decreasing in FY 2013, as peaking behavior on the system is decreasing.

NOTE: Budget Summary text will also need to be updated to state Target Reserve



Ave Rate Increase	5.0%	1.5%	1.5%	3.0%	3.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, $M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, $M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, $M	81	90	92	94	96	99	101	103	105	108	110
BCDP, $M				15	24	46	91	148	204	259	302



Ave Rate Increase	5.0%	1.5%	1.5%	3.0%	3.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, $M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, $M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, $M	81	90	92	94	96	99	101	103	105	108	110
BDCP, $M				15	24	46	91	148	204	259	302