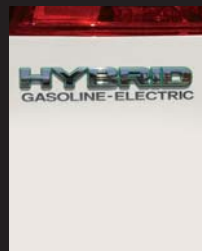


WATER SUPPLY
SUSTAINABLE AND EFFICIENT
BUSINESS PROCESSES
COMMUNICATIONS
TECHNOLOGY

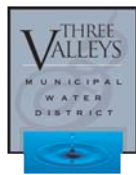
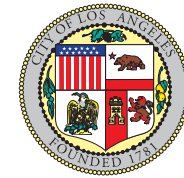
2010/11
BUDGET



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*



MEMBER AGENCIES





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

Metropolitan Water District of Southern California

For the Fiscal Year Beginning

July 1, 2009

President

Executive Director

MWD AT A GLANCE

ORGANIZATION

Authority: Act of California Legislature 1927

Incorporated: Dec. 6, 1928

First Board Meeting: Dec. 29, 1928

Mission: To provide Metropolitan's service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way

Water Sources: Colorado River and Northern California

Service Area: About 5,200 square miles in Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura counties

Population Served: Approximately 19 million

Member Agencies: 26

Founding Cities (December 1928): Anaheim, Beverly Hills, Burbank, Colton*, Glendale, Los Angeles, Pasadena, San Bernardino*, San Marino, Santa Ana and Santa Monica

* Withdrew in 1931

Subsequent Member Agency Cities: Cities of Fullerton (joined 1931),

Long Beach (1931), Torrance (1931), Compton (1931), and San Fernando (1971)

Municipal Water Districts: West Basin (1948), Inland Empire Utilities Agency (1950), Three Valleys (1950), Eastern (1951), Orange County (1951), Foothill (1953), Central Basin (1954), Western (1954), Calleguas (1960), Las Virgenes (1960), and Upper San Gabriel (1963)

County Water Authority: San Diego (1946)

GOVERNANCE

Board of Directors: 37. Each member agency is entitled to at least one director; additional directors are based on the agency's assessed valuation. Board meetings are generally held on the second Tuesday of each month. Check mwdh2o.com for meeting times and agendas.

FACILITIES

Colorado River Aqueduct: 242 miles from Lake Havasu to Lake Mathews, Riverside

Construction: Began 1933, completed 1939; CRA and regional distribution system operational 1941

Capacity: 1.3 million acre-feet* annually

Pumping Plants (east to west): Whitsett Intake (lift

291 ft., Gene (303 ft.); Iron Mountain (144 ft.);

Eagle Mountain (438 ft.); Julian Hinds (441 ft.);

Total lift 1,617 feet

Siphons: 144, totaling 29 miles

Tunnels: 29, totaling 92 miles

Canals: 63 miles

Conduit and Pipeline: 58 miles

Design Capacity: 1,605 cubic feet per second

Water Treatment Plants: Joseph Jensen, Granada Hills (capacity 750 million gallons per day); Robert A. Skinner, Winchester (630 mgd); F.E. Weymouth, La Verne (520 mgd); Robert B. Diemer, Yorba Linda (520 mgd); and Henry J. Mills, Riverside (220 mgd)

Reservoirs: Diamond Valley Lake, Hemet, capacity 810,000 AF; Lake Mathews, Riverside, 182,000 AF; Lake Skinner, Winchester, 44,000 AF; Copper Basin, Gene, 24,200 AF; Gene Wash, Gene, 6,300 AF; Live Oak, La Verne, 2,500 AF; Garvey, Monterey Park, 1,600 AF; Palos Verdes, Rolling Hills, 1,100 AF; and Orange County, Brea, 212 AF

Total Reservoir Storage Capacity: 1,072,000 AF

Distribution System: 819 miles of pipelines and tunnels; about 400 connections to member agencies

Hydroelectric Plants: 16; capacity 122 megawatts

SUPPLY, DELIVERIES AND SALES

Average Daily Delivery: 6,023 AF

Record Daily Delivery: 9,872 AF on June 28, 1994

Record Annual Sales:

2.5 million AF in 1990

Unit Price: Full-service rates are \$744 per AF for treated water and \$527 per AF for untreated water, effective Jan. 1, 2011

Projected Sales Fiscal 2010/11: 1.93 million AF

FINANCE AND ADMINISTRATION

Water Revenue Bond Ratings: Standard & Poor's AAA; Moody's Aa1; Fitch AAA

Budget: July 1, 2010 - June 30, 2011: \$2.01 billion

Capital Projects: \$259.9 million budgeted

Employees: Approximately 1,950

* Acre-foot = 325,851.4 gallons

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DEPARTMENTAL/GROUP BUDGET

The budget provides detailed information about the Operations and Maintenance (O&M) and capital budgets of each group and department and consists of the following:

Mission, Roles, and Responsibilities:

Describes, at a high level, the scope of the organization’s functions, provides a summary organizational chart, and a high level O&M, capital, and personnel budget summary.

Budget Issues and Constraints: Identifies key issues and potential consequences the group faced in meeting budget goals as identified by the general manager and the Board of Directors.

Accomplishments: Explains the major accomplishments of the organization for the current year as a measure of its performance.

The extent to which the organization accomplished current year objectives is more a qualitative rather than a quantitative measure.

Objectives: Summarizes the objectives each organization proposes to accomplish in the new fiscal year.

Performance Measures: Identifies the key measures the organization uses to monitor progress toward achievement of business plan priorities.

Financial Summary: Reflects each organization’s O&M and Capital expenditure plans by expense category. The personnel information is shown for regular and temporary employees.

Expense Category	Description
<i>Salaries and Benefits</i>	Labor costs and fringe benefits for Metropolitan’s regular, district temporary employees, and agency temporary employees.
<i>Professional Services</i>	All costs associated with work performed by consultants and other professional and technical service contractors.
<i>Property Acquisition</i>	Costs associated with right-of-way and land purchases, including easement, appraisals, and escrow fees.
<i>Construction</i>	Cost of construction contracts.
<i>Operating Equipment</i>	Costs associated with the purchase of capitalized portable equipment, including automobiles, trucks, servers, and other applicable portable equipment, having a cost of \$5,000 or more..
<i>Other</i>	Costs of purchasing chemicals, materials and supplies, reprographics, travel, telecommunications, and other necessary items for effective operation of Metropolitan. A breakdown has been provided to itemize those expense categories that are five percent or more of the “other” category.

O&M Expenditure Plan: Provides a summary of the organization’s O&M budget. For FY 2010/11, O&M expenditures are identified by organization and by salaries and benefits, professional and technical services, and “other” expenditures, and incorporate the group objectives.

Capital Expenditure Plan: Provides a listing of all capital projects in which the organization will have participation. Detailed information

about each project can be found in the Capital Investment Plan (CIP) Budget.

Reasons for Changes: Explains significant variances between the prior year budget and the current budget.

Operating Equipment: Lists capitalized portable equipment costing more than \$5,000 requested by the group for the upcoming year summarized by section.

Three Year Outlook: Represents a summarized budget of each organization's budget and personnel complement through fiscal year 2012/13. A variance explanation between the two time periods for each category is provided to assist the reader in understanding factors affecting the budget.

Staffing Summary: Presents a personnel summary by organization for the prior fiscal year, current year, and the current budget.

The intent is to show, at a glance, the personnel trend at Metropolitan as a whole as well as at the organization level. This is followed by a comparative breakdown of each organization's labor budget by categories of labor including regular payroll, overtime, district temporary, agency temporary, and fringe benefits for the prior and adopted budget years.

General Manager's Transmittal Letter

October 2010

The 2010/11 budget reflects significant input from and participation by the Board and member agencies. This was facilitated by three Board workshops on January 26, February 16, and March 23, 2010; discussion at the January 11, February 8, March 8, and April 11 Business and Finance Committee meetings; and several other presentations and caucuses with member agencies. In April, the Board adopted the revenue requirement and water rates and charges reflecting an increase in the overall rates of 7.5 percent in 2011, and 7.5 percent in 2012 and directed staff to reduce expenditures funded by rates and charges by an additional \$20 million in 2010/11 to ensure Metropolitan's ability to meet its full cost of service objective. This budget received final approval in June and includes actions to meet the Board's direction. As a result, the 2010/11 expenditure budget, including capital, has been reduced by \$94 million as compared to the January proposal for 2010/11. In addition, it is \$154 million less than the 2009/10 budget and \$224 million less than the 2008/09 budget. The expenditures shown in Table 1 total \$1.64 billion, including state water contract payments, operating expenditures, capital expenditures, and debt service.

Table 1. 2010/11 Budget Summary – Total Expenditures (Dollars in Millions)

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	2010/11 Budget Compared to	
					2009/10 Budget	2009/10 Projected
Expenditures						
State Water Contract	\$ 394.7	\$ 478.8	\$ 436.5	\$ 488.5	\$ 9.7	\$ 52.0
Supply Programs	84.1	125.5	117.1	101.4	(24.1)	(15.7)
Colorado River Power	37.4	49.8	45.0	59.6	9.8	14.6
Debt Service	287.1	330.7	304.1	338.9	8.2	34.8
Demand Management	75.6	59.8	68.2	58.2	(1.6)	(10.0)
Departmental O&M	291.5	289.3	294.2	294.8	5.5	0.7
Treatment Chemicals, Solids & Power	28.4	32.8	29.5	26.5	(6.3)	(3.0)
Other O&M	24.8	18.7	15.8	15.4	(3.3)	(0.3)
Sub-total Expenditures	1,223.6	1,385.5	1,310.4	1,383.5	(2.0)	73.1
Capital Investment Plan	416.7	412.1	300.3	259.9	(152.1)	(40.4)
TOTAL Expenditures, CIP & Fund Deposits	\$ 1,640.3	\$ 1,797.6	\$ 1,610.7	\$ 1,643.4	\$ (154.1)	\$ 32.7

Totals may not foot due to rounding.

ACTIONS TO REDUCE THE BUDGET

As a result of the Board's direction to reduce expenditures funded by rates and charges in 2010/11, the budget includes the following actions:

- a. **Reduced State Water Project cost estimate** – The budget estimate for State Water Project costs was reduced by \$8.8 million, reflecting credits anticipated to be received in the next fiscal year rather than in 2009/10.
- b. **Reduced debt service** – Capital expenditures in 2010/11 were reduced by \$68 million, resulting in a debt service savings of about \$9 million as a result of deferring a \$400 million debt issue. About 75 projects were deferred or reduced to achieve these savings. Deferred capital projects included those that would not impinge on Metropolitan's ability to continue to meet water quality regulations, safety requirements, and reliability objectives. As such, projects that were demand driven or outside Metropolitan's core mission were deferred for up to one year.

General Manager's Transmittal Letter

- c. **Reduced water transfers** – The initial budget included \$103.2 million in funding for water transfers on the Colorado River and State Water Project (SWP). This funding was included in the budget to reflect an anticipated reduction in the SWP allocation. In light of the upward revision of Metropolitan's SWP allocation, reducing water transfer expenditures by \$1.7 million to reflect higher pumping of Table A was appropriate.
- d. **Reduced outreach and conservation administration costs** – Metropolitan's operations and maintenance budget was reduced by \$420,000 to reflect a reduction of \$100,000 in each of the following three programs: Community Partnering, Landscape Education, and IRP Outreach.

These changes result in an expenditure budget that will meet the Board's cost of service objective and are reflected in the line items shown in Table 1.

In addition to the above actions, Metropolitan continues to manage its departmental budget at levels lower than the prior year. This will be the third year in a row that the departmental budget has been reduced. In 2010/11, additional operating and maintenance activities associated with Bay-Delta initiatives totaling \$2.4 million, as well as another \$2.8 million to maintain the aging distribution and treatment system, were offset by actions in other areas, including:

- a. **Zero increase in base salaries** – The budget does not include an increase in base salaries with the exception of a previously negotiated increase for employees in the Supervisors Association totaling \$0.4 million. The budget includes increases in the cost of benefits of \$2.3 million, including retirement and medical. In addition, an allowance for merit increases is included in the budget leading to another \$2.2 million increase in labor costs. Pending the outcome of ongoing labor negotiations, any change in base salaries will be offset by reductions in labor costs to meet the approved budget. Managing any required reductions so as to avoid adverse impacts to the increasing maintenance workload will be challenging.
- b. **Reduced positions and vacancy rates** – The total personnel budget before other cost impacts was reduced by \$5.8 million, reflecting \$12.1 million in savings by eliminating 95 positions offset by a reduction in the vacancy rate of \$6.3 million.
- c. **Reduced conservation and outreach expenditures** – The 2010/11 budget includes \$1.2 million for conservation advertising. This is about \$2.5 million less than in the 2009/10 budget. Given current water supply conditions, earned media is expected to provide a significant share of the conservation message over the next fiscal year. As a result, this area of Metropolitan's program has been reduced. Finally, Community Partnering Program sponsorship, California Friendly Landscape training, and IRP outreach support funding was reduced by about \$0.1 million each for a total \$0.3 million.
- d. **Operating Equipment** – Operating equipment expenditures will be reduced by almost \$3.2 million from the 2009/10 budget. This will be the second year operating equipment purchases have been reduced by this magnitude. The 2008/09, 2009/10, and 2010/11 budgets for operating equipment totaled \$9 million, \$5.3 million, and \$2.1 million, respectively. Staff will need to continue to optimize the use of equipment that has experienced lower utilization in an effort to limit replacements to the oldest, least reliable equipment and manage the potentially increasing maintenance cost on older equipment. This reduced level of operating equipment purchases is not sustainable. Operating equipment purchases in 2011/12 and beyond will be higher than in the 2010/11 budget to make up for the deferred replacements.

General Manager's Transmittal Letter

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

Table 2. Budget Summary – Operations and Maintenance

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from:	
					2009/10 Budget	2009/10 Projected
Salaries & Benefits	208,025,600	204,714,300	206,411,200	212,922,700	8,208,400	6,511,500
Chemicals, Solids, and Power	28,381,871	32,837,200	29,492,300	26,493,300	(6,343,900)	(2,999,000)
Outside Services	39,451,600	36,695,900	38,032,600	37,532,400	836,500	(500,200)
Materials & Supplies **	22,749,536	21,673,300	22,079,700	22,547,800	874,500	468,100
Cargill Settlement	3,765,000	1,604,900	-	500,000	(1,104,900)	500,000
Other	33,312,694	38,079,100	38,232,400	34,676,900	(3,402,200)	(3,555,500)
Operating Equipment	8,932,478	5,252,800	5,300,000	2,091,500	(3,161,300)	(3,208,500)
Total	344,618,779	340,857,500	339,548,200	336,764,600	(4,092,900)	(2,783,600)
Total Budgeted Positions	2,052	2,019	-	1,924	(95)	-

USES OF FUNDS

As shown in Table 3, the total FY 2010/11 cash outlays for State Water Contract (SWC) payments, supply programs, Colorado River Aqueduct (CRA) power, debt service, demand management programs, O&M, and the CIP are budgeted at \$1.64 billion. This is \$154.1 million (8.6 percent) less than the 2009/10 budget and \$32.7 million (2 percent) greater than projected 2009/10 expenditures. Under this financing package, \$95 million of water revenues will be used to fund a portion of the Replacement and Refurbishment (R&R) work in the CIP. For 2011/12, total expenditures are forecast at \$1.84 billion due primarily to an increase of \$81.1 million in the CIP, a \$36.7 million increase in O&M, a \$28.6-million increase in SWC payments, and a \$28.3 million increase in debt service.

SOURCES OF FUNDS

As shown in Table 3, 2010/11 sources of funds will total \$2.01 billion. This includes receipts of \$1.9 billion, with water sales receipts of \$1.2 billion accounting for 63 percent of receipts. These receipts are based on projected water sales of 1.93 million acre-feet and include an increase in rates and charges of 7.5 percent, effective January 1, 2011. Revenues include readiness-to-serve charge revenues of \$119.5 million, revenues from the capacity charge of \$34.9 million, and tax and annexation revenues of about \$81.8 million. Interest earnings are expected to be \$37.2 million, about \$3 million higher than the 2009/10 budget, reflecting higher estimated fund balances. Power and other miscellaneous receipts are expected to generate about \$22.4 million. For 2011/12, the total sources of funds are forecast at \$2.01 billion, including an increase in rates and charges of 7.5 percent, effective January 1, 2012.

Capital projects in 2010/11 will be funded from a combination of existing bond funds and revenues. Revenues will be used to fund about \$95 million of the capital costs. In addition, bond proceeds will provide about \$165 million toward the CIP.

General Manager's Transmittal Letter

Table 3. Budgeted Uses and Sources of Funds – Cash Basis (Dollars in Millions)

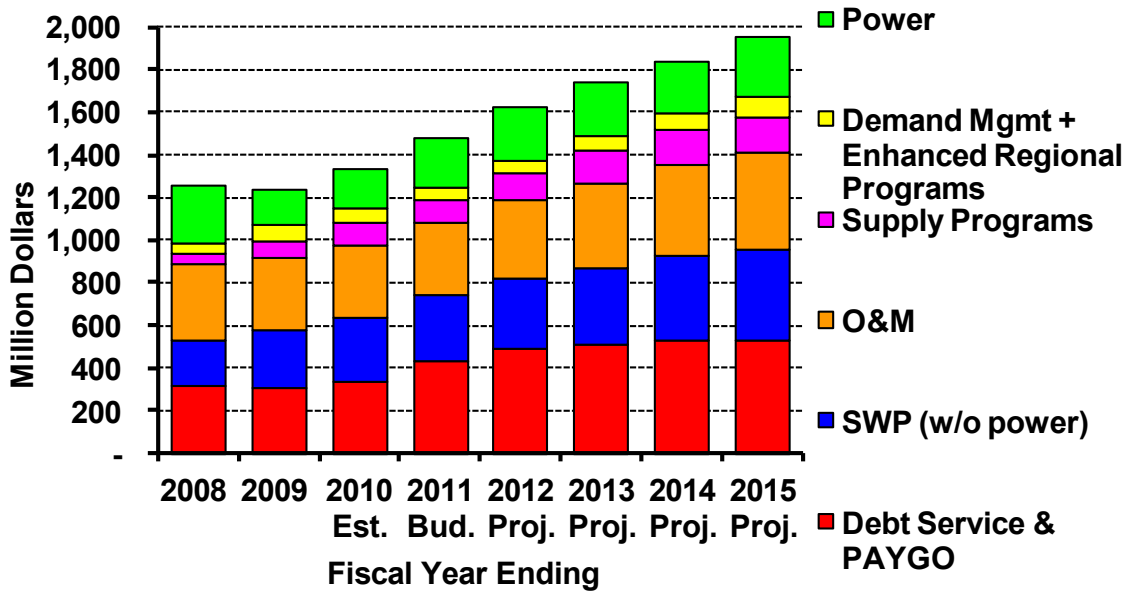
	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	2010/11 Budget Compared to	
					2009/10 Budget	2009/10 Projected
USES OF FUNDS						
Expenditures						
State Water Contract	\$ 394.7	\$ 478.8	\$ 436.5	\$ 488.5	\$ 9.7	\$ 52.0
Supply Programs	84.1	125.5	117.1	101.4	(24.1)	(15.7)
Colorado River Power	37.4	49.8	45.0	59.6	9.8	14.6
Debt Service	287.1	330.7	304.1	338.9	8.2	34.8
Demand Management	75.6	59.8	68.2	58.2	(1.6)	(10.0)
Departmental O&M	291.5	289.3	294.2	294.8	5.5	0.7
Treatment Chemicals, Solids & Power	28.4	32.8	29.5	26.5	(6.3)	(3.0)
Other O&M	24.8	18.7	15.8	15.4	(3.3)	(0.3)
Sub-total Expenditures	1,223.6	1,385.5	1,310.4	1,383.5	(2.0)	73.1
Capital Investment Plan	416.7	412.1	300.3	259.9	(152.1)	(40.4)
Fund Deposits						
Water Transfer Fund	10.5	-	-	-	-	-
R&R and General Fund	30.1	36.7	36.7	95.0	58.3	58.3
Revenue Bond Construction	-	130.3	-	199.1	68.9	199.1
Water Stewardship Fund	-	-	-	4.2	4.2	4.2
Interest for Construction & Trust Funds	4.2	0.0	4.5	7.0	7.0	2.5
Increase in Required Reserves	44.0	61.3	33.3	62.6	1.4	29.3
Sub-total Fund Deposits	88.8	228.3	74.5	367.9	139.7	293.5
TOTAL USES OF FUNDS	\$ 1,729.1	\$ 2,025.8	\$ 1,685.2	\$ 2,011.4	\$ (14.5)	\$ 326.2
SOURCES OF FUNDS						
Receipts						
Taxes	\$ 103.8	\$ 90.4	\$ 90.4	\$ 80.8	\$ (9.7)	\$ (9.7)
Annexations	1.4	1.0	1.0	1.0	-	-
Interest Income	36.4	34.2	21.5	37.2	3.0	15.7
Hydro Power	22.5	24.1	19.6	22.4	(1.7)	2.8
Fixed Charges (RTS & Capacity Charge)	119.7	136.3	136.4	154.4	18.1	18.0
Water Sales Revenue	988.1	1,078.6	1,016.7	1,199.9	121.3	183.2
Miscellaneous Revenue	8.4	8.8	29.3	16.0	7.2	(13.3)
Bond Proceeds and Reimbursements	367.0	528.0	-	384.0	(144.0)	384.0
Sub-total Receipts	1,647.3	1,901.5	1,315.0	1,895.6	(5.9)	580.6
Fund Withdrawals						
Water Transfer Fund	7.8	-	12.1	-	-	(12.1)
R&R and General Fund	34.3	36.7	36.7	95.0	58.3	58.3
Bond Funds for Construction	46.1	-	263.6	-	-	(263.6)
Water Stewardship Fund	24.7	0.9	-	-	(0.9)	-
Decrease in Required Reserves	-	29.9	-	-	(29.9)	-
Decrease in Rate Stabilization Fund	(31.2)	56.8	57.8	20.8	(36.0)	(37.0)
Sub-total Fund Withdrawals	81.7	124.3	370.2	115.8	(8.5)	(254.4)
TOTAL SOURCES OF FUNDS	\$ 1,729.1	\$ 2,025.8	\$ 1,685.2	\$ 2,011.4	\$ (14.5)	\$ 326.2

Totals may not foot due to rounding.

LONG-TERM EXPENDITURE TREND

To provide a longer-term picture of Metropolitan's costs, Figure 1 shows the major expenditure categories over the past two years, the estimate for the current fiscal year, as well as the projection for the following four years. From 2007/08 through 2014/15, expenditures are forecast to increase by about \$696 million, or about 6.5 percent annually. The primary cost drivers from 2009/10 to 2014/15 are a \$188 million increase in debt service and R&R expenditures funded from revenues, a \$131 million increase in fixed State Water Project Costs, a \$109 million increase in departmental O&M, and a \$99 million increase in power costs.

Figure 1. Seven-year Expenditure Trend



FINANCIAL RATIOS

The revenue bond debt service coverage ratio is forecast to be just under the Board's adopted target of 2.0 times revenue bond debt service. Assuming consecutive 7.5 percent increase in rates and charges in January of 2011 and 2012, the debt service coverage ratio is expected to be about 1.9 and 2.0 times coverage, respectively. Metropolitan's fixed charge coverage is expected to be 1.3 and 1.4 times, which meets the board-adopted objective of 1.2 times coverage.

General Manager's Transmittal Letter

RESERVES

Based on projected receipts and expenditures, it is estimated that the total balance in the Water Rate Stabilization, Revenue Remainder, the Treatment Surcharge Stabilization Fund, and Water Stewardship funds will be about \$270.4 million. Total restricted and unrestricted reserves are estimated to be \$1,307.1 million on June 30, 2011.



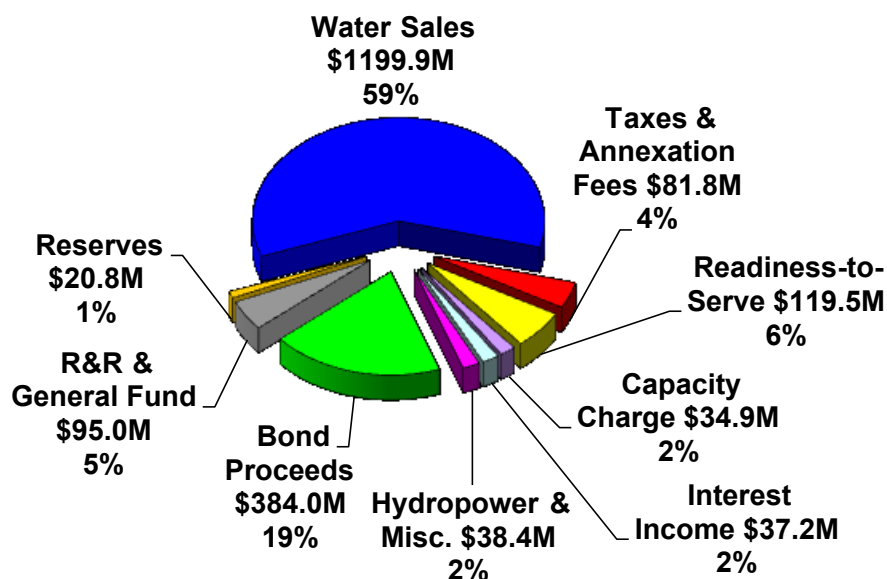
Jeffrey Kightlinger
General Manager

Budget Summary

The annual budget includes a discussion of cash basis sources and uses of funds. The budget is developed and monitored on a cash basis. This means that revenues and expenses are recognized when cash is received and when cash is disbursed. Accrual basis accounting records, by contrast, recognize

revenues and expenses in the period they are earned and incurred regardless of whether cash has been received or disbursed. A pro forma statement of operations is prepared on an accrual basis and included as Appendix 1 for reference.

Figure 2. 2010/11 Sources of Funds (\$2.01 billion dollars)



SOURCES OF FUNDS

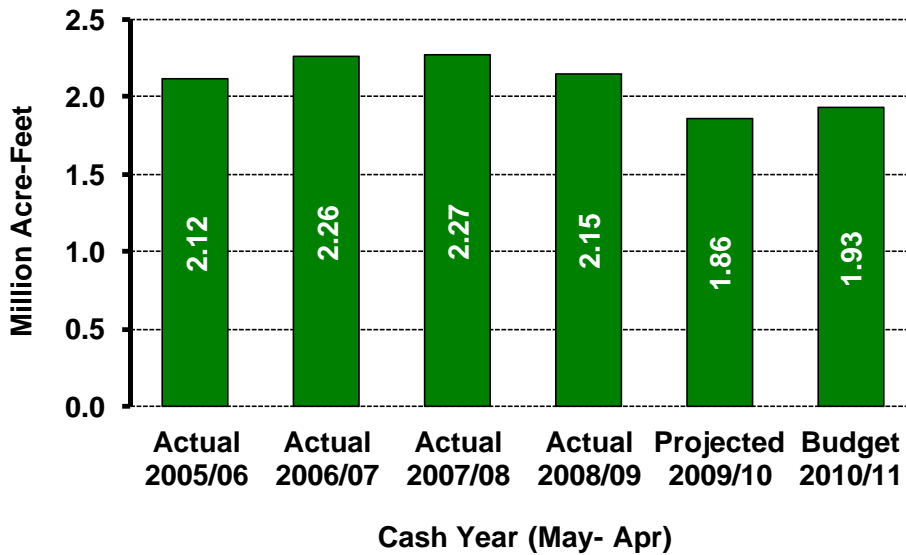
Estimated receipts from water sales, the readiness-to-serve (RTS) charge, the capacity charge, taxes, annexation fees, interest income, power recoveries, and other miscellaneous income are projected to be \$1.51 billion for fiscal year 2010/11 and constitute the major revenue sources for Metropolitan. This is \$138.1 million more than the 2009/10 Budget. The increase in revenues is primarily due to increases in water rates in 2010 and 2011. Figure 2 shows the major sources of funds. Summaries of sources and uses of funds are shown in Tables 8 and 9 at the end of this section. A description of each revenue source is included in the Glossary of Terms.

Water Sales

Receipts from water sales are budgeted at \$1,199.9 million and are based on rates and charges adopted by the Board for January 1, 2010 and January 1, 2011.

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

Figure 3 Five-Year Trend of Water Sales



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

Taxes and Annexation Fees

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

Capacity and Readiness-to-Serve Charges

The Capacity Charge and Readiness-to-Serve Charge for 2010/11 are estimated to generate \$119.5 million and \$34.9 million, respectively, or \$18.1 million more in total than in the 2009/10 budget.

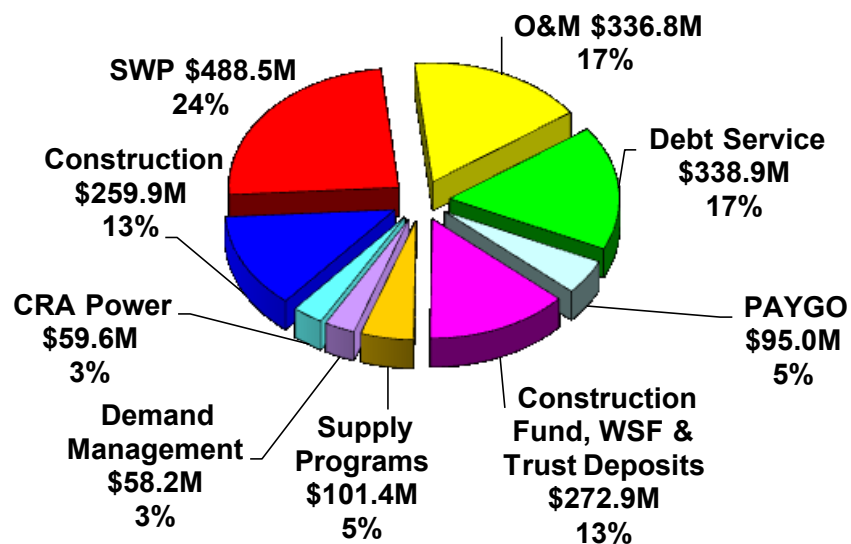
Other Revenue

Interest earnings are estimated to total \$37.2 million, including trust accounts and construction funds. This represents a \$3.0 million increase from the 2009/10 Budget due primarily to higher estimated fund balances. Receipts from hydroelectric and Colorado River Aqueduct (CRA) power sales are estimated to be \$22.4 million, about \$1.7 million lower than the 2009/10 budget.

Other Sources

To meet the on-going funding requirements of the CIP, Metropolitan plans to issue \$400 million of fixed rate bonds in 2010/11. These bonds are expected to generate \$364.1 million in bond proceeds of which \$164.9 million will be used to fund the CIP in 2010/11. The remaining CIP funding requirements will be met from current operating funds (i.e., \$95.0 million from the R&R and General Fund). In 2010/11, a total of \$2.01 billion will be available for expenditures and other obligations.

Figure 4. 2010/11 Uses of Funds (\$2.01 billion dollars)



USES OF FUNDS

Total uses of funds are \$2.01 billion. Figure 4 shows the breakdown of expenditures and other obligations that make up the Uses of Funds for 2010/11.

Colorado River Aqueduct Power

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

State Water Contract

State Water Contract (SWC) expenditures are budgeted at \$488.5 million, \$9.7 million more than the 2009/10 budget, based on total deliveries of 922 TAF, of which 69 TAF are received via exchange.

SWC power costs are expected to be \$174.1 million or \$5.5 million higher than the 2009/10 budget and include the cost for pumping about 853 TAF. The average total unit cost of SWC power is expected to be about \$204 per acre-foot, which includes \$87 per acre-foot for fixed power costs and \$117 per acre-foot for variable pumping costs.

SWC minimum operations, maintenance, power, and replacement charges are \$1.6 million lower than the 2009/10 Budget. Capital charges are expected to be \$5.9 million higher than the 2009/10 Budget.

Demand Management Costs

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

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

Metropolitan has also entered into agreements to provide financial assistance to 23 projects to recover contaminated groundwater. Twenty-two of these groundwater recovery projects are in operation and are expected to produce about 57 TAF in 2010/11 at a cost to Metropolitan of \$9.7 million.

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

OPERATIONS AND MAINTENANCE

The 2010/11 O&M Budget, including operating equipment purchases, is estimated to be \$336.8 million. This is \$4.1 million less than the 2009/10 budget of \$340.9 million and \$2.8 million less than the current year projected expenditures of \$339.5 million. The O&M budget is the result of continuing management efforts to increase efficiency and reduce costs while meeting the Board's priorities. This marks the third consecutive year that the O&M budget has been reduced. Table 4 presents a summary of the O&M budget by expenditure type. Figure 5 summarizes the total departmental O&M budget by expenditure type, of which 63 percent is for salaries and benefits.

Labor costs, not including those charged to construction, are \$212.8 million. This is \$8.1 million, or 4.0 percent, higher than the 2009/10 Budget of \$204.7 million even though the budget assumes no cost-of-living

adjustments in salaries for the workforce during fiscal year 2010/11. This increase is the net result of various cost pressures including:

- A shift of in direct labor from capital projects to O&M work: \$2.4 million of the shift is to allow greater engineering and right-of-way support for Bay Delta efforts and \$2.8 million primarily to increase maintenance on the aging distribution and treatment systems;
- Salary increases in accordance with bargaining unit agreements of \$4.3 million;
- Increases in the cost of employee benefits, particularly related to healthcare and pension benefits of \$2.3 million; and
- Merit increases for eligible employees of \$2.2 million.

The budget also reflects a total net reduction of 95 budgeted positions. Most of these positions had been held vacant in the 2009/10 budget in order to meet cost containment objectives. Eliminating these positions permitted a reduction in the vacancy factor from 5.5 percent to 3.0 percent in 2010/11. The net effect of the eliminated positions and the vacancy rate change was to reduce the labor budget by about \$5.8 million.

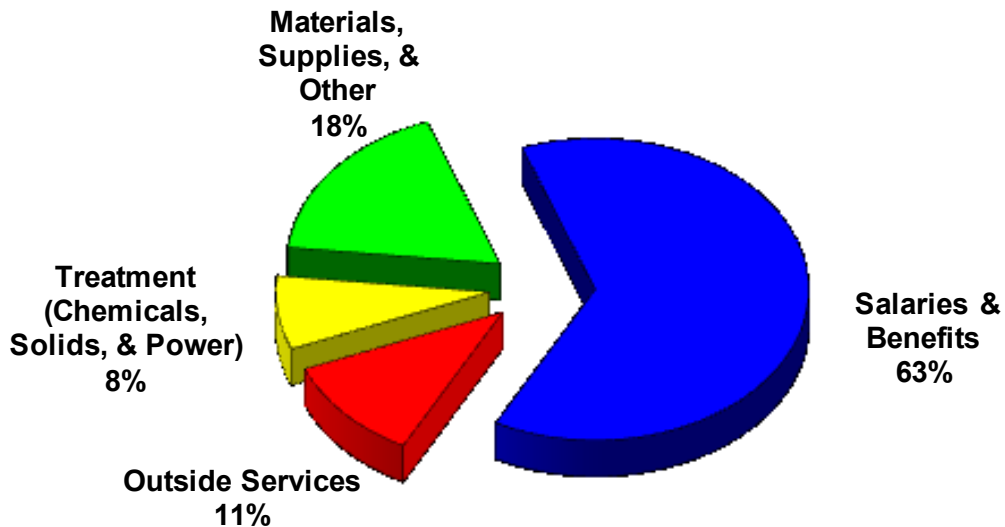
O&M costs other than labor in the 2010/11 budget are \$12.3 million less than the 2009/10 budget. Cost reductions include a \$6.3 million decrease in water treatment costs due blend considerations and treatment optimization efforts, a \$3.2 million decrease in operating equipment purchases, and a \$2.7 million decrease in conservation advertising and its related professional services. Cost increases which partially offset these reductions include \$0.7 million for the annual Bay Delta fund and \$0.7 million in professional service support for the Bay Delta efforts in engineering and right of way.

Budget Summary

Table 4. 2010/11 Operations & Maintenance Annual Budget (dollars) by Expenditure Type

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from:	
					2009/10 Budget	2009/10 Projected
Salaries & Benefits	208,025,600	204,714,300	206,411,200	212,803,200	8,088,900	6,392,000
Chemicals, Solids, and Power	28,381,871	32,837,200	29,492,300	26,493,300	(6,343,900)	(2,999,000)
Outside Services	39,451,600	36,695,900	38,032,600	37,652,000	956,100	(380,600)
Materials & Supplies **	22,749,536	21,673,300	22,079,700	22,547,800	874,500	468,100
Cargill Settlement	3,765,000	1,604,900	-	500,000	(1,104,900)	500,000
Other	33,312,694	38,079,100	38,232,400	34,676,900	(3,402,200)	(3,555,500)
Operating Equipment	8,932,478	5,252,800	5,300,000	2,091,500	(3,161,300)	(3,208,500)
Total	344,618,779	340,857,500	339,548,200	336,764,700	(4,092,800)	(2,783,500)
Total Budgeted Positions	2,052	2,019	-	1,924	(95)	-

Figure 5. 2010/11 Departmental Budget by Expenditure Type



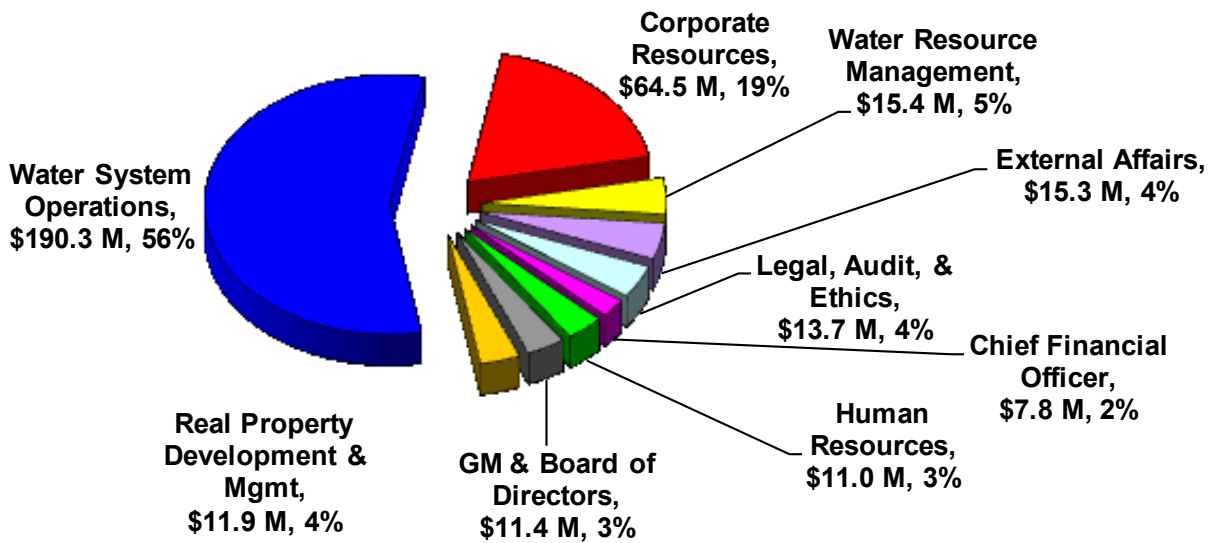
Budget Summary

A summary of the 2010/11 O&M Budget by organization is shown in Table 4. Vendor administration of the CCP is now itemized under Other O&M for greater visibility. These expenditures were part of the 2009/10 O&M budget for the Water Resource Management (WRM) Group. As a result, Table 4 reflects a decrease in WRM's budget and corresponding increase in the CCP Vendor Administration line of Other O&M.

Figure 6 depicts the distribution of the departmental O&M by organization without other O&M, the overhead credit, and operating equipment. Including treatment costs, the Water System Operations (WSO) Group accounts for 56 percent of the total

departmental budget. In 2010/11, Metropolitan's departmental organization changed to reflect the increasing demand and focus on Bay Delta issues. Staff and professional services budgets were moved from the WRM Group and consolidated in the Office of the General Manager in a new Bay Delta Initiatives Program organization. This organization will provide direct support to the ongoing Bay Delta negotiations and analysis associated with the Delta Habitat Conservation and Conveyance Program (DHCCP). Table 4 and Figure 6 reflect this organizational change, with no impact on the overall budget.

Figure 6. 2010/11 Departmental Budget by Organization
 (without Other O&M, operating equipment, and overhead credit, \$341.3 million)



Budget Summary

Table 4. 2010/11 Operations & Maintenance Annual Budget (dollars) by Organization

Departmental Units	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change			
				2010/11 to 2009/10 Budget	%	2010/11 to 2009/10 Projected	%
Office of the General Manager	\$ 7,815,600	\$ 7,970,100	\$ 11,401,400	\$ 3,585,800	45.9%	\$ 3,431,300	43.1%
Water System Operations w/o Variable Treatment	159,273,500	162,518,100	163,782,100	4,508,600	2.8%	1,264,000	0.8%
Water Resource Management	19,680,200	21,601,600	15,374,200	(4,306,000)	(21.9%)	(6,227,400)	(28.8%)
Corporate Resources	59,819,300	60,113,900	64,526,600	4,707,300	7.9%	4,412,700	7.3%
Real Property Development & Mgmt	11,250,700	11,281,600	11,930,200	679,500	6.0%	648,600	5.7%
Human Resources	10,843,900	10,992,500	11,046,800	202,900	1.9%	54,300	0.5%
Office of the Chief Financial Officer	7,837,400	8,091,100	7,788,000	(49,400)	(0.6%)	(303,100)	(3.7%)
External Affairs	18,236,700	18,288,800	15,275,100	(2,961,600)	(16.2%)	(3,013,700)	(16.5%)
Subtotal - General Manager's Dep.	294,757,300	300,857,700	301,124,400	6,367,100	2.2%	266,700	0.1%
General Counsel	10,165,000	10,165,000	10,376,000	211,000	2.1%	211,000	2.1%
General Auditor	2,719,000	2,672,600	2,682,100	(36,900)	(1.4%)	9,500	0.4%
Ethics Office	609,600	609,100	624,200	14,600	2.4%	15,100	2.5%
Overhead Credit from Construction	(18,921,300)	(20,000,000)	(20,249,000)	(1,327,700)	7.0%	(249,000)	1.2%
Total Departmental Budget	289,329,600	294,304,400	294,557,700	5,228,100	1.8%	253,300	0.1%
Other O&M							
Cargill Settlement	1,604,900	-	500,000	(1,104,900)	(68.8%)	500,000	NA
CCP Vendor Administration	-	-	2,006,200	2,006,200	NA	2,006,200	NA
Performance Programs	650,000	370,100	650,000	-	NA	279,900	75.6%
Association Dues	2,180,000	2,079,000	2,200,000	20,000	0.9%	121,000	5.8%
Contingency	-	-	-	-	NA	-	NA
Insurance	8,000,000	7,000,000	7,250,000	(750,000)	(9.4%)	250,000	3.6%
Leases	472,600	472,600	475,000	2,400	0.5%	2,400	0.5%
Taxes	530,400	530,000	541,000	10,600	2.0%	11,000	2.1%
Subtotal - Other	13,437,900	10,451,700	13,622,200	184,300	1.4%	3,170,500	30.3%
TOTAL OPERATIONS & MAINTENANCE	302,767,500	304,756,100	308,179,900	5,412,400	1.8%	3,423,800	1.1%
Operating Equipment	5,252,800	5,300,000	2,091,500	(3,161,300)	(60.2%)	(3,208,500)	(60.5%)
Variable Treatment	32,837,200	29,492,300	26,493,300	(6,343,900)	(19.3%)	(2,999,000)	(10.2%)
GRAND TOTAL	\$340,857,500	\$339,548,400	\$336,764,700	\$ (4,092,800)	(1.2%)	\$ (2,783,700)	(0.8%)

Totals may not foot due to rounding

Budget Summary

LABOR

The total personnel complement (including temporary workers) for 2010/11 is 1,924 positions, down a total of 95 full-time-equivalent (FTE) positions from 2009/10. O&M personnel are down by 31 positions to 1,631. Positions dedicated to capital work are down by 64.

The personnel complement is broken down on Tables 5 and 6. The O&M budget includes a vacancy rate of about 3.0 percent, as compared to the 5.5 percent vacancy rate in the 2009/10 budget.

Table 5. Regular and Temporary Positions

	2007/08 Budget	2008/09 Budget	2009/10 Budget	2010/11 Budget	Change from 2009/10
Regular Full Time Positions	2,021	2,021	2,000	1,899	-101
District Temporary Positions	39	23	16	22	6
Agency Temporary Positions	9	8	3	3	0
Total	2,069	2,052	2,019	1,924	-95

Table 6. O&M and Capital Staffing Levels

	2009/10			2010/11		
	O&M	Capital	Total	O&M	Capital	Total
Regular Full Time Positions	1,643	357	2,000	1,610	289	1,899
District and Agency Temporary Positions	19	-	19	21	4	25
Total	1,662	357	2,019	1,631	293	1,924

Supply Programs

Major supply program expenditures for 2010/11 are estimated to be \$101.4 million and include (may not foot due to rounding):

- \$32.4 million State Water Project (SWP) Transfer Programs;
- \$26.8 million for Colorado Programs;
- \$15.6 million for the Palo Verde Irrigation District (PVID) Land Management Program;
- \$10.1 million for operating and maintaining the IID/MWD conservation agreement;
- \$9.8 million for In-Basin Projects;
- \$4.2 million for the Arvin-Edison Storage Program; and
- \$2.6 for the Semitropic Groundwater Storage and Exchange Program.

These storage programs are expected to recover 97 TAF of previously stored groundwater supplies and generate 395 TAF of net transfer deliveries on the CRA and SWP.

ANNUAL CAPITAL INVESTMENT PLAN

The CIP budget for 2010/11 is estimated to be \$259.9 million and is funded by a combination of debt and current operating revenues (R&R and General Fund). The 2010/11 capital budget is \$152.1 million lower than the 2009/10 Budget.

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

There are 272 projects included in the 2010/11 CIP. Major CIP projects that will be in design and/or construction next fiscal year include:

- \$98 million for Oxidation Retrofit Program (ORP) projects at the Diemer and Weymouth treatment plants;
- \$83 million for Rehabilitation and Replacements at Metropolitan's five treatment plants, not including the ORP; and
- \$60 million for R&R projects at Metropolitan's other facilities.

The projects listed above account for 93 percent of the total 2010/11 CIP expenditures. Figure 7 shows the planned expenditures in the 2010/11 CIP under the five project driver categories.

These projects are also categorized by the service functions that are the foundation of Metropolitan's cost-of-service including source of supply, conveyance, storage, treatment, distribution, and general. The 2010/11 expenditure plan by major service function is shown in Figure 8.

Budget Summary

Figure 7. 2010/11 Capital Investment Plan by Major Project Driver

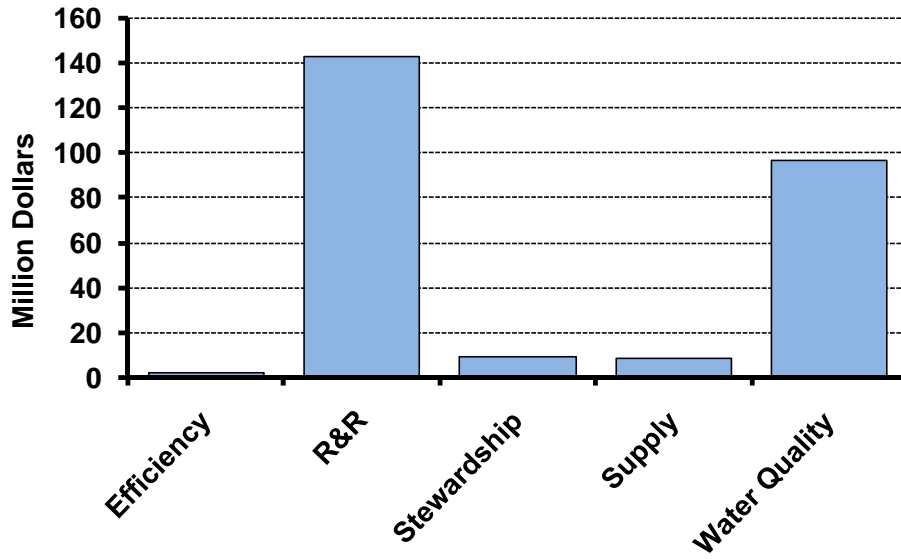
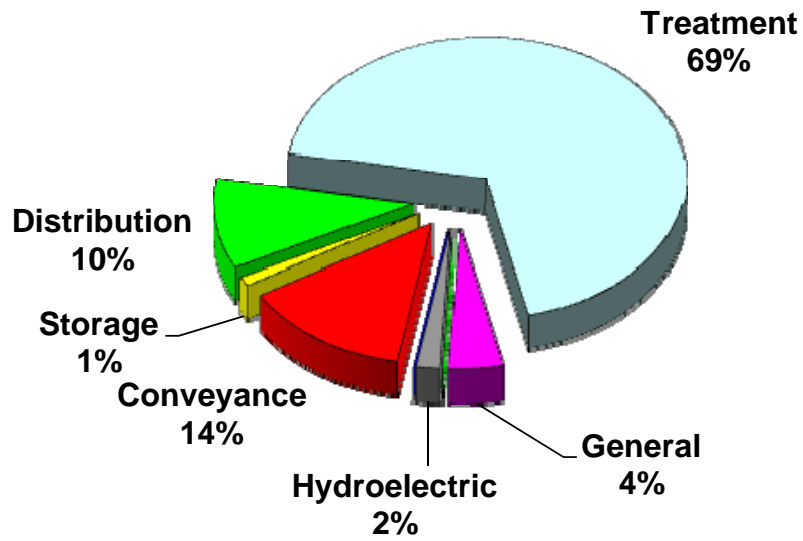


Figure 8. 2010/11 Capital Investment Plan by Service Function



Cash Funded Capital

The 2010/11 CIP includes R&R and other projects (funded from General Fund). The combined cash financing from operating revenues for the R&R and General Fund will total \$95.0 million, commonly referred to as Pay-As-You-Go (PAYGO) funding.

Debt Service

The portion of the CIP that is not funded from cash will be funded from bond proceeds. In 2010/11, \$164.9 million of capital will be funded with bond proceeds. Metropolitan plans to issue \$400 million in new debt in 2010/11. This will result in construction proceeds of \$364.1 million. Approximately \$326.5 million in bond proceeds and interest earnings will remain in the construction bond fund for use in 2011/12.

Debt service payments are budgeted to be \$338.9 million and include \$39.0 million in G.O. bond debt service, \$284.8 million in revenue bond debt service, \$12.5 million in variable rate debt administration costs (liquidity, remarketing fees, and broker-dealer fees), and \$2.6 million for State Revolving Fund Loan payments. Total debt service costs are \$8.2 million more than the 2009/10 Budget.

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

Reserve Transfers

The 2010/11 budget forecasts a \$0.7 million increase in reserves by June 30, 2011. While in total, there will be close to no change in Metropolitan's reserve funds, there will be some transfers among the funds. The Water Rate Stabilization Fund (WRSF) and the Treatment Surcharge Stabilization Fund (TSSF) are expected to be drawn down by about \$20.8 million. Conversely, the Revenue Remainder Fund is expected to increase by \$17.3 million and the Water Stewardship Fund (WSF) is expected to increase to \$4.2 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 7. Fund balances are budgeted to be \$1,307.1 million at June 30, 2011. Of that total, \$1,007.2 million is restricted by bond covenants, contracts, or board policy, and \$300.0 million is unrestricted. Table 7 shows a breakdown of reserves by fund type. Figure 9 shows the distribution of funds by type.

The minimum and maximum reserve fund targets are estimated to be \$235.4 million and \$573.3 million, respectively, at June 30, 2011. Based on projected receipts and expenditures, it is estimated that the balance in the WRSF, TSSF, Revenue Remainder Fund, and WSF will total about \$266.2 million, about \$35.0 million over the minimum target.

Budget Summary

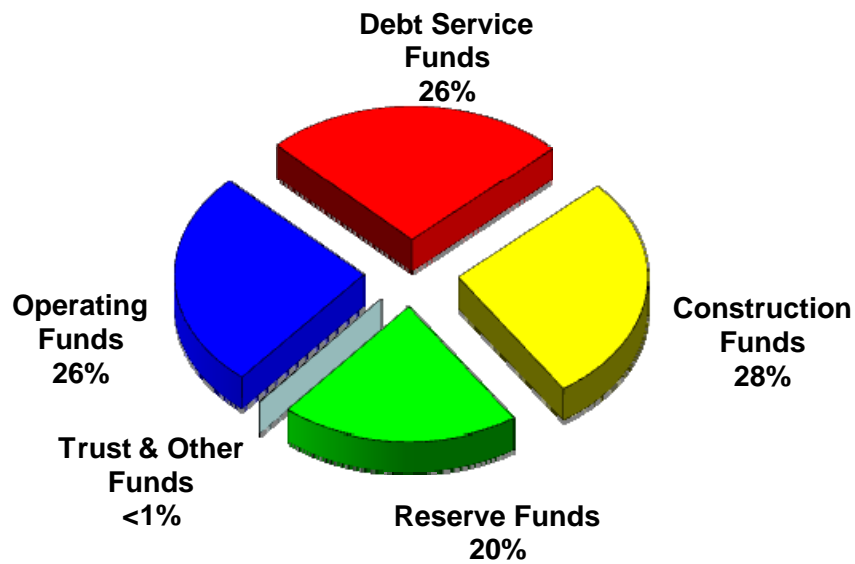
Table 7. Projected Fund Balances at June 30, 2011 (dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Operating Funds	233.3	110.5		343.8
Debt Service Funds	335.8			335.8
Construction Funds	326.5		33.8	360.3
Rate Stabilization Funds*			266.2	266.2
Water Transfer Fund		-		-
Trust and Other Funds	1.1			1.1
Total	896.7	110.5	300.0	1,307.1

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

Totals may not foot due to rounding.

Figure 9. Fund Distribution by Type at June 30, 2011



Budget Summary

Table 8. 2010/11 Budget Sources and Uses of Funds (dollars in millions)

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	2010/11 Budget Compared to	
					2009/10 Budget	2009/10 Projected
USES OF FUNDS						
Expenditures						
State Water Contract	\$ 394.7	\$ 478.8	\$ 436.5	\$ 488.5	\$ 9.7	\$ 52.0
Supply Programs	84.1	125.5	117.1	101.4	(24.1)	(15.7)
Colorado River Power	37.4	49.8	45.0	59.6	9.8	14.6
Debt Service	287.1	330.7	304.1	338.9	8.2	34.8
Demand Management	75.6	59.8	68.2	58.2	(1.6)	(10.0)
Departmental O&M	291.5	289.3	294.2	294.8	5.5	0.7
Treatment Chemicals, Solids & Power	28.4	32.8	29.5	26.5	(6.3)	(3.0)
Other O&M	24.8	18.7	15.8	15.4	(3.3)	(0.3)
Sub-total Expenditures	1,223.6	1,385.5	1,310.4	1,383.5	(2.0)	73.1
Capital Investment Plan	416.7	412.1	300.3	259.9	(152.1)	(40.4)
Fund Deposits						
Water Transfer Fund	10.5	-	-	-	-	-
R&R and General Fund	30.1	36.7	36.7	95.0	58.3	58.3
Revenue Bond Construction	-	130.3	-	199.1	68.9	199.1
Water Stewardship Fund	-	-	-	4.2	4.2	4.2
Interest for Construction & Trust Funds	4.2	0.0	4.5	7.0	7.0	2.5
Increase in Required Reserves	44.0	61.3	33.3	62.6	1.4	29.3
Sub-total Fund Deposits	88.8	228.3	74.5	367.9	139.7	293.5
TOTAL USES OF FUNDS	\$ 1,729.1	\$ 2,025.8	\$ 1,685.2	\$ 2,011.4	\$ (14.5)	\$ 326.2
SOURCES OF FUNDS						
Receipts						
Taxes	\$ 103.8	\$ 90.4	\$ 90.4	\$ 80.8	\$ (9.7)	\$ (9.7)
Annexations	1.4	1.0	1.0	1.0	-	-
Interest Income	36.4	34.2	21.5	37.2	3.0	15.7
Hydro Power	22.5	24.1	19.6	22.4	(1.7)	2.8
Fixed Charges (RTS & Capacity Charge)	119.7	136.3	136.4	154.4	18.1	18.0
Water Sales Revenue	988.1	1,078.6	1,016.7	1,199.9	121.3	183.2
Miscellaneous Revenue	8.4	8.8	29.3	16.0	7.2	(13.3)
Bond Proceeds and Reimbursements	367.0	528.0	-	384.0	(144.0)	384.0
Sub-total Receipts	1,647.3	1,901.5	1,315.0	1,895.6	(5.9)	580.6
Fund Withdrawals						
Water Transfer Fund	7.8	-	12.1	-	-	(12.1)
R&R and General Fund	34.3	36.7	36.7	95.0	58.3	58.3
Bond Funds for Construction	46.1	-	263.6	-	-	(263.6)
Water Stewardship Fund	24.7	0.9	-	-	(0.9)	-
Decrease in Required Reserves	-	29.9	-	-	(29.9)	-
Decrease in Rate Stabilization Fund	(31.2)	56.8	57.8	20.8	(36.0)	(37.0)
Sub-total Fund Withdrawals	81.7	124.3	370.2	115.8	(8.5)	(254.4)
TOTAL SOURCES OF FUNDS	\$ 1,729.1	\$ 2,025.8	\$ 1,685.2	\$ 2,011.4	\$ (14.5)	\$ 326.2

Totals may not foot due to rounding.

Budget Summary

Table 9. 2010/11 Sources and Uses by Fund (dollars in millions)

Fiscal Year Ending June 30th, 2011 (\$ in Millions)	All Funds	Operating Funds							Debt Service Funds	Reserve Funds (1)	Construction Funds		Trust & Other Funds
		General	Water Revenue	O&M	Water Standby	Water Stewardship	Self-Insured Retention	State Contract			R&R	Revenue Bond Construction	
Beginning of Year Balance	1,055.0	58.6	-	164.8	2.1	-	25.0	76.3	303.2	269.7	33.8	120.4	1.1
USES OF FUNDS													
Expenditures													
State Water Contract	488.5	-	-	323.2	-	-	-	165.3	-	-	-	-	-
Supply Programs	101.4	-	-	101.4	-	-	-	-	-	-	-	-	-
Colorado River Power	59.6	-	-	59.6	-	-	-	-	-	-	-	-	-
Debt Service	338.9	2.6	-	12.5	-	-	-	-	323.9	-	-	-	-
Demand Management	58.2	-	-	58.2	-	-	-	-	-	-	-	-	-
Departmental O&M	294.8	-	-	294.8	-	-	-	-	-	-	-	-	-
Treatment Chemicals, Sludge & Power	26.5	-	-	26.5	-	-	-	-	-	-	-	-	-
Other O&M	15.4	2.1	-	13.3	-	-	-	-	-	-	-	-	-
Sub-total Expenditures	1,383.5	4.7	-	889.7	-	-	-	165.3	323.9	-	-	-	-
Capital Investment Plan	259.9	32.5	-	-	-	-	-	-	-	-	62.5	164.9	-
Fund Deposits													
R&R and General Fund	95.0	32.5	-	-	-	-	-	-	-	-	62.5	-	-
Revenue Bond Construction	199.1	-	-	-	-	-	-	-	-	-	-	199.1	-
Water Stewardship Fund	4.2	-	-	-	-	4.2	-	-	-	-	-	-	-
Interest for Construction & Trust Funds	7.0	-	-	-	-	-	-	-	-	-	-	7.0	0.0
Increase in Required Reserves	62.6	-	-	9.9	-	-	-	2.9	32.5	17.3	-	-	-
Increase in Rate Stabilization Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total Fund Deposits	367.9	32.5	-	9.9	-	4.2	-	2.9	32.5	17.3	62.5	206.1	0.0
TOTAL USES OF FUNDS	2,011.4	69.7	-	899.6	-	4.2	-	168.2	356.4	17.3	124.9	371.0	0.0
SOURCES OF FUNDS													
Receipts													
Taxes	80.8	-	-	-	-	-	-	42.4	38.4	-	-	-	-
Annexations	1.0	-	-	-	-	-	-	1.0	-	-	-	-	-
Interest Income	37.2	1.9	-	5.4	0.1	0.1	0.8	2.5	10.1	8.4	1.1	7.0	0.0
Hydro Power	22.4	-	22.4	-	-	-	-	-	-	-	-	-	-
Fixed Charges (RTS & Capacity Charge)	154.4	-	154.4	-	-	-	-	-	-	-	-	-	-
Water Sales Revenue	1,199.9	-	1,199.9	-	-	-	-	-	-	-	-	-	-
Miscellaneous Revenue	16.0	16.0	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	384.0	-	-	-	-	-	-	-	19.9	-	-	364.1	-
Sub-total Receipts	1,895.6	17.9	1,376.6	5.4	0.1	0.1	0.8	45.8	68.5	8.4	1.1	371.0	0.0
Fund Withdrawals													
Transfer Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
R&R and General Fund	95.0	32.5	-	-	-	-	-	-	-	-	62.5	-	-
Bond Funds for Construction	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Stewardship Fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Required Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	20.8	-	-	-	-	-	-	-	-	20.8	-	-	-
Sub-total Fund Withdrawals	115.8	32.5	-	-	-	-	-	-	-	20.8	62.5	-	-
TOTAL SOURCES OF FUNDS	2,011.4	50.4	1,376.6	5.4	0.1	0.1	0.8	45.8	68.5	29.1	63.5	371.0	0.0
Inter-Fund Transfers	-	19.3	(1,376.6)	894.2	(0.1)	4.1	(0.8)	122.3	287.9	(11.8)	61.4	-	-
End of Year Balance	1,307.1	58.6	-	174.7	2.1	4.2	25.0	79.2	335.8	266.2	33.8	326.5	1.1

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

Five-Year Financial Forecast

Projected costs and revenues for the period 2010/11 to 2014/15 are estimates and subject to variations inherent in all such projections. Consequently, the estimates should not be viewed as precise predictions but rather as indications of expected trends, given certain expenditure, receipt, and financing assumptions. These assumptions are based on current Board policies, goals, and objectives representing management's best estimates at this time.

RATES AND CHARGES

Annual rate increases from 2011 to 2015 are expected to range from 5.0 to 7.5 percent (when normalized for the annual changes in water sales). The primary drivers for the expected increases include higher SWP costs, increases in O&M costs, higher supply program expenditures and increasing debt service costs.

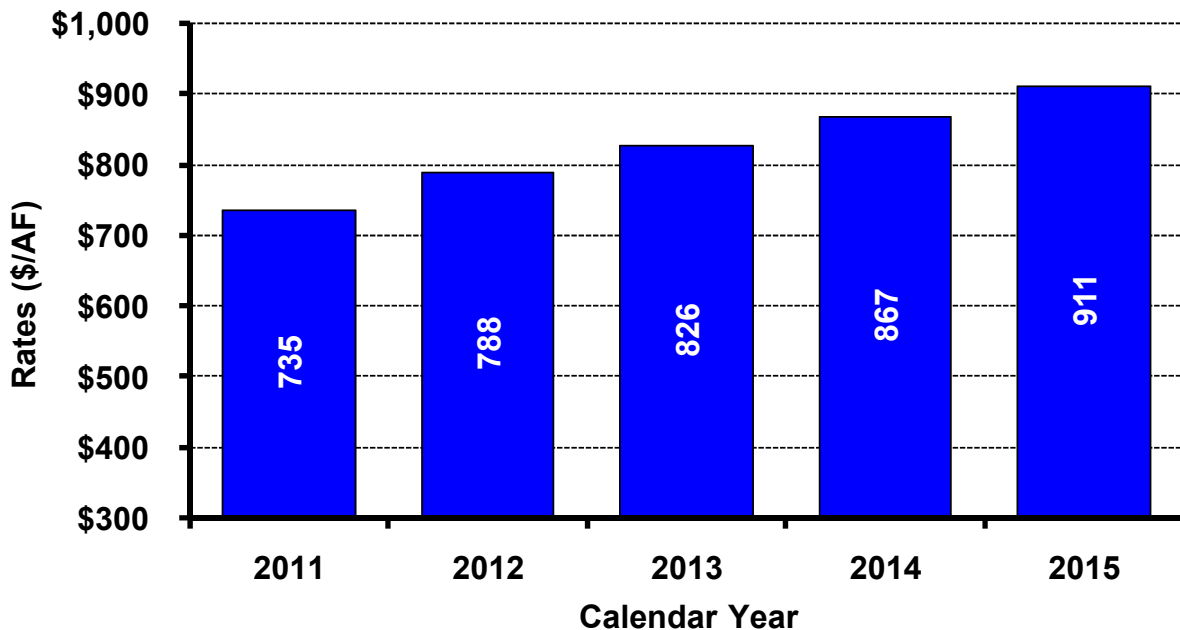
The higher SWP costs are driven by a forecasted increase in unit cost for power partially driven by the transition to renewable energy in addition to increase in the capital cost partially driven by the costs associated with the Delta Habitat Conservation and Conveyance Program.

O&M costs are expected to increase as a result of increasing labor, benefits, and treatment costs. The 5-year forecast assumed continued limited CRA and SWP water supplies as a result of drought and environmental constraints. This increases the need and costs for supply programs as we try to obtain additional water sources. Lastly, debt service costs are expected to increase as we expect to issue an additional \$1.2 billion of new debt over the next five years.

The expected average water rate is shown in Figure 10. The average water rate is equal to estimated water revenues, including revenues from water sales, Capacity Charge, and the Readiness-to-Serve Charge, divided by total estimated sales. From the 2010/11 average rate of \$735 per acre-foot, the average rate is expected to increase to \$911 per acre-foot over the next five years.

Table 10 shows the projected rates and charges through 2014/15 for the base case. There are a number of risks that have not yet been factored into the cost or rate forecast, including increased costs for the aging infrastructure of the SWP and

Figure 10. Average Water Rate



Five-Year Financial Forecast

Table 10. Base Case Rates and Charges Fiscal Year 2008/09 Budget Forecast

Rates and Charges Effective January 1st	2011	2012	2013	2014	2015
Tier 1 Supply Rate with Delta Supply Surcharge (\$/AF)	\$155	\$164	\$182	\$188	\$194
Tier 2 Supply Rate (\$/AF)	\$280	\$290	\$300	\$311	\$322
System Access Rate (\$/AF)	\$204	\$217	\$228	\$243	\$259
Water Stewardship Rate (\$/AF)	\$41	\$43	\$44	\$48	\$54
System Power Rate (\$/AF)	\$127	\$136	\$136	\$136	\$144
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$527	\$560	\$590	\$615	\$651
Tier 2	\$652	\$686	\$708	\$738	\$779
Replenishment Water Rate Untreated (\$/AF)	\$409	\$442	\$472	\$497	\$533
Interim Agricultural Water Program Untreated (\$/AF)**	\$482	\$537	 	 	
Treatment Surcharge (\$/AF)	\$217	\$234	\$245	\$262	\$270
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$744	\$794	\$835	\$877	\$921
Tier 2	\$869	\$920	\$953	\$1,000	\$1,049
Treated Replenishment Water Rate (\$/AF)	\$601	\$651	\$692	\$734	\$778
Treated Interim Agricultural Water Program (\$/AF)**	\$687	\$765	 	 	
Readiness-to-Serve Charge (\$M)	\$125	\$146	\$155	\$167	\$174
Capacity Charge (\$/cfs)	\$7,200	\$7,400	\$7,400	\$7,500	\$7,600

** The Interim Agricultural Water Program will be discontinued after 2012.

Metropolitan, supply reductions due to new environmental restrictions, and lower water demand due to the recession. All of these contingencies could have significant impacts on costs and, consequently, rates and charges. In order to enhance communication and improve the financial forecast, Metropolitan embarked on a collaborative process to update its Long Range Finance Plan (LRFP) in March 2007. Working with its member agencies, it is anticipated that the LRFP will be completed over the next six months.

SALES FORECAST

Historically, Metropolitan's total water sales have varied +/- 30 percent from expected conditions. The highest sales on record occurred in 1989/90 at the peak of the 1987-1992 drought when high retail demand and low local supplies caused many agencies to use more imported water. Metropolitan sold over 2.5 MAF in 1989/90.

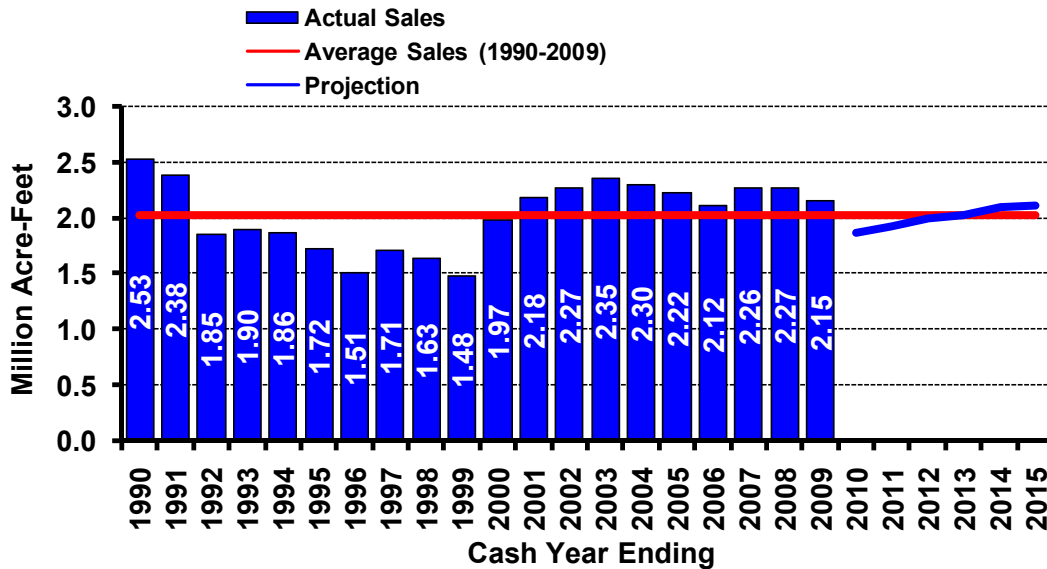
Since 1989/90 Metropolitan's sales have been as low as about 1.5 MAF during the El Niño winters in 1995/96 and 1998/99, when extremely wet weather decreased sales.

In 2010/11, Metropolitan sales are expected to equal 1.93 MAF. From 2010/11 to 2014/15, sales are expected to increase from 1.93 MAF in 2010/11 to 2.11 MAF in 2014/15. Figure 11 illustrates historical and forecasted sales.

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

Five-Year Financial Forecast

Figure 11. Water Sales*



* Includes Exchange sales

SOURCES OF FUNDS

Water Sales Receipts

Water sales receipts are expected to increase from \$1.2 billion in 2010/11 to over \$1.6 billion in 2014/15. This increase is due to anticipated rate increases and increased water sales.

Fixed charge receipts (readiness-to-serve and capacity charge) are expected to increase from about \$136.4 million in 2010/11 to \$207.5 million in 2014/15. A forecast of the major receipts categories for the next five years is shown in Figure 12.

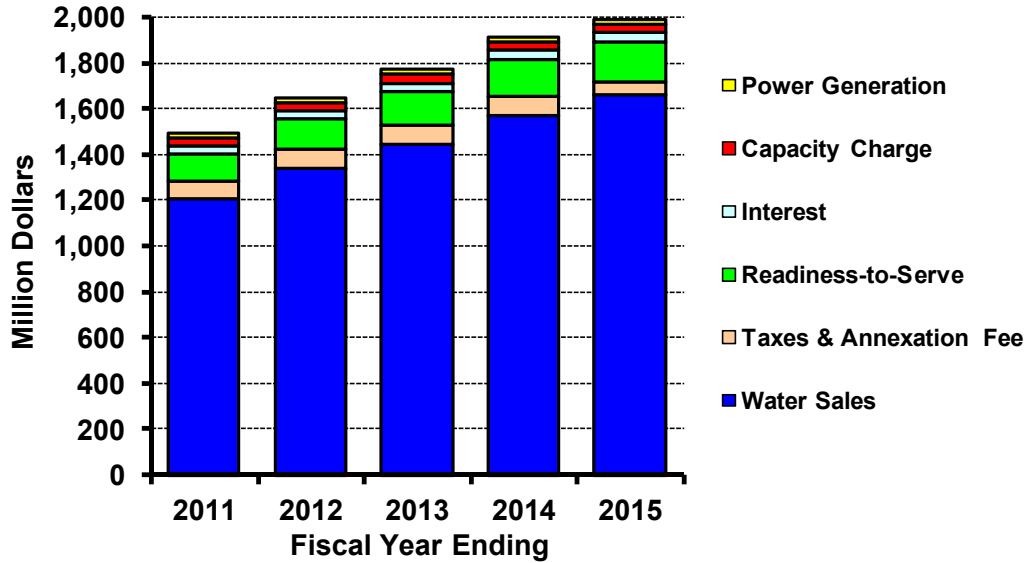
Property tax and annexation revenue is expected to decrease from \$81.8 million in 2010/11 to \$60.9 million in 2014/15. This is based on the maximum tax rate allowed under Section 124.5 of the Metropolitan Water District Act.

Power sales from Metropolitan’s hydroelectric power recovery plants, excess Colorado River power, and DVL power generation are projected to average about \$22.3 million per year over this period.

Interest income is projected to average about \$40.3 million per year over this period. The average return on the investment portfolio is expected to be 3.5% from 2010/11 to 2014/15.

Five-Year Financial Forecast

Figure 12. Receipts Forecast



Other Funding Sources

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

Higher than expected water sales will result in a lower draw from the RSF, and lower than expected water sales would result in increased use of the RSF and Revenue Remainder Fund.

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

USES OF FUNDS

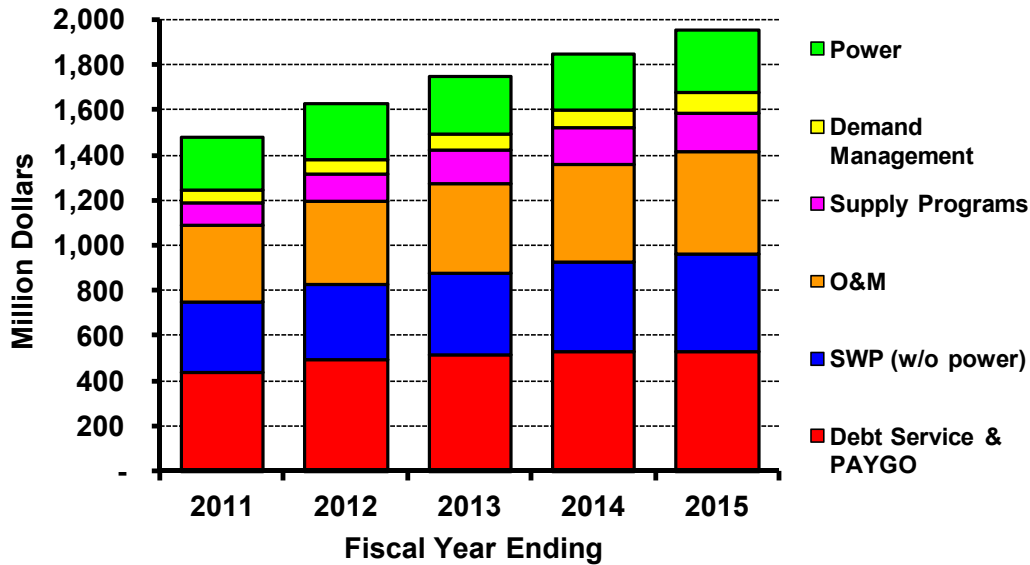
Over the next five years, total uses of funds are projected to range from \$2.0 billion to \$2.4 billion.

Expenditures

Expenditures are grouped into six major categories: State Water Contract (SWC, not including power), O&M, demand management programs (including enhanced regional programs), power costs (SWC and CRA), supply programs (not paid from the WTF), and debt service & PAYGO Deposits. Figure 13 illustrates the general trends in expenditures over the five-year period from 2010/11 to 2014/15.

Five-Year Financial Forecast

Figure 13. Expenditure Forecast



State Water Contract

SWC expenditures (not including variable power) are projected to increase from \$388.8 million in 2010/11 to \$434.9 in 2014/15. The projection includes Delta Habitat Conservation and Conveyance Program costs based in the Citigroup/Goldman Sachs financing framework report of September 2009. These costs account for \$58.1 million in 2014/15. The remainder of the capital costs is based upon information provided by the Department of Water Resources (DWR).

Operations and Maintenance

O&M costs in 2014/15 are projected to be \$448.5 million. This represents an average annual increase of 7.4 percent from 2010/11 as a result of increasing labor, benefits, and treatment costs.

Demand Management and Enhanced Regional Programs

Demand management costs include funding for the LRP and CCP are projected to increase from \$58.2 million in 2010/11 to \$79.0 million in 2014/15. The LRP costs are projected to increase from \$39.1 million in 2010/11 to \$57.0 million in 2014/15. The 2014/15 costs include \$11.9 million for seawater desalination. The yield from the LRP is expected to increase from 250 TAF in 2010/11 to 387 TAF in 2013/14. The CCP costs are projected to average \$20.5 million from 2010/11 to 2014/15 and provide continued funding of residential, commercial, and outdoor conservation programs.

As part of the 2009 Strategic Policy Review, the Enhanced Regional Programs will develop new regional supplies through District programs and/or in partnership with member agencies. In 2014/15, the projection includes \$11.1 million for such programs.

Five-Year Financial Forecast

Power Costs

Power costs include the cost of energy to pump water on both the CRA and SWP. Power costs are projected to average \$252.8 million in 2010/11 to 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 and the CRA.

Colorado River diversions available to Metropolitan are expected to average 1.2 MAF from 2010/11 to 2014/15. Net flows through the SWP that incur power are expected to average 956 TAF per year. This includes water from storage programs and transfers and reflects the impact of the pumping restrictions in the Bay-Delta due to the court ruling on California ESA litigation.

Water Transfers and Supply Programs

Table 11 summarizes supply program costs. The estimates shown in the table represent expenditures for expected conditions. If extreme weather conditions are experienced, these cost estimates could be much higher or lower. If higher than normal demand is coupled with lower than normal supply, supply program costs could be more than four times higher. Conversely, if the demand for Metropolitan water is lower than expected and Metropolitan's supply is higher than expected, then supply program costs could be as much as 50 percent less.

Table 11. Supply Programs (dollars in millions)

Program Name	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Colorado Programs	\$ 26.8	\$ 44.6	\$ 70.9	\$ 73.1	\$ 75.5	\$ 291.0
State Water Project Transfer Programs	32.4	33.5	38.7	52.5	54.2	211.2
Palo Verde Irrigation District Program	15.6	20.0	20.5	21.0	21.6	98.7
Imperial Irrigation District/MWD Conservation Agreement	10.1	10.5	10.8	11.2	11.6	54.2
In Basin Programs	9.8	6.7	7.1	7.4	7.6	38.6
Semitropic Groundwater Storage and Exchange Program	2.6	2.2	2.3	2.4	2.5	12.1
Arvin-Edison Program	4.2	1.6	1.0	1.0	1.0	8.9
Total funded from operating revenues	\$ 101.4	\$ 119.1	\$ 151.4	\$ 168.6	\$ 174.0	\$ 714.5

Totals may not foot due to rounding.

Capital Investment Plan

Metropolitan's CIP is facing financial pressures which have resulted in reductions totaling 36 percent as compared to last year's estimated FY2010/11 plan. The majority of the remaining CIP investments include several projects that improve or rehabilitate distribution and conveyance systems as well as projects that enhance Metropolitan's ability to deal with more stringent drinking water standards. These reductions include deferral of projects that may adversely affect O&M costs due to higher maintenance and repair. Projects which are going forward will increase the number of pieces of equipment that require

regular maintenance and affect operating costs. For example, the oxidation retrofit programs at the Diemer, Skinner, and Weymouth treatment plants will result in higher energy costs but also a reduction in chemical cost. Completion of buildings and storage structures will increase some maintenance costs. As a result, completion of these projects is likely to put upward pressure on overall O&M costs although the magnitude of the associated increases and decreases may offset each other.

Some conveyance and distribution facilities have been experiencing increasing maintenance frequencies as they approach the

Five-Year Financial Forecast

end of their useful life. In many cases, improved processes along with the implementation of advanced technology and improved training have mitigated the effect of these cost pressures. The rehabilitation projects for these facilities are expected to reduce O&M costs associated with repairs. It is noteworthy that while the number of pieces of equipment requiring maintenance has increased over 19% since 1993, the total staff in Water System Operations, the organization primarily responsible for equipment operation and maintenance, has decreased by 219 positions or 20 percent. This decrease in positions was made possible by increased productivity achieved through investments in technology including automated control systems, automatic meter reading, a computerized maintenance management system, and other common computerized organizational and management tools. This gain in productivity was used to offset increasing maintenance needs by transitioning staff positions dedicated to tasks now

performed by automated systems to other maintenance tasks.

The implementation of information technology upgrades is anticipated to increase some annual software maintenance and licensing costs, but that again may be offset by labor savings due to new and more efficient technology.

The general effort to continually improve productivity is now focused on transitioning traditional time-based reactive maintenance practices toward proactive maintenance practices driven by reliability engineering best practices. It is anticipated that sufficient productivity gains will be realized to offset the need for additional maintenance craft positions for the next several years.

New facilities included in the CIP over the five-year period account for 39 percent of the projected expenditures. Table 12 shows the CIP by service function, driver and funding source.

Table 12. CIP Five-Year Forecast and Funding Sources (dollars in millions)

Fiscal Year Ending	2011	2012	2013	2014	2015	Total
Major Service Functions						
Conveyance	\$ 35.5	\$ 48.1	\$ 37.5	\$ 19.9	\$ 3.7	\$ 144.7
Storage	2.8	13.0	13.5	2.0	-	31.2
Distribution	27.0	41.8	49.6	66.8	93.5	278.7
Treatment	178.4	184.9	260.7	359.7	245.2	1,228.8
General	11.3	42.8	23.5	9.3	6.7	93.6
Hydroelectric	5.1	10.4	1.1	-	-	16.5
Total	259.9	341.0	385.8	457.7	349.1	1,793.6
By Driver						
Efficiency	2.0	10.8	3.1	-	-	15.9
Rehabilitation and Replacements	142.9	179.3	246.3	296.2	229.3	1,094.1
Stewardship	9.4	48.0	54.3	62.0	28.3	202.0
Supply	8.7	13.4	10.0	15.9	11.3	59.2
Water Quality	96.9	89.6	72.1	83.6	80.1	422.3
Total	259.9	341.0	385.8	457.7	349.1	1,793.6
Funding Sources						
Bonds	164.9	216.0	260.8	332.7	224.1	1,198.6
PAYGO	95.0	125.0	125.0	125.0	125.0	595.0
Total	\$ 259.9	\$ 341.0	\$ 385.8	\$ 457.7	\$ 349.1	\$ 1,793.6

Totals may not foot due to rounding.

Five-Year Financial Forecast

Debt Financing

As shown in Table 12, it is anticipated that there will be about \$1.79 billion of capital expenditures over this period. Of this, \$1.20 billion, or 67 percent of future capital expenditures are anticipated to be funded by debt proceeds. Outstanding revenue bond debt currently represents \$4.4 billion, or 76 percent of Metropolitan's \$6.0 billion equity as of June 30, 2009. Metropolitan may not have outstanding revenue bond debt in amounts greater than 100 percent of its equity.

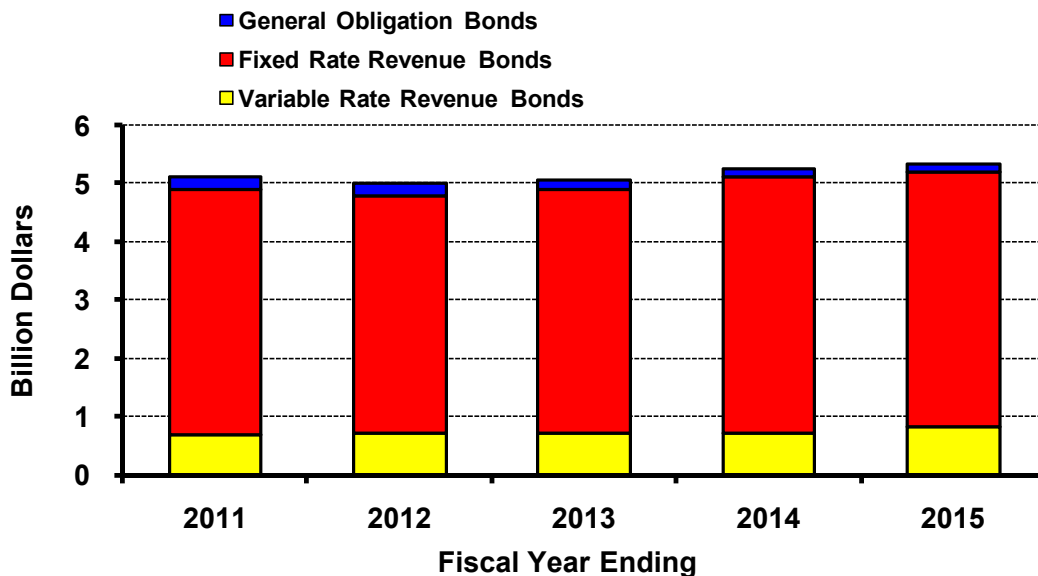
Total outstanding debt is illustrated in Figure 14. Total outstanding debt is estimated to increase to \$5.3 billion by 2014/15.

Metropolitan's variable rate debt as a percentage of total revenue bond debt is projected to average about 14 percent over this time period. The appropriate amount of variable rate debt will continue to be monitored and adjusted depending on market rates, financing needs, available short-term investments, and fund levels in the investment portfolio with which variable rate interest exposure can be hedged.

Replacement and Refurbishment

The annual deposits to the R&R and General Funds are expected to increase from \$95.0 million in 2010/11 to \$125 million in 2014/15. The increased PAYGO will fund a larger share of the R&R expenditures and enable Metropolitan to maintain its revenue bond coverage targets of 2.0 times.

Figure 14. Outstanding Debt



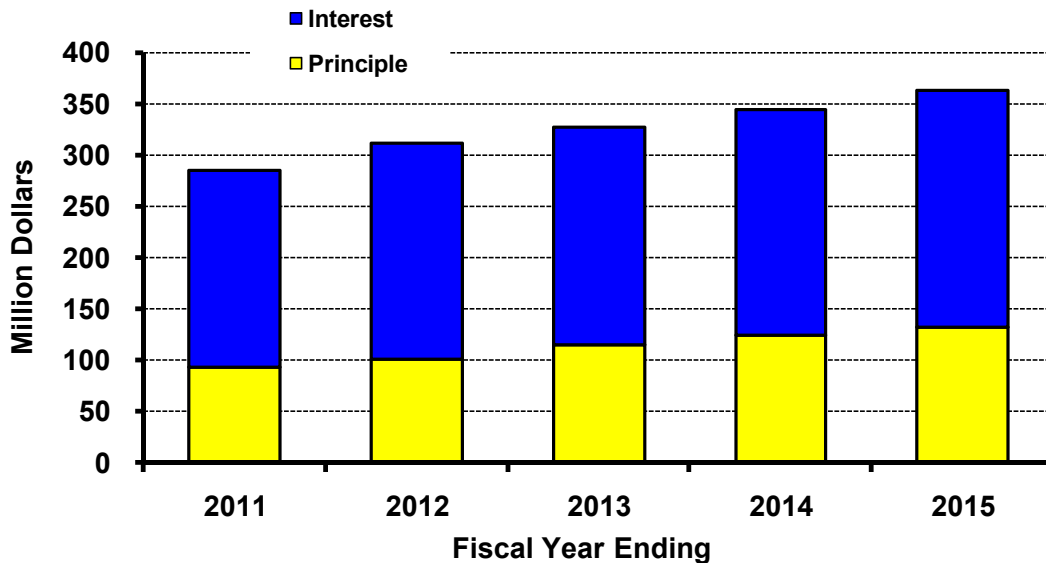
Five-Year Financial Forecast

Debt Service

Revenue bond debt service is projected to increase about \$77.4 million over the next five years. The increase in revenue bond debt service reflects future debt sales of about \$1.2 billion to finance the CIP. Total outstanding revenue bond debt is expected to rise to \$5.2 billion by 2014/15.

A mix of fixed rate debt and variable rate debt will be issued to help manage debt service costs. Figure 15 illustrates the expected trend in revenue bond debt service principal and interest payments over the next five years. General Obligation (GO) bond debt service will decrease from \$39.0 million to \$23.4 million per year as Metropolitan does not have any authority to issue additional GO bonds and voter approved indebtedness matures.

Figure 15. Revenue Bond Debt Service



Other Obligations

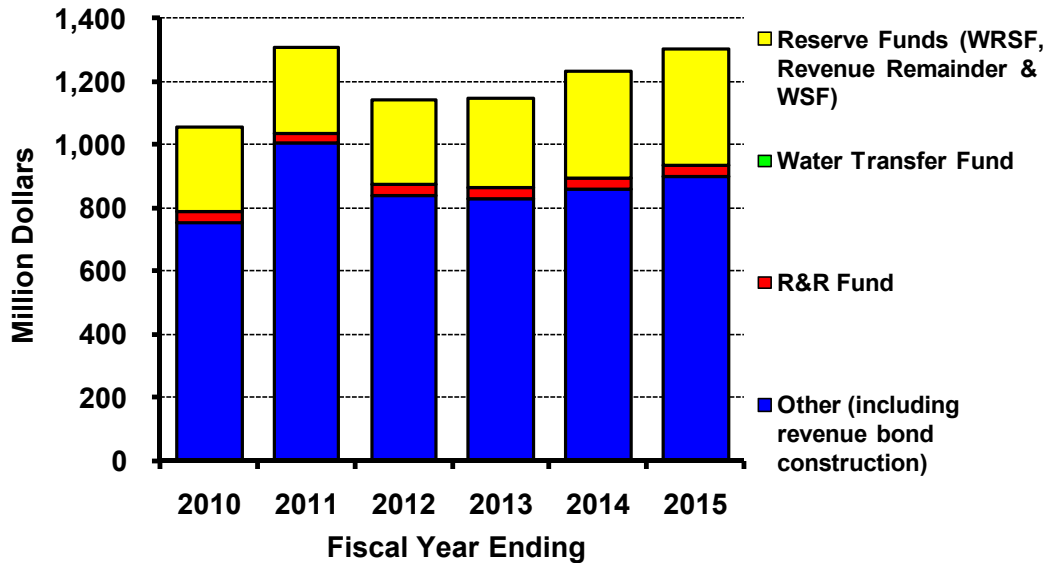
The forecast accounts for required transfers to and from operating funds to meet revenue bond covenants and board policies. Over the next five years, as fixed costs continue to increase, most notably the reserve requirements for debt service funds, the annual required transfer is estimated to average about \$59.4 million per year.

FUND BALANCES AND RESERVES

As shown in Figure 16, over the next five years, total fund balances are projected to increase from \$1.05 billion in 2009/10 to \$1.30 billion in 2014/15.

Five-Year Financial Forecast

Figure 16. End of Year Fund Balances



FINANCIAL RATIOS

Metropolitan’s financial objective is to maintain a minimum revenue bond coverage ratio of 2.0 times. However, the revenue bond coverage ratio was projected to be as low as 1.48 times in 2009/10. This ratio is expected to increase up to two times as anticipated water rate increases are implemented. Revenue bond debt service coverage is the primary indicator of credit quality and is equal to the ratio of net operating revenues to revenue bond debt service.

Fixed charge coverage measures the amount by which net-operating revenues “cover” all recurring fixed costs including SWC capital obligations. This is a broader ratio than the revenue bond coverage ratio and is one measure used to gauge Metropolitan’s overall financial strength. Metropolitan’s financial policy goal is to maintain a minimum fixed charge coverage ratio of 1.2 times. For fiscal year 2009/10 through 2014/15 the fixed charge coverage is projected to range from about one times to 1.43 times. Table 13 summarizes uses and sources of funds over the five-year period.

Five-Year Financial Forecast

Table 13. Five-Year Financial Forecast – Cash Basis (dollars in millions)

Fiscal Year Ending	estimate 2010	budget 2011	forecast 2012	forecast 2013	forecast 2014	forecast 2015
USES OF FUNDS						
Expenditures						
State Water Contract	\$ 436.5	\$ 488.5	\$ 517.1	\$ 553.3	\$ 580.0	\$ 643.7
Supply Programs	117.1	101.4	119.1	151.4	168.6	174.0
Colorado River Power	45.0	59.6	61.5	64.3	65.6	67.4
Debt Service	304.1	338.9	367.2	385.7	402.7	403.9
Demand Management	68.2	58.2	59.1	66.8	74.2	79.0
Enhanced Regional Programs	-	-	-	-	-	11.1
Departmental O&M	294.2	294.8	313.8	327.8	353.3	371.1
Treatment Chemicals, Solids & Power	29.5	26.5	29.4	31.1	33.2	34.5
Other O&M	15.8	15.4	30.8	36.4	42.1	42.9
Sub-total Expenditures	1,310.4	1,383.5	1,497.9	1,616.8	1,719.8	1,827.5
Capital Investment Plan	300.3	259.9	341.0	385.8	457.7	349.1
Fund Deposits						
Deposit to Water Transfer Fund	-	-	-	-	-	-
R&R and General Fund	36.7	95.0	125.0	125.0	125.0	125.0
Revenue Bond Construction	-	199.1	-	-	-	-
Water Stewardship Fund	-	4.2	3.0	-	-	-
Interest for Construction & Trust Funds	4.5	7.0	7.3	3.2	1.9	1.5
Increase in Required Reserves	33.3	62.6	57.4	53.3	65.4	58.1
Increase in Rate Stabilization Fund	-	-	-	5.8	42.3	13.4
Sub-total Fund Deposits	74.5	367.9	192.6	187.3	234.5	197.9
TOTAL USES OF FUNDS	\$ 1,685.2	\$ 2,011.4	\$ 2,031.5	\$ 2,189.9	\$ 2,412.1	\$ 2,374.5
SOURCES OF FUNDS						
Receipts						
Taxes	\$ 90.4	\$ 80.8	\$ 81.0	\$ 81.9	\$ 80.3	\$ 59.9
Annexations	1.0	1.0	1.0	1.0	1.0	1.0
Interest Income	21.5	37.2	40.3	40.1	41.1	42.7
Hydro Power	19.6	22.4	22.1	21.3	22.7	23.0
Fixed Charges (RTS & Capacity Charge)	136.4	154.4	171.3	186.8	197.5	207.5
Water Sales Revenue	1,016.7	1,199.9	1,331.6	1,433.7	1,565.0	1,648.7
Miscellaneous Revenue	29.3	16.0	28.4	30.0	30.2	31.5
Bond Proceeds	-	384.0	-	211.2	326.4	229.9
Sub-total Receipts	1,315.0	1,895.6	1,675.7	2,005.9	2,264.2	2,244.1
Fund Withdrawals						
Water Transfer Fund	12.1	-	-	-	-	-
R&R and General Fund	36.7	95.0	125.0	125.0	125.0	125.0
Bond Funds for Construction	263.6	-	216.0	58.6	20.2	1.4
Water Stewardship Fund	-	-	-	0.4	2.7	4.0
Decrease in Required Reserves	-	-	-	-	-	-
Decrease in Rate Stabilization Fund	57.8	20.8	14.8	-	-	-
Sub-total Fund Withdrawals	370.2	115.8	355.8	183.9	147.9	130.4
TOTAL SOURCES OF FUNDS	\$ 1,685.2	\$ 2,011.4	\$ 2,031.5	\$ 2,189.9	\$ 2,412.1	\$ 2,374.5
CASH YR SALES & Exchange (MAF)	1.86	1.93	2.00	2.03	2.10	2.11

Totals may not foot due to rounding.

Five-Year Financial Forecast

Table 13. Five-Year Financial Forecast – Cash Basis (dollars in millions) (Continued)

Fiscal Year Ending	estimate 2010	budget 2011	forecast 2012	forecast 2013	forecast 2014	forecast 2015
RATIOS						
Fixed Charge Coverage	1.02	1.30	1.39	1.37	1.43	1.34
Revenue Bond Coverage	1.48	1.90	2.01	2.04	2.15	2.07
Var. Rate Debt as % of Rev. Bond Debt	15%	14%	14%	14%	14%	15%
RESTRICTED FUNDS EOY balance						
General Fund	58.6	58.6	58.6	58.6	58.6	58.6
Water Stewardship Fund	-	4.2	7.1	6.7	4.0	-
Other	692.9	944.4	781.8	769.8	801.0	840.0
Sub-total Restricted Funds	751.5	1,007.2	847.5	835.1	863.6	898.6
UNRESTRICTED FUNDS EOY balance						
R&R Fund	33.8	33.8	33.8	33.8	33.8	33.8
Reserve Funds (1)	269.7	266.2	262.6	278.4	336.6	369.1
Sub-total Unrestricted Funds	303.5	300.0	296.4	312.2	370.3	402.9
TOTAL FUNDS	\$ 1,055.0	\$ 1,307.1	\$ 1,144.0	\$ 1,147.3	\$ 1,233.9	\$ 1,301.5

Totals may not foot due to rounding.

(1) Includes Water Rate Stabilization Fund, Water Treatment Surcharge Stabilization Fund, and the Revenue Remainder Fund

OVERVIEW

The budget process provides an annual opportunity to align shorter-term Initiatives and Actions in the department and group level business plans to Metropolitan's longer-term Mission and Strategies and the needs of our member agencies. At the direction of the Board, the budget is to be presented to the Board for consideration and adoption in April in order to align it with the adoption of water rates also approved in April. This permits incorporation of approved O&M budget expenditures into the Revenue Requirements process, which facilitates the setting of water rates. As a result of the unprecedented challenges facing Metropolitan, the budget process was extended by two months to permit the Board and member agencies to conduct extensive review of and provide significant input to the budget over five months from January to May. This budget review included

three detailed Board Workshops on January 26, February 16, and March 23, 2010. In addition, the budget was discussed and debated at the January 11, February 8, March 8, and April 11, 2010 Business and Finance Committee meetings as well as other caucuses and meetings throughout Metropolitan's service area. After conditionally approving the budget in May, the Board adopted the budget by approving a set of changes totaling \$2.1 million in June. In addition, the Board instructed staff to initiate conversion to a biennial budget beginning with the 2011/12 fiscal year budget cycle. This unprecedented and thorough review of the budget and its development cycle was a response to the current economic climate and water supply situation. The annual budget process culminates with the approval of the General Manager's Business Plan in June, consistent with the approved budget.

Budget Calendar

Due Date	Activity
July - November	Identification of major maintenance and capital projects and CIP Evaluation Team review of new and continuing projects.
August - October	Budget instructions issued to all groups. Personnel complements are developed including full-time, part-time, temporary, and overtime estimates. Group managers begin proposed budget presentations to senior management.
November	CIP Evaluation Team completes review of project proposals for the CIP. O&M budgets, CIP estimates, and operating equipment budgets are developed. Senior management reviews and makes final recommendations on group budgets.
December	Group budgets are revised as necessary. Budget is finalized and materials and presentations are developed for presentation to the Board of Directors.
January-April	Proposed annual budget is presented to Board of Directors and member agency managers. Proposed group and department budgets are presented to the relevant Board committees. Proposed annual budget workshops conducted with the full Board and budget estimates are revised as necessary.
May	Business and Finance Committee recommends action on the annual budget. Board of Directors takes action on adoption of the annual budget.
June	GM Business Plan is presented to the Board for approval.

Starting in the summer, the groups identify needed major maintenance and new capital projects, and cost estimates are developed.

In August, the budget guidelines are issued to group, assistant group, and section managers by the Budget and Financial Planning staff outlining major budget priorities consistent with the Business Plan, staffing and operational objectives, and a calendar of budget process deadlines.

The development phase begins with overall program formulation and identification of individual projects, staffing, and equipment needs. Personnel budgets, including requests for temporary and part-time help, are then prepared and professional services requirements are identified. All requests for personnel, equipment purchases, and projects must be submitted with formal justifications, which address a standard set of questions developed over the years by the Budget and Financial Planning staff.

Each organization is required to identify the extent to which its proposed budget supports the General Manager's priorities, strategies, and initiatives as outlined in the Business Plan. This information is later used to finalize the Business Plan in the spring.

The procedures for preparation of each element of the budget are outlined below.

LABOR AND PROFESSIONAL SERVICES BUDGET

The labor budget consists of regular full-time payroll, overtime, part-time, premium pay, and temporary employees. The professional services budget consists of planned payments to outside consultants for specialized skills. Personnel complements reflect the staffing of on-going work with regular employees rather than temporary employees or consultants. In addition, each group provides detailed information on consultant, overtime, and temporary employee usage. This enables senior management to examine the level and types of resources being committed to the business plan

initiatives and make appropriate determinations for the allocation of labor resources.

Adjustments to the proposed budget are made following the review by senior management and the General Manager. Each group manager then provides a formal presentation of the group O&M budget to their home committee.

PROJECT BUDGETS

Annually, the CIP is updated to provide an overview of the financial, design, and construction status of existing projects, as well as a preview of new projects.

When the need for a project is recognized, a justification is prepared which provides information regarding the expected benefits, how the work will be accomplished, the consequences of not approving the project, alternative levels of effort and cost to accomplish the project, an estimate of the impact of the project on future O&M costs, and a cost estimate for the project.

Many of the major capital projects are developed through the planning process, which include area studies that identify capital facilities needed to meet projected water demands. New and proposed water quality regulations also have resulted in the need for major capital projects. These projects or requirements may also be identified in detailed analyses such as the System Overview Study and the Integrated Resources Plan.

Capital projects include new facilities, betterments, and replacements that cost \$50,000 or more and have an anticipated useful life of five years or more. In the case of information technology capital projects, the cost must exceed \$250,000 and the resulting asset must have an anticipated useful life of at least three years. Projects can be further differentiated into three general categories: major capital, minor capital, and O&M projects. Major capital projects cost \$250,000 or more and are brought to the Board for approval prior to funding. Minor capital projects cost between \$50,000 and \$250,000, are included in the CIP, and are within the General

Manager's authority to approve from a Board approved appropriation for minor capital projects. O&M projects involve costs and scopes that are deemed significant and/or non-routine by the proposing organization but do not necessarily extend the useful life of the asset or track expenditures in support of significant programs. Examples of O&M projects include resurfacing a road, repairing a roof, or emergency management programs. Additional information on project budgeting can be found in the Capital Investment Plan Section of this budget book.

EQUIPMENT BUDGET

Operating equipment is any equipment, machine, furniture, vehicle, tool, or other item that is portable, costs more than \$5,000, and has an anticipated useful life of at least five years. Expensed equipment is similar to operating equipment except that it costs less than \$5,000. In addition, all operating equipment is tracked while tracking of expensed equipment is required for only certain classes of equipment (e.g., workstation/laptop computers, communications equipment, etc.). The justification for equipment requests includes a description of the item, where it will be used, what it will be used for, and whether or not the item is new or a replacement. If the item is a replacement, the frequency of downtime and cost of repair of the old item versus purchasing a new one must be provided. If the item is required equipment for expanded functions or additional personnel, this must also be explained. A cost/benefit analysis is performed for equipment costing more than \$40,000.

Depending on the nature of the equipment, the requests may be evaluated by several groups. For example, each group manager and the fleet equipment coordinator review vehicle requests.

BUDGET PRESENTATION

The O&M budget is presented in an organizational format and is described in terms of its scope of work, personnel requirements, and allocation by expense category. The budget

serves to identify the resource requirements for the actions and tasks each group will engage in to support the General Manager's Business Plan. The overall emphasis, consistent with Metropolitan's mission, has been on providing high quality and reliable water supplies at a fair and competitive price and in an environmentally responsible manner.

REVIEW PROCESS

Budget requests are evaluated at several management levels. Managers and staff review budget requests during each phase of the process. Each request for a new project, additional personnel, or piece of operating equipment is scrutinized by each group and further reviewed by Budget and Financial Planning staff.

All budget submittals are reviewed collectively by the group and section managers. Only those items that are deemed necessary to support the initiatives of the General Manager's Business Plan are included in the budget recommendation.

AMMENDMENTS TO THE BUDGET

The budget may be amended outside of the normal budget cycle when expenditures are anticipated to significantly exceed estimates. A report outlining the reasons for increasing the budget appropriation is prepared and submitted to the Board of Directors for consideration. The Board of Directors must approve any increases in the budget appropriations.

ACCOUNTING BASIS

The budget is prepared and monitored on a cash basis. Cash basis accounting recognizes revenues when received and expenses when paid. Under accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Metropolitan considers the budget to be balanced when the sources of funds equals the uses of funds.

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The Metropolitan Water District Act

Sec. 18. [Fiscal Year]

The fiscal year of any metropolitan water district shall commence on the first day of July of each year and shall continue until the close of the 30th day of June of the year following.

Sec. 123. [Borrowing, Limitation]

A district may borrow money and incur indebtedness and issue bonds or other evidence of such indebtedness, except that no district shall incur indebtedness which, in the aggregate, shall exceed 15 percent of the assessed valuation of all the taxable property included within the district, as shown by the assessment records of the county or counties.¹

CASE NOTE

A contract between the State and a metropolitan water district for a water supply from the State Water Resources Development System was a contract for the furnishing of continued water service in the future, payments by the district being contingent upon performance of contractual duties by the State and not incurred at the outset, so the district did not incur an indebtedness in excess of that permitted by former Section 5(7) of the Metropolitan Water District Act (now Sec. 123).

Metropolitan Water District v. Marquardt, 59 Cal.2d 159, 28 Cal. Rptr. 724 (1963).

Sec. 124. [Taxes, Levy and Limitation]

A district may levy and collect taxes on all property within the district for the purposes of carrying on the operations and paying the obligations of the district, except that such taxes, exclusive of any tax levied to meet the bonded indebtedness of such district and the interest thereon, exclusive of any tax levied to meet any obligation to the United States of America or to any board, department or agency thereof, and exclusive of any tax levied to meet any obligation to the state pursuant to Section 11652 of the Water Code, shall not exceed five cents (\$0.05) on each such one hundred dollars (\$100) of assessed valuation. The term "tax levied to meet the bonded indebtedness of such district and the interest thereon" as used in this section shall also include, but shall not be limited to, any tax levied pursuant to Section 287 to pay the principal of, or interest on, bond anticipation notes and any tax levied under the provisions of any resolution or ordinance providing for the issuance of bonds of the district to pay, as the same shall become due, the principal of any term bonds which under the provisions of such resolution or ordinance are to be paid and retired by call or purchase before maturity with moneys set aside for that purpose.

Amended by Stats. 1969, ch. 441.

CASE NOTE

An article in a contract between the State and a metropolitan water district for a water supply from the State Water Resources Development System which article is based upon Water Code

¹ The assessed valuation of all taxable property as of June 30, 2010 used in calculating the ad valorem tax limitation was more than \$2 trillion (\$2,031,891,784,446), fifteen percent of this amount is \$304.8 billion (\$304,783,767,667).

Section 11652, requiring the district to levy a tax to provide for all payments due under the contract, does not contravene former Section 5(8) of the Metropolitan Water District Act, imposing a limit on taxation, as Section 11652 is a special provision relating only to taxation to meet obligations from water contracts with state agencies, whereas said Section 5(8) is a general provision relating to taxation by a district for all purposes and the special provision controls the general provision.

Metropolitan Water District v. Marquardt, 59 Cal.2d 159, 28 Cal. Rptr. 724 (1963).

Sec. 124.5. [Ad valorem Tax Limitation]

Subject only to the exception in this section and notwithstanding any other provision of law, commencing with the 1990-91 fiscal year any ad valorem property tax levied by a district on taxable property in the district, other than special taxes levied and collected pursuant to annexation proceedings pursuant to Articles 1 (commencing with Section 350), 2 (commencing with Section 360), 3 (commencing with Section 370), and 6 (commencing with Section 405) of Chapter 1 of Part 7, shall not exceed the composite amount required to pay (1) the principal and interest on general obligation bonded indebtedness of the district and (2) that portion of the district's payment obligation under a water service contract with the state which is reasonably allocable, as determined by the district, to the payment by the state of principal and interest on bonds issued pursuant to the California Water Resources Development Bond Act as of the effective date of this section and used to finance construction of facilities for the benefit of the district. The restrictions contained in this section do not apply if the board of directors of the district, following a hearing held to consider that issue, finds that a tax in excess of these restrictions is essential to the fiscal integrity of the district, and written notice of the hearing is filed with the offices of the Speaker of the Assembly and the President pro Tempore of the Senate at least 10 days prior to that date of the hearing.

Added by Stats. 1984, ch. 271.

Sec. 134. [Adequacy of Water Rates; Uniformity of Rates]

The Board, so far as practicable, shall fix such rate or rates for water as will result in revenue which, together with revenue from any water stand-by or availability service charge or assessment, will pay the operating expenses of the district, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by the district, and provide for the payment of the interest and principal of the bonded debt subject to the applicable provisions of this act authorizing the issuance and retirement of the bonds. Those rates, subject to the provisions of this chapter, shall be uniform for like classes of service throughout the district.

Amended by Stats. 1984, ch. 271

Sec. 239.2. [Limitation on Amount of Revenue Bonds]

No revenue bonds shall be issued under this chapter, except for refunding, unless the amount of equity of the district, as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100 percent of the aggregate amount of revenue bonds to be outstanding following the issuance of such bonds.

Added by Stats. 1972, ch. 169.

FINANCIAL POLICIES

(From The Metropolitan Water District Administrative Code)

§ 5107. Annual Budget.

(a) There shall be prepared, under the direction of the General Manager, a proposed annual consolidated budget which shall be submitted to the Board no later than the date of the regular Board meeting in June immediately preceding the fiscal year to which the budget applies. The proposed budget shall indicate by fund all anticipated expenditures and required reserves and the source of moneys to be used to meet such expenditures and provide such reserves. The proposed annual consolidated budget will include a three-year budget outlook. A Board Workshop on the proposed annual consolidated budget will be conducted prior to the June Business and Finance Committee meeting. The Business and Finance Committee shall review the proposed budget in its entirety, together with the recommendations from the Board workshop, and report its recommendations to the Board.

(b) After considering the proposed budget and making any revisions thereto that it may deem advisable, the Board shall adopt the budget before the beginning of the fiscal year to which the budget applies. The amounts provided in the budget for total expenditures for operation and maintenance, including minimum and variable operation and maintenance charges under water or power contracts with the State, for capital charges under such contracts, and for debt service, shall be deemed to be appropriated from the funds indicated in the budget.

(c) The adoption of the budget shall have no effect upon appropriations for capital projects and continuing expenditures not susceptible to immediate direct allocation, as described in Section 5108 hereof, and shall not establish any limitations on expenditures for such purposes.

(d) The total operational and maintenance budget shall be measured against the regional rate of inflation as measured by five-year rolling average change in the Consumer Price Index (CPI) for the Los Angeles-Riverside-range County area, not seasonally adjusted, for all items as reported by the U. S. Bureau of Labor Statistics. The budget will include explanations of increases greater than the CPI due to unique conditions, growth or expansion of services.

Ords. 127 and 129; repealed by Ord. 146; Section 471.8 added, as amended, by M.I. 32690 - April 10, 1979; amended by M.I. 36110 - June 10, 1986. Section 471.8 repealed and Section 5107 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; paragraph (a) amended by M.I. 36535 - March 10, 1987; paragraph (a) amended by M.I. 40231 - May 11, 1993; paragraph (a) amended by M.I. 41755 - February 13, 1996; paragraphs (a) and (b) amended by M.I. 42060 - September 10, 1996; paragraph (a) amended by M.I. 42193 - December 10, 1996; paragraph (a) amended by M. I. 44095 - July 11, 2000; paragraph (a) amended by M. I. 44582 - August 20, 2001; paragraph (a) amended and paragraph (d) added by M. I. 45904 - September 14, 2004; paragraph (a) amended by M. I. 46064 - January 11, 2005; paragraph (a) amended by M.I. 46148 - March 8, 2005; paragraph (a) amended by M.I. 46983 - February 13, 2007.

The District operates as a single enterprise fund for financial statements and budgeting purposes. Through its administrative code the District identifies a number of accounts, which are referred to as funds, to separately track uses of monies for specific purposes.

§ 5200. Funds Established.

To provide for accountability of public moneys in accordance with applicable federal and state law and regulations and Board policies, the following funds active or prospectively active have been established in the Treasury of the District:

(a) General Fund (Fund No. 1001, established 1929). Moneys not specifically allocated or appropriated may be placed in this fund and used for general purposes of the District. Expenditures for reimbursable work and water conservation capital and indirect costs under the contract with Imperial Irrigation District are paid from this fund.

(b) Replacement and Refurbishment Fund (Fund No. 5001, established 1988). Used to finance certain capital program expenditures from current revenues in accordance with Section 5109, subject to the conditions contained in Section 5202(b).

(c) State Contract Fund (Fund No. 5701, established 1960). Used for the payment of capital charges under the State Water Contract, including the capital charges for off-aqueduct power facilities, subject to the conditions contained in Section 5201(d).

(d) Special Tax Fund (Fund No. 5702, established 1951). Annexation fees (cash payments and special tax collections) are deposited in this fund and transferred to the State Contract Fund to pay a portion of State Water Contract capital charges.

(e) Water Revenue Fund (Fund No. 1002, established 1975). Receipts from water sales are deposited in this fund and are transferred to various other funds in accordance with revenue bond covenants and Board resolutions to pay in order of priority:

(1) Operation and maintenance expenditures;

(2) Principal of, premium, if any, and interest on the Prior Lien Waterworks Revenue Bonds and any required deposits into any reserve funds or accounts therefore;

(3) The interest on and bond obligation of Subordinate Lien Water Revenue Bonds and Parity Obligations issued pursuant to Master Resolution 8329 (the Master Resolution) adopted by the Board on July 9, 1991 and any Supplemental Resolutions thereto;

(4) All other payments required for compliance with the Master Resolution, and any Supplemental Resolutions;

(5) Principal of and interest on Commercial Paper Notes and other amounts due a provider of a liquidity facility;

(6) Deposits into the Water Standby Charge Fund in accordance with resolutions imposing such charges; and

(7) Any other obligations which are charges, liens, or encumbrances upon or payable from net operating revenues.

Moneys remaining at the end of each month, after the foregoing transfers, are transferred to the Revenue Remainder Fund.

(f) Operation and Maintenance Fund (Fund No. 1003, established 1975). Used to pay all operation and maintenance expenditures, including State Water Contract operation, maintenance, power and replacement charges, subject to the conditions contained in Section 5201(f).

(g) Revenue Remainder Fund (Fund No. 1004, established 1975). Used to maintain working capital and may be used for any lawful purpose by the District, subject to the conditions contained in Section 5202.

(h) Water Rate Stabilization Fund (Fund No. 5501, established 1987). Used to reduce future water revenue requirements or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(i) Water Treatment Surcharge Stabilization Fund (Fund No. 5502, established 1988). Used to mitigate required increases in the surcharge for water treatment or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(j) Revolving Construction Fund (Fund No. 5003, established 1988). Capital expenditures made from this fund are to be reimbursed from proceeds of security sales to the extent such expenditures are authorized uses of debt proceeds under the Act, subject to the conditions and restrictions contained in Section 5201(g).

(k) Employee Deferred Compensation Fund (Fund No. 6003, established 1976). Compensation deferred by employees under Section 457 of the Internal Revenue Code of 1986, as amended, is deposited in this fund and is withdrawn in accordance with Articles 2 and 3 of Chapter 7 of Division VI of this Administrative Code.

(l) Iron Mountain Landfill Closure/Postclosure Maintenance Trust Fund (Fund No. 6005, established 1990). Used as a trust fund to maintain moneys sufficient to cover the costs of closure and postclosure maintenance of the District's solid waste landfill facility at Iron Mountain, in accordance with regulations of the California Integrated Waste Management Board, and subject to the conditions contained in Section 5201(l).

(m) Water Standby Charge Fund (Fund No. 1005, established 1992). Used to separately hold revenues attributable to water standby charges; amounts deposited in this fund are used exclusively for the purpose for which the water standby charge was authorized.

(n) Water Transfer Fund (Fund No. 1007, established 1995). Used for moneys set aside for the purchase of water through transfers or similar arrangements, and for the costs of filling the Eastside Reservoir Project.

(o) Self-Insured Retention fund (Fund No. 1008, established 1999). Used to separately hold amounts set aside for emergency repairs and claims against the District as provided in Section 5201(o).

(p) Lake Mathews Multi Species Reserve Trust fund (Fund 6101, established 1997.) Used as set forth in agreement between Metropolitan and the Riverside County Habitat Conservation Agency for the Multi Species Reserve.

(q) There shall be established in the Treasury of the District such funds and accounts as are required pursuant to bond covenants, tax and non-arbitrage certificates, bond counsel letters of instruction and related documents, to provide for accountability of District funds and compliance with applicable federal and state law and regulations. Such funds and accounts shall be established for each issue of bonds, notes or other obligations of the district as required in the respective bond or note resolution and closing documents.

(r) Water Stewardship Fund (Fund No. 1009 established 2005). Used to collect revenue from the Water Stewardship Rate and to pay costs associated with water recycling, seawater desalination, conservation, brackish water desalination, or other demand management programs. These funds can also be used to fund administrative costs associated with these programs. Funds may be used as directed by the Board, for other lawful purposes, in accordance with Section 5201(p) and Section 5202(d).

38241 - May 8, 1990; amended and paragraph (bb) added by M.I. 38305 - June 12, 1990; paragraphs (cc), (dd) and (ee) added by M.I. 38999 - June 11, 1991; amended and paragraphs (ff), (gg), (hh) and (ii) added by M.I. 39171 - August 20, 1991; paragraphs (jj), (kk), and (ll) added by M.I. 39785 - August 20, 1992; paragraph (k)(6) added, paragraph (jj) added, paragraphs (kk) - (mm) renumbered by M.I. 39925 - November 10, 1992; new paragraphs (nn) through (uu) added by M.I. 40272 - June 15, 1993; paragraph (bb) amended by M.I. 40273 - June 15, 1993; paragraphs (vv) through (bbb) added by M.I. 40388 - August 24, 1993; paragraphs (i) and (q) amended, paragraph (r) deleted and remainder of section renumbered by M.I. 40443 - September 21, 1993; paragraph (q) amended by M.I. 40976 - August 19, 1994; paragraph (bbb) added by M.I. 41581 - September 12, 1995; paragraphs (a) through (bbb) amended and new paragraphs (bbb) through (sss) added by M.I.42817 - February 10, 1998; paragraphs (ttt) through (aaaa) added April 1998, by authority granted to the General Counsel by M.I. 42817 - February 10, 1998; paragraphs (bbbb) through (jjjj) added September 1998, by authority granted to the General Counsel by M.I. 42817 - February 10, 1998; paragraph (kkkk) added by M.I. 43434 - March 9, 1999; paragraph (a) amended, old paragraphs (c), (g)-(J), (m), (n), (p), (q), (u)-(x), (z), (bb)-(hh), (jj)-(aaa), and (ccc)-(jjjj) deleted, remaining paragraphs renumbered, and new paragraphs (q) and (r) added by M. I. 45249 - March 11, 2003; paragraph (b) amended, paragraph (e) repealed and paragraphs (f) – (r) renumbered by M. I. 45904 – September 14, 2004; new paragraph (r) added by M. I. 46266 - June 14, 2005; paragraph (g) amended by M. I. 46838 – October 10 2006.

§ 5201. Restricted Funds.

Cash and securities to be held in the various ledger funds shall be as follows:

(a) General Obligation Bond Interest and Principal Funds and the Waterworks General Obligation Refunding Bonds Interest and Principal Funds, the cash and securities in each as of June 30, shall be at least equal to the debt service for the ensuing 18 months, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.

(b) For the Waterworks Revenue Bonds Interest and Principal Funds, the Water Revenue Bonds Reserve Funds, the Water Revenue Refunding Bonds Interest and Principal Funds and the Water Revenue Refunding Reserve Bonds, the cash and securities in each shall be at least equal to the minimums required by the resolutions of issuance for such bonds.

(c) For the Bond Construction Funds there shall be no minimum requirements; provided that any cash and securities in such funds shall be restricted to use for the purposes such finances were required.

(d) For the State Contract Fund, cash and securities on hand June 30 and December 31 shall equal the capital payments to the State Department of Water Resources that are due on July 1 of the same year and January 1 of the following year, respectively.

(e) For the Special Tax Fund, there shall be no minimum requirement.

(f) For the Operation and Maintenance Fund, cash and securities shall be at least equal to the minimum required by the resolutions of issuance for revenue bonds.

(g) For the Revolving Construction Fund, there shall be no minimum requirement. Cash and securities in this fund, unless restricted as to use by resolution of the Board, shall be available for transfer to the Water Rate Stabilization Fund and the Water Treatment Surcharge Stabilization Fund at the discretion of the Board.

(h) For the Commercial Paper, Series A, Note Payment Fund, and the Commercial Paper, Series B, Note Payment Fund, the District shall deposit amounts sufficient to pay principal of, and interest on, such Commercial Paper Notes in an amount at least equal to one-half of the projected interest payments due on such notes in the subsequent fiscal year.

(i) For the Water Standby Charge Fund, there shall be no minimum requirement; provided that any cash and securities in such fund shall be restricted to use for the purposes such moneys were authorized.

(j) For the General Obligation Bond Excess Earnings Funds, the Waterworks General Obligation Refunding Bond Excess Earnings funds, the Water Revenue Bond Excess Earnings Funds and the Water Revenue Refunding Bond Excess Earnings Funds, the minimum requirement shall be the amounts deposited into this fund in accordance with the provisions of the Tax and Nonarbitrage Certificates and Resolutions for the Bonds.

(k) For the Waterworks General Obligation Refunding Bonds, 1993 Series A1 and A2, Escrow Account Fund, the minimum requirement shall be the amounts necessary to pay the principal, if any, and the interest on the Series A1 and A2 Bonds to the crossover date, and to defease certain maturities of outstanding prior general obligation bonds.

(l) For the Iron Mountain Landfill Closure/Postclosure Maintenance Trust Fund, cash and securities as of June 30, shall be at least equal to the Chief Executive Officer's latest estimates of closure and postclosure maintenance costs.

(m) For the Optional General Obligation Bond Redemption Fund and the Optional Revenue Bond Redemption Fund, the minimum requirement shall be the amount necessary to redeem such untendered, refunded bonds which have been called for redemption.

(n) For the Water Transfer Fund, all amounts budgeted or pledged for purchase of water through transfers or similar arrangements, and for the costs of filling the Eastside Reservoir Project, shall be set aside in such fund and used solely for such purpose.

(o) For the Self-Insured Retention fund, all amounts in such fund shall be set aside and used solely for emergency repairs and claims against the District. The minimum cash and securities to be held in such fund as of June 30 of each year shall be \$25 million.

(p) For the Water Stewardship Fund, there shall be no minimum requirement; all amounts in such fund shall be used to fund the Conservation Credit Program, Local Resources Program, seawater desalination, brackish water desalination, and similar demand management programs, including the departmental operations and maintenance costs for administering these programs.

Section 331.1 - M.I. 32735 - May 8, 1979, effective July 1, 1979 [Supersedes M.I. 30984 - August 19, 1975; M.I. 31826 - June 14, 1977 and M.I. 32292 - June 13, 1978]; paragraph (f) [formerly Section 331.1.6] added by M.I. 35309 - September 11, 1984. Section 331.1 repealed and Section 5200 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; amended by M.I. 36676 - June 9, 1987; paragraph (g) added by M.I. 37449 - December 13, 1988; renumbered to Section 5201 and paragraphs (a)

and (c) amended by M.I. 38241 - May 8, 1990; paragraph (c) amended and paragraph (h) added by M.I. 38999 - June 11, 1991; paragraphs (b) and (c) amended by M.I. 39171 - August 20, 1991; paragraphs (b) and (c) amended by M.I. 39785 - August 20, 1992; paragraph (i) added by M.I. 39925 - November 10, 1992; paragraphs (a)(b)(c) amended and paragraph (j)(k) added by M.I. 40272 - June 15, 1993; paragraph (h) amended and paragraph (l) added by M.I. 40273 - June 15, 1993; paragraphs (a), (b), and (j) amended by M.I. 40388 - August 24, 1993; paragraph (j) amended and paragraph (m) added by M.I. 40443 - September 21, 1993; paragraph (n) added by M.I. 41581 - September 12, 1995; paragraphs (b)(c)(h)(j)(k)(l)(n) amended by M.I. 42817-- February 10, 1998; paragraphs (b), (c), and (j) amended April 1998 by authority granted the General Counsel by M.I. 42817 - February 10, 1998; paragraph (o) added by M.I. 43434 - March 9, 1999; paragraphs (a)-(c), and (j) amended by M. I. 45249 - March 11, 2003; paragraph (n) amended by M. I. 45775 - June 8, 2004; paragraph (p) added by M. I. 46266 - June 14, 2005.

§ 5202. Fund Parameters.

The minimum cash and securities to be held in the various ledger funds as of June 30 of each year shall be as follows:

(a) For the Revenue Remainder Fund cash and securities on hand of June 30 of each year shall be equal to the portion of fixed costs of the District estimated to be recovered by water sales revenues for the eighteen months beginning with the immediately succeeding July. Such funds are to be used in the event that revenues are insufficient to pay the costs of the District.

(b) For the Replacement and Refurbishment Fund, any unexpended monies shall remain in the Fund for purposes defined in Section 5109, or as otherwise determined by the Board. The end-of-year fund balance may not exceed \$95 million. Available monies in excess of \$95 million at June 30 shall be transferred to the Water Rate Stabilization Fund, unless otherwise determined by the Board.

(c) Amounts remaining in the Revenue Remainder on June 30 of each year after meeting the requirements set forth in Section 5202(a) shall be transferred to the Water Rate Stabilization Fund and to the extent required under Section 5202(d), to the Water Treatment Surcharge Stabilization Fund.

(d) After making the transfer of funds as set forth in Section 5202(c), a determination shall be made to substantially identify the portion, if any, of such transferred funds attributable to collections of treatment surcharge revenue in excess of water treatment cost and to collections of water stewardship rate revenue in excess of costs of the Conservation Credits Program, Local Resources Program seawater desalination and similar demand management programs, including the departmental operations and maintenance costs of administering these programs.. Such funds shall be transferred to the Water Treatment Surcharge Stabilization Fund and the Water Stewardship Fund, respectively, to be available for the principal purpose of mitigating required increases in the treatment surcharge and water stewardship rates. If such determination indicates a deficiency in treatment surcharge or water stewardship rate revenue occurred during the fiscal year, a transfer of funds shall

be made from the Water Treatment Surcharge Stabilization Fund or the Water Stewardship Fund, as needed and appropriate, to reimburse funds used for the deficiency. Notwithstanding the principal purpose of the Water Treatment Surcharge Stabilization Fund and the Water Stewardship Fund, amounts assigned to these fund shall be available for any other lawful purpose of the District.

(e) Amounts in the Water Rate Stabilization Fund shall be held for the principal purpose of maintaining stable and predictable water rates and charges. The amount to be held in the Water Rate Stabilization fund shall be targeted to be equal to the portion of the fixed costs of the District estimated to be recovered by water sales revenues during the two years immediately following the eighteen-month period referenced in Section 5202(a). Funds in excess of such targeted amount shall be utilized for capital expenditures of the District in lieu of the issuance of additional debt, or for the

redemption, defeasance or purchase of outstanding bonds or commercial paper of the District as determined by the Board. Provided that the District's fixed charge coverage ratio is at or above 1.2 amounts in the Water Rate Stabilization Fund may be expended for any lawful purpose of the District, as determined by the Board of Directors, provided that any funds distributed to member agencies shall be allocated on the basis of all water sales during the previous fiscal year, such sales to include sales under the Interim Agricultural Water Program, Replenishment Service Program and all Full Service water sales.

Notwithstanding the fund parameters set forth in this Section 5202, including, but not limited to, any minimum fund balances or specified uses and purposes, all amounts held in the foregoing funds shall be available to pay interest on and Bond Obligation (including Mandatory Sinking Account Payments) of Water Revenue Bonds issued pursuant to Resolution 8329 adopted by the Board on July 9, 1991, as amended and supplemented (the Master Resolution), and Parity obligations. Capitalized terms not defined in this paragraph shall have the meanings assigned to such terms in the Master Resolution.

Section 331.2 - M.I. 32735 - May 8, 1979, effective July 1, 1979 [Supersedes M.I. 30984 - August 19, 1975; M.I. 31826 - June 14, 1977 and M.I. 32292 - June 13, 1978]; amended by M.I. 35309 - September 11, 1984; amended by M.I. 35730 - July 9, 1985. Section 331.2 repealed and Section 5201 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; paragraph (a) amended and paragraph (b) added by M.I. 36676 - June 9, 1987; paragraph (a) amended by M.I. 36731 - July 14, 1987; paragraph (b) amended and paragraph (c) added by M.I. 37007 - February 9, 1988; amended by M.I. 37449 - December 13, 1988; paragraph (a) amended by M.I. 37679 - May 9, 1989; renumbered to Section 5202 by M.I. 38241 - May 8, 1990; paragraphs (c) and (d) amended by M. I. 38304 - June 12, 1990; paragraph (a) amended by M.I. 39794 - August 20, 1992; paragraph (e) added by M.I. 41581 - September 12, 1995; Section renamed and paragraphs (a)-(c) and (e) amended by M.I.43434 - March 9, 1999; paragraph (e) amended by M.I. 43587 - June 8, 1999; paragraph (b), (c) and (e) amended by M. I. 44907 - June 11, 2002; paragraph (b) amended by M. I. 45904 - September 14, 2004; paragraph (d) amended by M. I. 46266 - June 14, 2005; paragraph (e) amended by M. I. 46838 - October 10, 2006; final paragraph added by M.I. 47286 - November 20, 2007.

§ 5203. Indirect Credit of District.

The Chief Executive Officer may negotiate with the Department of Water Resources on the basis of using the indirect credit of the District to finance State Revenue Bonds so long as the obligation of the District thereunder does not exceed the obligation required under the State Contract.

Section 331.2 renumbered 331.3. Section 331.3 repealed and Section 5202 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; renumbered to Section 5203 by M.I. 38241 - May 8, 1990.

§ 5204. Compliance with Fund Requirements and Bond Indenture Provisions.

As of June 30 of each year, the Chief Executive Officer shall make a review to determine whether the minimum fund requirements outlined in this Chapter have been met and whether the District has complied with the provisions of the articles and covenants contained in the resolutions of issuance for all outstanding District bond issues during the preceding fiscal year. The Chief Executive Officer, after consulting with the General Counsel, shall report the results of his review in writing to the Board of Directors annually.

Section 331.4 - M.I. 34190 - April 13, 1982. Section 331.4 repealed and Section 5203 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; amended by M.I. 36676 - June 9, 1987; renumbered to Section 5204 by M.I. 38241 - May 8, 1990.

OPERATING POLICIES

(From The Metropolitan Water District Operating Policies and Procedures)

O.P. NUMBER	TITLE	ISSUE DATE	REVISION DATE
F-07	Capitalization & Retirement of Plant Assets	3/6/02	3/12/09

SUMMARY

This document establishes the policies governing the capitalization and retirement of plant assets.

SUPERSESSON

This Operating Policy supersedes Operating Policy F-07 originally issued September 23, 1998; revised March 6, 2002.

AUTHORITY

The General Manager delegates the authority to establish and maintain policies regulating the capitalization and retirement of plant assets to the Chief Financial Officer/Assistant General Manager or designee.

DEFINITIONS

Component Equipment — equipment considered to be part of a plant, usually determined when the item is permanently affixed in one location (as opposed to operating equipment as defined in Operating Policy F-01, Operating, Expensed and Capital Equipment).

Plant Assets — a new facility, betterment, replacement/refurbishment, or equipment which is a component part of a plant and that has both:

- A total cost of at least \$50,000
- A useful life of at least five years

Replacement/Refurbishment — the substitution/repair of a new facility or component of an existing facility. A replacement always involves a replacement of facilities or component, and a refurbishment may involve the replacement of facilities or component.

Retirement — the result of the replacement of existing facilities with new facilities designed to accomplish the same function, or as the result of the sale or abandonment of facilities that are no longer of economic use.

Service Connection — a pipeline, with its appurtenances, that branches off or connects the water distribution system to customer facilities.

Integrated Software — computer software that is integrated into and necessary to operate general plant and equipment (e.g., Supervisory Control and Data Acquisition system [SCADA], telephone system, and computer-operated lathes), rather than perform an application.

POLICIES

1. Any item of cost that conforms to the criteria of plant assets shall be capitalized as a plant asset; otherwise the cost is charged to operations and maintenance expense.
2. When multiple components of a plant asset are acquired or built, and the components have individual costs of less than \$50,000, the cost of these items is an operations and maintenance expense. If the components have useful lives of five years or more, they are capitalized when:
 - The aggregate total costs exceed \$50,000, and
 - The components are added simultaneously or within a planned short period of time.
3. Service connections are capitalized as plant assets and are not subject to the \$50,000 cost criterion. Customers pay the cost of acquiring and installing service connections. The customer contribution is recorded as contributed capital.
4. Integrated software is considered part of the plant and equipment of which it is an integral part and capitalized and depreciated accordingly. The aggregate cost of the hardware and software is used to determine whether to capitalize or expense the costs.
5. Replacement or refurbishment costs are charged to operations and maintenance expense provided such costs do not exceed the capital cost and useful life criteria for the assets involved.
6. Plant assets replaced, sold or abandoned are removed from accounting records. The Engineering Services Section notifies the Controller of plant assets to be retired.
7. Costs of replacement plant assets are accumulated under separate and identifiable project numbers. Project descriptions identify, to the extent practicable, the plant assets being retired.

Financial Policies

8. When plant assets are retired, the original cost and the related depreciation are removed from the accounting records. If the original cost cannot be identified, an estimate based on current cost is used.

9. The capitalization threshold will be reviewed every five years commencing January 1, 2009, and adjusted as necessary.

REFERENCES

- Operating Policy F-01, Operating, Expensed and Capital Equipment
- MWD Administrative Code Section 5108, Appropriations
- Government Accounting Standards Board Statement No. 34 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments
- Government Finance Officers Association – Accounting for Capital Assets, A Guide for State and Local Governments

APPROVAL

<u>Original signed by Jeffrey Kightlinger</u>	<u>3/12/09</u>
Jeffrey Kightlinger, General Manager	Date

2004/05 Long Range Financial Plan - Summary

The ability to ensure a reliable supply of high quality water for Metropolitan's 26 member public agencies depends largely on Metropolitan's ongoing ability to finance operations and maintenance, fund replacements and refurbishment of existing infrastructure and invest in system improvements. Metropolitan's LRFP serves dual purposes. First, it is a planning document upon which Metropolitan and its member agencies can base future capital and operating decisions. As such, it includes a forecast of future costs and the revenues necessary to support operations and capital investments that are derived from the 2004 Update to the Integrated Resources Plan (IRP). Second, the LRFP communicates: (1) the application of financial policies that enable Metropolitan to most effectively accomplish its mission; (2) the expected financial performance and conditions; and (3) the risks to the certainty and predictability of future water rates.

This is the fifth update of the LRFP. The first LRFP was completed in December 1986, was followed by updates in 1987, 1988, 1995, and 1999. Since the first LRFP was adopted, numerous financial policies and recommendations have been implemented including:

- Creating the Water Rate Stabilization Fund;
- Ability to impose a water standby and availability of service charge;
- Broadened authority to invest funds in Metropolitan's investment portfolio;
- Creating the Pay-As-You-Go Fund;
- Developing a PAYG policy and funding strategy;
- Developing a variable rate debt management program;
- Establishing the Water Transfer Fund;
- Implementing a working capital reserve policy; and
- Determining the minimum and maximum Water Rate Stabilization Fund reserve targets.

A critical element to a credible long-term planning process is the input from the member agencies and their customers. This is particularly important since Metropolitan's water rates play an important role in the investment decisions regarding local resources. This update of the LRFP has been drafted with input from the member agencies and the Budget, Finance and Investment Committee. Beginning in December 2002, four member agency meetings were held to solicit input into the development of the LRFP. In addition, three briefings have been provided to the Budget, Finance and Investment Committee and numerous presentations have been provided to member agency governing bodies.

The LRFP includes a rate forecast, given Metropolitan's existing rate structure. The forecast estimates that the average water rate will increase at an annual average rate of between 3 and 5 percent over the next ten years. By 2013/14, the average rate is expected to be \$552 to \$597 per acre-foot, an average annual increase of \$13 to \$18 per acre-foot. 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 between \$564 to \$610 per acre-foot by 2013/14.

These estimated rate increases result from increasing costs for local and imported water supplies, system improvements to water treatment, investments to maintain the conveyance and distribution system, additional distribution capacity, and increasing operating and maintenance cost. Furthermore,

in accordance with the update of the IRP, the majority of future growth in retail demands is expected to be met by the development of local supply resources, offsetting any significant long-term increases in Metropolitan's expected sales. By 2013/14, annual costs are expected to increase from \$1.2 billion in 2004/05 to \$1.4 billion, or at an annual average rate increase of 1.6 percent. During this same period, capital investments are expected to range between \$2.8 billion and \$3.6 billion. To finance these capital investments, the LRFPP anticipates funding at least \$95 million per year of replacement and refurbishment capital outlays from water sales revenues, and by issuing at least an additional \$1.9 billion in revenue bond debt.

Sound planning documented in the IRP Update and the LRFPP is necessary for Metropolitan to successfully fund the many investments necessary to meet the challenges facing the region over the next ten years with predictable, certain, and manageable rate increases. Among the more significant challenges are:

- Investing in the elements of the IRP to ensure reliable water supplies for Metropolitan's service area.
- Developing cost-effective alternatives to Colorado River supplies that are no longer available as a result of California's reduction to 4.4 million acre-feet and the implementation of the programs under the terms of the Quantification Settlement Agreement (QSA).
- Ensuring viable use of Metropolitan's State Water Project supplies during wet, normal, and dry years in ways that mitigate environmental impacts.
- Implementing capital improvements at all five treatment plants to ensure compliance with increasingly stringent water quality regulations, while meeting the public's expectations regarding the aesthetics of their water supply.
- Funding an estimated \$2.8 to \$3.6 billion capital program that addresses refurbishment and replacement needs, expansion of treatment and distribution capacity, and improvements to treatment processes.

Water Sales Forecast

Water sales revenue provides between 75 percent and 80 percent of the revenues necessary to support Metropolitan's capital and operating costs. For financial planning purposes, it is expected that demand for Metropolitan supplies will decline from about 2.34 million acre-feet in 2004/05 to about 2.25 million acre-feet in 2013/14. There are two primary reasons for this change. First, recent demands have been high due to dry weather in Southern California. Over the past five years, rainfall has been below average, leading to higher retail demands and reduced water levels in groundwater basins, surface reservoirs, and other local supplies. As a result, demand for imported water from Metropolitan has been higher than average. The financial forecast is based on a return to average local weather conditions and retail demands, recovery in local supplies, and a reduced demand for imported water. Second, in addition to a reduction in overall demand due to a return to average weather conditions, the Integrated Resources Plan (IRP) contemplates continued investment in local resources, primarily water recycling and ocean desalination. By 2014, these investments will result in an additional 408,000 acre-feet of local supply. These local supplies reduce the need for imported water and expected water sales by Metropolitan.

Integrated Resources Plan

The IRP was also updated in 2004. The IRP is the blueprint for developing a reliable, high quality supply of water for urban Southern California. Funding the investments in local supplies (e.g., water recycling, groundwater conjunctive use, and conservation), water transfers and storage, and Metropolitan’s supply sources on the Colorado River and State Water Project System are important elements of the LRFP. The IRP includes investments in local resources that will increase annual yield from water recycling and ocean desalination by 408,000 acre-feet by 2013/14. Metropolitan will continue to provide funding to offset a portion of the costs for many of these local investments. It is expected that the Water Stewardship Rate will increase by about \$20 per acre-foot over the next ten years to fund Metropolitan’s contribution. In addition, expenditures will be made to supplement Colorado River and State Water Project supplies. Projections of cash flow associated with these resource elements are summarized in Table 14.

Table 14. Forecasted Cost of Imported Supplies (millions of dollars) as of Sept. 2004

Fiscal Year Ending	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Colorado River										
Power	3.9	18.8	14.8	16.5	20.8	22.5	21.9	22.3	24.7	22.5
Storage	-	0.2	1.1	1.9	1.7	1.1	0.7	0.6	0.5	0.4
IID Conservation	7.9	8.2	8.4	8.7	9.0	9.2	9.5	9.8	10.1	10.4
Special Surplus Water	-	1.7	2.0	2.0	2.2	2.3	2.4	2.5	2.3	2.1
PVID (1)	0.1	13.5	9.2	6.3	6.3	6.1	6.2	5.9	5.5	5.6
State Purchase (2)	-	4.2	5.8	6.6	7.2	8.6	10.2	12.2	17.0	23.9
Total	11.9	46.7	41.3	42.0	47.2	49.9	50.8	53.2	60.1	64.9
State Water Project										
SWP	461.6	412.2	406.0	414.1	420.3	422.5	431.3	443.4	443.3	420.2
Option Transfers	-	0.2	0.9	1.3	0.9	0.6	0.2	-	-	-
Central Valley Transfers/Storage	10.2	11.2	10.6	8.9	7.3	6.8	7.8	8.8	9.1	9.3
SBVMWD	3.4	4.9	6.4	6.3	6.1	6.2	6.2	6.0	6.1	6.1
Total	475.2	428.5	423.9	430.6	434.6	436.1	445.6	458.2	458.5	435.6
CR + SWP Unit Cost (\$/AF)	208.5	211.2	211.6	212.0	212.5	213.6	221.7	229.7	230.8	222.3

(1) Upfront payments are not included since they are paid from Water Transfer Fund

(2) Purchase of IID water sold to the State as part of the QSA

Totals may not foot due to rounding.

Capital Investment Plan (CIP)

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. To help mitigate expected future rate increases and to reflect revisions to the timing and sizing of capital projects the CIP is adjusted annually. The major elements of the ten-year capital program include (estimated cost over the ten-year period in parenthesis):

- a. Inland Feeder Project. This pipeline will bring water from the State Water Project to the Diamond Valley Lake and is expected to be on-line in 2007.
- b. Oxidation Retrofit and other treatment plant improvements.

Long Range Financial Plan

- c. Central Pool Augmentation Project and San Diego Pipeline #6.
- d. Capital costs for Colorado River storage programs and in-basin groundwater conjunctive use programs.
- e. Diamond Valley Lake Recreation Program.
- f. Other improvements such as information technology, reliability, etc.
- g. Replacement and refurbishment.

Pending the completion of a system overview study now underway, the total estimated cost of the ten-year CIP will likely change. Anticipated changes include the need for additional distribution and treatment capacity to meet growing demands in parts of the service area.

The CIP will be funded from a combination of bond proceeds and operating revenues. In order to mitigate increases in water rates, R&R projects have been scheduled such that \$95 million per year will be paid from current revenues. This level of R&R funding is consistent with funding levels in fiscal year 2004/05. In June 2002, the Board adopted a policy that R&R expenditures would be funded from revenues. This LRFPP incorporates that principle; however, to manage future rate increases it may be necessary to fund some R&R expenditures from debt proceeds. 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. Table 15 shows total Capital Expenditures and funding sources. Variable rate debt is used to mitigate interest cost over the long-term, while reducing interest rate exposure.

Table 15. Forecasted Capital Expenditures and Funding Sources (millions of dollars) as of September 2004

Fiscal Year Ending	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Major Service Functions											
Supply	36.8	63.0	31.6	11.8	11.8	11.2	2.1	5.1	5.1	18.2	196.8
Conveyance	106.0	92.4	103.7	17.7	22.0	4.9	-	-	-	-	346.7
Storage	29.1	67.3	29.3	34.8	25.5	3.0	-	-	-	-	189.0
Distribution	39.7	117.1	83.9	100.7	131.6	155.9	139.5	123.8	135.0	125.1	1,152.3
Treatment	158.8	167.8	145.5	145.1	80.0	54.1	1.4	15.6	18.0	27.0	813.2
General	30.2	33.2	13.9	1.5	1.5	1.5	1.5	1.5	1.1	1.1	87.1
Hydroelectric	0.2	0.1	-	-	-	-	-	-	-	-	0.3
Total	400.8	540.9	407.9	311.6	272.6	230.6	144.5	145.9	159.2	171.4	2,785.3
Funding Sources											
Debt	277.7	411.1	292.0	216.6	177.6	135.6	49.5	50.9	64.2	76.4	1,751.5
R&R Fund	123.1	129.8	115.9	95.0	95.0	95.0	95.0	95.0	95.0	95.0	1,033.8
Total	400.8	540.9	407.9	311.6	272.6	230.6	144.5	145.9	159.2	171.4	2,785.3

Totals may not foot due to rounding.

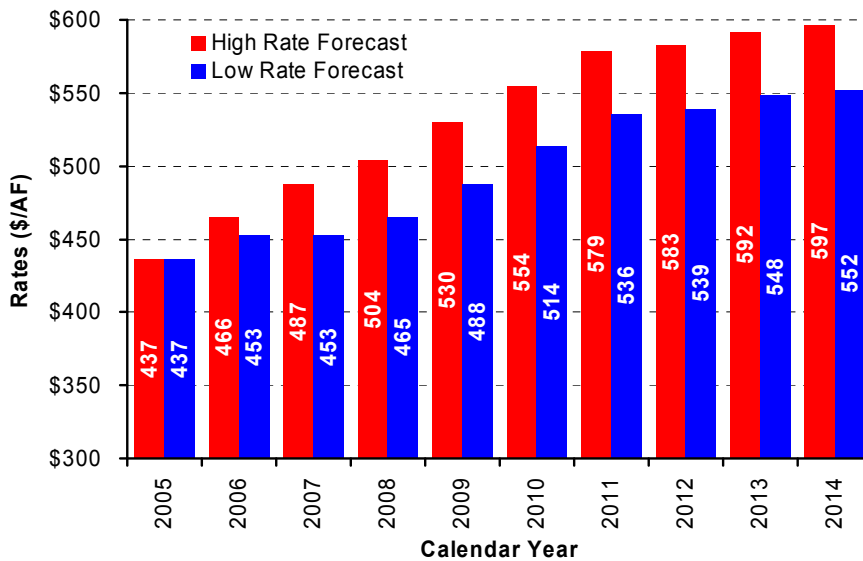
Operating and Maintenance Costs

Based on the 2004/05 budget, operating and maintenance costs have increased at a 5.4 percent annualized rate since 1999/00. During this period the regional rate of inflation averaged about 2.8 percent. Part of Metropolitan’s long-term plan is to invest in technology, process improvement and employees to improve operating efficiency. To monitor the success of this effort the LRFPP proposes that the board establish a budget guideline that total departmental operations and maintenance costs will be managed to the regional rate of inflation. The LRFPP incorporates this objective, which is reflected in the forecast of ongoing operating and maintenance costs. Basic operating and maintenance expenses are expected to rise from \$282 million per year in 2004/05 to about \$350 million by 2013/14, or an annualized increase of 2.4 percent.

Rate Forecast

Since water sales volumes are anticipated to decrease from their current above normal levels over the planning period, water rates and charges will need to increase to fund projected expenditures. Metropolitan’s objective is to ensure stable and predictable rates and charges and manage the average annual increases in rates and charges to between 3 percent and 5 percent. As shown in Figure 17, the average rate (all rates and charges revenue divided by sales) is expected to increase from \$437 per acre-foot in 2005 to between \$552 per acre-foot and \$597 per acre-foot by 2014. Actual rate increases will be dependent on a number of important variables including water sales volumes, the cost of power to pump water on the Colorado River Aqueduct and the State Water Project, water quality regulations, Metropolitan’s ability to secure outside funding from the state or federal government for certain capital expenditures, and the pace of local resource development, the total cost and schedule of the CIP and the rate of increase in operations and maintenance costs. As part of Metropolitan’s plan to mitigate water rate increases, the LRFPP includes the use of \$105 million of available Water Transfer funds to offset the need for additional rate increases.

Figure 17. Average Rate (dollars per acre-foot)



Financial Policy Changes

To prepare for these challenges, four policy changes were adopted by the Board with the approval of the LRFP on September 14, 2004:

Budget Guideline

To mitigate upward pressure on water rates and continue to strive for operating efficiencies, it is recommended that Metropolitan set a goal to limit the increase in the annual O&M budget to no more than the five year rolling average change in the Consumer Price Index. The index would be based on the Los Angeles-Riverside-Orange County area, not seasonally adjusted, for all items as reported by the U.S. Bureau of Labor Statistics.

Variable Rate Debt

To maintain Metropolitan's relatively low cost of capital and balance the risks of interest rate exposure that are inherent in a variable rate debt program, it is recommended that Metropolitan's variable rate exposure policy be modified. The existing variable rate debt policy establishes a fixed 32 percent target for the outstanding water revenue bond debt to be held in a variable rate mode. To better manage the dynamic conditions of the capital markets and changes in Metropolitan's investment portfolio the Board amended the policy to manage variable rate exposure based on a net dollar impact to Metropolitan (net of interest income generated in the investment portfolio). Under this policy, the amount of variable rate debt will be managed to limit the amount of interest rate exposure so that net interest costs (debt service less interest earnings) do not increase or decrease by more than \$5 million in a given year as a result of interest rate changes. In addition, the total amount of variable rate debt will be limited to a maximum of 40 percent of the total outstanding debt.

Fixed Charge Coverage

To clarify the Board's intent to maintain a strong balance sheet and the financial flexibility and strength Metropolitan now leverages for the benefit of all member agencies, the Board added an explicit goal of maintaining a minimum fixed charge coverage ratio of 1.2 times. This ratio is already included in Metropolitan's Administrative Code when evaluating use of available funds over the maximum reserve target.

Replacement and Refurbishment Fund

To clarify and restate the commitment to maintain Metropolitan's aging infrastructure, the PAYG fund will be renamed the Replacement and Refurbishment (R&R) Fund. The minimum fund balance requirement was eliminated and a maximum end-of-year fund balance of \$95 million was established. Fund balances under the maximum will be carried over to the next year. To further clarify the purpose of the R&R Fund, short-term capital expenditures (e.g. information technology expenditures) and other miscellaneous capital expenditures will now be made from the General Fund.

Rate Structure Overview

This section provides an overview of Metropolitan's rate structure. The rate structure is designed to accomplish the following:

- **Accountability** – Define the linkage among costs, charges, and benefits through a cost of service approach consistent with industry guidelines and practices;
- **Regional Provider** – Ensure that regional services are provided to meet the existing and growth needs of member agencies;
- **Equity** – Ensure that users, including member agencies and other entities, pay the same rates and charges for like classes of services and provide fair allocation of costs through rates and charges;
- **Environmental Responsibility** – Encourage wise environmental stewardship and effective demand management by funding conservation and recycling projects and programs, and use pricing to encourage investments in conservation and recycling and other economical local supplies;
- **Choice and Competition** – Offer choices for services to member agencies and accommodate the development of a water transfer market;
- **Water Quality** – Support source quality improvements and water treatment systems that are required to ensure safe drinking water and the feasibility of water recycling and groundwater management programs; and
- **Financial Integrity** – Establish a financial commitment from the member agencies that provides financial security for Metropolitan and does not transfer undue risk to member agencies, individually or as a whole.

The rate structure includes the following benefits to how Metropolitan recovers the cost of providing services:

- The water rate used is unbundled into separate rates for supply, conveyance and distribution, water stewardship, and power;
- A tiered pricing structure encourages the development of cost-effective local water resources, including conservation, water recycling, groundwater recycling, and desalination. In addition, member agencies with increasing demands for Metropolitan system supplies will pay a larger proportion of the cost of developing supply;
- A Capacity Charge allocates the cost of peak distribution capacity to member agencies that cause the greatest peaks on the system; and
- A Water Stewardship Rate provides a dedicated source of funding for the continuation of regional investments in conservation, recycling, and other economical local resources.

The different elements of the rate structure are summarized in Table 16.

Rate Structure Overview

Table 16. Rate Structure Components

Rate Design Elements	Service Provided/ Costs Recovered	Type of Charge
System Access Rate	Conveyance/Distribution (Average Capacity)	Volumetric (\$/af)
Water Stewardship Rate	Conservation/Local Resources	Volumetric (\$/af)
System Power Rate	Power	Volumetric (\$/af)
Treatment Surcharge	Treatment	Volumetric (\$/af)
Capacity Charge	Peak Distribution Capacity	Fixed (\$/peak cfs)
Readiness-To-Serve Charge	Conveyance / Distribution / Emergency Storage (Standby Capacity)	Fixed (\$M)
Tier 1 Supply Rate	Supply	Volumetric (\$/af)
Tier 2 Supply Rate	Supply	Volumetric (\$/af)
Surplus Water Rates	Replenishment/Agriculture	Volumetric (\$/af)

RATE STRUCTURE COMPONENTS

System Access Rate (SAR)

The SAR recovers the cost of the conveyance and distribution system that is used on an average annual basis through a uniform volumetric rate. All users pay the SAR for access to conveyance and distribution capacity in the Metropolitan system.

The SAR is charged for each acre-foot of water conveyed and distributed by Metropolitan. All users (member agencies and third parties) using the Metropolitan system to convey water pay the same SAR for the use of the system conveyance and distribution capacity used to meet average annual demands.

Water Stewardship Rate (WSR)

The WSR provides a dedicated source of funding for conservation and local resources development. The WSR supports Metropolitan's funding of future conservation and local supply projects. Because of the uniform benefits (e.g. greater available system capacity through reduced use by others) conferred on all system users by investments in conservation and local resources, all users of Metropolitan's conveyance and distribution system pay the WSR.

System Power Rate (SPR)

The SPR recovers the cost of energy required to pump water to Southern California through the State Water Project and Colorado River Aqueduct. The cost of power is recovered through a uniform volumetric rate.

The SPR is applied to all deliveries to member agencies. Wheeling parties will pay for the actual cost (not system average) of power needed to move the water. For example, water wheeled through the State Water Project's California Aqueduct would pay the actual variable power cost incurred by DWR to move the water.

Treatment Surcharge

The treatment surcharge recovers the cost of providing treatment capacity and operations through a uniform, volumetric rate. The treatment surcharge will be applied to all treated water deliveries.

Capacity Charge

The capacity charge is levied on the maximum summer day demand placed on the system between May 1 and September 30 for the three calendar-year period ending December 31, of the calendar year preceding the prior budget year. Demands measured for the purposes of billing the capacity charge include all firm demand and agricultural demands as well as wheeling service. Replenishment service is not included in the measurement of peak day demand for purposes of billing the capacity charge.

Over time, a member agency will have an incentive to reduce its capacity charge payments and could do so by reducing peak day demands on the system.

Readiness-To-Serve Charge (RTS)

The RTS is a fixed charge that recovers the cost of the portion of system conveyance, distribution, and system storage capacity that is on standby to provide emergency service and operational flexibility. These costs would

be recovered by the Tier 1 and Tier 2 Supply Rates and the System Access Rate without the RTS charge.

The RTS will be allocated among the member agencies based on a ten-year rolling average of firm demands. Replenishment and agricultural deliveries are excluded, while water transfers and exchanges are included for purposes of calculating the ten-year rolling average used to allocate the RTS. The standby charge will continue to be collected at the request of the member agency and applied as a direct offset to each agency's RTS obligation.

Tier 2 Supply Rate

The cost of maintaining existing supplies and developing additional supplies are recovered through a two-tiered pricing approach. The higher Tier 2 Supply Rate is set at Metropolitan's cost of developing supply. When included with the other rate components, the Tier 2 Supply Rate provides a price signal to encourage cost effective conservation and local resources development.

The Tier 2 Supply Rate is set at Metropolitan's cost of developing supply to encourage the member agencies and their customers to maintain existing local supplies and develop cost-effective local supply resources and conservation. The Tier 2 Supply Rate also recovers a greater proportion of the cost of developing additional supplies from member agencies that have increasing demands on Metropolitan's system. Therefore, the Tier 2 Supply Rate partially addresses customer equity issues between member agencies that are not increasing their demands on the system and member agencies that continue to need additional imported water supplies.

The Tier 2 Supply Rate will be charged to all firm water sales above 60 percent of a member agency's base firm demand, unless the member agency elected to execute a Purchase Order. The base firm demand is the maximum of the initial base demand or the ten year rolling average of firm demands. A member agency's initial base demand is calculated as the maximum annual firm demand for the

13 years ending June 30, 2002. If a member agency submits a Purchase Order it will pay the Tier 2 Supply Rate for all firm demands that exceed 90 percent of its base firm demand. The member agencies' base firm demands will be adjusted annually to reflect the phase out of the interim agricultural water program. Wheeling parties do not pay the Tier 2 Supply Rate.

Tier 1 Supply Rate

The Tier 1 Supply Rate recovers the majority of the supply revenue requirement. Member agencies without a Purchase Order will pay the Tier 1 Supply Rate for all firm demands up to 60 percent of their base firm demand. Member agencies with Purchase Orders will pay the Tier 1 Supply Rate for all firm demands up to 90 percent of their base firm demand. The member agencies' base firm demands will be adjusted annually to reflect

the phase out of the interim agricultural water program. Wheeling parties do not pay the Tier 1 Supply Rate.

Replenishment Program and Agricultural Water Program

Metropolitan currently administers two pricing programs that make interruptible supplies (i.e. system supplies in excess of what is needed to meet consumptive municipal and industrial demands) available to the member agencies at a discounted water rate. The replenishment program provides system supplies when available for the purpose of replenishing local storage. The interim agricultural water program also makes surplus system water available for agricultural purposes. Per the Board's action, the interim agricultural water program will be phased out over a period of five years, from 2008 to 2013.

ABOUT METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Formation and Purpose

The Metropolitan Water District of Southern California (Metropolitan) is a public agency and quasi-municipal corporation created in 1928 by vote of the electorates of 13 Southern California cities under authority of the Metropolitan Water District Act (Act). Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The Act provides that if additional water is available, such water may be sold for other beneficial uses. The Act also authorizes Metropolitan to sell water to the United States, federal agencies, and the State of California. In addition, Metropolitan may contract for the sale of limited quantities of water to private corporations and public agencies for power generation and water reclamation, subject to certain restrictions contained in the Act.

The mission of Metropolitan, as promulgated by the Board of Directors (Board), is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way. Metropolitan's charges for water sales and availability of water service are fixed by its Board and are not subject to regulation by the California Public Utilities Commission or any other state or federal agency. Metropolitan imports water from two principal sources: the Colorado River via the Colorado River Aqueduct and Northern California via the Edmund G. Brown California Aqueduct.

Member Agencies

Metropolitan is comprised of 26 member public agencies, including 14 cities, 11 municipal water districts, and one county water authority. The member agencies are listed on the inside front cover of the budget. The residents of more than 300 cities and numerous unincorporated communities are served by Metropolitan's member agencies. Member agencies request

water from Metropolitan at various delivery points within Metropolitan's system. Metropolitan's water is a supplementary source of water for its members. No member is required to purchase water from Metropolitan.

Service Area

The map on page 67 shows the area served by Metropolitan. Metropolitan's service area comprises approximately 5,178 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. Approximately 19.0 million people reside within Metropolitan's service area. Metropolitan provides between 40 and 60 percent of the water used within its service area, depending on the weather, with individual member agencies relying on Metropolitan to provide between 10 and 100 percent of their water. Metropolitan serves its member agencies as a water wholesaler and has no retail customers.

The climate in Metropolitan's service area ranges from moderate temperatures throughout the year in the coastal areas to hot and dry summers in the inland areas. Annual rainfall averages 13 to 15 inches along the coastal area and less than 10 inches inland.

When Metropolitan began delivering water in 1941, its service area consisted of approximately 625 square miles. Its service area has increased by over 4,550 square miles since that time. Growth has primarily resulted from the annexation of the service areas of additional member agencies.

Board of Directors

Administration of Metropolitan is under the direction of a 37-member Board. Under the Act, each member public agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of its assessed valuation of property in Metropolitan's service area. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more than 37 directors.

The Board includes business, professional, and civic leaders. Directors serve on the Board without compensation from Metropolitan. Voting is based on assessed valuation, with each member agency being entitled to cast one vote for each \$10 million or major fractional part of \$10 million of assessed valuation of property within the member agency, as shown by the assessment records of the county in which the member agency is located. The Board administers its policies through the Metropolitan Water District Administrative Code (the “Administrative Code”), which was adopted by the Board in 1977. The Administrative Code is periodically amended to reflect new policies or changes in existing policies that occur from time to time.

Management

Metropolitan’s day-to-day management is under the direction of its General Manager, who serves at the pleasure of the Board, as do Metropolitan’s General Counsel, General Auditor, and Ethics Officer.

Economy of Metropolitan’s Service Area

The area served by Metropolitan represents the most densely populated and heavily urbanized portions of Southern California. The economy of the area served by Metropolitan is generally described in terms of data for the six county area (Six County Area) consisting of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties, in which Metropolitan's service area exists. Most published economic data is available at the regional or county level. Although Metropolitan's territory does not encompass all of the area within each of the six counties, Metropolitan serves over 85% of the individuals and businesses in the Six County Area.

The economy of the Six County Area is large. In 2008, the economy of this area was larger than all but thirteen nations of the world, following India, with an estimated gross domestic product of \$1,021 billion. The population of the Six County Area is also larger than that of any state in the United States except California and Texas.

Background and Service Area Economy

Table 17. Ranking by Gross Domestic Product

	2008 \$ Billions
United States	\$14,204
Japan	\$4,909
China	\$3,653
Germany	\$3,653
France	\$2,853
United Kingdom	\$2,646
Italy	\$2,293
California**	\$1,847
Brazil	\$1,613
Russian Federation	\$1,608
Spain	\$1,604
Canada	\$1,400
India	\$1,217
Six County Area	\$1,021

* Gross Domestic Product, World Development Indicators database, World Bank October 7, 2009.

**California Department of Finance. July 23, 2009.

***Estimate based on Bureau of Labor Statistics and county employment data.

Background and Service Area Economy

The economic base of the Six County Area is diverse. A significant manufacturing sector and the nation's largest motion picture and entertainment complex are located within the Six County Area. Southern California's world-class tourist destinations and recreational

opportunities are the foundation of a strong tourism industry. The Six County Area also includes the Los Angeles Customs District, which comprises the nation's largest port and airport complex in terms of dollar volume of foreign trade.

Table 18. Six County Area Economic Base by Major Sector (Jobs in Thousands)*

NAICS Industry	1999	2004	2009
Natural Resources and Mining	7	7	7
Construction	352	449	332
Manufacturing	1,115	930	760
Trade, Transportation, and Utilities	1,467	1,570	1,513
Information	331	303	278
Financial Activities	450	526	460
Professional and Business Services	1,121	1,185	1,128
Educational and Health Services	748	866	973
Leisure and Hospitality	722	827	861
Other Services	263	290	274
Government	1,129	1,210	1,252
Total Base Employment	7,704	8,160	7,837

* California Employment Development Department. Based on the North American Industry Classification System (NAICS).

Background and Service Area Economy

After experiencing a recession in 2001 and job losses in 2002, California's economy bounced back. Compared with the San Francisco Bay Area, the recession in Southern California was relatively mild and significant job losses were avoided. Coming out of that recession, California's Gross State Product (GSP) increased 8.0% in 2004, 7.2% percent in 2005 and 6.0% in 2006, with Southern California leading the way (Source: Bureau of Economic Analysis, June 2009). GSP growth rates fell to 4.3 percent in 2007 and 2.5 percent in 2008.

Recently, the economy of California, like the rest of the nation, has suffered the worst recession since the Great Depression of the 1930s. California alone lost more than a million jobs in the course of the recession; between December 2007 and January 2010,

total employment in California fell from 17.1 million jobs to 15.9 million jobs (California Employment Development Department, March 2010). It is expected that California's unemployment rate will fall slowly from a high point of 12.8 percent in February 2010. Meanwhile, state and federal tax increases have been enacted to offset budget deficits and to fund anti-recessionary stimulus projects. According to UCLA's Anderson Forecast, following a period of weak or no growth during 2010, economic activity will begin to pick up in mid-2011 and grow at more normal levels by the end of 2011, although the state's economic growth may not generate enough jobs to drive the unemployment rate below double digits until 2012 (UCLA Anderson Forecast, March 2010).

Table 19. Six County Area Employment Trends (Total Non-Farm Jobs in Thousands)*

Year	Six County Area	California	Six County as Percent of California
1996	7,020	12,743	55.1
1997	7,237	13,130	55.1
1998	7,483	13,596	55.0
1999	7,704	13,992	55.1
2000	7,918	14,488	54.7
2001	8,015	14,602	54.9
2002	8,008	14,458	55.4
2003	8,035	14,392	55.8
2004	8,160	14,533	56.1
2005	8,311	14,801	56.1
2006	8,478	15,060	56.3
2007	8,514	15,174	56.1
2008	8,366	14,981	55.8
2009	7,837	14,079	55.7

* California Employment Development Department.

Background and Service Area Economy

Taxable sales in the Six County Area grew by 22.1% between 2002 and 2008, while consumer prices rose by 20.8%. The six

region's taxable sales rose faster than those of the state.

Table 20. Taxable Sales (Millions of Dollars)*

	2002	2005	2008	Increase: 2002-2008
Los Angeles County	\$108,753	\$130,722	\$131,882	21.27%
Orange County	\$44,869	\$55,063	\$53,607	19.47%
Riverside County	\$19,499	\$28,256	\$26,004	33.36%
San Bernardino County	\$20,850	\$29,745	\$27,778	33.23%
San Diego County	\$38,596	\$46,679	\$45,329	17.44%
Ventura County	\$9,804	\$11,909	\$11,322	15.48%
Six County Area	\$242,370	\$302,376	\$295,921	22.1%
California	\$440,950	\$536,904	\$531,654	20.57%
Consumer Price Index (1982-84 = 100.0)	186.1	202.6	224.8	20.80%

*Source: Taxable Sales – California Board of Equalization; Consumer Price Index – California Department of Industrial Relations

Reflecting the continuing stagnation of the residential housing market in Southern California, building permits declined for the fifth consecutive year in 2009 with the total value of new housing units dropping from a

peak of \$53.778 billion in 2004 to \$11.964 billion (preliminary value) in 2008 (Construction and Industry Research Board, January 2010).

Background and Service Area Economy

Population Growth

The Six County Area included 21.8 million residents as of July 2009, accounting for 57% of the state's population. Population growth slowed in recent years as a result of lower job growth and comparatively high housing prices. The region's population grew by 3.0 million residents between 1998 and 2008 despite modest job growth. However, the region's population growth rate slowed from 213,600 persons per year in 2007 to 170,400 in 2008 and rose slightly to 186,600 in 2009.

The two regional planning agencies, the Southern California Association of Governments and the San Diego Association of Governments, publish the region's official long-term growth projections. According to recent projections, the region's population will increase to 26.9 million by 2030. This represents an increase of 5.1 million residents over 2009 population levels – a growth of about 243,000 people per year.

Table 21. Population (In Thousands)*

	2001	2005	2009	2030**
Los Angeles County	9,736	10,186	10,409	12,007
Orange County	2,917	3,055	3,155	3,630
Riverside County	1,621	1,924	2,128	3,344
San Bernardino County	1,772	1,972	2,064	2,958
San Diego County	2,892	3,053	3,208	3,985
Ventura County	772	812	841	996
Total Six County Area	19,710	21,002	21,805	26,919
California	34,766	36,899	38,487	n.a.

* 2001-2009 State of California, Department of Finance, Population Estimates and Components of Change by County, July 1, 2000-2009. Sacramento, California, December 2009.

** Projected. 2008 Regional Transportation Plan, Southern California Association of Governments.

Projections prepared by the Center for the Continuing Study of the California Economy (CCSCE), based on analysis of job growth, and by the California Department of Finance also indicate continued population growth for the Six County Area.

Regional Income

The Six County Region has experienced modest income growth over the past eight years. Between 1994 and 2006, per capita personal income increased 17.0% in real terms in the Los Angeles Basin and 32.1% in San Diego County. California's per capita income increased 20.3% in real terms over the same period.

Background and Service Area Economy

Since 2000, Southern California's income growth has generally kept up with the state's long-term trends. Income growth rates in the state and nation have slowed since 2000.

Table 22 shows the regional income trends for the Los Angeles Basin, San Diego County, and California. However, real income can reasonably be expected to drop in the near term due to the current recession.

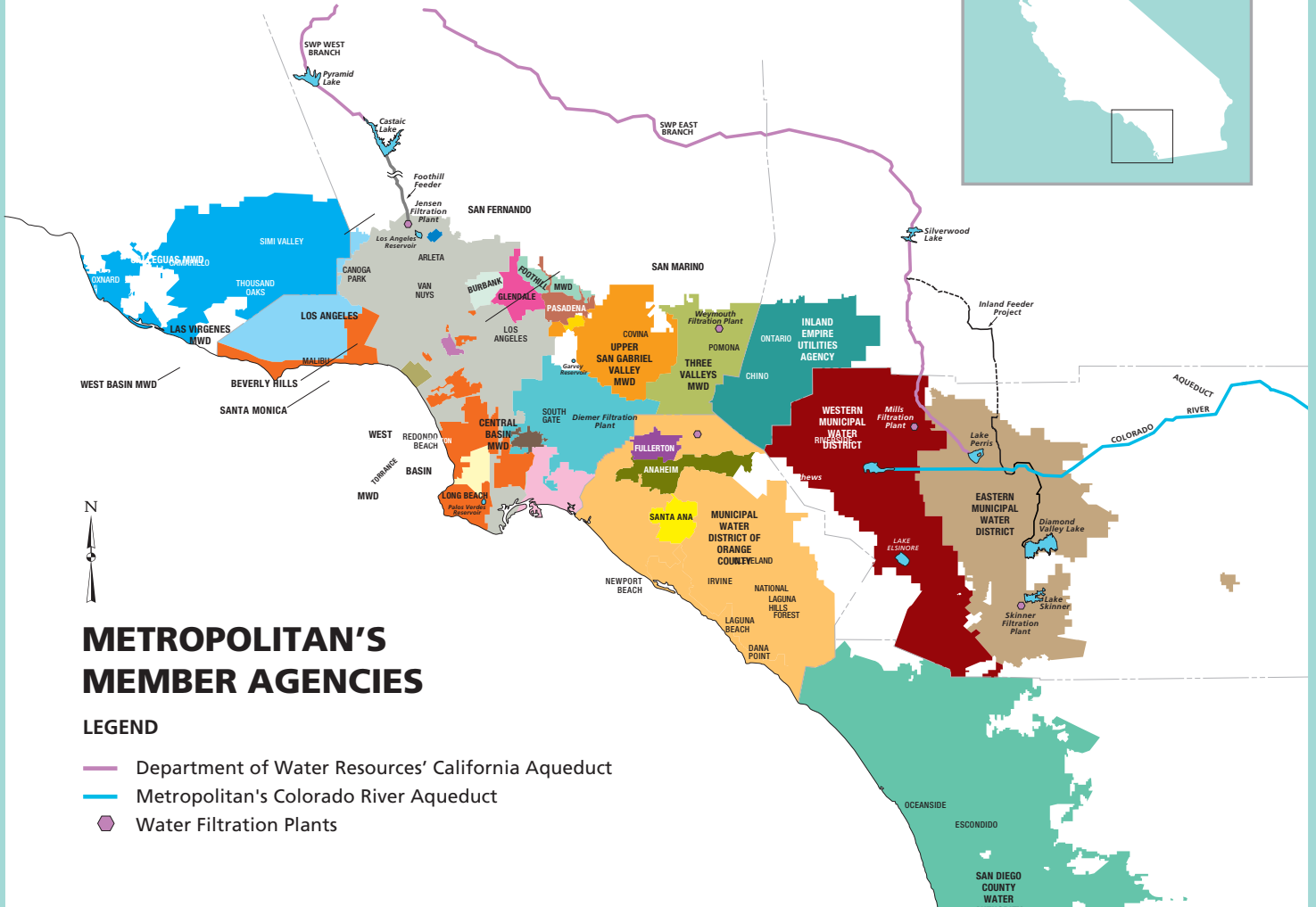
Table 22. Regional Income*

Per Capita Personal Income	(2008 \$)			1999 – 2008 Percent Change
	2000	2004	2008	
Los Angeles Basin	\$29,341	\$32,574	\$38,200	30.2%
San Diego County	\$32,665	\$37,363	\$43,180	32.2%
California	\$32,372	\$34,727	\$41,138	27.1%

Median HH Income	(2008 \$)		1999 – 2008 Percent Change
	1999	2008	
Los Angeles Basin	\$45,844	\$58,873	22.1%
San Diego County	\$47,067	\$63,026	25.3%
California	\$47,493	\$61,021	22.2%

Total Personal Income	(Billions of 2008 \$)			2000 – 2008 Percent Change
	2000	2004	2008	
Los Angeles Basin	\$487.7	\$582.6	\$712.4	46.1%
San Diego County	\$92.7	\$113.0	\$136.5	47.3%
California	\$1,103.8	\$1,266.0	\$1,569.4	42.2%

*CCSCE, California County Projections, 2009/10 Edition.

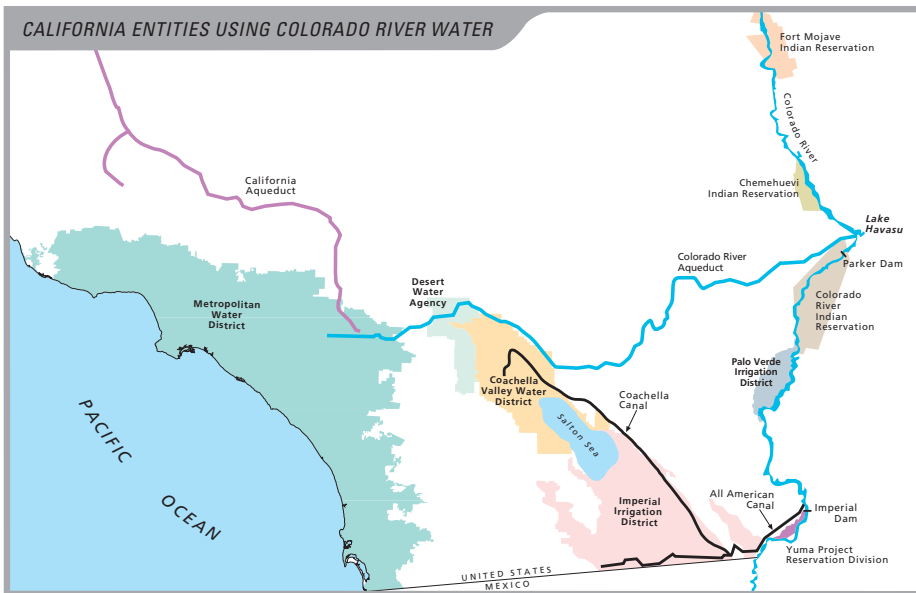


METROPOLITAN'S MEMBER AGENCIES

LEGEND

- Department of Water Resources' California Aqueduct
- Metropolitan's Colorado River Aqueduct
- Water Filtration Plants

CALIFORNIA ENTITIES USING COLORADO RIVER WATER



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PRO-FORMA STATEMENT OF OPERATIONS (ACCRUAL BASIS)

Metropolitan operates as a utility enterprise and prepares its basic financial statements using the accrual basis of accounting. Accrual basis accounting records revenues and expenses in the period they are earned and incurred regardless of whether cash has been received or disbursed. However, as is typical for a government utility, the water rates and charges are based on the cash needs approach and therefore the annual revenue requirements and budget are prepared on a cash basis. Table 23 provides the Comparative Statement of Operations. This pro-forma statement of operations is provided as additional information.

Operating revenues for fiscal year 2010/11 are estimated to be \$1,511.6 million, an increase of \$224.5 million from 2009/10 Budget. This estimate is based on water sales of 1.93 MAF during the July through June period. Water sales¹ revenue is budgeted to be \$1,226.3 million. The RTS charge is \$119.5 million. Income from the capacity charge is estimated to be \$34.4 million. Hydroelectric power and other income is estimated to be \$56.1 million.

Operating expenses are budgeted to be \$1,044.6 million. This is \$37.2 million less than the 2009/10 Budget. Cost of water delivered (COWD) is budgeted to be \$456.0 million, or \$40.2 million more than the 2009/10 Budget. COWD reflects the moving average cost of water delivered from water in inventory. It is based on the power costs to pump water from the Colorado River and SWP, and O&M on the SWP.

O&M costs are budgeted to be \$370.2 million. This is \$9.2 million less than budgeted expenditures for 2009/10.

Net income of \$281.3 million will be used to fund principal payments on outstanding debt, pay a portion of the SWC capital costs, fund the PAYG construction program, and fund equipment purchases and reserve adjustments.

¹ Water sales include exchange/wheeling sales.

Appendix 1 – Pro-Forma Statement of Operations

Table 23. Comparative Statements of Operations – Accrual Basis (dollars in millions)

Table 23. Comparative Statements of Operations - Accrual Basis (dollars in millions)

	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change			
				2010/11 2009/10 Budget	%	2010/11 2009/10 Projected	%
Operating Revenues							
Water Sales (1)	1,117.9	1,010.9	1,226.3	108.4	9.7%	215.4	21.3%
Readiness -to-Serve	103.0	103.0	124.5	21.5	20.9%	21.5	20.9%
Capacity Charge	33.3	33.4	34.9	1.6	4.8%	1.5	4.4%
Hydroelectric Power	24.1	18.3	22.4	(1.7)	-7.1%	4.1	22.5%
Miscellaneous Revenue	8.8	-	19.2	10.4	118.2%	19.2	na
Total Operating Revenues	1,287.1	1,165.6	1,427.3	140.2	10.9%	261.7	22.5%
Operating Expenses							
Operations & Maintenance (2)	379.4	342.4	370.2	(9.2)	-2.4%	27.8	8.1%
Cost of Water Delivered	415.8	430.4	456.0	40.2	9.7%	25.6	6.0%
Water Management Programs, Net	59.8	56.0	58.2	(1.6)	-2.7%	2.2	3.9%
Depreciation & Amortization	226.8	246.4	253.1	26.3	11.6%	6.7	2.7%
Total Operating Expenses	1,081.8	1,075.2	1,137.5	55.7	5.1%	62.3	5.8%
Operating Income	205.3	90.4	289.8	84.5	41.2%	199.4	220.6%
Operating Income (Expense)							
Taxes & Annexations	91.4	98.1	81.8	(9.6)	-10.5%	(16.3)	-16.6%
Interest Income	34.2	38.0	36.0	1.8	5.3%	(2.0)	-5.2%
Bond Interest Expense	(121.7)	(135.4)	(129.8)	(8.1)	6.7%	5.6	-4.1%
Miscellaneous Income (Expense)	(0.4)	3.0	3.5	3.9	-975.0%	0.5	16.7%
Total Other Income - Net	3.5	3.7	(8.5)	(12.0)	-342.9%	(12.2)	-329.3%
Net Income	208.8	94.1	281.3	72.5	34.7%	187.2	199.0%
Water Sales MAF)	1.92	1.78	1.92	-	0.0%	0.1	7.8%

(1) Includes Exchange/Wheeling sales.

(2) Includes OPEB, Insurance accrual for 3rd party claims and O&M component of Debt Service.

The following is the Executive Summary of the FY 2010/11 General Manager’s Business Plan and provides the key strategies and objectives to be implemented over the next fiscal year. Metropolitan is committed to implement these strategies and objectives to ensure meeting the mission to provide its service area with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way. With dedicated effort and collaboration, Metropolitan will continue to meet long-term challenges of a growing population within the service area, increased competition for low-cost water supplies, variable weather conditions, and increased environmental regulations through an updated Integrated Resources Plan, which will be completed in FY 2010/11. Key areas of focus for FY 2010/11 have been identified and include the following seven strategic priorities:

- *Water Supply Reliability*
- *Bay-Delta Solutions*
- *Financial Strength and Capabilities*
- *Science and Technology Development*
- *Energy Management*
- *High Performance Workplace*
- *Communications*

The strategic priority on Science and Technology Development has been added this year to highlight Metropolitan’s ongoing commitment to reliability now and in the future. Science and Technology Development is one of the key areas of focus for the Blue Ribbon Committee (BRC), which was commissioned by the Board to facilitate development of a new business model and strategies for the future by providing insight into the global, natural, economic, and demographic changes that our service area will encounter in the future. As recommendations are presented by the BRC and approved to move forward, specific objectives may be added or revised in the business plan during the year.

Metropolitan will also continue to work on core business activities, which include managing water supply, maintaining system reliability, achieving milestones on capital investment plan projects, maintaining water quality, legislative and community relations, human resources excellence, real property management, business processes, and financial management. The detailed Business Plan containing specific actions is available through the Board Executive Secretary’s office or Metropolitan’s website www.mwdh2o.com.

Strategic Priorities

Water Supply Reliability

Metropolitan will continue to develop and implement proactive plans to provide a high degree of water supply reliability for its service area. This year, the completion of the Integrated Resources Plan (IRP) Update will set the direction for the development of objectives, resource targets, and implementation strategies and programs to manage emerging trends and challenges, including climate change and tightening water quality regulations through 2035. Other major deliverables include developing a long-term conservation strategy to help the region meet legislated water use reduction goals, also known as the “20 percent reduction by 2020” goal; and release of Metropolitan’s 2010 Regional Urban Water Management Plan demonstrating the region’s supply capabilities over the next 20 years.

Bay-Delta Solutions

Continuing an aggressive pursuit of near- and long-term Bay-Delta solutions in FY 2010/11 will ensure a greater degree of water supply reliability for Metropolitan’s SWP supplies. Metropolitan will partner with key parties and complete the Bay-Delta Conservation Plan and draft Environmental Impact

Report/Environmental Impact Statement for the Delta Habitat Conservation and Conveyance Program. Staff will also work with resource and regulatory agencies to resolve issues related to the Two-Gates Fish Protection Demonstration Project. Additionally, staff will continue to work with the Department of Water Resources and United States Army Corps of Engineers, and Reclamation Districts to ensure Delta emergency response measures are completed, especially with expedited actions to strengthen levees along the Middle River Pathway.

Financial Strength and Capabilities

This year, Metropolitan will implement the board-adopted two-year water rate structure effective January 2011 and 2012 as well as initiate conversion to a two-year budget cycle. Metropolitan will also work with the member agencies and the Board on the update to the Long Range Finance Plan. This will address Metropolitan's future capital and operating decisions in terms of finance and provide a road map for Metropolitan to ensure its cost-effective access to capital markets and its ability to finance ongoing future needs such as critical infrastructure and supply investments. Staff will continue to actively manage Metropolitan's short-term investment portfolio to meet ongoing liquidity and investment challenges. Metropolitan will also participate in the review and analysis of proposed changes to pension accounting rules under the Governmental Accounting Standards Board to help mitigate potential impacts on bonding capacity or financial ratios.

Science and Technology Development

Leveraging technological advancements is essential for an organization to remain successful over the long term. Metropolitan has a long history of developing and employing key technological developments, particularly in the areas of water quality and treatment. To meet the business challenges of the future, Metropolitan needs to continue to take a strong leadership role in technological advancements and will focus in the following areas: water treatment and monitoring, energy, water conservation, information, infrastructure assessment, and rehabilitation technology. These areas have the greatest potential to manage and reduce Metropolitan's operational and infrastructure costs as well as provide business process efficiency and the ability to achieve greater levels of conservation. To enhance technology development, Metropolitan will forge greater partnerships with businesses as well as federal and state departments, and collaborate more with universities and research organizations. Major deliverables include: developing robust analytical methods for pharmaceuticals and personal care products, continuing efforts on unified communication technology, monitoring new developments and identifying opportunities to integrate energy technologies, developing non-destructive internal pipeline monitoring system, and identifying emerging technologies that increase water use efficiency.

Energy Management

Metropolitan's draft Energy Management & Reliability Study was distributed to the Board in January 2010, and staff will continue efforts to finalize those policies for adoption. Staff will seek partnerships and aggressively pursue funding opportunities to continue to implement energy projects. Additionally, Metropolitan will pursue renewal of the Hoover power contract through congressional legislation.

High Performance Workplace

This year's focus will be to continue ensuring that management and human resources practices align with a high performance workplace that delivers outstanding value and cost-effective solutions to our stakeholders. Emphasis will be on deploying effective workforce planning, designing and embedding improved performance management processes to foster high performance standards, and creating succession pipelines to ensure staff readiness to support Metropolitan's future work requirements. Key deliverables that support this strategy include revamping the performance management system and total

compensation practices, utilizing Voices 2009 High Performance Workplace Survey feedback to make improvements prior to the rollout of Voices 2011 Survey, strengthening positive labor relations to align long-term contract agreements to support high performance and cost-effective management, and continued management forums focused on strategic alignment and management excellence.

Communications

Metropolitan will continue to ensure consistent, clear communications – internally and externally – about its operations, policies, and programs. This will be achieved through multiple communication efforts including public education and outreach, advertising programs, and strategic development and management of media and other public information programs. Staff will also develop and expand support for Metropolitan efforts by the labor, business, and environmental communities, and other stakeholders and the general public, while also working to increase overall awareness, knowledge, and understanding of water issues and solutions.

Core Business Objectives

Water Supply

With the Five-Year Supply Plan in place, Metropolitan will continue to implement short-term actions to augment water supply and demand management to help meet year-to-year challenges. For the long term, Metropolitan will aggressively manage and execute strategies and programs to acquire water supply and implement demand management measures to meet development targets specified by the IRP. This will involve development of annual implementation plans and recommendations for the use of water supply programs under the Water Surplus and Drought Management Plan (WSDM) to address resource and operational objectives. Specific deliverables will also include achieving targeted conservation within budget, managing supply and demands according to the board-approved WSDM, completion of new contracts and/or agreements for new water supply, and effective implementation of the Water Supply Allocation Plan with recommended adjustments for consideration by the Board based on a 12-month review to be completed during the year. Additionally, Metropolitan will continue to operate treatment of contaminated groundwater at the Los Angeles Department of Water and Power's Tujunga Well Field. The operation of the new treatment will add 12 to 18 thousand acre-feet per year of previously unavailable supplies to the region. During the fiscal year, Metropolitan will transition the operation of the facility to Los Angeles Department of Water and Power.

System Reliability

Metropolitan will continue to ensure the capability to deliver and treat supplies from all sources of water available to Metropolitan. This will be achieved with the scheduling and delivery of SWP and Colorado River deliveries and water from water banking and exchange programs as well as the acquisition and management of energy required for the CRA. Metropolitan will conduct maintenance and operation activities to ensure distribution system operational functionality and reliability, including 8-pump readiness for the pumping plants and 8-pump flow capacity for the CRA. System maintenance will be performed in a manner that provides the least impact to member agencies while ensuring effective water and power operations through proficient planning and scheduling of shutdowns and facility outages. This year, a total of 14 shutdowns – including major shutdowns for the CRA, Lake Mathews Outlet Tower, and others – are planned for infrastructure repairs and upgrades in close coordination with member agencies.

Emergency management capabilities will continue to be improved through focused training and the effort to upgrade the two-way radio system and the machine and fabrication shops. Tracking systems will be developed and the International Standardization Organization Best Management Practices will be incorporated to ensure compliance with Environmental Health and Safety (EHS) regulations.

Metropolitan will also continue to provide EHS training to ensure safe work practices and adherence to environmental and workplace health and safety regulations, while also implementing an EHS scorecard to track facility performance, and provide feedback for any program modifications.

Capital Investment Plan

In response to challenging financial conditions that continue in the new fiscal year, over \$65 million in CIP expenditures were deferred. Proposed projects for renewable energy, land development, and automation, as well as demand driven projects such as the Mills Capacity Upgrade and the long-suffering San Diego Pipeline 6 have all been deferred. Additionally, several initial studies to investigate a variety of infrastructure replacement and refurbishment projects were deferred. This effort relied heavily on the annual CIP process, in which each year all new and existing projects are evaluated against an objective set of criteria in order to be prioritized in accordance with Metropolitan's goals of Reliability and Water Quality. Projects are also categorized by the service functions that are the foundation of Metropolitan's cost-of-service including source of supply, conveyance, storage, treatment, distribution, and general. The net result of this analysis is a FY 2010/11 CIP budget of just under \$260 million, the lowest capital budget since FY 2002/03.

With the completion of the Inland Feeder-Arrowhead Tunnels project in 2009, the focus of the CIP will undergo a significant shift to the area of infrastructure reliability. Planned expenditures on infrastructure will be coupled with ongoing construction on new ozonation facilities at the Diemer and Weymouth treatment plants, accounting for nearly 85 percent of the FY 2010/11 capital budget. Over \$140 million are planned to be spent on infrastructure related projects including the completion of electrical and power system upgrades at the Weymouth and Diemer water treatment plants, the north access road at the Diemer plant, the chemical tank farm, domestic and fire water system upgrades, and inlet conduit relocation at Weymouth, and continuing efforts to refurbish and upgrade various facilities on the aging CRA. Infrastructure expenditures are expected to grow annually as more facilities reach the end of their service life.

Water Quality

Metropolitan will continue to develop and implement comprehensive programs that protect source water quality, manage water treatment processes, and prepare for future regulations to ensure delivery of water that meets or is better than all water quality regulations and objectives. This effort will be achieved by expansion of source water monitoring of pharmaceuticals and personal care products, clean-up and protection of source waters, pursuing funding opportunities to support alternative treatment technology projects, ongoing quagga mussel control, and studies on emerging contaminants as listed in the Contaminant Candidate List 3. Metropolitan will also prepare the 2011 update to the Colorado River Watershed Sanitary Survey and continue to conduct water quality monitoring, regulatory reporting, and treatment optimization to ensure 100 percent compliance with primary drinking water standards.

Legislative and Community Relations

Metropolitan will continue to develop federal and state legislative strategies consistent with board-adopted policy principles. This will include continued implementation of the board-adopted legislative strategy for 2010, which includes legislation on water conservation, Bay-Delta policies including governance, and continued progress on stakeholder and legislative acceptance of a Bay-Delta solution. Metropolitan will also continue to build relationships with federal, state and local elected officials as well as business and community leaders, and heighten public awareness on water issues, solutions, and conservation.

Human Resources Excellence

Human Resource processes, policies and practices must provide excellent results across many stakeholder groups. This means understanding the different and even competing needs of stakeholders including prospective and current employees, a growing pool of retirees as well as management and regulatory agencies. This year, specific improvements to HR systems and processes to support these groups in a flexible, responsive and cost-effective manner will include developing and implementing the Workforce Planning/Talent Management Framework to proactively identify and fill future labor resource requirements; expanding web-based capabilities for sourcing and recruiting new talent while also broadening diversity outreach efforts; optimizing Human Resources Information Systems and investing in e-learning training solutions that reduce time away from the job as well as expanding cost-effective, just-in-time workforce access to learning and development opportunities. Additional initiatives will improve consistent application of HR policies and practices, align and integrate total compensation, speed up dispute resolution, and realign and optimize the staffing of the HR organization to further enhance HR customer service and support. Key deliverables include implementing effective succession management processes to ensure filling of critical Metropolitan positions; completion of a Total Compensation Plan to ensure Metropolitan can sustain a talented workforce as changing demographics and values increasingly impact our productivity and competitiveness; and introduction of streamlined methods for useful, cost-effective and flexible job evaluations.

Real Property Management

Enhancing revenue generation through real property assets will continue to be an area of emphasis. Staff will be balancing this emphasis with a continuing commitment to core responsibilities that include initiatives in sustainability right-of-way acquisition and protection, and facility services at Metropolitan's Headquarters Building (HQ), while making improvements related to all of these processes and services. Major deliverables will include maintaining Leadership in Energy and Environmental Design certification for HQ and short-term revenue-enhancing activities focusing on HQ, telecommunications, and right-of-way leases as well as film permits. It will also include securing a long-term marina operator and a recreational vehicle park developer at DVL in an effort to generate revenue and reduce costs. Parallel long-term revenue activities will include pursuing a DVL land plan that is comprised of a clean technology and renewable energy hub. Finally, staff will continue to assess and, where appropriate, market Metropolitan's property holdings that hold promise for future revenues through compatible third party use.

Business Processes

Balancing cost constraints and the highest levels of value for services and products require Metropolitan to continuously assess how it does business, identify best industry practices, and streamline key business processes. An important element of streamlining business processes will be to strategically leverage technology investments. To that end, Metropolitan will begin implementing the newly Updated IT Strategic Plan, which serves as a road map guiding investment and deployment of information technology in the light of business requirements, the need for prudent financial management, and the advent of new technologies. Metropolitan will also implement a new electronic discovery system to streamline managing, cataloging, storing, and retrieving electronically-stored information that are essential for litigation and Public Records Act requests. Other business process improvements will include streamlining the Rideshare transit reimbursement process and fully implementing the new Online Manual System for technical documentation of future water treatment and distribution system operating guidelines.

The organization will also continue to incorporate sustainability into its day-to-day business processes occurring at all levels, for instance, from the use of green products and maintaining a 50 percent reduction in office paper consumption under the Paperwise Program, to ongoing employee education through the regularly published sustainability e-newsletter and annual Spring Green Expo.

Metropolitan's Business Outreach Program for regional, small businesses and veterans will continue to ensure broad participation, competitive costs, and promotion of Southern California business and economic development. This will be achieved by meeting or exceeding the Board's goal of 18 percent of contracting dollars with certified small businesses. Under this program, staff will also continue to facilitate and stimulate economic growth through the development and implementation of strategic partnerships with the private sector, community, local, and national organizations.

Financial Management

In an unprecedented year, Metropolitan will initiate conversion to a two-year budget cycle starting with FY 2010/11 based on a board-approved two-year rate structure to better align the budget and rate-setting process for better rate and cost certainty. Staff will also continue to record and report financial activity in a timely and transparent manner to the Board and member agencies. In light of ongoing pressures on water rates and financial reserves, cost management will remain a key priority. This will involve effectively managing expenditures, promoting informed fiscal policy decisions, and better integrating performance measurement. One area of focus will include enhancements to the Integrated Budget Management System to improve process efficiency and financial reporting tools. Staff will also continue to maintain internal financial controls as evident by favorable audit findings and facilitated by regular internal assessments to help ensure the highest level of financial integrity.

Appendix 2 – Business Plan and Performance Measures

STRATEGIC PRIORITIES

Business Plan Priority	Performance Measurement	FY 2009-10 Current Performance	FY 2010-11 Target Performance
Water Supply Reliability	Track progress on an updated IRP that ensures reliability for 20 years and incorporates climate change impacts.	94%	≥ 90%
Bay-Delta Solutions	Progress in maintaining the completion schedule for the Delta Habitat Conservation Plan that protects endangered species, and governs Delta operations and progress toward achieving Delta solutions.	91%	≥ 90%
Financial Strengths and Capabilities	Maintain or enhance Metropolitan's current bond rating.	Moody's – Aa1 S&P – AAA Fitch – AAA	≥ "AA" or Aa2
	Maintain reserve balances within Board policy objectives.	\$299.7M	> \$232M and < \$565M
Science & Technology	Completion of major milestones per Board direction.	New	TBD
	Successful completion of the Innovative Conservation Program.	New	TBD
Energy Management	Board adoption of Energy Management Policies.	New	TBD
	Completion of major milestones per Board direction.	New	TBD
High Performance Workplace	Completion of labor negotiations.	Negotiations remain open	December 2010
	Ratings on High Performance Workplace Survey	63% Favorable	> 63%
Communications	Percent of critical positions with development pipelines in place.	-	TBD
	Increase public and media awareness.	-	TBD

Appendix 2 – Business Plan and Performance Measures

CORE BUSINESS PRIORITIES

Business Plan Priority	Performance Measurement	FY 2007-08 Current Performance (thru May 2009)	FY 2008-09 Target Performance
Legislative and Community Relations	Implement legislative strategy.	78%	TBD
	Education awareness and customer satisfaction.	New	TBD
	Monitor member agencies service satisfaction index.	54%	≥ 80% (Rating of 4 or better on surveys.)
Water Supply	Implement Five-Year Water Supply Plan	New	TBD
	Track progress in identifying projects and programs eligible to meet IRP targets to maintain supply reliability and system capacity.	111%	100%
System Reliability	Unplanned outages resulting in disruption of service.	0	0
	Meet all scheduled water deliveries.	100%	100%
Capital Investment Plan	Implement CIP within construction schedule.	96% (YTD through December 2009)	≥ 95%
Water Quality	Compliance with primary drinking water quality standards.	100%	100%
	Manage total dissolved solids (TDS) within Board goals.	566 mg / l	≤ 500 mg / l

Appendix 2 – Business Plan and Performance Measures

CORE BUSINESS PRIORITIES

Business Plan Priority	Performance Measurement	FY 2007-08 Current Performance (thru May 2009)	FY 2008-09 Target Performance
Human Resources Excellence	HR Customer Satisfaction.	-	TBD
	Establish and meet expectations set by the Organization and Personnel Committee.	New	TBD
Real Property Management	Leases negotiated at or above Fair Market Value (FMV).	New	TBD% > FMV
	Lease revenue generated at, above, or below FMV.	New	TBD
	Total revenue generated from all real property activities excluding water system operations.	New	TBD
Business Processes	Manage actual departmental O&M expenditures within the approved budget.	105.3 %	≤ 100 %
Financial Management	Maintain strong debt service coverage ratio.	1.66	≥ 2.0
	Maintain strong fixed charge coverage ratio.	1.14	≥ 1.2
	Assess the quality of accounting processes and controls as evidenced by the number of significant external audit findings.	0	0

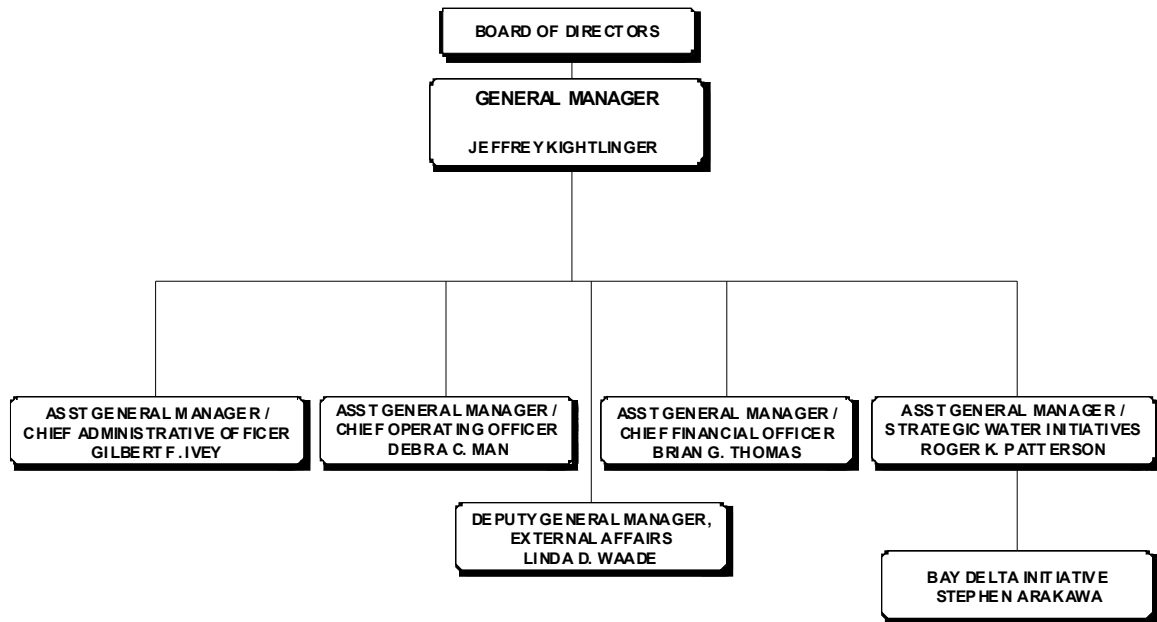
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Office of the General Manager

MISSION, ROLES, AND RESPONSIBILITIES

The Office of the General Manager is responsible for the management and administration of all Metropolitan activities except those functions specifically delegated by statutes and Board order to the General Counsel, General Auditor, or Ethics Officer. This includes the management of all matters

pertaining to the business of the Board and research on actions and policies of the Board by staff for directors, member agencies, and the public. The General Manager's Business Plan outlines the strategies that this office will use to accomplish the priorities, both strategic and core, identified.

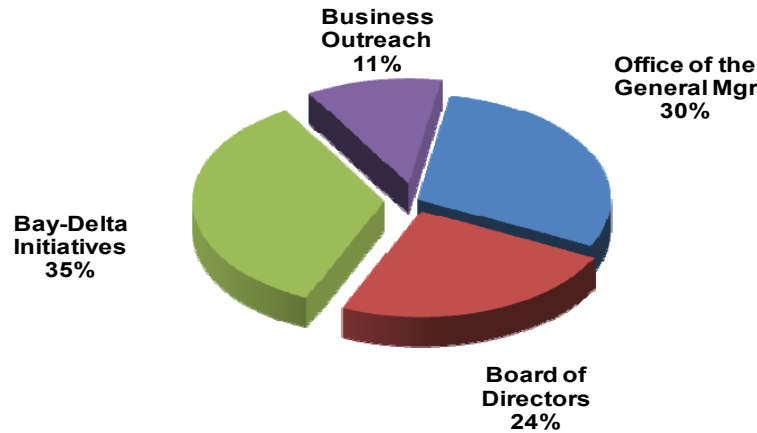


Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	8,931,900	7,844,400	7,970,100	11,401,400	3,431,300	3,557,000
% Change	—	—	—	—	43.1%	45.3%
Capital	(2,400)	0	0	0	0	0
% Change	—	—	—	—	0.0%	0.0%
Totals	8,929,500	7,844,400	7,970,100	11,401,400	3,431,300	3,557,000
% Change	—	—	—	—	43.1%	45.3%
Regular	36	33	32	45	13	12
Temporary	0	0	0	1	1	1
Total Personnel	36	33	32	46	14	13

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$11.4 Million**



2009/10 ACCOMPLISHMENTS

Board of Directors

Conducted 63 director sponsored inspection trips with approximately 2,500 participants.

Maintained open communication and accessibility between directors and executive staff.

Provided ongoing support for committee chairs and vice chairs, maintaining the high level of effectiveness of Board committees.

Business Outreach

Partnered with internal and external groups to integrate shared systems and developed new technologies to streamline processes, including a new On-line Contract Compliance and Accountability Program.

Maintained an effective Business Outreach Program for small, locally owned, disabled veterans, women, minorities and economically disadvantaged business enterprises to ensure broad participation and competitive costs.

BUDGET ISSUES AND CONSTRAINTS

The Office of the General Manager is taking steps to reduce Metropolitan’s O&M costs by reducing the amount of sponsorships provided as well as reducing participation in events. The impact of these reductions reduces Metropolitan’s visibility, resulting in less promotion of Metropolitan issues, less opportunity for building business relationships, and providing less support for external water-related events, programs, and partnerships. These actions risk reduced awareness of Metropolitan’s priorities on the part of key constituencies making it more difficult to advance water policy initiatives and issues.

The Bay/Delta Initiatives Program organization was centralized in the Office of the General Manager to increase effectiveness and efficiency. It has a dedicated staff and resources dedicated to fully support Metropolitan’s efforts related to the Sacramento – San Joaquin Bay Delta. Although the addition of the Bay/Delta Initiatives Program added almost \$4 million to the Office of the General Manager's budget, this does not reflect an increase in Metropolitan’s

overall budget since funding was transferred from other organizations. In addition, the budget management strategies described above mitigated some of that increase.

2010/11 OBJECTIVES

The Office of the General Manager will provide overall leadership and management of Metropolitan's mission. Ensuring that Metropolitan's activities recognize and balance sustainable water resource management practices in advancing the mission continues to be a priority. The General Manager's Business Plan outlines the strategic and core priorities along with the strategies and initiatives employed to support the mission, including:

Water Supply Reliability

Continue to develop and implement plans to provide a high degree of water supply reliability to Metropolitan's service area. Completion of the Integrated Resources Plan Update will set the direction for the development of objectives, resource targets, and implementation strategies.

Bay-Delta Solutions

Continue pursuit of near- and long-term Bay-Delta solutions to ensure a greater degree of water supply reliability for Metropolitan's State Water Project supplies. Partner with key parties and complete the Bay Delta Conservation Plan and draft Environmental Impact Report / Environmental Impact Statement for the Delta Habitat Conservation and Conveyance Program.

Financial Strength and Capabilities

Update financial policies as necessary to meet the Board's objectives. Ensure that Metropolitan continues to have access to capital markets at cost-effective rates. Manage costs to ensure reliable, quality water service at reasonable rates.

Science and Technology Development

Continue to take a leadership role in technological advancements and focus particularly in water treatment and monitoring, energy, water conservation, information

technology, infrastructure assessment, and reliability technology.

Energy Management

Continue efforts to finalize those policies for adoption as described in the draft Energy Management and Reliability Study. Seek partnerships and aggressively pursue funding opportunities to continue to implement energy projects.

High Performance Workforce

Provide the workforce with career development and technical training opportunities and tools, including application of advanced technologies, to continually improve workforce skills, competencies, and productivity to improve services to member agencies and other customers.

Communications

Continue to ensure consistent, clear communications – internally and externally – about its operations, policies and programs.

Water Supply

Continue to implement short-term actions to augment water supply and demand management to help meet year-to-year challenges. For the long term, Metropolitan will aggressively manage and execute strategies and programs to acquire water supply and implement demand management measures to meet development targets specified in the Integrated Resources Plan.

System Reliability

Continue to ensure the capability to deliver and treat supplies from all sources of water available to Metropolitan.

Capital Investment Plan (CIP)

Implement Board-approved CIP to ensure the quality and reliability of the region's water supply and infrastructure.

Water Quality

Develop and implement comprehensive programs to ensure Metropolitan delivers water that meets or is better than all water quality regulations and objectives.

Legislative and Community Relations

Provide leadership and proactively address local, statewide, and national issues to ensure water policy changes meet regional objectives and coordinate legislative activities with member agencies. Develop and maintain effective working relationships with other public entities, water agencies, business and community partners, and the media to advance Metropolitan’s mission.

Human Resources Excellence

Optimize use of Human Resources Information Systems and invest in e-learning training solutions to increase learning and development opportunities. Implement effective processes to ensure filling of critical positions and develop cost-effective and flexible performance management tools.

Real Property Management

Maintain and improve Metropolitan’s real property assets and facilities in a condition needed to support future demands, operational challenges, and business needs. Continue to enhance revenue generation through real property assets.

Business Processes

Implement business process improvements to increase organizational effectiveness and manage the organization to achieve budget objectives.

Business Outreach

Continue to ensure broad participation, competitive costs, and promotion of Southern California business and economic development. This will be achieved by meeting or exceeding the Board's goal of 18 percent of contracting dollars with certified small businesses.

Financial Management

Continue to record and report financial activity in a timely and transparent manner. Effectively manage expenditures, promote informed fiscal policy decisions, and maintain internal financial controls.

Performance Measures Summary – GM Business Plan

Performance Measure	Measurement Intent	FY 08/09 Performance	FY 09/10 Performance	FY 10/11 Target
Five-Year Water Supply Plan	Ensure Metropolitan has water supplies available in accordance with the Five Year Supply Plan.	100% - plan completed.	350 TAF	350 TAF
IRP Update Milestones	Monitor progress of IRP implementation goals.	82%	94%	90%
Near- and Long-term Delta Solutions	Monitor progress toward implementation of solutions to problems in the Bay-Delta.	-	91%	90%
Credit Rating	Enable Metropolitan to access capital markets at the lowest borrowing cost.	Moody's – Aa2 S&P – AA+ Fitch – AA+	Moody's – Aa1 S&P – AAA Fitch – AAA	AA, Aa2 or better
Maintain Reserve Balances	Ensure financial strength by managing reserves to within Board-established policy.	\$325.2 M	\$299.7 M	≥ \$231.7 M and ≤ \$565.3 M
Innovative Conservation Program contracts	Ensure successful completion of contracts in support of advanced conservation methods.	-	New measure	TBD
Board Adoption of Energy Management Policies	Establish and manage a strategic direction for energy resources critical to Metropolitan's mission.	New measure	Policy adopted	TBD
Energy Management Policy	Measure progress toward implementation of Board-approved policy	-	New measure	TBD
Strategic Power and Carbon Reduction Milestones	Establish and manage a strategic direction that balances energy use and sustainability priorities.	New measure	-	TBD
Completion of Labor Negotiations	Achieve certainty and fairness with regard to employee bargaining unit agreements.	New measure	Negotiations in progress	Ratification of MOUs
High Performance Workplace	Assess workplace climate as a means of identifying potential improvements.	-	63% favorable	Improvement
Critical Positions with Development Pipelines	Ensure that positions critical to Metropolitan have "development pipelines" in place thereby Ensuring employees have required skills to effectively perform critical work.	-	New measure	TBD
Public and Media Awareness	Monitor awareness of critical water issues to gauge effectiveness of outreach efforts.	-	-	TBD
Implement Legislative Strategy	Measure passage of Metropolitan-supported legislation as a measure of the effectiveness of efforts in support of water policy issues.	100%	78%	≥60%

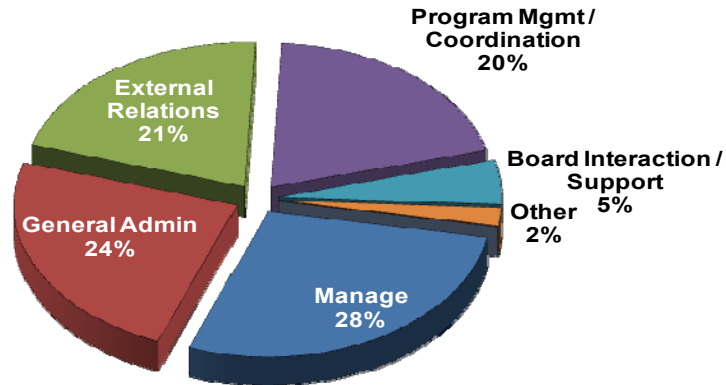
Office of the General Manager

Performance Measure	Measurement Intent	FY 08/09 Performance	FY 09/10 Performance	FY 10/11 Target
Education Outreach	Monitor effectiveness of education programs.	-	New measure	TBD
Member Agency Service Satisfaction	Monitor Member Agency Service Level Satisfaction Index as an indicator of value of Metropolitan services to our customers	50.8%	54%	≥ 80% (rating of “5” or better)
Unplanned Outages	Monitor water system maintenance and operations reliability.	0	0	0
Meet All Scheduled Water Deliveries	Monitor reliability of water delivery as an indicator of effectiveness of maintenance activities and replacement and improvement projects.	100%	100%	100%
Implement CIP Construction Schedule	Monitor the adherence to schedule of capital projects in construction to ensure the timely implementation of the CIP.	93%	97%	≥ 95%
Compliance with Drinking Water Standards	Ensure that all state, federal, and local water quality standards are met or exceeded.	100%	100%	100%
Total Dissolved Solids (TDS) mg/l	Monitor water quality compliance with the Board of Directors’ salinity goals.	557 mg/l	566 mg/l	≤ 500 mg/l
HR Customer Satisfaction	Ensure quality services to efficiently meet the business needs of Metropolitan.	New measure	-	TBD pending HR Audit
Meet HR Milestones	Monitor implementation of improvement initiatives as directed by the Board.	New measure	-	TBD
Key HR Processes with Improvement	Monitor effect of improvement initiatives on HR processes and services.	New measure	-	TBD
Compliance with Leased Property Agreements	Monitor timeliness of rent payments relative to requirements of the lease agreement.	96%	93%	100%
Leases Negotiated at or above FMV	Monitor number of existing and new leases negotiated at or above Fair Market Value (FMV).	-	New measure	TBD
Revenue Generated from Real Property Activities	Track revenue generated from all real property activities including but not limited to permits, leases, easements, or other use fees.	-	New measure	TBD
Compliance with Environmental Permit Requirements	Measurement of timeliness and adequate planning and response to activities associated with permits and compliance issues from outside agencies.	97.5%	96.5%	100%

Office of the General Manager

Performance Measure	Measurement Intent	FY 08/09 Performance	FY 09/10 Performance	FY 10/11 Target
Departmental O&M Budget Performance	Demonstrate financial control and accountability.	104.8%	103.1%	≤ 100%
Revenue Bond Debt Service Coverage (cash basis)	Communicate financial strength and responsibility to investors and capital market. Primary indicator of credit quality and initial indicator of Metropolitan's ability to make debt service payments.	1.52	1.66	> 2.0
Fixed Charge Coverage	Demonstrate sufficiency of revenues to cover fixed charges.	1.08	1.14	≥ 1.2
Significant External Audit Findings	Assess the quality of accounting processes and controls.	1	0	0

**Major Activity Distribution
2010/11 Budget
\$11.4 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	7,125,900	6,191,100	6,429,800	8,573,900
Professional Services	40,500	280,000	295,000	1,326,000
Other	0	0	0	0
Travel Expenses	1,070,800	775,000	820,000	1,069,100
Conferences & Meetings	123,500	190,500	240,500	239,000
Materials & Supplies	69,300	87,500	90,000	85,500
Other Accounts	478,100	291,500	94,800	107,900
Totals	8,908,100	7,815,600	7,970,100	11,401,400
% Change	—	(12.3%)	2.0%	43.1%
Operating Equipment	23,800	28,800	0	0
Total O&M and Operating Equipment	8,931,900	7,844,400	7,970,100	11,401,400
% Change	—	(12.2%)	1.6%	43.1%
Regular	36	33	32	45
Temporary	0	0	0	1
Total Personnel	36	33	32	46

Note – Totals may not foot due to rounding.

Capital Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	22,200	0	0	0
Professional Services	(24,700)	0	0	0
Construction	0	0	0	0
Totals	(2,500)	0	0	0
% Change	—	(100.0%)	0.0%	0.0%
Regular	0	0	0	0
Temporary	0	0	0	0
Total Personnel	0	0	0	0

Note – Totals may not foot due to rounding.

Capital Expenditure Plan

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Diamond Valley Lake Property Transformation	(24,700)	0	0	0
Information Technology System - Business, Finance and HR	22,200	0	0	0
Totals	(2,500)	0	0	0
% Change	—	(100.0%)	0.0%	0.0%
Personnel	0	0	0	0

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

O&M

Salaries and Benefits – Reflects the creation of a Bay-Delta Initiatives organization with accompanying staff (14 regular and 1 District temporary employees) as well as merit and benefit cost increases.

Professional Services – Reflects efforts in support of Bay-Delta initiatives.

Travel Expenses – Reflects increase in travel to respond to and promote key initiatives, notably those related to the Bay-Delta and Colorado River supplies.

Conferences and Meetings – Reflects additional participation in conferences and meetings in support of the Board.

Other – Reflects a reduction in sponsorships and participation in events.

OFFICE OF THE GENERAL MANAGER

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business of the Board and research on actions and policies of the Board by staff for directors, member agencies, and the public. The General Manager’s Business Plan outlines the strategies that this office will use to accomplish these goals.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	4,502,900	3,742,900	3,803,700	3,204,400
Professional Services	8,400	50,000	75,000	50,000
Other	345,600	368,500	189,800	115,700
Totals	4,856,900	4,161,400	4,068,500	3,370,100
% Change	—	(14.3%)	(2.2%)	(17.2%)
Personnel	19	17	15	14

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects the transfer of two positions to the new Bay-Delta Initiatives Program organization and the elimination of one position partially offset by merit and benefits cost increases.

Other – Reflects a decrease in communication costs and the anticipated reimbursement of \$158,000 for labor from an outside agency for one position.

BOARD OF DIRECTORS

The Board of Directors provides policy and direction as the governing board of the Metropolitan Water District. The Office of the Board of Directors provides administrative

support to the business of the Board and staff and related expenses associated with inspection trips.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	1,711,000	1,655,100	1,668,800	1,526,300
Professional Services	32,100	230,000	220,000	210,000
Other	1,230,500	836,500	881,000	1,039,800
Totals	2,973,600	2,721,600	2,769,800	2,776,100
% Change	—	(8.5%)	1.8%	0.2%
Personnel	11	11	10	10

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects the transfer of one position to the Business Outreach section.

expenses, particularly in the cost of conference registrations and travel expenses.

Other – Reflects increase in reprographics, conferences and meetings, training, and travel

Personnel – Decrease due to transfer of one position to Business Outreach.

BUSINESS OUTREACH

Metropolitan is committed to creating an environment that affords all individuals and businesses open access to the business opportunities available within the regional service area in a manner that reflects its diversity. It is Metropolitan’s policy to actively encourage participation in the solicitation and procurement of all

construction contracts, professional service contracts, equipment, and other materials and supplies by all individuals and businesses, including but not limited to small, locally owned, women-owned, minority-owned, and economically disadvantaged business enterprises.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	912,000	793,100	957,300	1,121,500
Professional Services	0	0	0	10,000
Other	164,600	139,500	174,500	168,000
Totals	1,076,600	932,600	1,131,800	1,299,500
% Change	—	(13.4%)	21.4%	14.8%
Personnel	6	5	7	7

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects the transfer of two positions from other Metropolitan organizations as well as merit and benefit costs increases.

Professional Services – Reflects costs for administration of on-line small business database.

Other – Slight increases in travel and materials and supplies due to increased activities.

Personnel – Reflects the transfer of two positions, one from Human Resources group and one from the Office of the Board section.

BAY DELTA INITIATIVES

In recognition of the increased importance of the Bay-Delta to Southern California’s long-term water reliability goals and opportunities available to advance the long-term needs of the

Bay-Delta, this organization was created to strategically spearhead efforts necessary to ensure a stable water supply from key sources in an environmentally responsible manner.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	0	0	0	2,721,700
Professional Services	0	0	0	1,056,000
Other	0	0	0	178,000
Totals	0	0	0	3,955,700
% Change	—	0.0%	0.0%	0.0%
Personnel	0	0	0	15

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

As this effort was created by drawing resources from different areas there is no prior year budget to compare against.

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	11,401,400	11,903,300	12,094,600
% Change	—	4.4%	1.6%
Personnel	45	45	45
Capital	0	0	0
% Change	—	—	—
Personnel	0	0	0
Total	11,401,400	11,903,300	12,094,600
Regular Personnel	45	45	45
Temporary Personnel	1	0.6	0
Total Personnel	46	45.6	45

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

The Office of the General Manager will continue to provide the overall leadership and management of Metropolitan’s mission of providing our customers with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way. Faced with continuous change and new emerging issues within our communities, economy, and environment, doing so in a sustainable manner will be increasingly important and will require innovative approaches and financing.

Metropolitan and its member agencies will work together with regulatory, wastewater, storm water, and other agencies in the watershed to ensure that water is used efficiently and effectively throughout the water cycle.

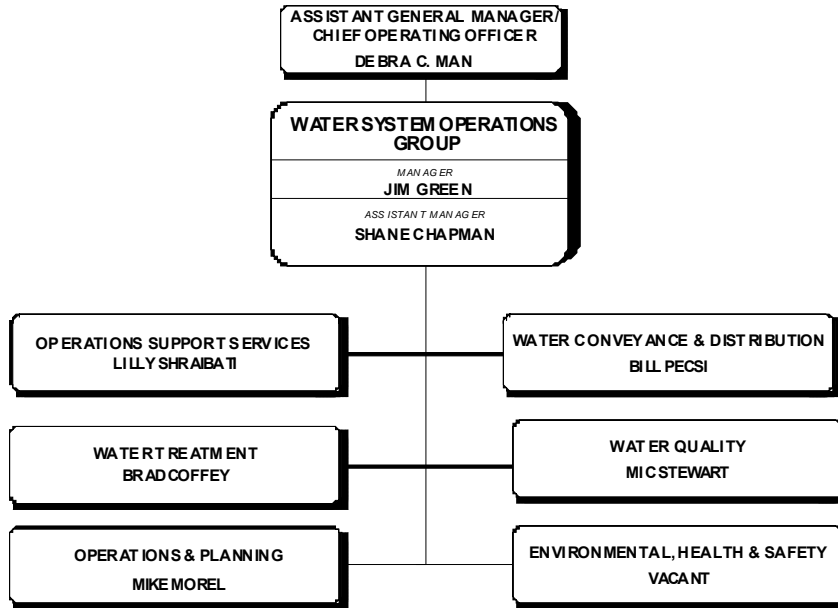
Since programmatic costs for these efforts will be incurred as part of the CIP or within the O&M budgets of the operating groups, the Office of the General Manager projects static staffing levels and minimal annual cost increases for 2011/12 and 2012/13.

Water System Operations

MISSION, ROLES, AND RESPONSIBILITIES

The Water System Operations (WSO) Group treats and reliably delivers high-quality water to Metropolitan’s member agencies in an efficient, cost-effective, and environmentally responsible

manner. WSO meets all customer demands and ensures the water complies with all applicable drinking water quality regulations.



WSO conveys and distributes water throughout Metropolitan's 5,200 square mile service area and treats raw waters from the CRA and State Water Project (SWP) through five water treatment plants. Water quality is paramount and the conveyance, treatment, and distribution functions all focus on producing and maintaining a high quality product. Supporting these core functions, WSO:

- Operates and maintains Metropolitan’s water and power systems to assure reliability, balance demands with supplies, and manage costs;
- Schedules and coordinates the delivery of imported supplies into the region and to the member agencies;
- Conducts applied research to understand source water changes and strategically modify treatment processes necessary to meet future demands and regulations;
- Maintains vigilant security for the protection of employees, the public, and infrastructure;

- Provides technical advice and support to member agencies and other entities regarding water quality, operations, maintenance, water supply programs, environmental stewardship, construction, and emergency response issues;
- Provides fabrication services to support the infrastructure of Metropolitan, member agencies, the California Department of Water Resources (DWR), and other public agencies as requested and on a reimbursable basis;
- Assists in planning, design, construction, commissioning, and start-up of new facilities;
- Provides technical support to comply with environmental, health, and safety regulations and delivers training needed to provide an effective and safe work environment;
- Responds to emergencies and restores service in the shortest time possible; and
- Manages Metropolitan’s fleet of light duty and heavy equipment for optimal usage.

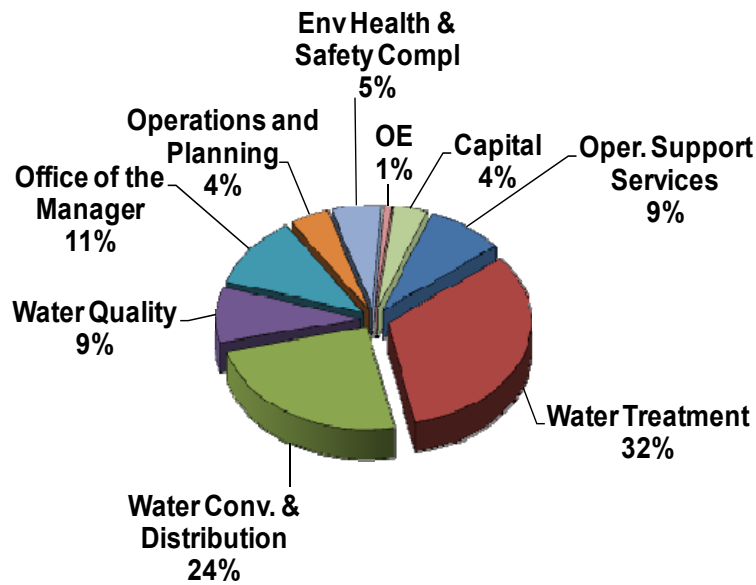
Water System Operations

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	195,407,600	195,989,700	195,889,400	191,911,900	(3,977,500)	(4,077,800)
% Change	—	—	—	—	(2.0%)	(2.1%)
Capital	11,345,000	8,826,500	13,286,000	7,501,700	(5,784,300)	(1,324,800)
% Change	—	—	—	—	(43.5%)	(15.0%)
Totals	206,752,600	204,816,200	209,175,400	199,413,600	(9,761,800)	(5,402,600)
% Change	—	—	—	—	(4.7%)	(2.6%)
Regular	924	963	941	928	(13)	(35)
Temporary	22	15	17	20	4	5
Total Personnel	946	978	958	948	(10)	(30)

Note – Totals may not foot due to rounding.

Program Expenditures 2010/11 Budget \$199.4 Million



2009/10 ACCOMPLISHMENTS

Maintained 100 percent compliance with primary water quality regulations at the treatment plants and in the treated water distribution system.

Operated and maintained Metropolitan's conveyance, treatment, and distribution facilities and met all operational demands of our member agencies.

Successfully completed 26 shutdowns, 5 of which were unexpected as a result of the Prestressed Concrete Cylinder Pipe (PCCP) inspections performed earlier or to repair leaks.

Completed the October 2009 and April 2010 CRA shutdowns ahead of schedule by one and seven days, respectively. The main drivers for the shutdowns were the installation of electrical system upgrades by Metropolitan and Southern California Edison (SCE), refurbishment of pumping plant delivery lines at Iron Mountain Pumping Plant, installation of curbing at low spots in the open canal segments of the aqueduct, and tunnel cleaning to help increase the aqueduct's conveyance capacity. The benefit of the reduced shutdown time resulted in approximately 24,000 acre-feet (AF) of additional CRA diversions in 2009 and 2010.

Commissioned the ozone process at the Skinner water treatment plant.

Successfully operated the Skinner plant during an outage of the finished water reservoir to replace the floating cover.

Purchased future energy for CRA pumping in the third and fourth quarters of 2010 to mitigate for the risk of price volatility in the energy marketplace.

Continued the successful implementation of the Five-Year Water Supply Plan with the following accomplishments:

Successfully completed the start-up of the Tujunga well-field project and began sending treated water into LADWP's distribution system in May 2010. This project is expected to yield between 9,000 to 18,000 AF per year of water supply that was previously inaccessible due to groundwater contamination issues;

Enhanced water supply reliability for the service area served exclusively by SWP supplies by adjusting distribution system operation, source water blending, and delivery schedules;

Took delivery of 29 TAF of north of Delta transfers starting in July 2009 as part of the Drought Water Bank;

Acquired 80 TAF net north of Delta transfers through the State Water Contractors Buyers group for delivery starting in July 2010; and

Filled Castaic Flexible Storage to its 154 TAF maximum storage and put 130 TAF in SWP Carryover by the end of calendar year 2009 to mitigate for potential low SWP allocations in 2010. This proved beneficial for 2010 as the SWP allocation did not increase to 20 percent until March 30, 2010 and to 30 percent until April 22, 2010.

Delivered a total of 930,000 acre-feet of State Project Water, 1.1 million acre-feet of Colorado River Water, and increased total storage levels from 1.4 million acre-feet in July of 2009 to 1.6 million acre-feet in June of 2010.

Recommended implementation strategies to the California Air Resources Board (CARB) on how to implement renewable energy goals.

Negotiated future rights to Hoover hydroelectric power plant production with other Hoover contractors. The draft legislation language retains 95% of the existing Hoover power for the current contractors with 5% allocated to the new contractors. The legislation was introduced in both houses of Congress on December 16 with strong bipartisan support.

Acquired and managed approximately 2 million MWh of energy for the CRA. Forward purchases were utilized to provide price certainty and cost risk mitigation for a significant amount of the supplemental energy requirement. Over 400,000 MWh of forward purchased energy was utilized in this fiscal year, meeting nearly 70% of the supplemental energy requirement. As part of Metropolitan's CRA energy risk management program, staff purchased a net amount of over 890,000 MWh of forward energy at a total cost of \$35 million to help meet some of the CRA's supplemental energy needs through the first quarter of 2012.

Water System Operations

Purchased nearly 600,000 megawatt-hours of energy from third party providers to convey Metropolitan's Colorado River water through the CRA. This energy is in addition to the contractual energy Metropolitan receives from SCE, and Hoover and Parker dams.

Increased security protocols for railroad delivery of hazardous chemicals in response to new regulations; commented on proposed legislation on chemical facility security; updated sabotage response protocols mandated by electrical power industry regulators; and assisted with the development of reasonable drug and alcohol suspicion training for all managers.

Developed and implemented a Pandemic Plan in response to the outbreak and the World Health Organization's pandemic alert levels. In addition, WSO partnered with External Affairs to develop Metropolitan's Crisis Communications Plan. The foundation of the plan includes the ADVISORY/URGENT communications protocol which was developed by WSO to streamline, accelerate, and standardize emergency communications

All operations and maintenance was conducted without any serious employee injuries or violations of environmental permits. The injury and illness rate of 4.7 was well below the not to exceed goal of 8.7, and 96 percent of all environmental permits were in full compliance.

Environmental Health and Safety (EHS) staff and consultant performed a "mock" Certified Unified Program Agency (CUPA) inspection of the treatment plants and several other facilities. The "mock" CUPA inspection included areas that the local CUPA is responsible for monitoring including, hazardous materials business plans, underground storage tanks (UST), above ground petroleum tanks, hazardous waste generators, and hazardous materials management.

Continued to provide EHS training to ensure safe work practices and adherence to environmental and workplace health and safety regulations.

Graduated 14 apprentices from the state-certified Apprenticeship Program. Each graduate completed 7,280 hours of on-the job training, 640 hours of instruction, and 90 written and

practical subject-matter tests during the 4-year program.

Conducted 44 emergency exercises delivering 2,299 hours of emergency management training. Exercises included patrol route and radio use and evacuation drills at the treatment plants.

Prepared the draft water sector annex for the Southern California Catastrophic Earthquake Plan and was designated by FEMA and CalEMA to lead the Water Task Force to organize the water sector's response to a major earthquake.

Responded to a magnitude 7.2 Baja California Earthquake and a magnitude 4.4 Pico Rivera earthquake with patrols in potentially affected areas; no damage was reported.

Provided mutual assistance to the City of Calexico Water Department to assess damage to water tanks, using the California Water/Wastewater Response Network (CalWARN) mutual assistance agreement.

The Apprenticeship Program expanded into the area of technical safety training through absorption of the existing System Operating Orders Manual (SOOM) training program. Since assuming those responsibilities, the Program staff has completed an extensive multi-tiered curriculum and a new certification program for Water Distribution and Treatment staff involved in large-scale system valving operations. The new courses and certification coincide with and supplement the existing SOOM High Voltage Switching certification courses. The courses are being offered multiple times at various WSO facilities over a 12 month period in order to meet WSO training goals.

Commissioned the full operation of the Inland Feeder, which included delivering water to Diamond Valley Lake (DVL) at flows of approximately 800 cubic-feet per second (cfs).

Participated with member and other local agencies to coordinate operations and increase water supply from ground water storage and banking partners.

Partnered with DWR in the effective and efficient operation of the SWP through daily scheduling, weekly conference calls, and monthly State Water Contractor meetings.

Coordinated and partnered with the U.S. Bureau of Reclamation (USBR) in the effective and efficient operation of the Colorado River system and the CRA through participation in monthly conference calls and an annual meeting between the managers and staffs of both agencies.

Performed weekly optimization of operational plans and water supply strategies using computerized resource models that incorporate supply forecasts, water deliveries, demands, storage levels, and operational constraints.

Managed the Interim Agricultural Water Program including additional opt-outs from the program, as they occurred, and site visits with participating agencies to validate reductions in agricultural use.

Continued to implement the Quagga Mussel Control Program (QMCP) including routine monitoring, inspections during the CRA October 2009 shutdown, lake management and quagga eradication studies, and compliance with regulatory requirements for CRA raw water discharges.

Continued monitoring for pharmaceuticals and personal care products (PPCP) in source and finished waters and continued analytical method development as part of a Water Research Foundation study.

Continued to track perchlorate cleanup activities in Henderson, Nevada, including the bankruptcy of the owner, to ensure that perchlorate levels remain less than 2 ppb at Metropolitan's Lake Havasu intake.

Continue to participate in stakeholder forums to ensure successful remediation of chromium 6 at Pacific Gas and Electric's (PG&E) Topock gas compressor site.

Improved maintenance effectiveness as part of the Performance Excellence Program through continued development of vibration monitoring program to implement non-intrusive maintenance techniques that will improve the reliability of equipment, reduce unscheduled shutdowns, increase availability as well as offset intrusive maintenance tasks that may result in efficiency gains associated with current practices.

Successfully deployed Maximo enhancements that will facilitate the communication of metrics, organization of work and provide tools to perform long term planning.

Continued rollout of work order management units (handhelds) along with condition monitoring. Handhelds have been deployed for electrical teams in the desert and some treatment plants. Deployment to distribution teams is continuing and expected to be completed by late 2010. Deployment to other crafts and treatment plants will continue into 2011.

BUDGET ISSUES AND CONSTRAINTS

A detailed analysis of the O&M budget was performed to identify opportunities to reduce and defer costs, while at the same time ensuring reliability is maintained in the most effective and efficient manner. Actions taken in this effort include the following:

Labor cost increases in the budget were partially offset by \$3.5 million in savings by eliminating 34 positions overall (O&M and Capital, including 6 management positions), reclassifying 17 positions as apprentices, and transferring one position. Lower priority infrastructure, facility maintenance, and some engineering and analytical work will also be deferred to achieve this savings.

There are three fundamental impacts to eliminating these positions: (1) deferred maintenance; (2) a reduced ability to address specialized training and knowledge management initiatives, and (3) fewer resources available to implement more efficient and effective maintenance practices.

While high priority maintenance will continue, having fewer staff positions will increase the maintenance backlog for road grading, buildings, equipment coatings, and electrical code upgrades. Additionally, thousands of new pieces of equipment are being added to the existing infrastructure each year which must be maintained. This additional maintenance further reduces the available time for staff and managers to develop and deploy more efficient maintenance practices; this constraint further

increases the maintenance backlog because desired efficiencies cannot be implemented.

The elimination of management positions also presents a challenge as the training and oversight of employees decreases in certain areas of WSO.

Chemical costs decreased overall by \$3.9 million primarily due to lower budgeted water flows at the treatment plants, revised treatment strategies that optimized chemical dosages to control disinfection by-products, and continued weakness in chemical commodity prices. Additionally, the greater use of Colorado River water allows lower chemical dosages to be budgeted because Colorado River water forms fewer disinfection by-products and thus requires less treatment. However, the overall chemical cost reduction was offset by the additional cost and usage of bleach to control quagga mussels in increasing Colorado River aqueduct flows. Chemical costs are the most variable component of the WSO budget and can increase significantly from budgeted levels due to higher treated water flows, higher blends of state project water (SPW) and higher chemical prices.

Professional services costs were reduced by \$0.13 million by reducing contract services to evaluate bromate control strategies, projects associated with N-nitrosodimethylamine (NDMA) and chromium 6, and hydro-geological services to analyze groundwater in Metropolitan's service area.

Overall operating equipment (OE) costs is down \$2.2 million from last fiscal year, which was down \$3.0 million from the previous year. Initial OE requests of \$7.6 million were reduced by \$6 million by deferring the replacement of 100 fleet vehicles and pieces of equipment including: \$1.2 million of heavy equipment, \$0.5 million of heavy trucks, \$1.5 million of utility trucks, \$0.43 million of vans, \$0.24 million of sedans, \$0.6 million of pickups, and \$1.3 million for other equipment such as generators, pumps, welders and lab equipment. Some light duty fleet vehicles (sedans, vans, and pickups) and other equipment will be rented in the short-term as necessary to replace vehicles and

equipment that it is uneconomical to repair. Fleet maintenance costs are likely to increase to repair heavy equipment, heavy trucks, utility trucks and other equipment that was planned for routine replacement and is at the end of its useful life.

2010/11 OBJECTIVES

Effectively operate and maintain Metropolitan's conveyance, treatment, distribution, and storage facilities to meet member agency demands and comply with all drinking water quality, safety, and environmental regulations.

Meet or surpass regulatory requirements for drinking water quality, ensure delivery of aesthetically acceptable water, and engage in activities that provide long-term compliance and source water protection.

Increase employee knowledge of operations, maintenance, and water quality challenges and trends through technical and management training.

Plan, schedule, and execute the Annual Shutdown Plan for the CRA, pipelines, feeders, and treatment plants to ensure reliable operation of the water delivery system and commission of new capital facilities.

Effectively implement water supply programs and agreements. Maximize regional water supply where possible through frequent coordination and cooperation. Cooperate with supply agencies by considering their unique operations whenever possible to develop solutions to issues that are in conformance with contract requirements and that meet other objectives, such as regional water supply and financial objectives.

Continue to support legislative analysis related to chemical security and to prepare for new regulations in order to minimize potentially adverse consequences for core business.

Continue with monitoring and applied research activities on quagga mussel control options.

Continue monitoring for PPCPs in source and finished waters.

Water System Operations

Continue to participate in stakeholder forums to ensure successful remediation of chromium 6 at PG&Es Topock gas compressor site.

Continue to track progress of uranium remediation at Moab, Utah and support efforts for additional federal funding to expedite clean-up, as appropriate.

Continue to participate in Clean Water Coalition (CWC) advisory committees to assess and propose actions to protect the water quality of Colorado River water.

Continue to participate in forums to assess water quality consequences of proposed changes in Bay-Delta operations.

Continue to conduct treatment studies to evaluate cost effective treatment options for the control of the disinfection by-products bromate and N-Nitrosodimethylamine (NDMA).

Continue implementation and participation in watershed management strategies that protect the quality of our source waters.

Continue to provide EHS training to ensure safe work practices and adherence to environmental and workplace health and safety regulations.

Continue to implement the Five-Year Water Supply Plan, including:

- Continue activity to develop and implement new water supplies and actions until longer term improvements from the IRP can be implemented;

- Complete environmental review and seek Board approval of an agreement with Semitropic Water Storage District to build a reverse osmosis treatment system for agricultural drainage water;

- Implement a production well to extract approximately 100,000 AF of previously stored water from the Hayfield groundwater basin to augment CRA supplies; and

- Evaluate, with member agencies, the feasibility of recovering additional groundwater supplies in Southern California.

Continue to work with the Water Surplus and Drought Management (WSDM) Team, Water Resources Management Group (WRM), program partners, and management to optimize the use of existing and new resources.

Continue to assist WRM and the Office of the Chief Financial Officer (CFO) with implementation of the Water Supply Allocation Plan.

Expand the Apprenticeship Program's scope to include delivering technical training and certification of WSO staff in accordance with Metropolitan's System Operating Orders Manual. The Apprenticeship Program will also expand skills development training by offering open seats in existing apprentice courses on basic machine shop equipment operation and basic welding skills.

The Performance Excellence program will:

- Continue to update the Maintenance Management Manual and develop guidelines and policies used for future training and to improve operations and maintenance activities;

- Continue deployment of handheld work-order management units to field staff and

- Continue to investigate, develop, and implement applicable predictive and non-intrusive maintenance techniques with the objective of improving equipment reliability and reducing unscheduled equipment maintenance.

Continue to collect video footage to record maintenance procedures with narrations to facilitate the learning process for the new workforce.

Complete a "5P" (i.e., Proper Planning Prevents Poor Performance) pilot program at Jensen and Diemer to determine the impact of enhanced planning and scheduling activities associated with facility maintenance.

Implement condition-based monitoring using handheld computers.

Continue to improve fleet operations, including parts procurement and negotiating a multi-year vehicle contract with a major Original Equipment Manufacturer (OEM).

Continue to improve fleet asset management through utilization analysis and equipment typing. Identify low-utilization vehicles to be surplus or redeployed to a higher level use.

Water System Operations

Continue evaluating the impact on water quality of new sources of water entering our system.

Continue to manage CRA power resources to mitigate price volatility in the energy marketplace while maintaining flexibility to respond to pumping changes to cover modified water allocations at the end of the calendar year.

Continue to work with existing Hoover power contractors to achieve passage of the Hoover Power Allocation Act. This Act would retain most of the present rights to Hoover power for

existing contractors while making available a pool of Hoover energy and capacity for new parties.

Continue working with WRM and other state water contractors to support the DWR power portfolio planning and management of SWP power costs.

Continue working with WRM, DWR, and other state water contractors to maximize water supply reliability through storage, transfer, and exchange programs.

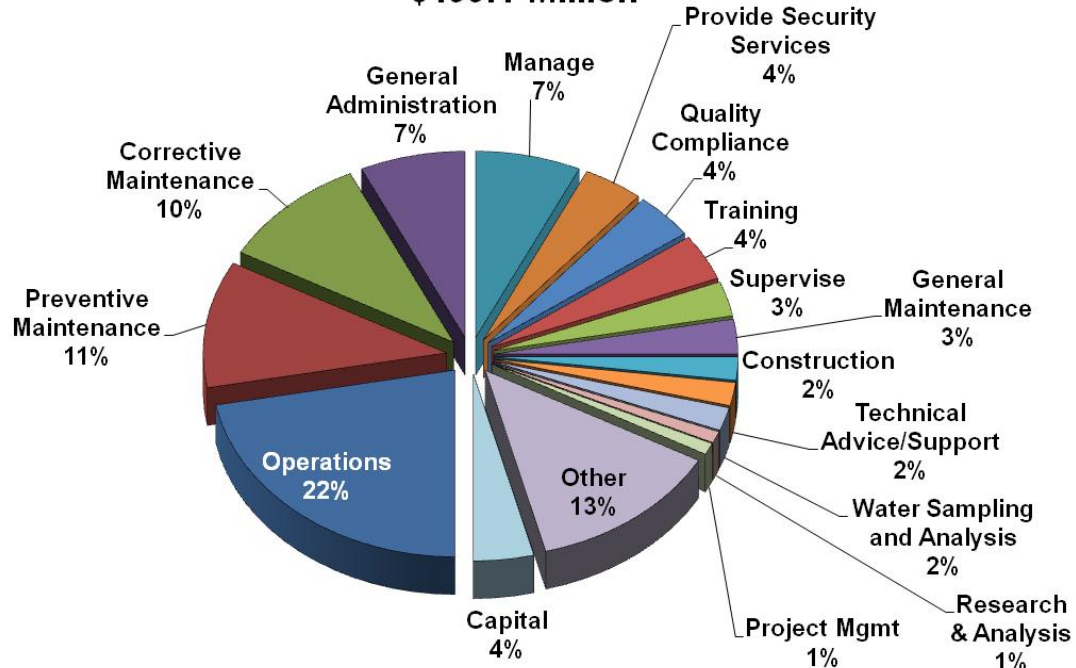
Water System Operations

Performance Measures Summary

Performance Measure	Measurement Intent	FY 08/09 Performance	FY 09/10 Performance	FY 10/11 Target
Five Year Supply Plan Implementation	Ensure Metropolitan has water supplies available in accordance with the Five Year Supply Plan.	-	350 TAF	350 TAF
Unplanned Outages	Monitor water system maintenance and operations reliability.	0	0	0
Meet all Scheduled Water Deliveries	Maximize effectiveness of maintenance activities and implement replacement and improvement projects to ensure the delivery of water without interruption.	100%	100%	100%
Compliance with Drinking Water Standards	Ensure that all state, federal, and local water quality primary standards are met or exceeded.	100%	100%	100%
Total Dissolved Solids (TDS) mg/L	Monitor water quality compliance with the Board of Directors' salinity goal.	557 mg/L	587 mg/L	≤ 500 mg/L
Compliance with Environmental Permit Requirements	Measurement of timeliness and adequacy, planning and response to activities associated with permits and compliance issues from outside agencies.	97.5%	96.5%	100%
Preventive Maintenance to Corrective Maintenance Ratio	Evaluate maintenance output and outcomes, and assess maintenance planning and work activities for potential improvements in system quality and reliability.	55/45	52/48	60/40
Maintenance Backlog	Evaluate maintenance planning and scheduling to assess maintenance staff deployment, procurement, and/or other system delays or opportunities.	9.8 weeks	9.5 weeks	≤ 9.5 weeks
Maintenance Wrench Time	Assess the amount of time actually spent on maintenance and project work to identify opportunities for improvement and reduction of lesser value-added activities.	76% - Treatment 61% - C&D	74% - Treatment 62% - C&D	75%-80% - Treatment 60%-65 - C&D
Average Number of Days Between Work order Start and Completion Dates	Evaluate reasons for delays in the issuance of work orders, including timeliness, planning, deployment, and completion of work.	5.1 work days	4.6 work days	< 4.3 work days
Unresolved Water Quality Complaints	Identify the number of unresolved member agencies complaints from customers reporting taste and odor problems to the Water Quality Lab.	8	1	0
Injury / Illness Rate	Monitor workplace safety through measurement of workdays lost to injury and illness.	4.60	4.6	< 8.56

Water System Operations

Major Activity Distribution 2010/11 Budget \$199.4 Million



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	116,991,100	115,474,200	117,408,100	119,041,400
Professional Services	2,540,500	2,598,000	2,592,700	2,438,300
Other	0	0	0	0
Materials & Supplies	37,594,800	42,846,200	41,184,500	39,021,900
Outside Services - Non Professional / Mainte	13,439,500	12,982,700	13,148,000	13,894,100
Utilities Charges	10,627,800	11,559,300	11,232,700	9,384,000
Other Accounts	7,317,200	6,650,300	6,444,400	6,495,900
Totals	188,510,900	192,110,700	192,010,400	190,275,600
% Change	—	1.9%	(0.1%)	(0.9%)
Operating Equipment	6,896,800	3,879,000	3,879,000	1,636,500
Total O&M and Operating Equipment	195,407,700	195,989,700	195,889,400	191,912,100
% Change	—	0.3%	(0.1%)	(2.0%)
Regular	864	913	898	898
Temporary	20	15	17	17
Total Personnel	883	928	915	915

Note – Totals may not foot due to rounding.

Water System Operations

Capital Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	6,354,100	7,981,300	11,643,000	6,499,600
Professional Services	4,984,700	633,100	1,543,000	614,900
Property Acquisition	0	0	0	0
Construction	100	111,500	36,600	368,400
Other	6,000	100,600	63,400	18,900
Totals	11,344,900	8,826,500	13,286,000	7,501,800
% Change	—	(22.2%)	50.5%	(43.5%)
Regular	61	50	43	30
Temporary	2	0	0	4
Total Personnel	63	50	43	34

Note – Totals may not foot due to rounding.

*** Reimbursable expenses included above are offset by a similar amount of revenue.

Water System Operations

Capital Program Expenditure Plan

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
All Facilities - Security Systems Improvement	108,800	757,300	603,200	320,700
All Water Treatment Plants - Install Roofs for Chemical Tank Farms	(72,400)	17,100	0	0
Assess the Condition of Metropolitan's Prestressed Concrete Cylinder Pipe	0	4,300	51,800	21,000
C and D System Environmental Compliance	10,300	0	0	0
Cabazon Radial Gate Facility Improvements	100	0	0	500
Capital Program for Projects Costing Less Than \$250,000 for FY2005/06	12,500	7,000	60,200	21,500
Capital Program for Projects Costing Less Than \$250,000 for FY2006/07	105,400	23,300	91,600	21,000
Capital Program for Projects Costing Less Than \$250,000 for FY2007/08	262,600	35,200	178,000	1,700
Capital Program for Projects Costing Less Than \$250,000 for FY2008/09	629,500	353,100	435,800	15,000
Capital Program for Projects Costing Less Than \$250,000 for FY2009/10	0	160,000	0	0
Capital Program for Projects Costing Less Than \$250,000 for FY2010/11	0	52,500	0	6,200
Chlorine Containment and Handling Facilities	767,000	226,600	923,900	64,700
Control System Enhancement Program	3,542,100	61,700	499,800	112,600
Conveyance and Distribution System - Rehabilitation	606,800	330,900	692,600	378,700
Conveyance and Distribution System - Rehabilitation Phase II	694,300	143,000	508,000	203,800
CRA - Conveyance Reliability Program	15,300	165,100	72,900	134,700
CRA - Discharge Containment Program	900	127,400	0	17,600
CRA - Electrical/Power Systems Reliability Program	83,100	10,300	5,300	18,600
CRA - Pumping Plant Reliability Program	1,033,500	404,400	341,800	183,400
CRA - Real Property Recordation Program	2,200	0	0	0
CRA - Reliability Program Phase II	8,300	100	459,400	386,600
Dam Rehabilitation & Safety Improvements	0	8,500	(600)	6,500
Diamond Valley Lake Property Transformation	145,400	0	0	0
Diemer Land Acquisition, Habitat Conservation	64,400	0	14,800	0
Diemer Water Treatment Plant - Construct Sedimentation Basin Spillways	1,300	4,000	3,000	3,200

Water System Operations

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Diemer Water Treatment Plant - Improvements Program Phase II	114,200	8,800	154,200	270,600
Diemer Water Treatment Plant - Improvements Program	191,500	356,000	406,100	653,800
Diemer Water Treatment Plant - Oxidation Retrofit Program	(95,400)	373,900	693,200	537,400
Diemer Water Treatment Plant - Solids Handling	137,000	100,700	74,400	103,500
Diemer Water Treatment Plant - Washwater Tan	4,400	0	600	0
Distribution System - Control and Equipment	12,100	3,400	14,200	0
Distribution System - Treated Water Cross Connection	138,200	225,000	180,400	15,300
Hayfield Groundwater Storage Program	33,600	60,800	21,100	0
Hydroelectric Power Plant Improvement Program	0	513,900	671,300	241,000
Information Technology System - Business, Finance and HR	63,600	49,700	15,900	66,300
Information Technology System - Infrastructure	6,700	0	0	0
Inland Feeder	41,600	13,100	272,400	0
Jensen Water Treatment Plant - Improvements Program	89,400	162,300	295,800	140,100
Jensen Water Treatment Plant - Improvements Program Phase II	0	92,200	10,400	35,500
Lake Mathews Watershed - Drainage Water Quality	0	10,000	13,400	15,000
LaVerne Shop Facilities Upgrade	38,600	221,700	31,200	24,200
Mills Water Treatment Plant - Capacity Upgrade	137,400	125,000	73,100	9,200
Mills Water Treatment Plant - Improvements Program	9,700	84,000	2,200	67,400
Mills Water Treatment Plant - Improvements Program Phase II	0	267,400	152,700	337,200
Mills Water Treatment Plant - Ozone System Reliability	0	56,200	37,700	46,500
Perris Valley Pipeline	202,500	23,800	29,800	0
Power Reliability and Energy Conservation Program	67,100	228,100	167,700	0
Quagga Mussel Control Program	910,400	244,000	318,200	190,100
Reimbursable Projects	0	1,000,000	750,000	1,385,000
Reservoir Cover and Replacement Program	1,000	140,400	110,600	5,300
Rialto Pipeline Improvements	(65,600)	0	0	0

Water System Operations

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
San Diego Pipeline No. 6	900	0	0	0
Skinner Water Treatment Plant - Expansion No 4	64,400	0	0	0
Skinner Water Treatment Plant - Improvements	(180,900)	2,200	478,200	459,800
Skinner Water Treatment Plant - Improvements Program Phase II	2,500	78,100	596,800	41,100
Skinner Water Treatment Plant - Oxidation Retrofit Program	1,052,400	651,000	1,588,700	40,000
Strategic Operations and Maintenance Management	78,500	68,400	131,100	0
Water Operations Control Program	0	102,400	48,000	123,300
Water Treatment Plants - Algae Control	0	16,000	0	0
Weymouth Water Treatment Plant - Improvements Program	574,300	433,400	155,900	316,400
Weymouth Water Treatment Plant - Improvements Program Phase II	0	118,600	70,600	417,700
Weymouth Water Treatment Plant - Oxidation Retrofit Program	(306,700)	100,400	774,500	42,200
White Water Siphon Protection	(100)	4,000	3,000	0
Yorba Linda Power Plant Modifications	500	0	900	0
Totals	11,345,200	8,826,700	13,285,800	7,501,900
% Change	—	(22.2%)	50.5%	(43.5%)
Personnel	63	50	43	34

Note – Totals may not foot due to rounding.

*** Does not include reimbursement of expenses by outside entities. Reimbursements typically offset completely expenses.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

O&M

Salaries and Benefits – Reflects a net increase due to Board-approved salary adjustment and anticipated merit and benefits cost increases partially offset by eliminating 34 positions overall (including 6 management positions), reclassifying 17 positions to lower pay grades to recruit apprentices, and transferring one position to CRG.

Professional Services – Reflects reducing the scope of work performed by consultants on certain water quality studies.

Materials & Supplies – Reflects a reduction in water treatment chemicals associated with a favorable blend in source water supplies.

Utilities – Reflects lower than projected electrical rates and electrical power rebates from solar power project.

Operating Equipment – Reflects the deferred replacement of 100 vehicles and pieces of heavy equipment.

Capital

Overall CIP work will decrease with the completion of several phases in key major programs including chlorine containment and handling facilities, CRA pumping plant reliability, power plant improvement and reliability, and the Skinner Oxidation retrofit.

Water System Operations

OFFICE OF MANAGER

The Office of the Group Manager provides day-to-day operational management as well as strategic and organizational leadership, directing all initiatives and core business efforts of WSO. Additionally, the office provides support functions such as budget and administration, security, the Apprenticeship Program, and fleet services. The Security Unit ensures that

Metropolitan's employees, water, infrastructure, and equipment are adequately protected. The Apprenticeship Program provides mechanical and electrical training to ensure a qualified, skilled, and safe workforce. The Fleet Services Unit handles vehicle acquisition, maintenance, administration, and other specialized vehicle services.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	9,749,800	9,910,100	10,149,900	9,833,700
Professional Services	57,100	165,000	65,000	47,000
Other	12,223,600	11,724,700	11,651,600	12,269,300
Totals	22,030,500	21,799,800	21,866,500	22,150,000
% Change	—	(1.0%)	0.3%	1.3%
Personnel	73	74	73	70

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases offset by a reduction in positions.

Professional Services – Reflects decrease in Apprenticeship Program related services.

Other – Reflects increase in the Fleet Services Unit for specialized vehicle services and in the Security Management Unit for the maintenance contract covering security system components no longer under warranty.

Water System Operations

OPERATIONS SUPPORT SERVICES

The section provides a wide range of support services to Metropolitan’s core operational functions and on a reimbursable contract basis to DWR, member agencies, and other public entities. Services include manufacturing, maintenance engineering, construction, and service connection coordination. Manufacturing services include fabrication, machining, coating, valve and pump testing, equipment refurbishment, diving inspections, and crane

safety and certification. Maintenance services include predictive, preventive, and corrective maintenance analysis on critical equipment, including all hydroelectric power plants, pressure control structures, and high voltage equipment. Construction services are deployed within the distribution area and address general construction needs, equipment installation, large equipment transportation, and emergency response.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	14,376,500	15,135,100	14,975,500	14,868,900
Professional Services	98,300	160,000	131,000	54,000
Other	2,674,900	2,598,200	2,531,600	2,571,800
Totals	17,149,700	17,893,300	17,638,100	17,494,700
% Change	—	4.3%	(1.4%)	(0.8%)
Personnel	106	125	121	121

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and a shift in labor from capital to O&M, offset by a reduction of positions.

Professional Services – Reflects the transfer of Opcon Knowledge Keeper related professional

contracts to Environmental Health and Safety Section’s Training Team.

Other – Utilities account reflects efficiencies in the use of electricity within the maintenance shops at the La Verne facility.

Water System Operations

WATER TREATMENT

The section operates and maintains Metropolitan’s five treatment plants with a combined operational capacity of over 2.6 billion gallons of water per day. The section oversees the operation, maintenance, management, and monitoring of effective treatment processes with the appropriate blends of State Project Water and Colorado River water to ensure reliable and high-quality water is provided to member agencies, working

diligently to comply with or surpass all drinking water quality regulations. All five treatment facilities are staffed and operated 24-hours a day, seven days a week. The Weymouth and Deimer plants use chlorine as the primary disinfectant while the Mills, Jensen, and Skinner treatment plants have been retrofitted with ozone disinfection. Construction is underway at the Diemer and Weymouth treatment plants to complete the ozone retrofit program.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	33,693,900	32,471,300	33,026,600	33,897,100
Professional Services	406,600	25,000	100,000	25,000
Other	30,817,800	37,536,200	34,349,300	31,060,100
Totals	64,918,300	70,032,500	67,475,900	64,982,200
% Change	—	7.9%	(3.7%)	(3.7%)
Personnel	266	275	277	275

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and a reduction in CIP dedicated labor.

Other – Reflects optimization of chemical usage, lower flows, stable electricity rates, solar electricity rebates, and refined assumptions on solids removal.

Water System Operations

WATER CONVEYANCE AND DISTRIBUTION

The section meets delivery requirements of member agencies by moving water throughout Metropolitan's 5,200 square mile service area and performing a wide range of operations and maintenance activities to ensure system reliability. The conveyance system consists primarily of the CRA, which includes 5 pumping plants, 63 miles of canals, 92 miles of

tunnels, 55 miles of conduit, and 144 underground siphons. The distribution system consists of 820 miles of pipelines, approximately 400 service connections to member agencies, 16 hydroelectric plants, including the DVL pumping plant, and 7 storage and regulatory reservoirs that help Metropolitan meet summer and other peak flow periods.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	31,202,100	30,551,300	31,722,100	31,598,700
Professional Services	5,400	0	80,000	128,000
Other	16,981,100	16,013,500	17,398,400	16,375,900
Totals	48,188,600	46,564,800	49,200,500	48,102,600
% Change	—	(3.4%)	5.7%	(2.2%)
Personnel	255	263	270	266

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and a shift in labor from capital to O&M for the 8-pump capacity and readiness efforts on the CRA.

Professional Services – Reflects the need for environmental assessment of desert tortoise

areas to perform aqueduct and powerline road maintenance.

Other – Reflects increased chemical usage for the Quagga Mussel Control Program.

Water System Operations

WATER QUALITY

The section utilizes the latest technology and the most advanced techniques to ensure that the water Metropolitan provides to the public is safe and complies with or exceeds regulatory standards. The section conducts chemical and biological analyses, optimizes treatment processes, and tests new methodologies to assure water quality conforms with constantly changing

standards and addresses water quality concerns facing Metropolitan and its member agencies. Further, the section also provides technical expertise, laboratory services, system troubleshooting of water quality issues, and process design criteria for Metropolitan and its member agencies.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	13,566,800	13,271,400	13,169,700	13,297,700
Professional Services	561,200	920,800	824,500	844,000
Other	3,556,800	3,485,100	3,347,700	3,544,200
Totals	17,684,800	17,677,300	17,341,900	17,685,900
% Change	—	(0.0%)	(1.9%)	2.0%
Personnel	99	104	93	95

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Slight increase reflects anticipated merit and benefits cost increase and a reduction in labor directed toward CIP programs largely offset by the elimination of some positions.

Professional Services – Reflects a decrease for contract services to evaluate bromate control

strategies, projects associated with N-nitrosodimethylamine (NDMA) and chromium 6, and hydrogeological services to analyze groundwater in Metropolitan's service area.

Other – Reflects increases for the Quagga Mussel Control Program efforts.

OPERATIONS AND MAINTENANCE PLANNING

The section plans and implements the movement and use of water and power resources. These plans consider and incorporate infrastructure and supply limitations, agency demands, changing water quality requirements, storage program economics, and power costs. Operational scenarios that encompass a broad range of potential supplies and demands are developed and refined on a weekly basis throughout the year. This process prepares WSO for a wide

variety of possible outcomes as the year develops while maintaining reliable deliveries and balancing water storage reserves at a reasonable cost.

The section is also responsible for emergency response management and providing emergency response training to employees.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	7,261,700	7,015,400	7,219,500	7,787,000
Professional Services	201,900	212,500	112,500	141,000
Other	617,800	624,000	613,300	777,800
Totals	8,081,400	7,851,900	7,945,300	8,705,800
% Change	—	(2.8%)	1.2%	9.6%
Personnel	40	41	39	42

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit, reclassification of operators and benefits cost increases, a shift in labor from capital to O&M, and increase of 1 position.

Other – Reflects an increase in scheduling service for DVL power generation by the Automated Power Exchange, a private entity, previously accounted for in another area (GDR).

Professional Services – Reflects a decrease due to shift of Hoover power contracts negotiations to the Legal Department.

ENVIRONMENTAL HEALTH & SAFETY

The section is responsible for ensuring a safe working environment for employees through programs and training, ensuring business operations are conducted in an environmentally responsible way, and complying with all environmental and occupational health and safety rules and regulations. The section provides responsive leadership and integrates effective environmental, health, and safety practices into Metropolitan’s operations and culture. The goal is to achieve a safe work place

and minimize the number and extent of environmental incidences. The section provides environmental and occupational health and safety program expertise through program and policy development, training curriculum, monitoring and planning, and coordination with regulatory agencies to respond to present and future needs. The Environmental, Health, and Safety Site Support Teams provide local expertise and services at all facilities.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	7,140,300	7,119,600	7,144,900	7,758,300
Professional Services	1,210,000	1,114,700	1,279,700	1,199,300
Other	2,107,100	2,056,800	2,117,800	2,196,700
Totals	10,457,400	10,291,100	10,542,400	11,154,300
% Change	—	(1.6%)	2.4%	5.8%
Personnel	45	46	42	45

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and a shift from CIP to O&M partially offset by transfer of one management position to CRG and two additional positions. A small vacancy rate (1%) is anticipated in 2010/11 budget compared to over 7% in 2009/10 Budget.

Professional Services – Reflects the need for the development and revision of Metropolitan’s

Hazardous Waste Materials’ Business Emergency Plans (BEPs), and the transfer of Opcon Knowledge Keeper related professional contracts from the Operations Support Services Section.

Other – Reflects an increase in the industrial safety shoe program costs.

Water System Operations

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	191,911,800	202,502,200	204,166,100
% Change	—	5.5%	0.8%
Personnel	898	879	879
Capital	7,501,700	9,408,400	9,323,500
% Change	—	25.4%	(0.9%)
Personnel	30	49	49
Total	199,413,600	211,910,600	213,489,600
Regular Personnel	928	928	928
Temporary Personnel	20	20.1	20.1
Total Personnel	948	948.1	948.1

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

Continue emphasis on operating and maintaining Metropolitan's infrastructure throughout the service area and on meeting member agencies' water demands. The increase in O&M costs is caused by expected inflation for both chemicals and electricity, and equipment repair costs associated with maintaining aging infrastructure and new infrastructure such as the Skinner and Diemer ozone retrofits, chlorine containment facilities, and the quagga mussel control infrastructure. Water treatment chemicals and electricity will continue to impact operations, depending on source water quality and demands.

Although aging infrastructure generally is more maintenance intensive and significant increases

in new infrastructure are planned, the goal is to maintain the existing personnel complement static. This will be achieved by identifying and implementing improvements in existing maintenance practices – in effect increasing efficiency. However, as a result of various capital projects working toward completion or completed over this time period, utility, chemical, and material costs will also increase.

A substantial increase in operating equipment of approximately \$4 million is also reflected in the O&M expenditure for FY 2011/2012, and FY 2012/2013. This increase restores the operating equipment budget to a level necessary to sustain operating equipment assets.

Water System Operations

Detail of Operating Equipment

BIN	Description	Qty	New	Replace	Total
Environmental Health & Safety Section					
11-01268-001	Calibrator, Automated Pressure	1	5,175		
Section Totals			5,175		5,175
Operations Support Services Section					
11-01171-001	Compact Track loader	1		45,100	
11-01175-001	Welding Equipment	1	35,669		
11-01176-001	Underwater Video System	1	6,585		
11-01176-002	Pneumatic Torque Wrench	1	8,780		
11-01178-001	Large blast pot	1	43,041		
11-01178-002	Compressor - 375 CFM	2		67,672	
11-01178-003	Dehumidifier	1	59,908		
11-01178-004	Multi Ratio Acrylate Pump	1	13,170		
11-01180-001	High Voltage Electrical Test Set	1	65,631		
11-01294-001	Portable Vibration Analyzer	2	42,021		
Section Totals			274,804	112,772	387,576
Water Conveyance & Distn Section					
11-01211-001	DS14 - 3/4 Ton 4WD, ext Cab & Chassis w/98 UT body	1		38,961	
11-01213-001	Light Tower, Portable, 4000w, Trailer Mounted	1		11,114	
11-01213-002	DS14 - 3/4 Ton 4WD, ext Cab & Chassis w/98 UT body	2		77,923	
11-01216-001	4-inch trailer mounted centrifugal pump	1		31,327	
11-01216-001	4-inch Centrifugal Pump, trailer mounted	1		31,327	
11-01217-001	DS10 - 3/4 Ton, 2WD, Ext. Cab PU w/short bed-6 ft	1		27,438	
11-01219-001	Hydraulic power pack	1	6,351		
11-01225-001	Steam Pressure Washer	2		19,755	
11-01227-001	Transformer Winding Resistance Meter	1		8,341	
Section Totals			6,351	246,185	252,536
Water Quality Section					
11-00919-001	Gas Chromatograph/ Mass Spectrometer/Data System	1		83,268	
11-01232-001	UPS System	1		82,313	
11-01232-002	Lab vacuum pump	1		19,755	
11-01235-001	Microplate Reader	1		38,138	
11-01235-002	Autoclave (Steam Sterilzer)	1		136,639	
11-01240-001	Ion Chromatograph Instrument	1		76,825	
11-01240-002	Ozone Monitor for Ozone Destruct Off-gas	1		6,036	
11-01243-001	Ozone Monitor for Off-gas from Ozone Contactor	1		7,353	

Water System Operations

Detail of Operating Equipment

BIN	Description	Qty	New	Replace	Total
11-01243-002	UV-Vis Spectrophotometer	1		26,340	
11-01243-003	TOC analyzer with ICR and autosampler	1		29,633	
11-01244-001	Auto pH Meter	2	29,084		
Section Totals			29,084	506,300	535,384
Water System Operations, Office of Manager					
11-01184-001	Shop Floor Scrubber	1	12,073		
11-01184-002	Heavy Duty Tire Changing Machine	1	8,122		
11-01185-001	DS25 - 1.5 Ton 4WD ext cab & chassis w/108" UT body	2		115,238	
11-01186-001	Shop Floor Scrubber	1	12,073		
11-01187-001	DS25 - 1.5 Ton 4WD ext cab & chassis w/108" UT body	1		57,619	
Section Totals			32,267	172,856	205,123
Water Treatment Section					
11-01199-001	Calibrator, Automated Pressure	2	13,719	13,719	
11-01203-001	Pressure/Vacuum Pressurement Tester	1	13,060		
11-01207-001	Pressure/Vacuum Pressurement Tester	1		13,060	
11-01272-001	Manual Outriggers, AutoCrane 3200	1	16,902		
11-01273-001	Fluke Model 1750 Power Recorder	1	13,270		
11-01273-002	Ridgid Model 1822-1 Pipe Threading Machine and Stand	1		5,843	
11-01273-003	Taylor-Dunn model SS5-36 Electric Utility Cart	1	5,354		
11-01275-001	Portable Hoist 6 ton	1		8,670	
11-01275-002	Air Diaphragm Operated Pump	1	8,670		
11-01278-001	Parts Washer	1	6,366		
11-01278-002	Blast Cabinet, Pressure	1		10,128	
11-01278-003	Lathe, High Speed Precision	1		25,500	
11-01278-004	Milling Machine, Vertical	1		28,893	
11-01278-005	Bobcat backhoe attachment w/vertical stabilizers	1	9,909		
11-01278-006	Press, Hydraulic	1		12,512	
11-01281-001	DS35 - Forklift, medium duty (gasoline/propane)	1	31,828		
11-01284-001	Automatic Parts Washer	1		13,280	
Section Totals			119,077	131,604	250,681
Totals for Water System Operations			466,757	1,169,717	1,636,475

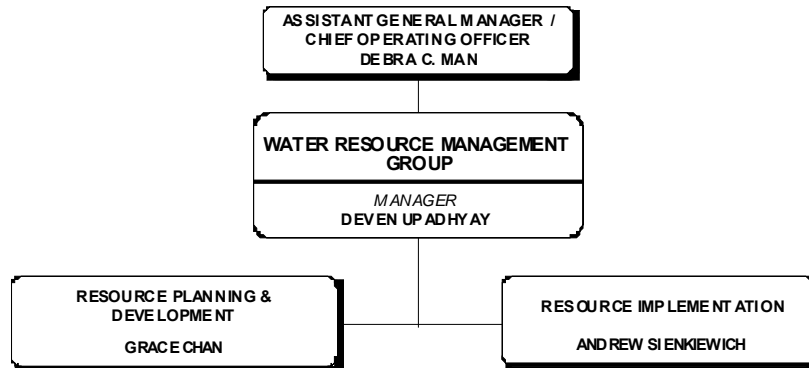
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Water Resource Management

MISSION, ROLES, AND RESPONSIBILITIES

The mission of the Water Resource Management (WRM) Group is to plan, secure, and manage high-quality water resources for Metropolitan's

member agencies in a reliable, cost-effective, and environmentally responsible manner.



Principal roles and responsibilities to achieve that mission include:

- Protect and optimally manage imported water quantity and quality;
- Provide supply and demand forecasts that are the foundation for resource planning;
- Develop and implement timely resource programs and projects;

Assist member agencies in optimizing their use of local resources to benefit the entire Metropolitan service area;

Receive a fair return on contractual investments in local and imported resources; and

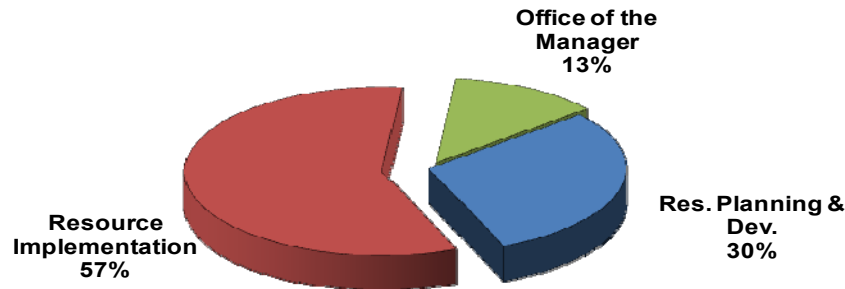
Develop and maintain staff expertise needed to accomplish the mission.

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	24,659,800	19,680,300	21,601,600	15,374,200	(6,227,400)	(4,306,100)
% Change	—	—	—	—	(28.8%)	(21.9%)
Totals	24,659,800	19,680,300	21,601,600	15,374,200	(6,227,400)	(4,306,100)
% Change	—	—	—	—	(28.8%)	(21.9%)
Regular	81	86	81	69	(12)	(17)
Temporary	0	0	0	0	0	0
Total Personnel	81	86	81	69	(12)	(17)

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$15.4 Million**



2009/10 ACCOMPLISHMENTS

Colorado River

Managed existing and new supply programs allowing CRA deliveries in FY 2009/10 of 1.035 MAF.

Developed over 285,000 AF of supply from farm programs.

Developed an interstate supply arrangement with the Southern Nevada Water Authority, participated in a test operation of the Yuma Desalting Plant, and made short-term water acquisitions from other agencies.

Continued participating with key agencies in basin-wide salinity control measures that have reduced average concentrations by 120 mg/L.

Groundwater Storage Program

Continued administration of the ten approved conjunctive use programs and extracted stored water for dry-year supply.

Completed computer modules for five major groundwater basins for integration with Metropolitan's resource planning model to

evaluate opportunities and challenges for groundwater conjunctive use and replenishment operations.

Regional Resources and Water Conservation

Re-launched Metropolitan's regional, commercial, and residential conservation rebate programs, working within Metropolitan's budget.

Completed a survey that increases understanding of residential conservation opportunities and motivations.

Sponsored or co-sponsored four water conservation bills recently signed into law by the governor of California.

Contributed to the finalization of the state model water efficient landscape ordinance, development of state general permit for irrigating with recycled water, and developed a model water conservation ordinance for the Metropolitan service area.

Increased overall Local Resource Program (LRP) water production to 165,000 AF of recycled water and 57,000 AF of recovered

groundwater and seven newly constructed projects started operations.

Seawater Desalination

Supported member agency permitting of seawater desalination plants and pilot plants and with acquisition of a federal grant.

Participated in the state marine life protection area process to highlight and preserve potential seawater desalination sites.

Participated with the San Diego County Water Authority and other agencies in an initial investigation of a potential seawater desalination plant at Rosarito Beach, Mexico.

State Water Project

Completed audit and analysis of the 2010 SWP Statement of Charges and subsequent billings, and resolved certain errors and deficiencies.

Protected Metropolitan's interests in litigation related to Hyatt-Thermalito energy revenues and area-of-origin claims. The court ruling on Hyatt-Thermalito, although pending appeal, was for the defendants, including Metropolitan.

Influenced DWR to defer planning work for the East Branch enlargement until need is demonstrated.

Ensured access to SWP infrastructure to make full use of contract water and Metropolitan transfer / banking program water, resulting in the delivery of over 1 MAF.

Advanced water quality monitoring and forecasting activities, resulting in the first seasonal water quality forecast from DWR.

Worked closely with DWR in developing new SWP renewable energy strategies and practices for present and future needs.

Water Supply and System Planning

Completed the annual IRP Implementation Report to the Board and the annual SB 60 report on Metropolitan's water resource strategy and accomplishments in conservation, recycling, and groundwater recharge.

Continued implementation of the Water Supply Demand Management (WSDM) Plan to provide short-term planning strategies for managing

Metropolitan's portfolio of water resource programs.

Completed a draft report for the IRP update incorporating alternative water resource strategies.

Provided monthly communications to the Board and member agencies on the implementation of the Water Supply Allocation Plan and administered the appeal process. Initiated review of the implementation plan.

Completed the upgrade to the system distribution analysis computer model.

Water Transfers and Exchanges Program

Continued to manage Metropolitan's five existing SWP storage programs located outside of Metropolitan's service area.

Worked with State Water Contractors and potential Central Valley sellers on key agreement terms for water transfers and exchanges in 2010 and 2011.

BUDGET ISSUES AND CONSTRAINTS

Labor – Reductions in labor will reduce in-house capability for refining existing and evaluating new water management programs.

Professional Services – Reductions in professional services will eliminate consulting services for the Regional Urban Water Management Plan. Other impacts include a delay in the number of analyses on SWP supplies; reduced capability to evaluate feasibility and costs of potential water supply augmentations and water management programs; reduced support for the IRP; and the inability to develop information on agricultural economics and parameters for multi-year water transfers.

Other – Reductions in memberships and subscriptions eliminates Metropolitan's WaterReuse Foundation membership, resulting in the loss of a seat on the WaterReuse Foundation Board and missed opportunities to influence testing and research results of water recycling and desalination technologies at a national level. Impacts also include reduced efforts to assist member agencies with

regulatory issues regarding proposed seawater desalination and other local supply projects; withdrawal from a nationwide coalition pursuing tax credit bond legislation; and reduced SWP Contractors Authority Special Project Committee costs to represent State Water Contractors (SWC) in development of the Delta Habitat Conservation and Conveyance Program (DHCCP) over the next four years.

Conservation Credits Program Incentive Funding – Metropolitan’s Conservation Credits Program was reduced to about 50 percent of the activity level, which will result in a loss of about 7,000 acre-feet of new water savings per year, and the inability to implement new initiatives, including scaling back the Turf Replacement Project and Public Sector Program.

2010/11 OBJECTIVES

Colorado River

Protect the Colorado River and Metropolitan’s Colorado River rights and implement strategies to maximize Metropolitan’s use of Colorado River water available in 2010/11.

Implement salinity management and other actions to improve source water quality.

Partner with other Colorado River water delivery contractors on programs including the Yuma Desalting Pilot, weather modification, controlling invasive plants, and basin studies to develop new Metropolitan supplies.

Participate in cross-border water supply programs, which could provide shared supply benefits to the United States and Mexico, and coordinate emergency deliveries to Tijuana.

Manage and improve administration of Imperial Irrigation District (IID) and Palo Verde Irrigation District (PVID) farm programs and other supply agreements.

Groundwater Storage Program

Continue to manage the ten approved conjunctive use programs, including development of annual operating plans.

Provide technical support and analysis of proposed legislation, including support to the

Association of California Water Agencies (ACWA) in their development of a position paper on groundwater.

Develop a program for storing water in 2010 with call provisions for a future water allocation year.

Evaluate the potential for Metropolitan’s involvement in the expansion of Orange County Water District’s Groundwater Replenishment Program.

Regional Resources and Water Conservation

Develop and implement a transition water conservation program leading to a revised long-term approach as part of the IRP update and pursue grants.

Participate in WaterReuse regulatory and legislative efforts to expand desalination and recycling. Participate in New Water Supply Coalition legislative efforts for federal funding.

Work with member agencies participating in the LRP to increase program water recycling and recovered groundwater for a collective yield to about 250,000 AF.

Administer agreements that provide incentives for conservation, recycled water, and recovered groundwater production.

Collaboratively advance Metropolitan’s regional salinity management goals.

Seawater Desalination

Support member agencies to develop seawater desalination projects, especially to address regulatory issues. Administer executed incentive agreements.

Continue working with partners to complete Phase I of the Rosarito Beach seawater desalination feasibility study.

State Water Project

Work with other SWP contractor agencies to ensure equitable and worthwhile project advances and provide leadership for effective solutions.

Ensure accurate billings, resolve discrepancies, and influence sound financial decisions from DWR.

Water Resource Management

Protect SWP water, power, and financial positions under the Oroville FERC relicensing process and associated litigation.

Ensure effective DWR energy management practices, including renewable energy, emissions reductions, transmission strategies, and energy acquisitions and close out a major coal plant contract.

Support Metropolitan's interests in litigation related to Hyatt-Thermalito energy revenues, area-of-origin claims, and San Joaquin Valley drainage program.

Coordinate new SWP capital improvements and major rehabilitations to ensure cost-effective water supply and energy generation / use.

Promote water quality monitoring and forecasting activities and raise awareness of potential water quality impacts from operational decisions.

Ensure access to SWP conveyance facilities to make full use of Metropolitan water transfer and banking programs.

Water Supply and System Planning

Complete annual progress reports on IRP implementation and Metropolitan's water supplies and achievements in conservation, recycling, and groundwater recharge (SB 60 report).

Complete the annual forecast of Metropolitan sales to support revenue requirements and budget processes.

Complete the 2010 RUWMP.

Work with Corporate Resources Group to explore potential partnerships with member agencies and other entities for development of regional seawater desalination, recycling, and groundwater replenishment facilities.

Water Transfers and Exchanges Program

Continue to manage the five existing water transfer, exchange, and storage programs along the California Aqueduct.

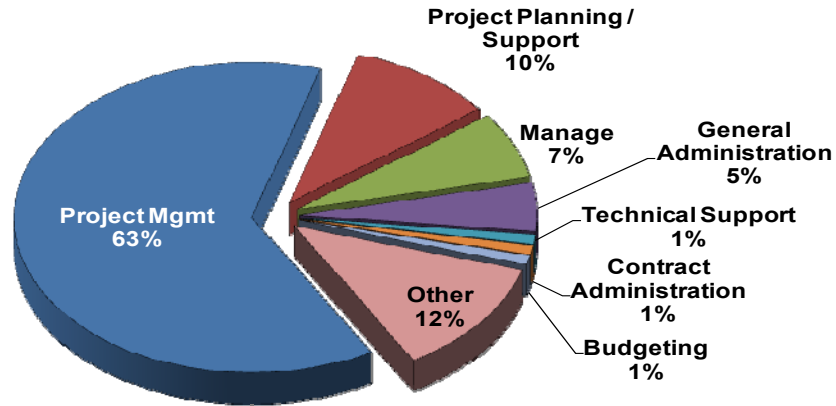
Implement approved water transfers and pursue additional water transfer and exchanges options.

Water Resource Management

Performance Measures Summary

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
IRP Milestones/Targets	Ensure Metropolitan has a long-term resource strategy that incorporated updated conditions and uncertainties, and stakeholder input to ensure water supply reliability.	82.0%	94%	90%
Operating Reserve	Ensure water supply to meet firm demand on Metropolitan's water.	124%	93%	> 110%
Planning Reserve	Ensure Metropolitan's long-term water supply reliability by monitoring IRP implementation.	113%	130%	> 110%
New Annual Conservation Savings Rate	Pursue IRP goal by monitoring new annual conservation savings.	168%	107%	85% to 115% of annual target
SWP Budget Expenditure Forecast Rate	Monitor/project SWP costs to highlight potential need for action (measured monthly as a budget variance).	81%	92%	95% to 105% of annual budget

**Major Activity Distribution
2010/11 Budget
\$15.4 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	13,182,600	12,910,200	12,675,000	11,515,400
Professional Services	9,351,300	4,273,600	5,875,000	1,252,700
Other	0	0	0	0
Memberships & Subscriptions	974,900	1,243,400	1,888,900	1,898,200
Materials & Supplies	95,100	114,000	113,100	138,500
Travel Expenses	191,700	247,200	247,500	137,700
Other Accounts	864,200	891,900	802,100	431,700
Totals	24,659,800	19,680,300	21,601,600	15,374,200
% Change	—	(20.2%)	9.8%	(28.8%)
Regular	81	86	81	69
Temporary	0	0	0	0
Total Personnel	81	86	81	69

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salary and Benefits – Reflects elimination of five positions and a net transfer of 11 positions to the Bay Delta Initiatives program and one position to the Real Property Development and Management Group partially offset by merit and employee benefits cost increases and a reduction in the anticipated vacancy rate.

Professional Services – Decrease reflects transfer of consulting services for the Commercial, Industrial, and Institutional (CII) and residential conservation programs to the Metropolitan-wide Conservation Credits Program and transfer of consulting services

contracts for work related to the Bay-Delta to the new Bay-Delta Initiatives Program organization.

Memberships and Subscriptions – Reflects an increase in the State Water Contractor annual membership dues.

Travel and Other Accounts – Reflects transfer of Bay-Delta related travel, training, and other operating expenses to the new Bay-Delta Initiatives Program organization.

Water Resource Management

OFFICE OF MANAGER

The Office of the Manager provides management and direction of the group's efforts in planning, securing, and managing Metropolitan's water resources; monitoring and

tracking of the group's business plan, financial and budgetary initiatives; and administrative and business processes support.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,067,000	2,033,900	1,978,500	1,726,100
Other	123,200	198,900	195,300	160,100
Totals	2,190,200	2,232,800	2,173,800	1,886,200
% Change	—	1.9%	(2.6%)	(13.2%)
Personnel	15	16	15	13

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects elimination of one position, transfer of one position to the new Bay-Delta Initiatives Program organization, and transfer of one position to the Real Property Development and Management Group partially offset by merit and employee benefits cost increases.

Other – Reflects decrease in materials & supplies, graphics and reprographics, and the transfer of travel related to the Bay-Delta to the new Bay-Delta Initiatives Program organization.

RESOURCE PLANNING & DEVELOPMENT

The section is responsible for providing an integrated supply and demand forecast that will meet the needs of member agencies and reflect their long-range planning efforts for local supplies, setting the foundation for Metropolitan’s resource mix and local supplies needed to meet demands. The section also supports the development of resource programs, projects, and infrastructure to meet projected

resource targets; administers the planning process; defines strategies for meeting service area water needs, including the IRP and WSDM; and develops resource options, such as groundwater conjunctive use, water transfers and exchanges, as well as alternatives for short-range planning and implementation through joint action with WSO.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	5,249,200	5,178,300	5,091,200	3,835,900
Professional Services	2,394,500	1,710,000	1,700,000	415,000
Other	588,100	582,600	569,800	349,200
Totals	8,231,800	7,470,900	7,361,000	4,600,100
% Change	—	(9.2%)	(1.5%)	(37.5%)
Personnel	31	34	31	22

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries & Benefits – Reflects elimination of three positions and the transfer of nine positions to the new Bay-Delta Initiatives Program organization partially offset by merit and employee benefit cost increases and a reduction in anticipated vacancies.

Professional Services – Reflects the transfer of Bay-Delta consulting services to the new Bay-Delta Initiatives Program organization.

Other – Reflects a decrease in travel and the transfer of other Bay-Delta related budget items to the new Bay-Delta Initiatives Program organization.

Water Resource Management

RESOURCE IMPLEMENTATION

The section develops and administers water resource programs and contracts and pursues application of new technologies and innovation for the Colorado River, SWP, water recycling, groundwater recovery, conservation, and

seawater desalination. This section also monitors and responds to regulatory, legislative, and operational activities that may influence Metropolitan's rights and benefits related to the quality, reliability, and cost of water.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	5,866,500	5,697,900	5,605,300	5,953,300
Professional Services	6,937,100	2,563,600	4,175,000	837,700
Other	1,413,000	1,715,000	2,286,500	2,096,800
Totals	14,216,600	9,976,500	12,066,800	8,887,800
% Change	—	(29.8%)	21.0%	(26.3%)
Personnel	35	36	35	34

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries & Benefits – Reflects the elimination one a position and the transfer of one position to the new Bay-Delta Initiatives Program organization offset by merit and employee benefits cost increases and the elimination of a vacancy factor.

Professional Services – Reflects a transfer of the CII and residential conservation programs consulting services to the Metropolitan-wide Conservation Credits Program.

Other – Reflects an increase in the SWC annual membership dues.

Water Resource Management

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	15,374,200	14,461,800	15,103,900
% Change	—	(5.9%)	4.4%
Personnel	69	69	69
Capital	0	0	0
% Change	—	—	—
Personnel	0	0	0
Total	15,374,200	14,461,800	15,103,900
Regular Personnel	69	69	69
Temporary Personnel	0	0	0
Total Personnel	69	69	69

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12

Reflects an increase in labor consistent with inflation and associated with merit and benefits cost increases; transfer of \$1.5 million of SWP-related memberships and subscriptions to the general district requirement budget; and a net increase in costs related to administering

imported supply contracts and activities, developing long-term water supply plans and strategies, and participating in negotiations related to the Colorado River, SWP, and legislative proposals.

ASSUMPTIONS FOR 2012/13

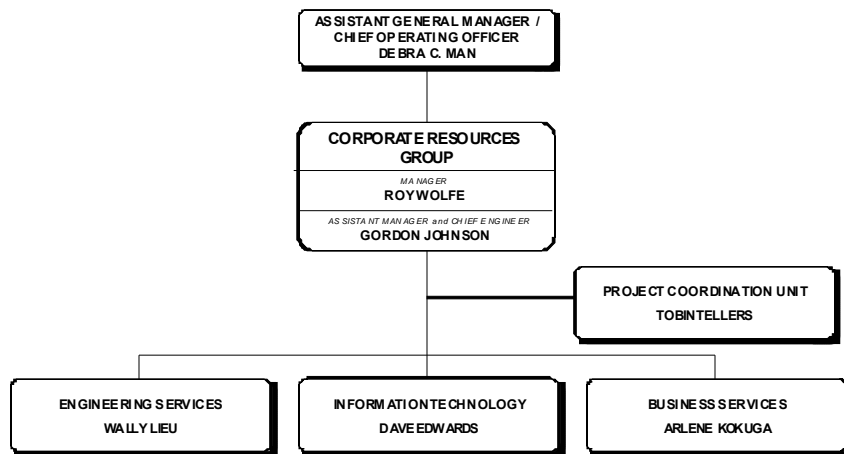
Reflects an increase in labor consistent with inflation and associated with merit and benefits cost increases and a 3.5% increase in costs related to administering imported supply

contracts and activities, developing long-term water supply plans and strategies, and participating in negotiations related to the Colorado River, SWP, and legislative proposals.

MISSION, ROLES, AND RESPONSIBILITIES

The Corporate Resources Group (CRG) is comprised of three sections, a Project Coordination Unit, and the Office of the Group Manager that work collaboratively to support the General Manager’s Business Plan. Business Services provides a range of services including procurement, contracting, warehousing, inventory management, investment recovery, graphics, and document services. Engineering Services provides design, project management, construction management, environmental planning, infrastructure protection, and water-related local and regional facility planning services primarily related to CIP activities.

Information Technology delivers technology services and solutions in the areas of business applications (e.g., laboratory information management system, financial and human resource systems, maintenance management system, etc.), control systems (i.e., SCADA – System Control and Data Acquisition), geographic information systems, telecommunications / networks, and computer hardware and software. The Office of the Group Manager and the Project Coordination Unit provide overall management of the CRG Business Plan and budget, and coordination of the CIP.



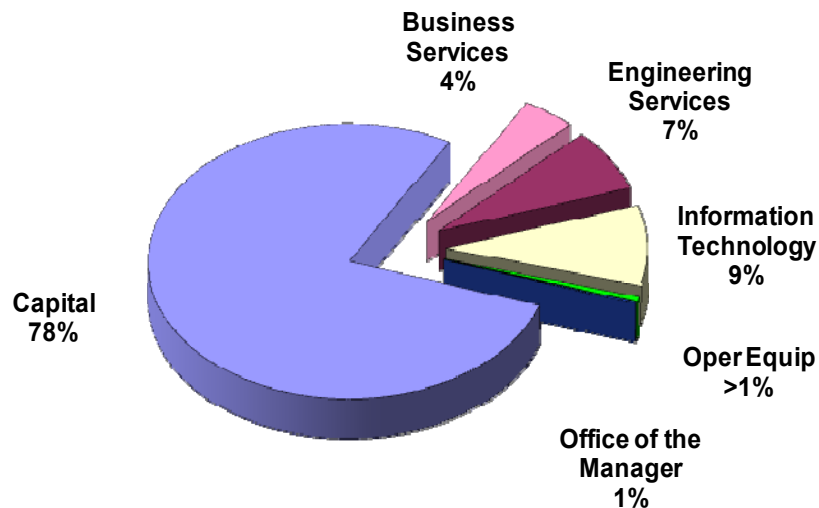
Corporate Resources

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	63,402,600	61,128,900	61,418,900	64,981,600	3,562,700	3,852,700
% Change	—	—	—	—	5.8%	6.3%
Capital	287,806,100	372,026,300	306,902,200	233,904,800	(72,997,400)	(138,121,500)
% Change	—	—	—	—	(23.8%)	(37.1%)
Totals	351,208,700	433,155,200	368,321,100	298,886,400	(69,434,700)	(134,268,800)
% Change	—	—	—	—	(18.9%)	(31.0%)
Regular	629	665	626	616	(10)	(49)
Temporary	4	0	1	0	(1)	0
Total Personnel	633	665	627	616	(11)	(49)

Note – Totals may not foot due to rounding.

Program Expenditures 2010/11 Budget \$298.9 Million



2009/10 ACCOMPLISHMENTS

During the year, CRG focused its efforts on customer service and supporting the General Manager's initiatives related to ensuring adequate water supply, system reliability, water quality excellence, and cost-efficient business processes.

Supply Reliability

Continued to maintain close collaboration between local and regional facility planning efforts through annual update meetings and formal Integrated Area Study (IAS) updates linked to Metropolitan's IRP.

Provided engineering oversight and guidance for the Bay-Delta Habitat Conservation Conveyance Plan (DHCCP).

Capital Investment Plan

Diemer Oxidation Retrofit Program (ORP) – Completed fabrication of ozone equipment and continued with the ozonation facilities construction contract.

Weymouth ORP – Began construction of the basin influent conduit and continued with the main ORP final design, which includes construction of the ozone contactors, ozone generation building, liquid oxygen facilities, and related chemical facilities.

Skinner ORP – Completed construction activities, start-up, and testing.

Inland Feeder – Completed the Arrowhead Tunnels 14 months ahead of schedule and within the Board-authorized budget. Service commenced in late September 2009 with 800 cfs of deliveries to DVL.

Perris Valley Pipeline – Completed the second of four tunnel crossings and continued with pipe installation for the South Reach.

Hayfield Groundwater Storage Program - Completed preliminary design and obtained authority for final design of a production well that will ultimately lead to withdrawal of up to 100,000 AF of water from the Hayfield Groundwater Basin. Continued water quality sampling, survey deformation monitoring, ground water level monitoring activities, and

continued resource modeling to determine if the program should move forward or remain on hold.

San Diego No. 6 – Completed the alternative feasibility study for the South Reach and continued mitigation and monitoring restoration measures associated with the supplemental Environmental Impact Report (EIR) and permits along the completed North Reach.

Infrastructure Reliability

Completed annual infrastructure and facility inspections, including pipelines, canals, treatment plant equipment and facilities, chemical tanks, chlorine trailers, pressure vessels, and dams.

Weymouth Water Treatment Plant Improvements Program – Completed construction of the new polymer tank farm; started construction activities for the inlet gates and rapid mix facilities; and received Board authorization for construction contracts for the electrical power systems and seismic upgrades.

Diemer Water Treatment Plant Improvements Program – Awarded construction contract for the North Access Road; completed design activities under Phase 2 of the electrical improvements; and continued Phase I construction activities.

Skinner Water Treatment Plant Improvements Program – Completed design and commenced construction on replacement of solids collection equipment in Modules 5 and 6 and Wastewater Reclamation Plant (WWRP) No. 2; upgraded the electrical building and ground fault protection system; and rehabilitated filter modules four through six.

Treated Water Cross Connection Prevention – Completed construction of 87 sites under Phase II of the program and began construction on 75 sites under Phase III.

CRA, Conveyance, and Distribution System Programs – Completed numerous phases of work on approximately 110 projects to replace or refurbish existing facilities and components in order to continue to reliably meet current service demands.

Implement the IT Strategic Plan (ITSP)

Completed a major update of Metropolitan's ITSP, which is a roadmap to guide the investment and deployment of information technology over the next three to five years, with the goal of leveraging IT investments to increase long-term reliability while improving efficiency and effectiveness.

Continued with the Control System Enhancement Program to automate distribution, treatment, and conveyance systems and replace aging and outdated computers, software, and automatic meter reading components.

Continued the server consolidation program in Metropolitan's Data Center to reduce the number of physical servers, thereby reducing hardware expenditures and lowering energy consumption.

Completed the Union Station Technology Upgrade to replace and improve audio, video, and information technology-related equipment in the Board and main committee rooms.

Completed Phase II of the Information Security Assessment / Remediation Program to enhance and upgrade IT infrastructure and reduce cyber threats.

Completed implementation of the Water Billing System, replacing a 12-year-old system and providing new on-line water use capability for member agencies via the Internet.

Energy Management and Sustainability

Completed a comprehensive Energy Management and Reliability Study that identifies Metropolitan's current power position, provides an estimate of future energy requirements based upon the IRP, develops various scenarios addressing risk, and develops strategies / projects to mitigate against price volatility and maintain energy reliability, including:

Completing preliminary design for the Weymouth Solar Energy Project.

Beginning design activities for up to 8 MW for the expansion of the Skinner Solar Power Facility in addition to solar facilities at the Mills and Jensen treatment plants.

Completed and certified Metropolitan's annual greenhouse gas emissions report for 2009 with the California Climate Action Registry.

Supported Metropolitan's sustainability efforts encouraging employees to be green at work and at home through publishing "Our Legacy" e-newsletters; taking a lead role in planning and hosting the 3rd Annual Spring Green Fair attended by Metropolitan staff, businesses, and the community; continued promoting the Paperwise Program that has led to a 50% reduction in Metropolitan's paper usage since its inception in 2007; and continuing implementation of Metropolitan's green procurement program.

Benchmarking and Business Process Optimization

Continued to improve the Rideshare Program by automating the collection of vanpool and transit attendance for more efficient monitoring, compliance, and reporting; negotiating a lower rate for leased van pool vehicles reducing costs by over \$40,000 a year; documenting and updating transit and vanpool policies and procedures; and updating the IntraMet to encourage employees to use one of Metropolitan's Rideshare options.

Continued to implement adopted findings from benchmarking studies to identify best-in-class industry innovations and business processes in the areas of engineering cost estimating, alternative project delivery methods, and construction change order management.

Implemented various types of business process enhancements, including:

A new contract administration tools to create deeper understanding and a more vigilant contract monitoring on the part of the administrators; and

A new warehouse bar coding system to more efficiently and accurately track inventory promoting better customer service and improving visibility of key business information for management.

Upgraded the Maximo Maintenance Management System and the Microsoft suite of systems ensuring continued vendor support.

Completed automation of Intake Pump Plant Pump No. 1 to automate start-up and shut down and help Metropolitan meet “load shed” contracts with Southern California Edison.

Completed contract negotiations, development of a lease agreement, and installation of new document printing and production equipment in Reprographics resulting in a reduction in annual leasing costs of \$125,000.

In collaboration with WRM, assisted with the Conservation Credits Program by implementing improved strategies to monitor, track, and control backlog payments identified in a Metropolitan audit report. Additional measures have been implemented to improve the service provider contract, communications, and financial controls.

Initiated a grant management process and initiative to pursue external financial support including Federal American Recovery and Reinvestment Act funds and other federal and state funding. Metropolitan pursued 6 grant opportunities this year with the California Energy Commission and the Department of Energy – not shortlisted, the Bureau of Reclamation, the Riverside Flood Control District and the Los Angeles County Sanitation District.

Metropolitan received \$40 million in state funding for its ORP projects – Skinner and Diemer Treatment Plants. The State has notified Metropolitan that it intends to fund the Weymouth ORP project totaling \$20 million in the next few months.

Enhanced Workforce Competencies/Training

Conducted leadership forums to provide managers with up-to-date information regarding Metropolitan-wide issues and initiatives and to develop plans and programs for performance improvements.

Conducted quarterly Engineering Managers’ Member Agency Forums to provide opportunities to share and exchange common technical related issues among participating agencies.

BUDGET ISSUES AND CONSTRAINTS

CRG’s budget received a thorough review of all vacant positions, levels of customer service, non-labor costs, and operating equipment. This was done to mitigate for increasing costs that ultimately put upward pressure on water rates.

As a result of that review, a net of 49 positions were eliminated from both O&M and CIP work activities. This significant reduction increases the risk that degradation of group-wide service levels could adversely impact reliability, increase future costs, cause delays or deferral of maintenance, slow delivery of materials and services to WSO field personnel, slow response to WSO succession planning efforts, reduce O&M training, and reduce the ability to support newly acquired IT technologies. The elimination of 33 CIP positions and the reassignment of 11 additional CIP positions to O&M in support of Bay-delta efforts may require greater reliance upon consultant use in order to meet current project schedules.

Outside services non-professional and repair services will also be reduced potentially delaying IT projects, repairs and maintenance for IT servers, telecommunications, and environmental planning. IT components such as software, printers, monitors, and CPU supplies will be reduced causing potential cost shifts to customer organizations.

Equipment purchases will be reduced, potentially increasing future costs and reducing system reliability, creating a risk outages associated with network servers, vehicles, and dam deformation measurement equipment.

2010/11 OBJECTIVES

Supply Reliability

Continue to provide engineering support to state and water management agencies, water project contractors, and stakeholders in the DHCCP process including the necessary environmental documentation and preliminary designs needed to support a decision on Bay-Delta conveyance facilities improvements.

Continue to maintain close collaboration between local and regional facility planning efforts through annual update meetings and formal IAS updates linked to Metropolitan's IRP.

Complete Phase I of the Joint Water Purification Study, which assesses the potential demand for purified water to recharge groundwater basins in Los Angeles County and evaluates the feasibility of storing and extracting the purified water.

Capital Investment Plan

Perris Valley Pipeline (South Reach) – Award construction contract for the new tunnel crossings and begin construction activities.

Diemer ORP – Continue major construction activities on the ozone contactors, ozone generation building, liquid oxygen tank farm, and electrical support facilities and obtain Board approval for start-up operations.

Weymouth ORP – Complete construction of the Inlet Conduit and complete final design and advertise construction contract for the Weymouth ozone facilities.

San Diego Pipeline No. 6 – Continue remaining environmental monitoring / mitigation along the completed North Reach, start preliminary design and CEQA process, and obtain rights of way permits for the South Reach.

Infrastructure Reliability

Water Treatment Plant Improvements – Continue rehabilitation and betterments at all five water treatment plants to meet water quality standards and ensure reliability, including:

Diemer Water Treatment Plant – Complete construction of Diemer North Access Road, continue Phase I construction activities for electrical improvements, and commence design and construction of a number of seismic retrofits.

Weymouth Water Treatment Plant – Complete replacement of inlet gates and the rapid mix facilities, construct junction structure seismic upgrades and chemical tank farm modifications, and begin construction of the electrical power system and seismic upgrades.

Jensen Water Treatment Plant – Complete construction of mixing and settling basin reactivation, complete seismic upgrades of the administration building, and start design of the lagoons and additional seismic upgrades.

CRA and Conveyance / Distribution System Improvements – Continue rehabilitation and betterments throughout the CRA and distribution system to ensure water delivery reliability, including:

Treated Water Cross Connection Prevention – Complete relocation / modification of 70 sites under Phase III and advertise construction of 78 sites under Phase IV of the program.

Reservoir Cover & Replacement Program – Replace the floating covers, install liners, and perform related repairs at Orange County and Palos Verdes reservoirs, the Skinner Finished Water Reservoir, and Jensen Finished Water Reservoir No. 2.

Reservoir Improvements – Complete construction of sodium-hypochlorite system and replacement of SCADA equipment at Garvey Reservoir and complete spillway structure modifications at Palos Verdes Reservoir.

Information Technology Strategic Plan

Complete the Water Quality Monitoring and Event Detection Monitoring Project to provide an early detection and warning system for possible contaminants in Metropolitan's water distribution system.

Substantially complete the implementation of the E-Discovery Management System to manage electronically stored documents and facilitate Metropolitan's response to legal discovery and Public Records Act requests.

Complete the Computer Aided Design (CAD) Management System to streamline the management of Metropolitan's engineering drawings and documents.

Initiate rollout phase for replacement of Metropolitan's 18-year-old telephone system and implementation of advanced communications capabilities.

Initiate deployment of the new Two-Way Radio System to improve the coverage and reliability

of field and emergency communications for WSO.

Initiate work on the upgrade of the SCADA system at DVL to improve reliability of the system.

Energy Management and Sustainability

Continue to support Metropolitan's business process sustainability efforts by conducting an analysis of options to improve Rideshare Program efficiency; continue to administer Metropolitan's Paperwise Program to maintain and improve on the 50% reduction in paper consumption targets from the 2007 baseline; and support sustainable landscaping grant funded projects.

Reduce energy consumption of computer equipment by procuring and implementing a power conservation application on all workstations and initiating a project to reconfigure equipment in Metropolitan's Data Center.

Benchmarking and Business Process Optimization

Expand development of web-based technical treatment plant and distribution system manuals enabling broader access to updated information and a 30-50 % reduction in development time of technical documentation required to meet

regulatory requirements, support engineering projects, and maintain field water delivery systems.

Expand volume of photographic images and video clips of major Metropolitan projects, facilities, history, and functions in our existing Digital Asset Management System (Cumulus) by 100%.

Further improve professional service contract administration by performing an assessment of current practices and developing a comprehensive Contract Administration Manual.

Continue to assist with the oversight and program management of the Conservation Credits Program and continue to improve the service provider contract, communications, and financial controls.

Continue to identify grant funding opportunities from ARRA for projects covering water and energy conservation, energy efficient facilities, and solar power.

Enhanced Workforce Competencies/Training

Continue to conduct leadership forums to provide managers with up-to-date information regarding Metropolitan-wide issues and initiatives and to develop plans and programs for performance improvements.

Performance Measures Summary

CRG will continue its mission to provide services that support Metropolitan’s core business in an efficient and cost-effective manner. Using the General Manager’s Business Plan, we will monitor key performance measures that align organizational strategies and focus on services. In this past fiscal year, three of the four measures on design and construction inspection costs slightly exceeded the targets.

Due to ongoing challenging economic conditions, Metropolitan has received lower bids this past year than in previous years for its construction projects with numerous bidders competing. While this has resulted in lower construction costs, it has also resulted in higher than normal design and construction inspection cost percentages.

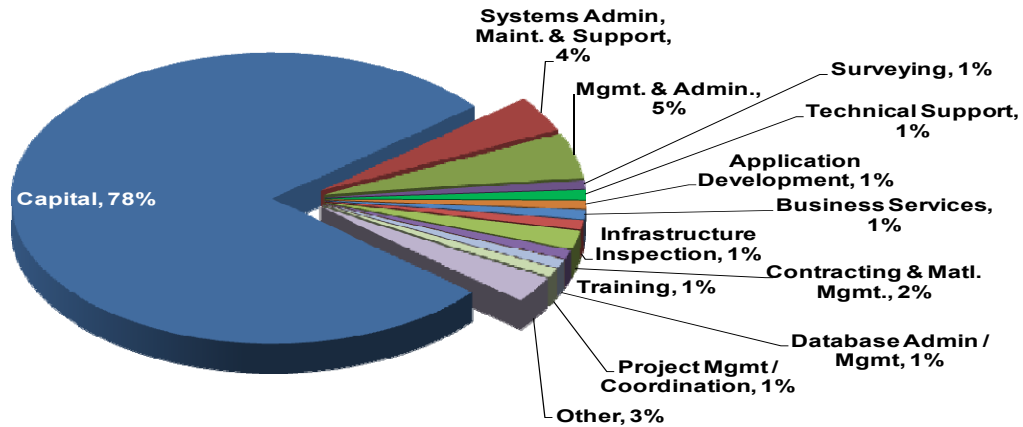
Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
Complete CIP within construction schedule	Measure how many construction projects were completed on time.	93%	96%	> 95% of construction contracts completed on time
Final Design Cost as a percentage of Construction Cost (Capital)	Ensure costs are comparable to industry standards of similar agencies by measuring for cost efficiency and value-added features.	9.2%	12.7%	9% - 12% (Construction Costs > \$3,000,000)
		11.4%	16.1%	9% - 15% (Construction Costs ≤ \$3,000,000)
Construction Inspection Costs as a percentage of Construction Cost (Capital)	Ensure costs are comparable to industry standards of similar agencies by measuring for cost efficiency and value-added features.	7.7%	15.0%	9% - 12% (Construction Costs > \$3,000,000)
		13.9%	14.1%	9% - 15% (Construction costs ≤ \$3,000,000)
Innovative Conservation Program contracts	Ensure successful completion of contracts in support of advanced conservation methods.	-	New measure	TBD
Energy Management Policy	Measure progress toward implementation of Board-approved policy	New measure	Policy adopted	TBD
Annual cost of desktop computing support per workstation	Measure the cost associated with supporting a PC.	\$1,607	\$1,607	< \$1,744
Processing time for purchase orders < \$25,000	Evaluate current process and assess for potential improvements to reduce the total cycle time.	78%	79%	75% of PO’s processed in < 4.0 days
Processing time for purchase orders > \$25,000 and < \$100,000	Evaluate current process and assess for potential improvements to reduce the total cycle time.	6 days	3.5 days	12 days
O&M Budget Performance	Monitor how the Group is meeting its fiscal year O&M plan.	99%	103.8%	≤ 100%

Corporate Resources

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
Internet Reliability	Measure the level of internet reliability during the prime time work hours of 6:00 am to 6:00 pm, Mondays through Fridays.	99.9%	100%	≥ 99.5%

Corporate Resources

Major Activity Distribution 2010/11 Budget \$298.9 Million



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	51,862,000	50,417,600	50,300,900	54,039,300
Professional Services	1,095,300	834,500	955,600	1,508,200
Other	0	0	0	0
Materials & Supplies	4,558,500	4,252,300	4,300,900	4,614,900
Communication Expenses	1,466,900	1,421,700	1,376,200	1,374,400
Repairs & Maintenance - Outside Services	234,500	767,100	767,100	734,600
Subsidies & Incentives	625,500	661,800	706,600	643,800
Rent & Leases	715,200	642,500	630,500	633,800
Outside Services - Non Professional / Mainte	607,100	512,400	515,100	507,100
Other Accounts	601,900	309,400	561,000	470,700
Totals	61,766,900	59,819,300	60,113,900	64,526,800
% Change	—	(3.2%)	0.5%	7.3%
Operating Equipment	1,636,100	1,309,700	1,305,000	455,000
Total O&M and Operating Equipment	63,403,000	61,129,000	61,418,900	64,981,800
% Change	—	(3.6%)	0.5%	5.8%
Regular	358	364	352	359
Temporary	2	0	1	0
Total Personnel	359	364	353	359

Note – Totals may not foot due to rounding.

Corporate Resources

Capital Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	40,166,800	46,977,400	45,345,900	38,782,500
Professional Services	37,102,900	39,184,200	26,353,600	28,398,400
Property Acquisition	3,096,300	12,346,200	20,653,100	65,100
Construction	197,225,100	252,775,100	195,830,500	149,982,600
Other	10,214,900	20,743,500	18,719,100	16,676,200
Totals	287,806,000	372,026,400	306,902,200	233,904,800
% Change	—	29.3%	(17.5%)	(23.8%)
Regular	272	301	274	257
Temporary	2	0	0	0
Total Personnel	274	301	274	257

Note – Totals may not foot due to rounding.

*** Reimbursable expenses included above are offset by a similar amount of revenue.

Corporate Resources

Capital Expenditure Plan

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
All Facilities - Security Systems Improvement	5,300	54,300	46,000	43,000
All Water Treatment Plants - Install Roofs for Chemical Tank Farms	1,590,700	614,900	24,300	0
Assess the Condition of Metropolitan's Prestressed Concrete Cylinder Pipe	670,200	888,000	805,400	438,000
C and D System Environmental Compliance	1,058,300	0	152,300	0
Cabazon Radial Gate Facility Improvements	42,400	6,000	9,800	93,100
Capital Program for Projects Costing Less Than \$250,000 for FY2005/06	91,500	89,700	363,500	101,700
Capital Program for Projects Costing Less Than \$250,000 for FY2006/07	195,400	171,000	809,600	104,900
Capital Program for Projects Costing Less Than \$250,000 for FY2007/08	674,100	460,000	1,047,200	8,600
Capital Program for Projects Costing Less Than \$250,000 for FY2008/09	757,900	1,266,300	1,638,200	84,500
Capital Program for Projects Costing Less Than \$250,000 for FY2009/10	0	595,000	466,600	860,300
Capital Program for Projects Costing Less Than \$250,000 for FY2010/11	0	262,200	1,000	463,900
Central Pool Augmentation and Water Quality	258,700	415,600	39,100	0
Chlorine Containment and Handling Facilities	8,578,700	883,000	2,961,800	3,736,900
Control System Enhancement Program	750,700	299,700	709,200	915,200
Conveyance and Distribution System - Rehabilitation	5,308,800	5,952,800	7,325,800	6,653,100
Conveyance and Distribution System - Rehabilitation Phase II	3,240,700	8,526,200	6,565,600	15,596,400
CRA - Conveyance Reliability Program	2,808,200	2,532,200	2,301,100	1,240,200
CRA - Discharge Containment Program	123,800	958,400	115,000	388,300
CRA - Electrical/Power Systems Reliability Program	59,500	304,500	202,300	395,700
CRA - Pumping Plant Reliability Program	599,800	3,816,300	823,600	6,514,600
CRA - Real Property Recordation Program	2,627,200	1,369,400	1,904,000	1,295,000
CRA - Reliability Program Phase II	626,000	7,200,200	5,817,800	11,235,400
Dam Rehabilitation & Safety Improvements	342,200	944,400	639,100	1,205,300

Corporate Resources

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Diamond Valley Lake Property Transformation	338,700	0	57,600	0
Diemer Land Acquisition, Habitat Conservation	51,400	0	34,800	0
Diemer Water Treatment Plant - Construct Sedimentation Basin Spillways	252,000	195,000	164,600	460,100
Diemer Water Treatment Plant - Improvements Program Phase II	1,060,600	5,567,900	2,160,600	9,116,400
Diemer Water Treatment Plant - Improvements Program	9,333,900	25,711,000	51,340,600	13,019,100
Diemer Water Treatment Plant - Oxidation Retrofit Program	27,638,900	67,859,600	50,602,700	52,059,500
Diemer Water Treatment Plant - Solids Handling	192,000	168,200	814,300	204,800
Diemer Water Treatment Plant - Washwater Tan	1,240,800	0	17,600	0
Distribution System - Control and Equipment	317,600	67,600	186,900	0
Distribution System - Treated Water Cross Connection	4,531,800	5,864,600	4,314,800	8,174,900
Engineering Administration	0	851,700	0	0
Hayfield Groundwater Storage Program	1,154,000	12,584,700	1,739,100	544,700
Hydroelectric Power Development Program	212,200	420,600	297,700	245,500
Hydroelectric Power Plant Improvement Program	47,500	1,497,400	353,700	3,912,900
Information Technology Decision Support System	0	102,800	0	0
Information Technology System - Business, Finance and HR	3,635,000	2,720,300	3,103,300	2,105,400
Information Technology System - Infrastructure	2,446,300	5,626,700	6,283,500	3,824,300
Information Technology System - Security Program	459,200	583,800	61,200	414,000
Inland Feeder	84,545,500	47,609,000	44,379,200	2,735,100
Jensen Water Treatment Plant - Improvements Program	2,681,600	7,839,400	9,229,900	4,638,000
Jensen Water Treatment Plant - Improvements Program Phase II	322,100	3,346,000	850,300	5,779,200
Lake Mathews Watershed - Drainage Water Quality	72,000	122,500	139,900	197,400
LaVerne Shop Facilities Upgrade	1,498,800	4,066,900	2,082,600	1,238,200

Corporate Resources

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Mills Water Treatment Plant - Capacity Upgrade	12,185,600	533,100	1,519,800	153,100
Mills Water Treatment Plant - Improvements Program	45,100	619,900	128,700	447,100
Mills Water Treatment Plant - Improvements Program Phase II	234,000	1,944,500	1,466,900	2,842,200
Mills Water Treatment Plant - Ozone System Reliability	1,214,800	3,516,300	1,944,900	1,986,100
Operations Support Facilities Improvement Program	4,400	0	46,300	0
Perris Valley Pipeline	34,955,100	18,331,900	20,484,300	2,864,900
Pilot Plant Testing and Equipment Storage Facility	186,300	0	0	0
Power Reliability and Energy Conservation Program	12,372,000	9,162,800	2,212,500	0
Quagga Mussel Control Program	1,374,900	1,435,700	1,290,300	882,200
Regional Sustainable Landscaping Improvement Program	0	0	64,600	0
Regional Water Purification Program	0	0	290,200	463,400
Reimbursable Projects	0	1,500,000	1,125,000	0
Reservoir Cover and Replacement Program	393,100	4,604,500	4,783,600	474,400
Rialto Pipeline Improvements	343,100	954,200	1,526,800	0
Riverside Treatment Plant Land Acquisition	1,600	12,281,400	124,700	0
San Diego Pipeline No. 6	2,589,900	2,668,000	828,400	99,900
Skinner Water Treatment Plant - Expansion No 4	3,920,600	0	375,600	0
Skinner Water Treatment Plant - Improvements	2,673,000	11,935,300	2,601,700	4,009,500
Skinner Water Treatment Plant - Improvements Program Phase II	19,300	2,152,900	1,557,300	763,100
Skinner Water Treatment Plant - Oxidation Retrofit Program	20,257,400	5,906,600	14,907,700	883,300
Strategic Operations and Maintenance Management	479,400	591,900	813,500	0
Water Operations Control Program	0	1,602,900	221,000	1,048,200
Water Treatment Plants - Algae Control	9,100	137,400	35,000	0

Corporate Resources

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Weymouth Water Treatment Plant - Improvements Program	20,790,500	42,471,400	24,482,500	27,322,600
Weymouth Water Treatment Plant - Improvements Program Phase II	418,200	3,515,500	1,379,800	6,703,500
Weymouth Water Treatment Plant - Oxidation Retrofit Program	598,000	13,024,600	8,840,500	22,917,900
White Water Siphon Protection	(3,800)	28,300	23,200	0
Yorba Linda Power Plant Modifications	302,700	2,691,500	844,300	0
Totals	287,806,300	372,026,400	306,902,300	233,905,000
% Change	—	29.3%	(17.5%)	(23.8%)
Personnel	274	301	274	257

Note – Totals may not foot due to rounding.

*** Does not include reimbursement of expenses by outside entities. Reimbursements typically offset completely expenses.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

O&M

Salaries and Benefits – Reflects merit increases for eligible employees, employee benefit cost increases in accordance with CalPERS actuarial study, new requests for engineering support of Bay-Delta initiatives, administration of Metropolitan’s grant management efforts, and management activities for the Conservation Credits Program. These increases in O&M expenditures are partially offset by the elimination of 17 positions from the IT and Business Services organizations.

Professional Services – Reflects increased engineering support for the Bay-Delta Conveyance Program.

Materials and Supplies – Reflects new software licensing costs for virtualized network servers and software maintenance agreements for E-Discovery, Microsoft Enterprise, and P-card application.

Operating Equipment— Reflects reductions in IT servers and IT storage.

Capital

The CIP contains over 75 appropriations with over 335 projects with proposed expenditures of approximately \$138M less than FY 2009/10. Construction contract activities comprise approximately 65% of the total CIP and it is the fluctuation in construction that is driving the difference between 2009/10 and 2010/11.

Programs with the most significant decrease in construction activity for 2010/11 are:

- Inland Feeder – \$44.9M
- Diemer Water Treatment Plant – ORP: - \$15.8M
- Perris Valley Pipeline - \$15.4M
- Hayfield Groundwater Storage Program – \$12.0M
- Riverside Treatment Plant Land Acquisition – \$12.3M
- Diemer Water Treatment Plant Improvements – \$9.2M
- Skinner Water Treatment Plant – Improvements – \$9.3M
- Skinner Water Treatment Plant – ORP – \$5.0M

Programs with the most significant increases in construction activity for 2010/11 are:

- Weymouth ORP – \$9.9M
- Conveyance and Distribution System Rehabilitation – \$7.7M

CIP Personnel

CRG’s CIP personnel count is down by 44 regular budgeted positions as the result of eliminating 33 positions and reallocating 11 additional positions to O&M functions in support of the Bay-Delta Conveyance Program and additional management activities for the Conservation Credits Program.

Corporate Resources

OFFICE OF THE MANAGER

The Office of the Manger oversees the management of CRG's three sections, the

oversight of Metropolitan's CIP, and ARRA grant funding development.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	1,516,400	1,354,300	1,652,100	1,673,900
Other	43,600	62,500	71,000	68,500
Totals	1,560,000	1,416,800	1,723,100	1,742,400
% Change	—	(9.2%)	21.6%	1.1%
Personnel	9	9	10	10

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and the transfer

of a position from WSO for ARRA grant funding development.

BUSINESS SERVICES

The section is comprised of two units and nine teams that work collaboratively to support a broad range of Metropolitan’s business needs in the areas of contracting, procurement, inventory management, warehousing,

graphics, videography and photography, technical writing, records management, administration of District wide travel and the Rideshare program.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	11,621,400	11,362,500	11,152,800	11,646,800
Professional Services	1,200	0	0	0
Other	1,243,200	961,500	1,236,100	1,072,600
Totals	12,865,800	12,324,000	12,388,900	12,719,400
% Change	—	(4.2%)	0.5%	2.7%
Personnel	95	100	93	90

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects the elimination of 10 O&M FTEs offset by an increase in employee benefit costs, elimination of the vacancy rate, and an increase in salaries associated with merit increases.

replacement of an aging vanpool fleet partially offset by savings from the money allocated for the Transit Reimbursement Program. It also reflects a decrease in the demand for Reprographics Services.

Other – Reflects increases primarily for vanpool leases for the Rideshare Program due to the

Corporate Resources

ENGINEERING SERVICES

The section is responsible for providing project management, design, construction management, infrastructure protection, environmental

planning, and water-related local and regional facility planning services to ensure continued reliability and quality of water deliveries.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	18,462,400	16,787,700	17,008,400	19,235,800
Professional Services	791,300	674,500	710,200	1,370,200
Other	1,144,700	1,350,100	1,310,100	1,349,000
Totals	20,398,400	18,812,300	19,028,700	21,955,000
% Change	—	(7.8%)	1.2%	15.4%
Personnel	124	114	114	125

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and a shift in labor from capital to O&M, primarily to provide engineering technical support to Metropolitan’s Bay-Delta Conveyance Program efforts.

Professional Services – Reflects additional needs in support of Bay-Delta efforts.

INFORMATION TECHNOLOGY

The section delivers information technology options, services, and solutions in the areas of enterprise and business applications, control

systems, mobile / wireless computing, telecommunications, network services, and information security.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	20,261,800	20,913,100	20,487,600	21,482,800
Professional Services	302,800	160,000	245,400	138,000
Other	6,377,000	6,193,100	6,240,200	6,489,000
Totals	26,941,600	27,266,200	26,973,200	28,109,800
% Change	—	1.2%	(1.1%)	4.2%
Personnel	132	141	136	134

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases partially offset by the elimination of 7 FTEs.

Professional Services – Decrease reflects the elimination of the use of BMC Remedy consultants.

Other – Increase reflects a \$50K increase in new computer software for virtualized network servers and an increase of \$275K in software licensing & support for E-Discovery, Microsoft Enterprise Agreement, Beyond Trust, Project Wise and other enterprise software.

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	64,981,600	69,092,300	71,000,000
% Change	—	6.3%	2.8%
Personnel	359	359	359
Capital	233,904,800	302,486,100	390,000,000
% Change	—	29.3%	28.9%
Personnel	257	257	257
Total	298,886,400	371,578,400	461,000,000
Regular Personnel	616	616	616
Temporary Personnel	0	0	0
Total Personnel	616	616	616

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

Improve productivity through technology

Continue to implement the highest priority ITSP projects with continued focus on upgrading SCADA and communication systems. Additional technology will be employed to assist the Legal Department with the E-Discovery Program to meet discovery and data management requirements; Water Quality and Event Detection Monitoring technology to provide early detection and warnings for possible contaminants; and deployment of communications technology to replace 20-year old voice systems and improve field and emergency communications.

Streamline processes

Continue to reduce business process costs and eliminate lower-value activities. For example, develop alternatives in project delivery to reduce the cost of inspections and on-site construction contract administration for capital projects. Continue to partner with Gartner Consulting Group to reduce costs and improve IT products and services, improve the procurement of goods and services for Metropolitan through strategic sourcing, longer-term contracts, and

performance-based contracts and identify best business practices and participate in benchmarking studies in areas of warehousing, technical writing, engineering design, construction, and IT processes and cost.

Build an adaptable, skilled workforce

Continue to better serve our customers and adapt to their ever-changing priorities and those resulting from economic constraints and reductions in positions. Continue to use successful products such as the Leadership Forums for managers and front-line supervisors.

Capital Investment Plan

The CIP will continue to focus on comprehensive refurbishment of Metropolitan's conveyance, treatment, and distribution systems to ensure infrastructure reliability and water quality excellence. Over the next three year period, there will be large investments made in: oxidation retrofit of Diemer and Weymouth treatment plants; the Mills Capacity Upgrade to 326 million gallons per day (mgd); other comprehensive improvements at all five water treatment facilities; energy programs in the form

Corporate Resources

of power reliability, energy conservation, solar power generation, and hydro power plant improvements; and complete refurbishment of the La Verne machine shops.

Personnel

CRG will continue efforts to maintain and reduce full time positions over the next three years, where possible. Because of Metropolitan's involvement in the Bay-Delta Habitat Conservation and Conveyance Program,

there will be upward pressure on Engineering's O&M budget as labor resources are reallocated to it from CIP workload. In addition, as IT capital projects are completed and moved into the ongoing maintenance phase, there will also be an offsetting shift of personnel back to O&M. Examples are the E-Discovery data management program, voice communication programs, SCADA upgrades, and Water Quality Monitoring and Event Detection.

Corporate Resources

Detail of Operating Equipment

BIN	Description	Qty	New	Replace	Total
Corporate Resources, Engineering Services					
11-00985-001	DS08B- 1/2 ton 2WD 4r mid-size ext cab PU	1		27,438	
11-00985-002	DS12 - 3/4 Ton 4 WD ext. cab PU, w/short bed-6 ft	1		28,535	
11-01140-001	HP Designjet 5000ps Plotter	1		14,268	
11-01259-001	Digital Level	1		9,439	
Section Totals				79,679	79,679
Corporate Resources, Information Technology					
11-01149-001	Server Balancing Appliance w/ dual power supply	4		153,650	
11-01149-002	Two Way radio service monitor	1		24,145	
11-01152-001	Top of Rack Gigabit Server Switches	5	82,313		
11-01152-002	Microsoft Intel Class Server	7	49,388	65,851	
Section Totals			131,700	243,645	375,345
Totals for Corporate Resources			131,700	323,324	455,024

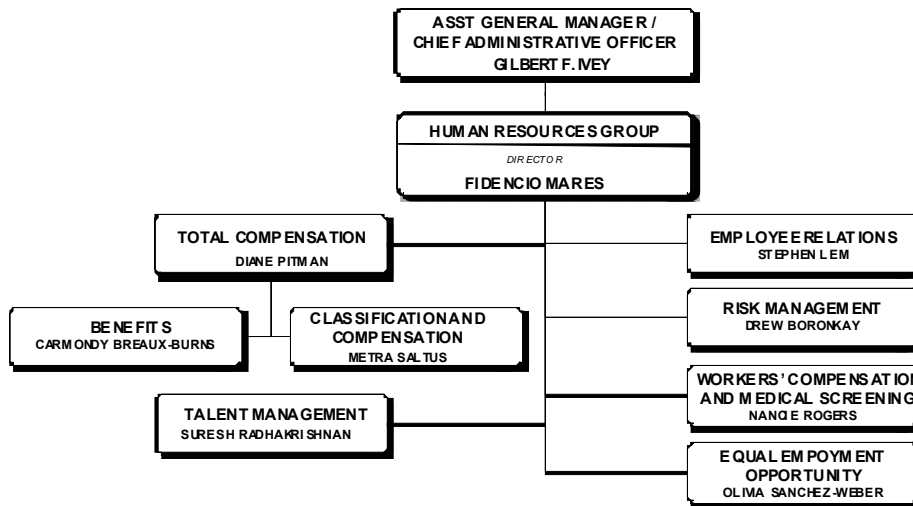
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Human Resources

MISSION, ROLES, AND RESPONSIBILITIES

The mission of Human Resources (HR) is to strategically recruit, retain, motivate, reward, and develop Metropolitan's employees. Our focus is to foster a high performance workplace, management excellence, financial responsibility, integrated talent management, and Human Resources Excellence. Our services include employee and labor relations, recruitment and

selection, equal employment opportunity, benefits, retirement, leave administration, classification and compensation administration, workers' compensation administration, medical screening, training, organizational effectiveness, and managing all aspects of Metropolitan's insurance and risk management programs to minimize exposure to loss.

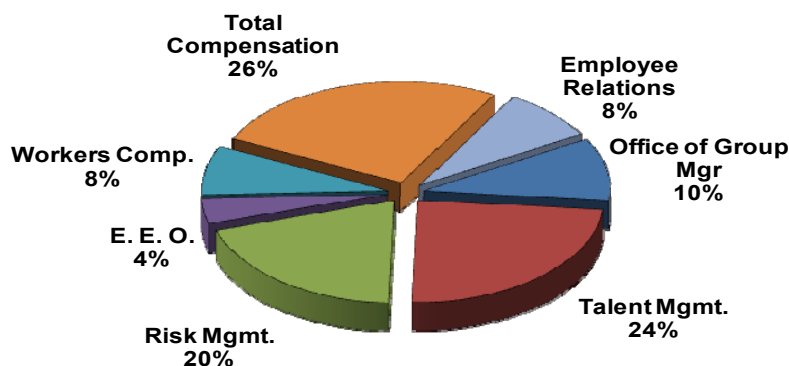


Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	10,574,100	10,843,900	10,992,500	11,046,800	54,300	202,900
% Change	—	—	—	—	0.5%	1.9%
Totals	10,574,100	10,843,900	10,992,500	11,046,800	54,300	202,900
% Change	—	—	—	—	0.5%	1.9%
Regular	47	49	48	48	0	(1)
Temporary	2	0	0	0	0	0
Total Personnel	49	49	48	48	0	(1)

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$11.0 Million**



2009/10 ACCOMPLISHMENTS

Participated in and completed bargaining unit negotiations for contracts ending June 2009 and one ending December 2009. Used Interest-Based Bargaining to partner with AFSCME, ACE, MAPA and the Supervisors Association to propose MOU contracts that would result in multi-million dollar cost savings. These contracts were eventually withdrawn from board consideration for a variety of reasons. The bargaining units returned to the negotiation process in June and agreed to extend current MOU's through December 2010.

Reorganized Human Resources for greater efficiency by combining training, development, and staffing; combining benefits, compensation, and Human Resources Information Systems; and separating employee relations and labor relations.

Completed an HR Audit to assess improvement progress since the 2005/06 HR Audit findings.

Implemented a portfolio of solutions to identify and address employee/labor relations issues while reducing grievances, PERB charges, litigation exposure, and costs, including established a dedicated HR manager assigned to support WSO; trained managers on reasonable suspicion, harassment, employee relations and

documentation methods; published an updated Manager's Guide to Employee Relations; and updated various HR policies and procedures throughout the organization.

Established a monthly HR communications meeting to improve communications with executive and group managers.

Responded to and resolved external agency requirements; managed and resolved internal EEO complaints; responded to inquiries by employees and managers related to EEO issues; and worked to resolve issues prior to the need for formal investigation.

Finalized the ACE Class/Comp Study and completed over 600 joint labor/management focus groups for the AFSCME Class/Comp Study. Recommended and implemented a new Unrepresented Human Resources category.

Implemented all of the various aspects of the Cargill settlement agreement and recommended revised process to improve tracking of consultants and independent contractors.

Implemented the Voices 2009 High Performance Workplace Survey with the support of all the bargaining units and achieved a 63 percent participation rate on the part of the workforce. The positive feedback on over 39 of the 45 categories assessed supports Metropolitan's

strategic priority of fostering a high performance workplace.

Planned, coordinated, and facilitated the first Management Forum for all 267 managers of Metropolitan to improve strategic alignment, share operational information, disseminate Voices 2009 survey data, concur on business objectives, and enhance teamwork.

Expanded workforce planning and development with an expanded Internship Program for non-engineering and water quality functions; updated front-line management and leadership development training; and supported the WSO Boot Camp and CRG Leadership Forums. Continued to provide management coaching, team-building, and performance improvement support for all organizations while also launching an expanded e-learning curriculum.

Developed a Talent Management Framework to ensure Metropolitan can supply the right people with the right skills for the right job at the right time.

Implemented a new automated recruitment system to allow applicants to apply on-line.

Prepared the annual Affirmative Action Plan for Veterans and Persons with Disabilities. Surveyed the workforce for veteran's status and completed the VETS 100 report and EEO4 report, as required. Prepared quarterly workforce data analysis and other EEO statistical reports.

Completed final testing of Manager Self-Service and new manager website and continued to work on implementation of a new Enterprise Learning Management System (MyLearning).

Maintained compliance with IRS guidelines for Metropolitan's 401k and 457 savings plans. Renewed the 401k provider contract while reducing fees to participants. Coordinated quarterly Deferred Compensation Committee meetings to ensure compliance and fiduciary responsibility. Coordinated education seminars for employees on retirement planning, estate planning, and other financial education.

Administered health and voluntary benefit plans in accordance with Memorandum of Understanding's (MOU's) and applicable laws. Reviewed various benefit contracts. Reduced

premium costs for life insurance and long-term disability.

Administered the Service Award Program and hosted two service award luncheons.

Managed Metropolitan's workers' compensation and medical screening programs. Coordinated and provided 800 seasonal flu vaccinations and approximately 450 H1/N1 vaccinations.

Completed risk assessments on professional services agreements, construction contracts, permits, easements, events, and business processes within prescribed time periods.

Reviewed and assessed Metropolitan's excess and specialty insurance program and renewed coverage's with Board approval and within budget. Managed self-insured liability and proper claims program to minimize financial liability and unnecessary litigation.

BUDGET ISSUES AND CONSTRAINTS

Rather than carry a vacancy rate, staffing has been adjusted reflecting the overall elimination of a position. The budget was also reduced for Metropolitan-provided training and development, recruitment advertising, materials and supplies, workers' compensation fees, risk management professional services, consulting services, and memberships and subscriptions. While emphasis has been placed on reducing the budget, some increases were necessary in risk management insurance premiums and in the professional services budget for classification and compensation consulting services.

2010/11 OBJECTIVES

Successfully complete and implement commitments made to the Operations and Personnel Committee on talent management and high performance workplace and provide for HR excellence for the wide range of HR services provided for Metropolitan and its employees.

Continue to improve the effectiveness of HR programs, processes, efficiencies, and overall cost structure.

Complete bargaining unit negotiations for the MOUs extended to December 2010.

Human Resources

Complete market comparison portion of AFSCME classification / compensation studies and identify a new path going forward.

Design and implement an improved job evaluation system and performance measurement system.

Design and implement a total compensation plan.

Establish management standards and metrics. Continue to grow interfaces and working relationships with customer base.

Continue to improve relationships with bargaining units and effectively manage and reduce the number of grievances and PERB charges filed.

Human Resources

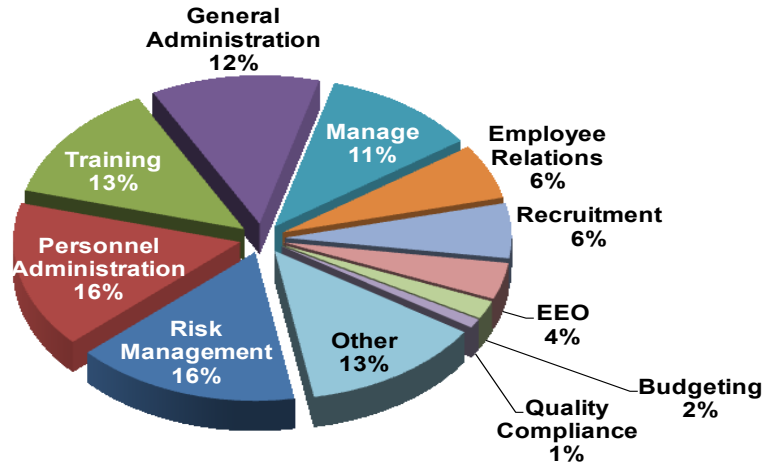
Performance Measures Summary

The performance measures listed below serve as operational guidelines to monitor the success of the Human Resources Group in supporting the key strategy, Competent and Effective Workforce, of the GM's Business Plan for Metropolitan.

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
Voices High Performance Workplace Survey Ratings	Establish work climate supporting high performance culture.	-	63% Favorable	≥ 63%
Training and OD Service Effectiveness Ratings	Customer satisfaction with Training and Organizational Development deliverables	-	-	Rating of 4 out of 5 or higher
Critical Position Development Pipelines	Ensure that positions critical to Metropolitan have "development pipelines" in place.	-	New measure	TBD
Completion of O&P Committee Deliverables	Achievement of commitments to O&P Committee	--	New measure	100% per agreed to dates
Recruitment Efficiency *	Streamlined hiring resulting in timely completion of recruitments.	88% within 90 days	100% internals within 60 days 100% externals within 90 days	≥ 95% internals within 60 days ≥ 95% externals within 90 days
Percent on-time Employee Evaluations	Management compliance with HR Performance Management service standard.	94.4%	91.0%	≥ 95%
Percent of grievances responded to within MOU timeframes	HR grievance handling effectiveness.	100%	100%	100%
EEO Mandatory Training Compliance	Compliance with mandatory harassment training.	99.0%	99.6%	100%
Contract Risk Assessments Completion	Completion of risk management evaluations within 7 day timeframe.	100%	100%	100%
Injury & Illness Rate	Measure of occupational injury/illness frequency & severity	4.68	4.64	< 8.56
Medical Surveillance Efficiency	Percent of timely completion of medical surveillance evaluations.	89%	95%	≥ 95%
Labor Negotiations	Monitor successful completion of negotiations with bargaining units.	-	Completed TA withdrawn	Complete by 2010
Employee Development	Ensure all employees have development plans.	-	-	TBD
HR Customer Satisfaction	Customer satisfaction with HR services	-	-	TBD

Human Resources

Major Activity Distribution 2010/11 Budget \$11.0 Million



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	7,064,000	7,091,600	7,655,300	7,569,100
Professional Services	830,500	1,162,000	1,014,000	1,120,500
Other	0	0	0	0
Insurance Premiums	1,290,900	1,200,000	1,200,000	1,250,000
Subsidies & Incentives	621,800	503,000	528,700	524,000
Outside Services - Non Professional / Mainte	208,900	137,000	135,000	130,000
Other Accounts	557,900	750,300	459,400	453,300
Totals	10,574,000	10,843,900	10,992,400	11,046,900
% Change	—	2.6%	1.4%	0.5%
Regular	47	49	48	48
Temporary	2	0	0	0
Total Personnel	49	49	48	48

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects the transfer of one position to Business Outreach, the elimination of a manager position partially offset by the addition of an administrative support position. Also reflects classification study salary adjustments, merit increases, and employee benefit cost increases.

Insurance Premiums – Reflects anticipated increase in insurance premiums.

Other – Reduced budget for recruitment advertising, training and development, supplies, workers' compensation fees, new hire medical exam costs, and memberships and subscriptions.

Human Resources

OFFICE OF HUMAN RESOURCES GROUP MGR

The Office of the Human Resources Group Manager provides strategic leadership and direction for Metropolitan's Human Resources functions. The O&M Program Financial Summary reflects budgets for the Office of the

Group Manager and the organizations reporting directly to it including Risk Management, Talent Management, Equal Opportunity Employment, and Workers' Compensation and Medical Screening.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	3,932,800	3,923,000	3,891,400	4,112,700
Professional Services	752,400	1,132,000	1,005,000	1,120,500
Other	2,274,900	2,256,200	1,970,900	1,996,400
Totals	6,960,100	7,311,200	6,867,300	7,229,600
% Change	—	5.0%	(6.1%)	5.3%
Personnel	27	27	25	25

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects reallocation of staff within the Human Resources Group offset by cost of living and classification study adjustments as well as merit and employee benefit cost increases for eligible employees.

Professional Services – Maintains consulting dollars for classification and compensation consulting services.

Other – Reduced budget for recruitment advertising, training and development, supplies, workers' compensation fees, new hire medical exam costs, and memberships and subscriptions.

Human Resources

EMPLOYEE RELATIONS

The role of the Employee Relations Section is to foster harmonious labor relations between Metropolitan and its four certified bargaining units. The section plays a key role in contract negotiations, including working as a partner with senior management in developing Metropolitan's collective bargaining strategy.

Employee Relations staff also serve as a resource to managers and supervisors on such matters as grievances, disciplinary actions, and workplace conflicts. Finally, the section provides ongoing training to managers on all facets of employer-employee relations.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	808,600	792,000	944,700	899,800
Professional Services	38,400	0	0	0
Other	12,400	14,700	10,300	14,300
Totals	859,400	806,700	955,000	914,100
% Change	—	(6.1%)	18.4%	(4.3%)
Personnel	5	5	5	5

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Includes cost of living and classification study adjustments as well as

anticipated merit and employee benefit costs increases for eligible employees.

Human Resources

TOTAL COMPENSATION

The Total Compensation Section is responsible for the strategic design and implementation of Metropolitan's compensation, benefits, and the Human Resources Information Systems (HRIS) programs. The section leads and participates in continuous process improvement and cost

optimization studies for all plans. Responsibilities include job analysis, market assessments, active and retiree benefit program administration, responding to union requests, and maintaining the Total Compensation Program.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,322,600	2,376,500	2,819,200	2,556,600
Professional Services	39,700	30,000	9,000	0
Other	391,200	319,400	342,000	346,500
Totals	2,753,500	2,725,900	3,170,200	2,903,100
% Change	—	(1.0%)	16.3%	(8.4%)
Personnel	17	17	18	18

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects a reorganization of staffing within the group and includes cost of living and classification study adjustments as

well as merit and employee benefit cost increases for eligible employees.

Human Resources

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	11,046,800	11,349,500	11,180,000
% Change	—	2.7%	(1.5%)
Personnel	48	47	46
Capital	0	0	0
% Change	—	—	—
Personnel	0	0	0
Total	11,046,800	11,349,500	11,180,000
Regular Personnel	48	47	46
Temporary Personnel	0	0	0
Total Personnel	48	47	46

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

FY2011/12 reflects increased labor benefit costs, anticipated merit increases, and reinstates funding reduced in FY2010/11 for recruitment and selection costs and classification and compensation consulting services. A reduction of one regular position per year is also anticipated.

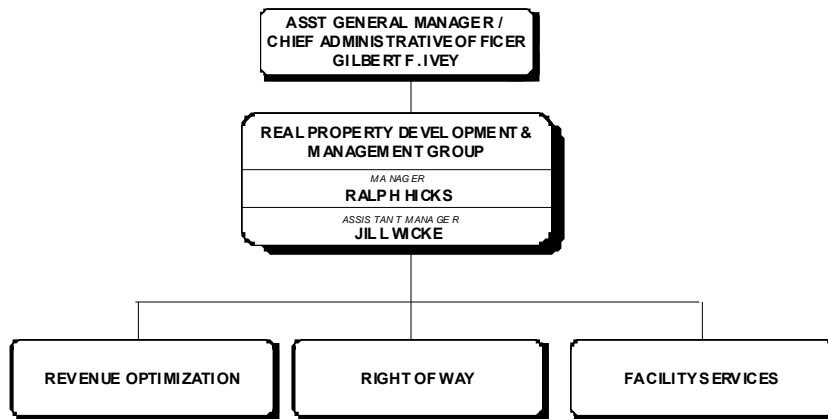
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Real Property Development & Management

MISSION, ROLES, AND RESPONSIBILITIES

The RPDM Group is responsible for managing Metropolitan's real property assets. The group's focus is expanding to incorporate revenue enhancement to extract value from real property assets, while ensuring that Metropolitan's core business is protected. The functions within the group are being realigned to accommodate this expanded role and enhance the group's overall effectiveness. The three new units are: Revenue Optimization, Right of Way, and Facility

Services. Revenue Optimization will proactively seek to generate significant ongoing revenue from Metropolitan's real property assets. Right of Way will manage acquisition of property and property rights. Facility Services will provide the services that support the day-to-day activities within Metropolitan's Union Station Headquarters building and the DVL Visitor Center.

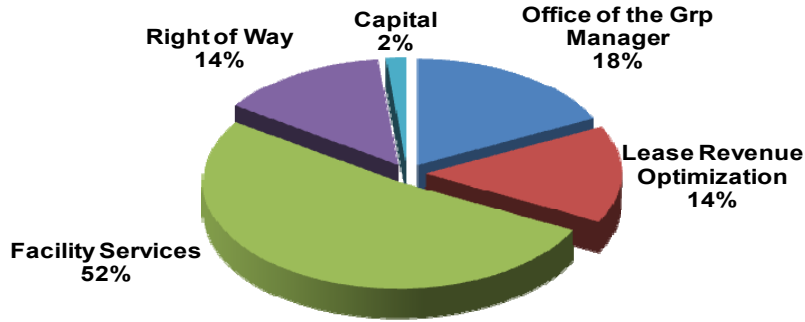


Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	11,141,900	11,257,100	11,281,600	11,930,200	648,600	673,100
% Change	—	—	—	—	5.7%	6.0%
Capital	869,700	2,372,800	1,978,200	206,400	(1,771,800)	(2,166,400)
% Change	—	—	—	—	(89.6%)	(91.3%)
Totals	12,011,600	13,629,900	13,259,800	12,136,600	(1,123,200)	(1,493,300)
% Change	—	—	—	—	(8.5%)	(11.0%)
Regular	48	49	48	48	0	(1)
Temporary	1	0	0	0	0	0
Total Personnel	49	49	48	48	0	(1)

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$12.1 Million**



2009/10 ACCOMPLISHMENTS

Initiated revenue enhancement strategies for Metropolitan’s real property assets.

Realigned functions within the group to enhance effectiveness.

Developed business plan and identified potential partners for the proposed Western Sustainability Institute at the DVL Visitor Center. Obtained conceptual approval from the Real Property & Asset Management Committee.

Selected a developer for the La Verne / Arrow Highway property through an RFQ process and sought Board approval to initiate negotiations.

Developed on-call consulting agreements for land planning, financial analyses, and environmental planning through an RFQ process.

Created a short-list of solar farm developers for non-operational lands through the RFQ process and obtained proposals from qualified developers through an RFP process.

Initiated selection of a DVL recreational vehicle park developer and a long-term marina operator through an RFQ process.

Solicited interest for operating the proposed Western Sustainability Institute through an RFI process.

Executed 35 agreements for compatible third-party uses of Metropolitan-owned land. These agreements (licenses and leases) are a moderate revenue source for Metropolitan that helps to reduce rate increases.

Assembled and delivered possessory interest reports for approximately 250 agreements and submitted and paid property tax filings totaling \$528,400 for 461 Metropolitan parcels to area counties (Ventura, Los Angeles, Orange, San Diego, Riverside, San Bernardino, Imperial, and Mojave, Arizona).

Executed 14 conveyance transactions for easements and permits complementing projects involving public works, utility installations, land development, service connections, pipeline relocations, and roadway construction.

Delivered report on agricultural land use to the California State Water Resources Control Board during regulatory proceedings about farming and Total Maximum Daily Load Program.

Real Property Development & Management

Assisted in efforts to reconcile reversionary rights along the CRA.

Continued administration of farm leases in support of WRM for 8,000 acres of leased lands in the ongoing Forbearance and Fallowing Program involving PVID and Metropolitan.

Initiated a consultant agreement to aid Metropolitan in optimizing opportunities for added revenue through telecommunications site leases.

Assembled fact sheets about selected sites in our land asset portfolio that have potential for alternative development and increased revenues.

Responded to trespasses, dumping, brush clearance citations, and encroachments onto Metropolitan right-of-way in Pasadena, South Gate, Newhall, Riverside, Santa Monica, and local areas. This was done in collaboration with WSO, Security, and Legal.

Drafted update to leasing and events policy.

Completed annual site inspections on 150+ leased property sites.

Received and evaluated responses through an RFQ process for consultants to provide as-needed right-of-way and real estate services.

Attended various planning commission meetings and environmental scoping sessions regarding impacts to Metropolitan-owned land (e.g., Santa Clarita, Perris, Claremont, La Verne, Los Angeles, and others).

Administered lessee's compliance with lease agreements (e.g., invoicing, insurance coverage, and rents receivable).

Monitored timeliness of rental payments and collections in collaboration with the CFO group and Legal department.

Completed the appraisal of properties required for the Bay-Delta 2-Gates Fish Protection Demonstration Project in coordination with San Luis and Delta Mendota Water District and the Bureau of Reclamation.

Executed required quitclaim deeds for the release of remaining temporary construction easements for the San Diego Pipeline No. 6 North Reach Project.

Acquired the necessary right of entry permits for the Diemer North Access Road Project.

Completed the litigation appraisals in support of eminent domain actions for the Perris Valley Pipeline.

Negotiated extensions to the temporary construction easements necessary to complete the Inland Feeder Pipeline Project.

Processed final resolution for annexation of the 102nd Fringe Area to Eastern Municipal Water District and Metropolitan.

Received Leadership in Energy and Environmental Design (LEED) Silver Certification and Energy Star Certification for the headquarters building.

Developed and implemented online high-rise safety training.

Performed 200 preventative maintenance procedures per month to building equipment and systems at the headquarters building.

Administered 14 filming and parking permits.

Developed and implemented the Headquarters Incident Command Center and emergency response program.

Completed the cafeteria survey and audit. As a result of the survey and audit, the cafeteria made several improvements, including food quality, value meals, Chef's table and improved service for the Board of Directors.

Reduced the headquarters building janitorial contract by approximately 4% monthly by adjusting the cleaning schedule on scheduled Fridays off.

Initiated workforce development and succession planning.

Completed the extension of the DVL boat launch ramp. The project was completed almost 5 weeks ahead of schedule.

Operated the DVL Visitor Center in a cost-effective manner. Approximately 52,000 people visited the facility during the fiscal year.

Continued to manage the operations and maintenance of the existing recreational facilities at DVL and Lake Skinner with no

adverse impact to water quality and supply reliability.

BUDGET ISSUES AND CONSTRAINTS

The 2010/11 O&M budget reflects a 6% increase from the 2009/10 O&M budget. This increase incorporates moderate escalation in service and utility contracts and supports the priorities of the RPDM Group to: developing the workforce through education, training, and succession planning; reviewing all Metropolitan properties for opportunities for enhanced revenue generation; containing costs while maintaining Metropolitan facilities and providing outstanding customer support to internal and external clients; and completing the DVL properties conceptual plan.

One Real Estate Representative position was eliminated, which may result in delays in addressing encroachments and handling agreements for third party use of Metropolitan real property.

To minimize increases to the O&M budget while developing opportunities for sustainable revenue enhancement strategies, initial efforts will be dependent on the support of several capital programs, including the DVL Transformation Program and Real Property Development Program.

2010/11 OBJECTIVES

Implement revenue enhancement strategies and opportunities for Metropolitan's real property assets.

Update business plan, obtain Board approval, and formalize relationships / agreements with partners for the proposed Western Sustainability Institute at the DVL Visitor Center.

Complete negotiations with selected developer for the La Verne / Arrow Highway property for a ground lease.

Obtain Board approval and initiate negotiations for option agreement(s) with selected solar farm developers for non-operational lands.

Select developer, obtain Board approval, and initiate negotiations for ground lease with developer for the DVL recreational vehicle park.

Select operator, obtain Board approval, and negotiate ground lease for long-term DVL marina operator.

Present updated and new real estate policy principles to the Real Property & Asset Management Committee and the Board for consideration and adoption.

Continue efforts to improve procedures, tools, technologies, and practices for public sector real property management in light of current and future trends.

Continue review of the comprehensive inventory of Metropolitan-owned real property to identify excess property and consider leasing opportunities based on compatible third-party and secondary-use requests.

Protect rights-of-way and facilities for optimal operating conditions and promote stewardship and sustainability of real property assets.

Revise right-of-way operating policies to reflect modernized best practices.

Improve land security practices to further decrease incidences of trespass / encroachment.

Continue efforts to detect and address right-of-way encroachments in a timely manner.

Complete annual site inspections of leased property.

Make property tax payments File possessory tax reports to appropriate counties on time.

Make timely and suitable responses to adjacent projects, land developments, legislation, and environmental proceedings.

Monitor compliance with terms of licensing and leasing agreements (e.g., invoicing, insurance coverage, fee and rent receivables).

Improve desktop accessibility to accurate land information.

Provide property planning, research, and valuation in support of the Bay-Delta Conservation Plan and the Delta Habitat Conservation and Conveyance Program.

Real Property Development & Management

Provide acquisition, appraisal, negotiations, and cost analysis services for O&M and capital projects.

Acquire the necessary property and rights-of-way in support of the Systems Overview Study and IRP.

Provide timely and effective responses to member agency requests for annexations.

Monitor legislation regarding eminent domain, relocation assistance, and public agency real estate acquisition and appraisal practices.

Continue to optimize the cost of maintaining the headquarters building and DVL Visitor Center while supporting Metropolitan's sustainability initiatives.

Maintain the headquarters building under guidelines and benchmarks established by Building Owners and Managers Association (BOMA).

Develop and implement a plan to evaluate and replace aging building equipment and systems.

Conduct study of alternative energy use at the headquarters building.

Use grant funding to retrofit lighting fixtures and lamps for the headquarters building garage, Sunset garage, and the Soto Street facility.

Conduct follow-up customer service survey for cafeteria services.

Complete an office space utilization study.

Monitor and maintain data for sustainability program and LEED certification.

Continue to develop and train emergency response staff.

Advertise RFPs for cafeteria and janitorial services for the headquarters building.

Provide customer service to headquarters building occupants, visitors, vendors, and the general public.

Expand knowledge, skills, and abilities of staff through training, succession planning, and educational workshops.

Rebuild the group's performance measurement system to better reflect the new group structure.

Real Property Development & Management

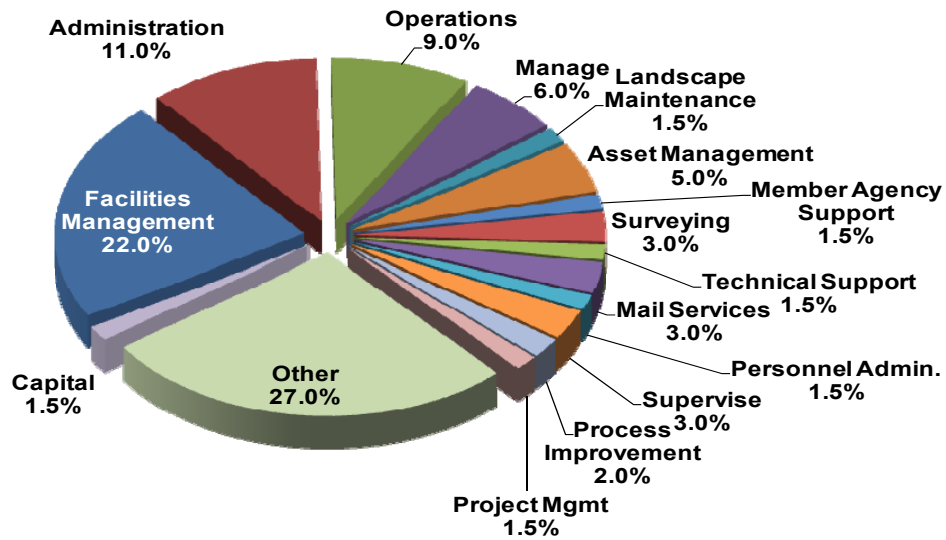
Performance Measures Summary

Current performance measures are being assessed and new ones will be developed that better reflect the initiatives and outcomes of the group and are better aligned with the

initiatives of the Board and executive management. Specific projects will be tracked by budget and schedule.

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
Number of Leases Negotiated at or above FMV	Monitor number of existing leases and new leases negotiated at or above Fair Market Value.	-	-	New measure - TBD
Revenue Generated from Real Property Activities	Track total revenue generated from all real property activities including but not limited to permits, licenses, leases, easements or other use fees.	-	-	New measure - TBD
Percentage of On-Time Rental Payments	Monitor timeliness of rent payments relative to requirements of the lease agreement.	97%	94.5%	100%
Number of Vehicles Parking/Entering	Monitor use of facilities by visitors to facilitate staffing requirement planning and maintenance.	17,194	19,330	Seasonal
Number of Private Boat Launches	Monitor level of boating activity at Diamond Valley Lake.	3,365	6,257	Seasonal
Number of Fishing Access Permits Issued	Monitor number of anglers and ensure adequate funds for fisheries management.	39,697	47,103	Seasonal
Amount Collected for Boat Ramp Repayment	Track amount collected from increased launch fees to repay cost of 2009 boat ramp extension.	-	-	New measure - TBD

**Major Activity Distribution
2010/11 Budget
\$12.1 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	5,861,100	6,018,800	6,121,900	6,636,600
Professional Services	555,300	346,500	409,500	352,700
Other	0	0	0	0
Outside Services - Non Professional / Maintenance	2,146,800	2,496,400	2,404,100	2,407,000
Utilities Charges	1,214,100	1,167,600	1,167,600	1,206,600
Repairs & Maintenance - Outside Services	516,400	565,200	515,100	490,200
Materials & Supplies	371,000	353,200	353,200	394,200
Other Accounts	414,800	303,000	310,300	443,000
Totals	11,079,500	11,250,700	11,281,700	11,930,300
% Change	—	1.5%	0.3%	5.7%
Operating Equipment	62,400	6,400	0	0
Total O&M and Operating Equipment	11,141,900	11,257,100	11,281,700	11,930,300
% Change	—	1.0%	0.2%	5.7%
Regular	43	43	43	47
Temporary	1	0	0	0
Total Personnel	44	43	43	47

Note – Totals may not foot due to rounding.

Real Property Development & Management

Capital Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	638,000	932,100	621,900	206,400
Professional Services	179,700	1,276,200	1,354,500	0
Property Acquisition	0	164,400	0	0
Construction	0	0	0	0
Other	52,000	0	1,800	0
Totals	869,700	2,372,700	1,978,200	206,400
% Change	—	172.8%	(16.6%)	(89.6%)
Regular	5	6	5	1
Temporary	0	0	0	0
Total Personnel	5	6	5	1

Note – Totals may not foot due to rounding.

*** Reimbursable expenses included above are offset by a similar amount of revenue.

Real Property Development & Management

Capital Expenditure Plan

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Cabazon Radial Gate Facility Improvements	2,100	0	0	0
Capital Program for Projects Costing Less Than \$250,000 for FY2007/08	(1,800)	0	0	0
Central Pool Augmentation and Water Quality	36,800	33,500	24,900	0
Chlorine Containment and Handling Facilities	22,800	8,000	3,000	15,200
Conveyance and Distribution System - Rehabilitation	7,500	24,900	23,500	5,600
Conveyance and Distribution System - Rehabilitation Phase II	8,900	10,000	400	0
Diamond Valley Lake Property Transformation	506,700	1,706,000	1,616,900	0
Diemer Land Acquisition, Habitat Conservation	0	0	4,100	0
Diemer Water Treatment Plant - Construct Sedimentation Basin Spillways	8,500	0	0	0
Diemer Water Treatment Plant - Improvements Program	2,100	47,000	27,300	17,600
Diemer Water Treatment Plant - Oxidation Retrofit Program	200	0	0	0
Information Technology System - Infrastructure	12,400	0	2,500	0
Inland Feeder	52,700	0	5,400	0
Jensen Water Treatment Plant - Improvements Program	1,000	0	0	0
LaVerne Shop Facilities Upgrade	100	0	0	0
Mills Water Treatment Plant - Ozone System Reliability	600	0	0	0
Perris Valley Pipeline	61,600	11,400	31,500	0
Power Reliability and Energy Conservation Program	4,400	0	0	0
Reimbursable Projects	0	290,000	217,500	0
Riverside Treatment Plant Land Acquisition	39,700	0	5,800	0
San Diego Pipeline No. 6	95,900	242,000	15,400	0
Weymouth Water Treatment Plant - Improvements Program	5,300	0	0	167,900
Weymouth Water Treatment Plant - Oxidation Retrofit Program	1,900	0	0	0

Real Property Development & Management

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
White Water Siphon Protection	500	0	0	0
Totals	869,900	2,372,800	1,978,200	206,300
% Change	—	172.8%	(16.6%)	(89.6%)
Personnel	5	6	5	1

Note – Totals may not foot due to rounding.

*** Does not include reimbursement of expenses by outside entities. Reimbursements typically offset completely expenses.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

O&M

Salaries and Benefits – Increase reflects promotions associated with the group realignment, merit and employee benefit cost increases for eligible employees, and a shift from capital work to O&M to support Bay-Delta initiatives.

Other Accounts – Reflects increases in headquarters building utility costs and building engineering and janitorial service contracts, replacement of damaged and aging committee room furniture, and real estate training courses to align workforce with 2010/11 objectives.

Personnel – Reflects elimination of one vacant position offset by a shift of personnel from capital work to Bay-Delta O&M work.

Capital

Salaries and Benefits – Reflects the deferral of capital work consistent with budget constraints and a shift of emphasis from capital to Bay-Delta O&M work.

Professional Services – Reflects the deferral of the following projects to meet budget constraints: DVL Property Transformation, DVL Marina, DVL RV Park, DVL Solar Farms, DVL Visitor Center Transformation, and La Verne/Arrow Highway Property Development.

REAL PROPERTY DEVELOPMENT AND MANAGEMENT GROUP

The RPDM Group is responsible for managing Metropolitan's real property assets. The group's focus is expanding to incorporate revenue enhancement to extract value from real property assets while ensuring that Metropolitan's core business is protected. To accommodate this new role and enhance the group's overall effectiveness, the functions within the group are being realigned. The three new units are: Revenue Optimization, Right of Way, and Facility Services.

Revenue Optimization will proactively seek to generate significant ongoing revenue from Metropolitan's real property assets, including leasing office space at the headquarters at Union Station and the DVL Visitor Center, coordinating filming and special events at all Metropolitan facilities, and ground leasing Metropolitan's non-operational lands for development that is consistent and compatible with Metropolitan's core mission.

Right of Way will manage acquisition of property and property rights for capital projects, compatible third-party uses of Metropolitan's operational lands (e.g., leases, licenses, entry permits, and easements), and acquisition of Bay-Delta conservation lands.

Facility Services provides the services that support the day-to-day activities within Metropolitan's headquarters building at Union Station and the DVL Visitor Center. These services include administrative support, project management for tenant improvements, management of service contracts, mail services, tenant relations, management of the Wellness Center and associated programs, furniture procurement, emergency services, and guest and employee parking. In addition to managing the group, the Office of the Group Manager develops real property policies and strategies.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	5,861,100	6,018,800	6,121,900	6,636,600
Professional Services	555,300	346,500	409,500	352,700
Other	4,663,100	4,885,500	4,750,300	4,940,900
Totals	11,079,500	11,250,800	11,281,700	11,930,200
% Change	—	1.5%	0.3%	5.7%
Personnel	44	43	43	47

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Increase reflects promotions associated with the group realignment, merit and employee benefit cost increases for eligible employees, and a shift from capital work to O&M to support Bay-Delta initiatives.

Professional Services – Slight increase reflects workforce development contracts supporting the group realignment and succession planning. It is anticipated that 2010/11 actuals could reflect a decrease, pending the successful award of a

long-term concessionaire agreement for the DVL marina.

Other – Other– Reflects increases in headquarters building utility costs and building engineering and janitorial service contracts, replacement of damaged and aging committee room furniture, and real estate training courses to align workforce with 2010/11 objectives.

Personnel – Reflects elimination of one vacant position offset by a shift of personnel from capital work to Bay-Delta O&M work.

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	11,930,200	12,226,800	13,176,000
% Change	—	2.5%	7.8%
Personnel	47	47	47
Capital	206,400	4,665,100	2,746,000
% Change	—	2,160.8%	(41.1%)
Personnel	1	1	1
Total	12,136,500	16,891,900	15,922,000
Regular Personnel	48	48	48
Temporary Personnel	0	0	0
Total Personnel	48	48	48

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

A review of the group's services identified several issues associated with the streamlining of property development and management practices that warrant rebuilding, consolidation, and improvement of like functions within Metropolitan. The resulting realignment includes: development of a comprehensive management or strategic plan for the group; drafting of new policies and procedures to better manage and govern the use of real property; launching several key initiatives to better coordinate property development and management district-wide; and redistributing the roles and responsibilities of staff to better meet identified operational and process gaps.

An increase in O&M costs allowing for a slight increase in inflation combined with continuing

cost containment efforts was assumed for 2011/12 and 2012/13.

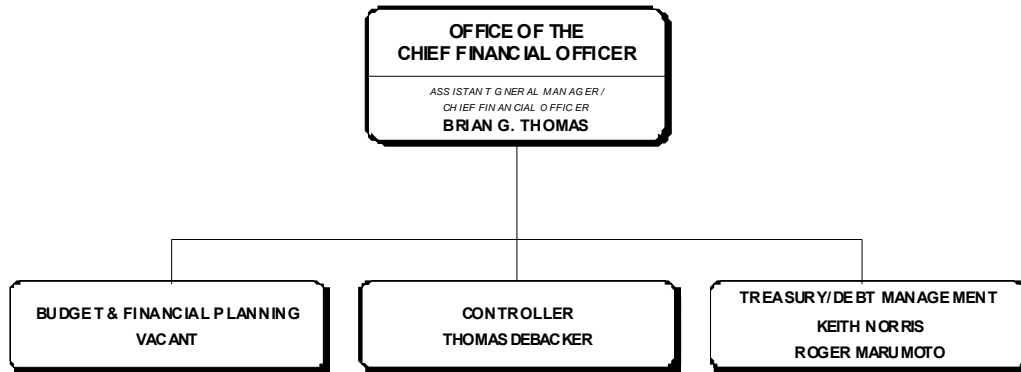
The increase in capital from 2010/11 to 2011/12 is primarily due to completion of the entitlement process for the DVL property. Future DVL projects will depend on Board direction. It is anticipated that the DVL Transformation and Real Property Development Program work will take place in 2011/12, with a reduction in capital expenditures and a corresponding increase in O&M in 2012/13 as individual projects are completed.

Personnel is expected to remain flat as the group examines processes, procedures, and systems to better serve Metropolitan and its customers in property management, acquisition, facility services, and revenue enhancement.

MISSION, ROLES, AND RESPONSIBILITIES

The Office of the Chief Financial Officer (CFO) is responsible for providing innovative, proactive, and strategic financial direction in support of the mission of Metropolitan, the Board of Directors, management, and employees. These responsibilities include maintaining Metropolitan’s strong financial position and high credit ratings, helping to

achieve equitable water rates and charges, assisting in the efficient management of Metropolitan’s financial resources, and ensuring that adequate financial controls are in place to accurately record financial transactions, communicate financial results, and protect Metropolitan assets.



The Office of the CFO’s roles and responsibilities include:

- Maintain effective financial and internal controls to safeguard assets;
- Record and report Metropolitan’s financial transactions and results, and process payments to employees, vendors, and bondholders;
- Account for cash receipts and disbursements, and determine the availability of funds for investment;
- Manage Metropolitan’s investment portfolio;
- Monitor and manage outside investment managers;
- Develop and maintain corporate accounting policies and guidelines for timely and accurate financial reporting and control;
- Provide innovative and proactive financial analyses, planning, and management services, including developing the annual revenue requirement, cost-of-service study, and recommended water rates and charges;

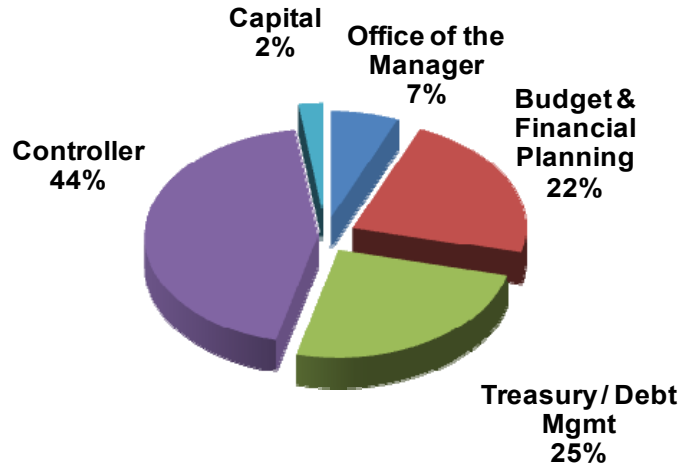
- Provide monitoring and reporting services, coordinate collection of information from the various counties to aid in the preparation of the annual tax levy and annexation fee calculations, and administer rates and charges;
- Oversee the development and management of Metropolitan’s budget and refine and support Metropolitan’s business planning and performance measurement programs;
- Collect, invest, safe-keep, and disburse Metropolitan’s funds in accordance with Board policies;
- Issue debt to efficiently fund Metropolitan’s CIP at the lowest possible cost and manage Metropolitan’s debt program by prudently refinancing debt to minimize debt service costs, utilizing interest rate swaps and asset liability management techniques; and
- Manage Metropolitan’s Business Continuity Program to ensure critical business processes can be restored in the event of a disaster.

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	7,983,400	7,837,400	8,091,100	7,788,000	(303,100)	(49,400)
% Change	—	—	—	—	(3.7%)	(0.6%)
Capital	124,300	0	10,000	173,800	163,800	173,800
% Change	—	—	—	—	1,638.0%	0.0%
Totals	8,107,700	7,837,400	8,101,100	7,961,800	(139,300)	124,400
% Change	—	—	—	—	(1.7%)	1.6%
Regular	51	50	47	46	(1)	(4)
Temporary	0	0	0	0	0	0
Total Personnel	51	50	47	46	(1)	(4)

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$8.0 Million**



2009/10 ACCOMPLISHMENTS

Continued to accurately record and report Metropolitan's financial activities in a timely manner, ensuring sufficient financial controls to protect Metropolitan's assets.

Continued to document and test internal controls over financial reporting using specialized software that provides a structured process to efficiently and effectively document and assess internal controls.

Provided accurate, timely, and transparent standard financial reports to the Board and member agencies.

Received the GFOA Award of Excellence for FY 2008/09 financial reporting.

Received the GFOA Award of Excellence for the FY 2009/10 budget.

Completed the external audit receiving an unqualified (i.e., "clean") opinion on Metropolitan's 2008/09 financial statements.

Achieved ratings of generally satisfactory or higher and no major findings on various financial audits conducted by Metropolitan's General Auditor.

Maintained S&P long-term bond ratings of AAA; Fitch and Moody's ratings were upgraded to AAA and Aa1 respectively due primarily to a recalibration of their respective rating criteria for the municipal market.

Priced \$81.1 million Water Revenue Refunding Bonds, 2009 Series D in August 2009 for a true interest cost of 3.07%, and \$250 million Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) at a true interest cost of 4.19%, net of the federal interest subsidy. In December 2009, Metropolitan issued \$26.1 million Water Revenue Refunding Bond, 2009 Series E, at a true interest cost of 2.59%, savings are projected to be \$13.3 million. In December 2009, Metropolitan also issued \$45.5 million Waterworks General Obligation Refunding Bonds, 2009 Series A, at a true interest cost of 3.22%, savings are projected to be \$6 million. In June 2010, Metropolitan issued \$128 million Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A,

Metropolitan's first issuance of variable rate revenue bonds supported by self-liquidity.

Successfully repriced 2009 Series A-1 and A-2 SIFMA Index Bonds. The 2009 Series A-2 bonds were reoffered at a rate of SIFMA minus five basis points, an improvement from the original rate of "SIFMA flat" from May 2009.

Renewed liquidity requirements for the 1997 Series B and C Water Revenue Bond issue in September 2009.

Received \$40 million of Proposition 50 grant funds to help offset the cost of the oxidation retrofit program.

Continued to adhere to accounting cycle time requirements, including the processing of bi-weekly payroll, matching and approving invoices for payment, calculating the tax levy, and completing the monthly closing of cash and the accrual general ledger.

Completed the cost-of-service report, prepared the five-year rate plan for the Board and member agencies, and completed the revenue requirements and Board-approved 2011 rates and charges. A comprehensive review of the cost of service process was conducted with the Board and Metropolitan's member agencies. The Board made no changes to the cost of service methodology as a result of this review.

Maintained non-DWR accounts receivable 90-day past due accounts to below \$600,000.

Funded \$37 million for asset replacement and refurbishment from the R&R Fund.

Managed net interest exposure within Board-approved parameters.

Continued to meet all liquidity requirements and managed Metropolitan's investment portfolio in compliance with the California Government Code and Metropolitan's investment policy. For the Fiscal Year Ended June 30, 2010, both the short and long-term portfolios exceeded the return of their benchmarks by 1.04% and 1.28% respectively. These excess returns translate to approximately \$7.2 million and \$3.8 million of additional earnings for the short and long-term portfolios, respectively

BUDGET ISSUES AND CONSTRAINTS

The Office of the CFO continued to reduce staff positions in an effort to manage O&M costs. Following last year's elimination of an Assistant Controller position, four additional positions were eliminated: a Senior Clerk and a Principal Accountant in the Controller Section, and a Senior Administrative Analyst and an Administrative Secretary in the Treasury and Debt Management Section. These reductions will be challenging but are manageable and may lead to increased response times for ad hoc accounting and financial analysis support in the coming fiscal year.

2010/11 OBJECTIVES

Complete the annual cost-of-service analysis for rates and charges through calendar year 2013.

Complete the 2010 update of the Long Range Finance Plan (LRFP).

Develop the 2011/12 budget with a Board workshop in July and consideration of the proposed budget in August.

Develop the 2012/13 budget for Board consideration in April, 2011 and complete transition to a biennial budget.

Complete the annual annexation fees calculation and tax levy assessment.

Manage and effectively administer rates and charges to recover costs consistent with Board policy and LRFP objectives.

Continue to record and report the financial activities of Metropolitan in a timely and

transparent manner to the Board and member agencies.

Continue to ensure that internal controls are in place to provide assurance that assets are safeguarded and financial information is fairly stated.

Update capital financing plans and work with rating agencies and investors to communicate financial needs and capabilities, ensure cost-effective access to capital markets, and maintain long-term bond ratings of AA or better.

Manage investment activity to meet or beat benchmarks consistent with established investment codes and policies.

Manage investor relations to ensure clear communications, accuracy of information, and integrity.

Continue to manage debt service to mitigate the volatility of debt service payments over time and reduce debt service costs through re-financings and the prudent use of interest rate swaps, in accordance with Metropolitan's interest rate swap policy.

Secure liquidity requirements for \$1 billion of expiring liquidity facilities during FY 2010/11 associated with various variable rate water revenue bond issues.

Update the Business Continuity Plan and Program in accordance with the results of the updated Business Impact Analysis, working with IT Disaster Recovery to identify actions required to mitigate the risks identified, and conduct exercises to test the program's capabilities to recovery Metropolitan business functions in the event of a disaster.

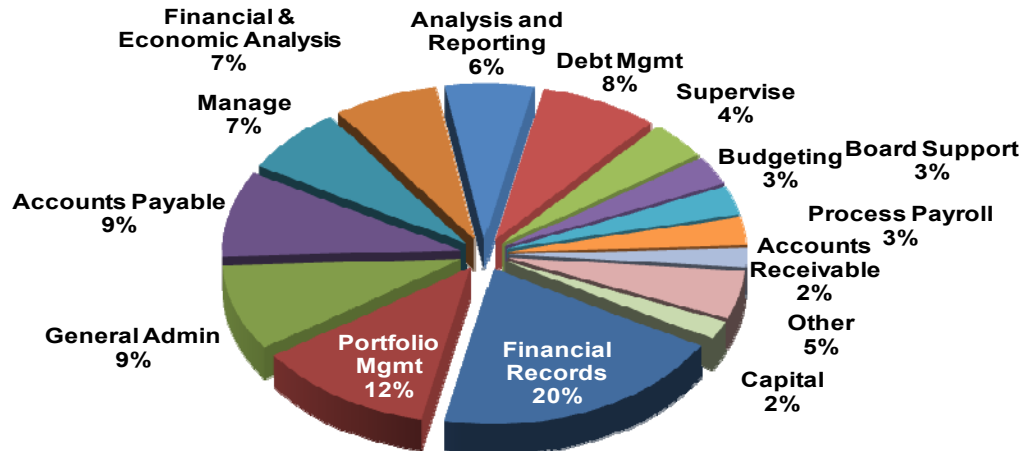
Performance Measures Summary

Performance measures serve as operational guidelines to monitor the success of the Office of the CFO in supporting key strategies of the General Manager’s Business Plan for Metropolitan. The performance measures listed

below focus on quality, business processes, and cycle times, and monitor overall indicators of financial condition important to the General Manager’s Business Plan.

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
Credit Rating	Enable Metropolitan to access capital markets at the lowest borrowing cost.	Moody's - Aa2 S&P - AA+ Fitch - AA+	Moody's – Aa1 S&P - AAA Fitch - AAA	AA, Aa2 or better
Reserve Balances	Maintain financial reserves within Board policy objectives.	\$325.2 M	\$299.7 M	≥ \$231.7 M and ≤ \$565.3 M
Revenue Bond Debt Service Coverage (cash basis)	Communicate financial strength and responsibility to investors and capital market. One fundamental indicator of credit quality and Metropolitan’s ability to make debt service payments.	1.52	1.66	> 2.0
Fixed Charge Coverage	Demonstrate sufficiency of revenues to cover fixed charges.	1.08	1.14	≥ 1.2
Revenue Bond Debt to Equity	Ensure balance sheet strength and ability to issue bonds to finance CIP.	74.5%	76.0%	< 100%
Significant External Audit Findings	Assess the quality of accounting processes and controls.	1	0	0
Departmental O&M Budget Performance	Demonstrate financial control and accountability for departmental O&M costs.	104.8%	103.1%	≤ 100%
Total District Budget Performance (O&M & Capital)	Demonstrate financial control and accountability for Board-approved budgets.	79.0%	80.6%	≤ 100%
Timely Financial Reporting	Demonstrate timely financial reporting.	100%	100%	100%
Financial Reporting Accuracy	Demonstrate accurate financial reporting.	100%	100%	100%
Invoice Payment Process Efficiency	Ensure invoices are paid in a timely manner to maintain good relations with suppliers and the public.	89%	92%	≥ 85%

**Major Activity Distribution
2010/11 Budget
\$8.0 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	7,235,200	6,841,800	7,032,200	6,711,400
Professional Services	594,000	829,400	889,000	887,200
Other	0	0	0	0
Memberships & Subscriptions	34,400	38,300	35,600	36,500
Materials & Supplies	38,500	30,000	30,000	35,000
Travel Expenses	18,200	24,300	26,200	25,800
Graphics & Reprographics	14,600	23,100	23,500	21,500
Training & Seminars Costs	5,500	7,700	4,300	18,800
Subsidies & Incentives	12,300	7,200	14,700	16,100
Advertising	6,300	11,000	11,000	12,000
Other Accounts	24,400	24,600	24,600	23,700
Totals	7,983,400	7,837,400	8,091,100	7,788,000
% Change	—	(1.8%)	3.2%	(3.7%)
Regular	50	50	47	45
Temporary	0	0	0	0
Total Personnel	50	50	47	45

Note – Totals may not foot due to rounding.

Capital Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	124,300	0	10,000	173,800
Professional Services	0	0	0	0
Construction	0	0	0	0
Totals	124,300	0	10,000	173,800
% Change	—	(100.0%)	0.0%	1,638.0%
Regular	1	0	0	1
Temporary	0	0	0	0
Total Personnel	1	0	0	1

Note – Totals may not foot due to rounding.

Capital Expenditure Plan

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Engineering Administration	0	0	0	11,200
Information Technology System - Business, Finance and HR	124,300	0	10,000	162,600
Totals	124,300	0	10,000	173,800
% Change	—	(100.0%)	0.0%	1,638.0%
Personnel	1	0	0	1

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

O&M

Salaries and Benefits – Reflects elimination of four positions and an emphasis on capital work partially offset by merit and employee benefit costs increases for eligible employees.

Professional Services – Reflects increased cost of commercial banking services and portfolio investment management services.

Other – Reflects increase for necessary staff training, increase in subsidies for communications allowances consistent with Metropolitan policies, and for updating the

incident command center used for Business Continuity in the event of an emergency.

Personnel – Reflects a shift of about one FTE to capital work as well as elimination of a Senior Clerk and a Principal Accountant position in the Controller Section and a Senior Administrative Analyst and an Administrative Secretary position in the Treasury and Debt Management Section.

Capital

Reflects an emphasis on capital work for the AP Imaging System and upgrade of the Oracle financial systems.

CHIEF FINANCIAL OFFICER

Responsible for the overall administration of finance and accounting functions for Metropolitan including debt financing and management, financial planning and analysis,

rate setting, budgeting, accounting, investing, financial reporting, payroll, accounts payable, accounts receivable, and business continuity.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	497,800	444,400	492,800	488,200
Professional Services	18,800	0	48,400	0
Other	26,100	17,100	21,600	21,900
Totals	542,700	461,500	562,800	510,100
% Change	—	(15.0%)	22.0%	(9.4%)
Personnel	2	2	2	2

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries & Benefits – Reflects an increase resulting from completion of classification

study, and an increase in employee benefit costs in accordance with the CalPERS actuarial study.

BUDGET AND FINANCIAL PLANNING

Responsible for Metropolitan’s annual budget, revenue requirements, and rates and charges recommendations; cost monitoring and analysis; short and long-term financial analysis and

planning and financial modeling; the water standby charge program; the annual tax levy and annexation fee calculations; and Metropolitan’s Business Continuity Program.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	1,669,100	1,615,800	1,726,600	1,693,100
Professional Services	0	0	0	0
Other	55,500	71,600	69,900	84,100
Totals	1,724,600	1,687,400	1,796,500	1,777,200
% Change	—	(2.2%)	6.5%	(1.1%)
Personnel	9	9	9	9

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries & Benefits – Reflects an increase in employee benefit costs and a minor increase in salaries associated with merit increases for eligible employees.

Other – Reflects provision of a budget for staff training for the first time in several years and costs for updating the incident command center used for Business Continuity in the event of an emergency.

TREASURY / DEBT MANAGEMENT

Responsible for Metropolitan’s investment and treasury operations including receipt, safekeeping, and disbursement of Metropolitan’s funds; preparation of security sales documents;

administration of debt programs; and all commercial banking activities, including all payment processing (e.g. wires, checks, automatic deposits).

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	1,408,800	1,304,200	1,234,400	1,144,200
Professional Services	533,700	778,300	790,600	824,100
Other	32,900	34,400	37,000	37,000
Totals	1,975,400	2,116,900	2,062,000	2,005,300
% Change	—	7.2%	(2.6%)	(2.7%)
Personnel	9	9	8	7

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries & Benefits – Reflects merit and employee benefit costs increases offset by elimination of a Senior Administrative Analyst and an Administrative Secretary position.

Professional Services – Reflects increased cost of commercial banking services and portfolio investment management services.

CONTROLLER

Responsible for the maintenance of Metropolitan’s official accounting records including cash control and accounting functions related to vendor, payroll, and other payments;

cash receipts and receivables accounting; general safe guarding of Metropolitan’s assets; development and maintenance of Metropolitan’s accounting policies; and financial reporting.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	3,659,400	3,477,400	3,578,400	3,385,800
Professional Services	41,500	51,100	50,000	63,100
Other	39,700	43,100	41,400	46,400
Totals	3,740,600	3,571,600	3,669,800	3,495,300
% Change	—	(4.5%)	2.7%	(4.8%)
Personnel	30	30	28	27

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries & Benefits – Reflects merit and employee benefit costs increases for eligible employees offset by elimination of a Senior Clerk and a Principal Accountant position and an increase in capital work associated with AP

Imaging and upgrade of the Oracle financial system.

Professional Services – Reflects the increased cost of seven additional arbitrage calculation studies to a total of 20 required in the next fiscal year.

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	7,788,000	8,146,300	8,680,800
% Change	—	4.6%	6.6%
Personnel	45	44.7	46.9
Capital	173,800	167,500	8,200
% Change	—	(3.6%)	(95.1%)
Personnel	1	1.3	0.1
Total	7,961,800	8,313,900	8,689,000
Regular Personnel	46	46	47
Temporary Personnel	0	0	0
Total Personnel	46	46	47

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

Reflects anticipated increases in labor for merit increases and promotions for eligible employees, benefit cost increases consistent with CalPERS forecasts, and increases in non-labor expenses

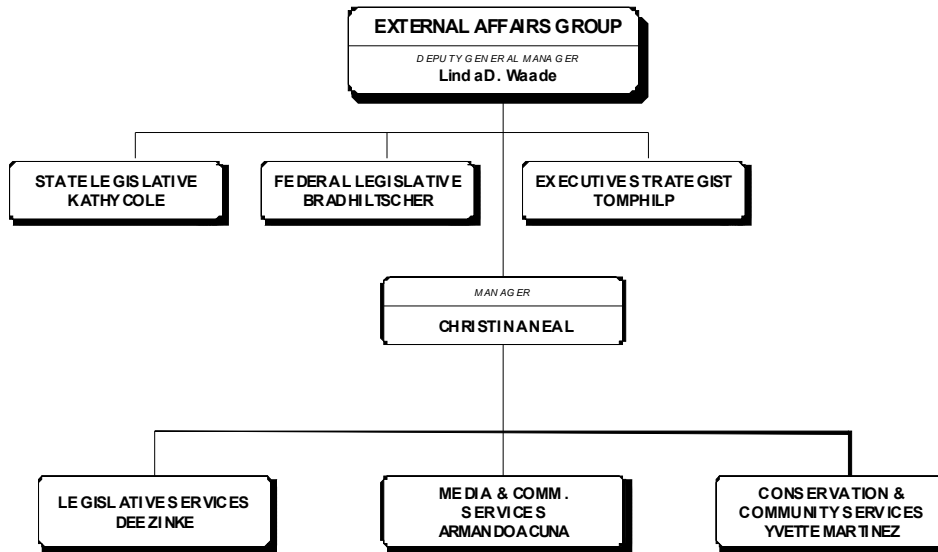
consistent with inflation. Also reflects completion of capital project work for the AP Imaging System and upgrade of the Oracle financial systems.

External Affairs

MISSION, ROLES, AND RESPONSIBILITIES

The External Affairs group consists of the Office of the Manager, Legislative Services, Media and Communications Services, and the Conservation and Community Services sections. The group is charged with working with state and federal legislators to enhance and protect the operational interests of Metropolitan and its member

agencies; communicating the adopted policies of the Board and providing clear and direct communication of Metropolitan's operations, policies, and programs to the public and other stakeholders; and providing responsive and appropriate services to member agencies and other target audiences.

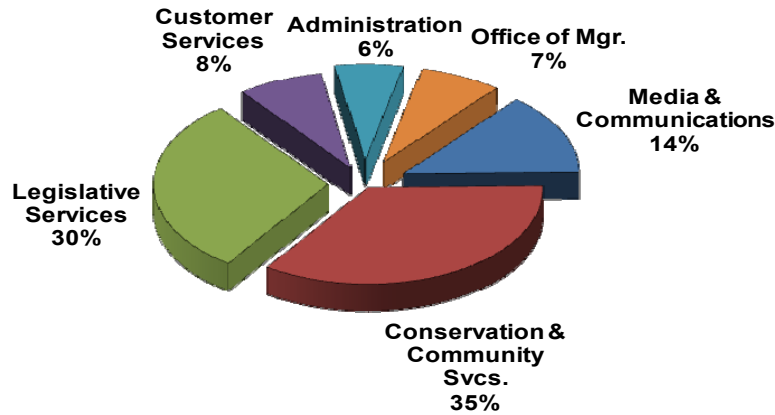


Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	17,540,400	18,265,500	18,288,800	15,275,100	(3,013,700)	(2,990,400)
% Change	—	—	—	—	(16.5%)	(16.4%)
Totals	17,540,400	18,265,500	18,288,800	15,275,100	(3,013,700)	(2,990,400)
% Change	—	—	—	—	(16.5%)	(16.4%)
Regular	52	53	53	52	(1)	(1)
Temporary	0	1	0	1	1	0
Total Personnel	52	54	53	53	0	(1)

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$15.3 Million**



2009/10 ACCOMPLISHMENTS

History was made in California in November 2009 with the passage of a comprehensive package of bills to address the crisis in the Sacramento-San Joaquin Bay-Delta and improve water supply reliability. After decades of debate, Metropolitan helped negotiate a bi-partisan compromise to overhaul the state’s water system and restore and protect the environment.

Metropolitan co-sponsored and successfully advocated for the passage of additional separate state bills on topics promoting water use efficiency, addressing Bay-Delta environmental stressors, protecting source water for recycling, and reducing district liability related to invasive quagga mussels. Of the Metropolitan co-sponsored bills passed by the legislature, all but one was signed into law.

Action at the federal level complemented the Bay-Delta activities through increased advocacy for federal water conservation and progressive energy policies, including support for a new “WaterSense” program under EPA and reauthorization of the Hoover Power contract. Work also continued on important chemical

security regulations that recognize EPA’s role in assuring drinking water safety.

Supporting Metropolitan’s advocacy effort was an intense local outreach program that included a series of legislative briefings between board members and legislators in their district offices; numerous Community Leader Briefings with legislators; more than 50 speaking events before various community groups, business associations and local government organizations; and a highly successful letter-writing campaign that resulted in more than 150 letters in support of Metropolitan’s legislative initiatives.

Participated in several lobbying trips to Sacramento and Washington, D.C., which involved the Los Angeles Chamber of Commerce, the Valley Industry and Commerce Association, the United Chambers of Commerce, the California Contract Cities Associations, Independent Cities Association, the Orange County Business Council, South Bay Association of Chambers of Commerce, Building Industry Association of Southern California, and the Associated General Contractors.

Metropolitan sponsored a multi-prong conservation advertising campaign which ran on 12 television stations and multiple cable stations, 91 radio stations, and more than 50 websites throughout Metropolitan's service area.

Developed and placed numerous op-ed pieces in newspapers throughout the service area, including the Los Angeles Times, Orange County Register, and San Diego Union-Tribune, focusing on water reliability issues and the Bay-Delta.

Enhanced Metropolitan's public website including: revised education page; creation of a page dedicated to Bay-Delta and related water issues; created and utilized social networking sites (e.g. Facebook, YouTube) to disseminate key messages; and, expanded distribution of "Your Water", Metropolitan's electronic newsletter.

Implemented enhancements to the member agency web site to increase distribution of customer satisfaction survey tools and obtained feedback from member agencies on web site and other services provided by Metropolitan.

Managed and/or participated in cross-functional work teams responsible for planning and executing public outreach on shutdowns and CIP projects such as the Garvey Ascot Cross Feeder, Middle Feeder, St. John Channel, San Diego Pipeline No. 4, Cross Connection Project, Rialto Feeder, Weymouth and Diemer treatment plants and Perris Valley Pipeline Phase 2.

Conducted multiple education programs including Solar Cup, World Water Forum, and conservation curriculum.

Collaborated with WRM staff and Member Agencies on the efforts related to the 2010 Updated Integrated Resources Plan (IRP).

BUDGET ISSUES AND CONSTRAINTS

External Affairs' 2010/11 budget is 16.4 percent less than the 2009/10 budget and includes significant reductions in funding for conservation outreach and advertising programs. Additional reductions were made in community, education, and legislative programs. These budget reductions will reduce and impact Metropolitan's support of community water

conservation and outreach efforts. In addition, Metropolitan's ability to generate support for its mission and goals will be impacted, including our legislative outreach strategy as well as our outreach efforts with non-profit, business, other public agencies, and the community at-large.

2010/11 OBJECTIVES

Support legislative policies and initiatives that promote water supply reliability and an environmentally sustainable Bay-Delta ecosystem to ensure adequate and reliable supplies of high-quality water. This includes programs and policies related to the completion of the Bay-Delta Conservation Plan.

Enhance outreach with elected officials and business and community leaders on state and federal water legislation. Develop effective relationships with newly elected officials, including providing necessary water briefings and inspection trips.

Support and/or sponsor federal and state legislation that advances Metropolitan's objectives, including matters relative to water quality and water supply reliability; sustainable water and energy management, including reauthorization of the Hoover power contract and; and chemical security and invasive species' impacts.

Support increased funding for programs that promote water conservation, development of new water supplies, reduction of greenhouse gases, and development of alternative renewable resources.

Continue ongoing development and implementation of communication efforts about Metropolitan's policies and programs through broad-based media coverage, publications, and Internet-based communication platforms.

Continue and enhance customer-service / efficiency-improving designs and additions to Metropolitan's publications.

Continue to facilitate timely responses to member agency requests including operations, maintenance, water quality, conservation, environmental and legislative issues, and public outreach.

External Affairs

Continue enhancement of public website and related social networking sites; continue development of videos highlighting Metropolitan's programs and activities; and expand distribution of "Your Water" e-newsletter.

Launch "Conservation Connection: Water and Energy in Southern California" throughout service area.

Continue to provide community partnering opportunities through sponsorships and in-kind staff involvement for water-related, educational programs.

Continue to provide landscape training classes for residents and landscape professionals for Metropolitan's member agency service areas.

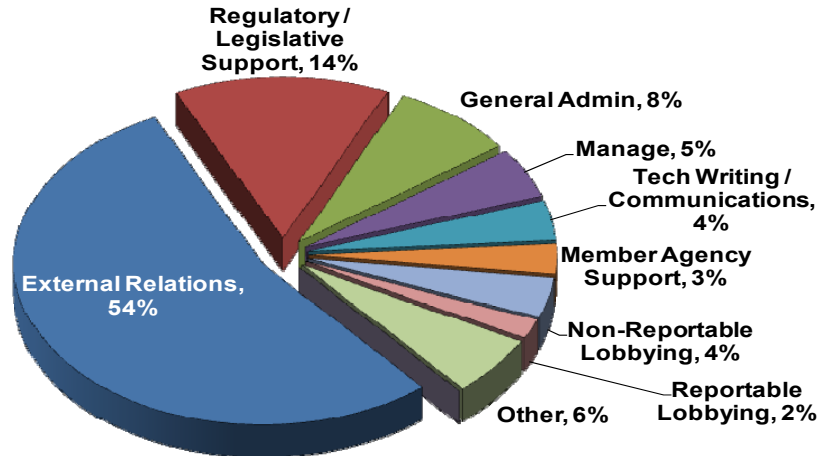
External Affairs

Performance Measures Summary

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
Public Policy Forum Objectives	Meet attendance and other objectives at all Metropolitan-sponsored public policy forums.	98%	97%	≥80 percent
Member Agency Service Level Satisfaction	Monitor Member Agency Service Level Satisfaction Index as an indicator of value of Metropolitan services to our customers.	50.8% (rating of “5” or better)	54% (rating of “5” or better)	≥ 80% (rating of “5” or better)
External Funding Appropriated	Monitor level of effectiveness in securing external funding for significant water programs and services.	--	40%-	Funding appropriated in 100% of requested categories.
Policy Support Rate	Measure response rate to requests for action in support of water policies. Indicates strength of relationship and ability to mobilize support.	70%	102%	≥ 60%
Media Value	Monitor value of free media coverage of Metropolitan programs and activities.	\$1.80 million	\$1.85 million	≥ \$2.0 million
Conservation Communications Education Outreach Campaign targets met	Track effectiveness of conservation outreach effort as a measure of successes of various program elements.	66%	82%	100%
Teachers In-serviced Saturation Rate	Assess the number of in-service contacts with “new” teachers in providing water education materials as a reflection of Metropolitan staff outreach initiative and collaborations with member agencies and other partners.	440	242	1,150
MWD Curriculum Utilization Rate	Monitor effectiveness of materials by tracking the aggregate number of re-supply requests from elementary and secondary level teachers who have previously used MWD materials in maintaining program participation.	188	62	2,340
Students Exposure Rate	Monitor education program effectiveness by tracking the number of students exposed to classroom materials and attending Metropolitan and member agency education programs.	60,381	33,232	95,000
Public and Media Awareness	Percent of organizations reached with Metropolitan’s message.	New measure	New measure	85%
Implement Legislative Strategy	Implementation of legislative strategy adopted by the Board in December.	New measure	78%	85%

External Affairs

**Major Activity Distribution
2010/11 Budget
\$15.3 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	8,817,300	8,729,300	8,885,700	8,915,700
Professional Services	2,268,600	2,600,200	2,565,200	2,425,200
Other	0	0	0	0
Advertising	4,052,400	3,762,600	3,762,600	1,299,600
Outside Services - Non Professional / Mainte	620,800	835,400	860,400	660,400
Graphics & Reprographics	231,500	673,900	579,400	450,400
Travel Expenses	282,000	324,000	379,000	379,000
Sponsorships	400,600	383,000	383,000	283,000
Memberships & Subscriptions	204,000	225,600	224,000	224,000
Other Accounts	615,700	702,800	649,500	637,800
Totals	17,492,900	18,236,800	18,288,800	15,275,100
% Change	—	4.3%	0.3%	(16.5%)
Operating Equipment	47,600	28,800	0	0
Total O&M and Operating Equipment	17,540,500	18,265,600	18,288,800	15,275,100
% Change	—	4.1%	0.1%	(16.5%)
Regular	52	53	53	52
Temporary	0	1	0	1
Total Personnel	52	54	53	53

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits - Reflects anticipated merit and benefits cost increases partially offset by a net reduction in staffing.

Professional Services – Reflects reduction in professional service agreements for conservation and legislative advocacy.

Advertising – Reflects reliance on earned media to provide a significant share of the conservation message because of current water supply conditions.

Outside Services, Non-Professional – Reflects reduction in funding for Community Partnering

Program sponsorships, California Friendly Landscape training and IRP outreach support.

Graphics and Reprographics – Reflects reduction in number of printed copies provided to member agencies as a result of distribution of camera-ready artwork instead.

Personnel – Reflects the retirement of two staff members partially offset by the transfer of one staff member from the Water Resources Management Group.

OFFICE OF MANAGER

Under the direction of the General Manager and Deputy General Manager for External Affairs, the Group Manager directs the activities of the Legislative Services Section, Conservation & Community Services Section, Media and Communications Section, Customer Services Unit, and the Business Management Team. The manager is also responsible for ensuring and maintaining a consistent and unified nature to all

messages and their distribution to appropriate publics.

The Customer Services Unit provides support services to member agencies and functions as a clearinghouse to track and efficiently process delivery of Metropolitan services according to member agency needs. This unit also serves as liaison to the community on behalf of Metropolitan.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,932,400	2,815,300	2,878,200	2,732,400
Professional Services	81,400	150,000	150,000	210,000
Other	305,100	329,700	329,200	329,000
Totals	3,318,900	3,295,000	3,357,400	3,271,400
% Change	—	(0.7%)	1.9%	(2.6%)
Personnel	18	19	19	18

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects an increase in salaries associated with merit and benefits cost increases, offset by the elimination of a position.

Professional Services – Reflects effort on strategic message program for Bay-Delta solutions.

Personnel – Reflects elimination of a position upon retirement of a staff member.

MEDIA & COMMUNICATIONS

The section develops and coordinates the efforts and represents the various mediums by which Metropolitan conveys its messages, programs, information, and achievements. The section includes the Press Office, which is responsible for on-going media contacts, news releases, briefings, letters to the editor, and opinion

pieces. Media Services is charged with producing the printed and online materials that support Metropolitan’s internal and external communications needs. Web Services manages Metropolitan’s various web sites to achieve a unified presentation to Metropolitan’s audiences and customers.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	1,416,100	1,475,300	1,372,500	1,415,500
Professional Services	0	135,000	75,000	75,000
Other	244,200	696,500	688,400	596,400
Totals	1,660,300	2,306,800	2,135,900	2,086,900
% Change	—	38.9%	(7.4%)	(2.3%)
Personnel	8	9	8	8

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases offset by a reduction in staffing.

Professional Services – Reduction of on-call video production and editing contracts, using more inhouse staff.

Other – Reflects a reduction in graphics and reprographics, travel and communication expenses (postage), and other cost-containment efforts.

Personnel – Reflects elimination of one position.

CONSERVATION AND COMMUNITY SERVICES

The section interacts with member agencies and the public to encourage the discussion of water quality, water conservation, and water reliability issues important to the region. This includes a conservation program that focuses on advertising, education, and community outreach. The section also coordinates and manages Metropolitan’s funding of sponsorships for

education and research programs, exhibits, water forums, special events, and community memberships. The Educational Programs Unit develops and implements water education curriculum and programs supporting Metropolitan’s initiatives for elementary and secondary schools.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,094,200	2,199,000	2,291,400	2,313,300
Professional Services	736,900	843,200	868,200	668,200
Other	5,435,100	5,264,100	5,202,800	2,379,100
Totals	8,266,200	8,306,300	8,362,400	5,360,600
% Change	—	0.5%	0.7%	(35.9%)
Personnel	13	13	13	13

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases.

Professional Services – Reflects a reduction in conservation support services which may affect our ability to identify improvements in the usage of water in homes and businesses.

Other – Reflects reduction primarily in conservation advertising as a result of increased reliance on earned media as well as sponsorships, IRP and the California Friendly Landscape Training program.

LEGISLATIVE SERVICES

The section is responsible for promoting and protecting the interests of Metropolitan and its member agencies before executive, legislative, and regulatory agencies of the state and federal government. The section assists in identifying and defining policy objectives that help to focus Metropolitan’s external relations activities, develops relationships with key legislators and

other water policy makers in support of Metropolitan’s legislative and regulatory objectives, and maintains a “networking” program between member agencies and Metropolitan to establish the most effective means of mobilizing and sustaining support for urban water concerns.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,374,600	2,239,700	2,343,600	2,454,400
Professional Services	1,450,400	1,472,000	1,472,000	1,472,000
Other	419,700	617,000	617,500	629,700
Totals	4,244,700	4,328,700	4,433,100	4,556,100
% Change	—	2.0%	2.4%	2.8%
Personnel	14	13	13	14

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects anticipated merit and benefits cost increases and the transfer of one staff member from the Water Resources Management group.

Other – Reflects efforts on strategic message program for Bay-Delta solutions.

Personnel – Reflects the transfer of one position from the Water Resources Management group.

External Affairs

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	15,275,100	15,903,800	16,910,200
% Change	—	4.1%	6.3%
Personnel	52	52	52
Capital	0	0	0
% Change	—	—	—
Personnel	0	0	0
Total	15,275,100	15,903,800	16,910,200
Regular Personnel	52	52	52
Temporary Personnel	1	0	1
Total Personnel	53	52	53

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

Continue to identify O&M cost containment efforts.

Ongoing outreach related to Sacramento-San Joaquin Delta activities.

Labor and benefits cost increases consistent with the rate of inflation.

Continue to conduct key educational programs including Solar Cup, World Water Forum and conservation curricula.

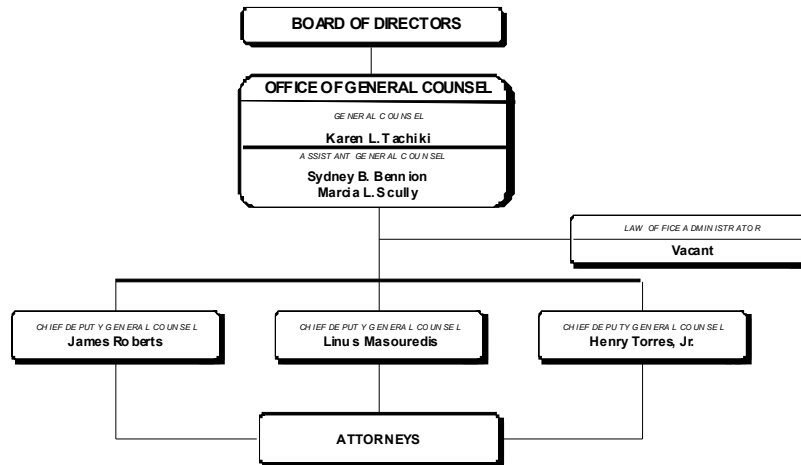
General Counsel Department

MISSION, ROLES, AND RESPONSIBILITIES

The Legal Department is responsible for providing a full range of legal services in a professional, timely, cost-effective, and creative manner. The General Counsel is the chief legal spokesperson for Metropolitan and the Board of Directors and oversees the Legal Department's administrative functions.

The General Counsel represents Metropolitan in litigation and other proceedings to which

Metropolitan is a party; provides legal advice to the Board, its committees, and to Metropolitan's staff; negotiates, drafts, and reviews contracts, documents, and other agreements; consults with representatives of other public and private entities on matters of mutual concern; and monitors and analyzes pending and enacted legislation and, when appropriate, drafts legislative recommendations.



The General Counsel coordinates provision of legal services to the Board, its committees, and to Metropolitan staff in the following areas:

- Represent Metropolitan's interests relating to water supply matters, including Bay-Delta resources, CRA supply, the State Water Contract, groundwater and water transfer issues, CEQA and Endangered Species Act (ESA) issues, energy issues, and water delivery and treatment;

- Represent Metropolitan's interests with regard to claims and litigation by or against Metropolitan;

- Provide legal advice with respect to the acquisition, management, and disposal of

- Metropolitan property and the administration of annexations, and provides legal assistance in Metropolitan's procurement and construction contract programs;

- Provide legal advice with respect to Metropolitan's financial activities, including Metropolitan's rates and charges, taxation, bond issuance, and fiscal administration;

- Provide legal advice related to labor and personnel matters; and

- Review, analyze, and monitor pending state and federal legislation and draft legislative recommendations.

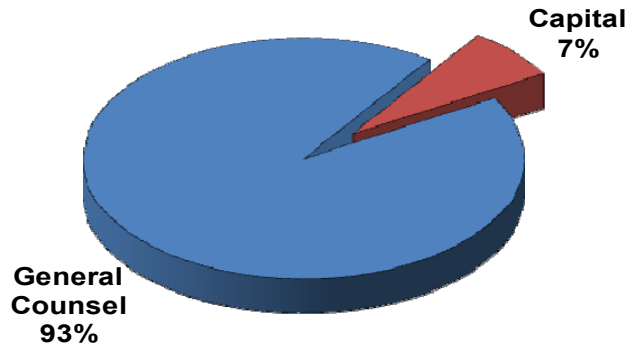
General Counsel Department

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	9,517,300	10,165,000	10,165,000	10,376,000	211,000	211,000
% Change	—	—	—	—	2.1%	2.1%
Capital	468,300	1,423,000	650,000	780,000	130,000	(643,000)
% Change	—	—	—	—	20.0%	(45.2%)
Totals	9,985,600	11,588,000	10,815,000	11,156,000	341,000	(432,000)
% Change	—	—	—	—	3.2%	(3.7%)
Regular	34	35	32	32	0	(3)
Temporary	1	2	2	2	0	0
Total Personnel	35	37	34	34	0	(3)

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$11.2 Million**



2009/10 ACCOMPLISHMENTS

Water Supply

Represented Metropolitan as a direct party and provided legal advice and assistance to State Water Contractors working group in state and federal ESA litigation.

Coordinated the intervention of Metropolitan and other State Water Contractors in support of DWR in *Solano County Water Agency v. DWR*.

Participated in negotiating and drafting transfer and storage agreements.

Provided legal assistance with the Bay-Delta Conservation Plan.

Defended Metropolitan's interests in the litigation challenging the validity of the Quantification Settlement Agreement and related agreements and prepared for appellate review of the court's rulings in the first phase of trial in that litigation.

Provided legal advice and prepared agreements for one-year expansion of the PVID land fallowing program. Advised on other Five-Year Supply Plan programs on the Colorado River.

Energy

Obtained favorable ruling on key contract issues in the first phase of trial of Hyatt-Thermalito energy cost allocation litigation. Provided legal support in the relicensing process for hydroelectric facilities at Oroville Dam, including responding to two complaints challenging the adequacy of the final EIR.

Provided legal support and review of the rulemaking for AB 32, California's landmark Global Warming Solutions Act, including review and response to the climate change draft scoping plan.

Assisted in development of Metropolitan's strategic power plan and performed associated legal research.

Communications

Led a multi-departmental E-Discovery Task Force to develop a program for preservation, retention, and retrieval of electronic documents

as required by court rules, and obtained board approval for implementation.

Administered the annual filing of Statements of Economic Interest (Form 700) for directors and designated employees.

Responded to numerous Public Records Act requests.

Updated Metropolitan's Administrative Code.

Capital Projects

Successfully resolved several condemnation actions for Perris Valley Pipeline right-of-way.

Negotiated settlement with the San Manuel Band of Mission Indians regarding their request for compensation relating to the Arrowhead Tunnels.

Negotiated settlement of all elements of the seventeen-year eminent domain action, *Metropolitan v. Campus Crusade for Christ*.

Workforce

Defended Metropolitan's interests in several employment litigation matters.

Provided legal assistance with implementation of the *Cargill* class action settlement.

Defended Metropolitan's interests in several PERB matters that alleged unfair labor practices, including the dismissal of three charges based on Metropolitan's position statement, the successful administrative trial of one charge, the success on appeal of two charges, and the settlement of one charge.

Defended Metropolitan in hearing officer appeals lodged by bargaining units, significantly reducing the active cases. Received favorable decisions in four cases and settled four cases.

Provided legal assistance in interpreting and implementing the existing bargaining unit MOUs, Operating Policies, and employee-related Administrative Code sections, with a focus on ensuring proper, uniform, and equitable application.

Provided legal assistance regarding the MOU negotiations with Metropolitan's four bargaining units.

Provided investigation oversight for EEO claims, security matters, and misconduct, providing recommendations for remedial actions where appropriate.

Provided legal assistance with labor / employment law compliance and strategic advice, including with respect to employment actions, employee relations, reasonable accommodation and leave issues, affirmative action and EEO matters, wage / hour issues, drug / alcohol issues, and potential workforce violence matters.

Participated in Metropolitan's Strategic Human Resources Advisory Council. Created an "avoiding legal risks" primer for managers and presented the subject at the Management Forum.

Finance

Provided legal support for refunding and retirement of variable rate bonds and termination of associated interest rate swaps. Assisted development of financing structures based on Metropolitan's liquidity rather than commercial bank liquidity support.

Supported review of financing strategies in the global economic downturn.

Assisted with issuance of new bonds to finance the CIP and refund outstanding bonds for debt service savings.

Administration

Further increased the use of in-house attorneys for litigation and other legal matters.

Hired new energy law attorney.

Provided continuing legal education programs on several legal topics.

BUDGET ISSUES AND CONSTRAINTS

The Office of the General Counsel took steps to reduce Metropolitan's O&M costs to mitigate adverse impacts on water rates. These actions along with their potential impacts are as follows:

Actions

Eliminate three administrative staff positions;

Hold outside counsel billing rates at or below market levels;

Further increase the portion of cases handled by in-house attorneys;

Cancel additional library subscriptions to offset pricing increases; and

Maintain reductions in travel by continuing to use teleconferences where possible and limiting out-of-town conferences and seminars.

Potential Impacts

Law firms may staff cases with less experienced attorneys, resulting in potential inefficiencies or less positive results;

Legal staff's presence may be less effective when not participating in strategy meetings in person; and

Responsiveness may decrease based on the additional workload resulting from reallocation of duties and from increasing the portion of cases handled in-house. Since much of the department's work is driven by externally-imposed deadlines (e.g. court filings, responses to discovery, and requests for public records), the ability to respond timely to internal deadlines may be impacted.

2010/11 OBJECTIVES

Water Supply Reliability

Pursue a comprehensive legal strategy that proactively addresses legal issues associated with implementing the comprehensive Bay-Delta plan while simultaneously vigorously defending Metropolitan's interest in litigation and administrative proceedings.

Represent Metropolitan, as a separate party or working through the State Water Contractors, in litigation and regulatory proceedings under the federal and state ESA.

Provide legal support in Metropolitan's efforts to implement temporary and interim measures for the Bay-Delta, including near-term Delta actions.

Identify other possible Delta stressors and provide legal strategy options for consideration.

Continue defending the Quantification Settlement Agreement and related agreements in the consolidated cases and in any future actions.

Provide legal support in the identification and implementation of new water supplies on the Colorado River with a particular focus on working with Mexico.

Provide legal support in the development of water transfers and exchanges.

Assist with monitoring and development of local resources, desalination, and conservation projects and programs.

Provide legal support for review of the water supply allocation plan and any modifications to the plan.

Balancing Growth and Sustainability

Provide legal support for the 2010 IRP update to ensure consistency with the Urban Water Management Planning Act and other requirements.

Provide legal support for Metropolitan initiatives to achieve Metropolitan's goals for reduction of carbon dioxide emissions.

Managing Energy Costs

Vigorously defend the trial court's decision in the Hyatt-Thermalito litigation.

Support Metropolitan's efforts to renew its Hoover Power Contract.

Provide legal support to ensure that SWP energy needs are met in a cost-effective and sustainable manner.

Assist with development and implementation of the Strategic Energy Plan.

Operations

Provide legal support for workplace health and safety compliance framework.

District Governance

Continue to provide timely advice to the board and committees on governance and legal compliance matters.

Provide legal assistance for the board's examination of governance issues.

Workforce Development and Cultural Changes

Provide proactive counsel and advice on workforce issues.

Continue to defend Metropolitan in PERB matters as well as grievance and disciplinary matters.

Real Property Matters

Support entitlement process for properties acquired as part of the DVL effort.

Support the development and implementation of a DVL recreation strategy and strategy for use of the Visitors Center.

Support the expanded work efforts of the RPDM Group.

Finance

Continue to provide the legal support required, in particular with regard to the increased need to review and act based upon the unique municipal market conditions.

Prepare and provide accurate and timely disclosures to the municipal markets, including timely filing of notices required by Continuing Disclosure Undertakings.

Defend legal challenges to Metropolitan's water rate structure.

Administrative Matters within the Department

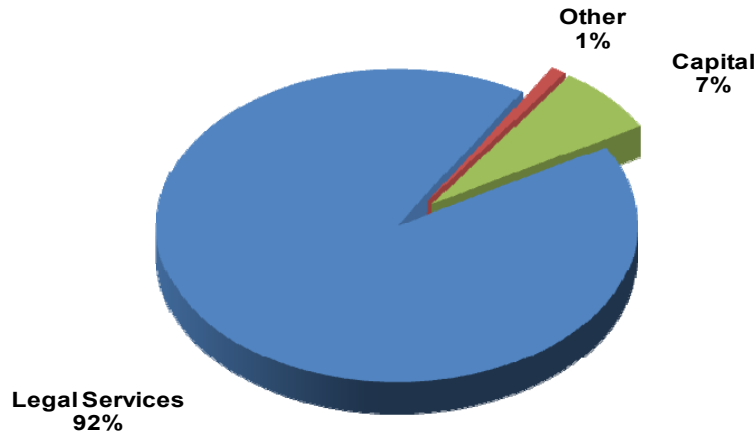
Continue to aggressively manage outside counsel costs.

Continue to identify and implement cost efficiency measures.

Continue to develop and implement a professional pathway program.

Continue to provide timely employee evaluations.

**Major Activity Distribution
2010/11 Budget
\$11.2 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	6,757,000	6,702,000	6,939,500	6,775,000
Professional Services	2,427,800	3,095,500	2,875,500	3,248,500
Other	0	0	0	0
Memberships & Subscriptions	119,400	120,000	110,000	110,000
Travel Expenses	67,300	75,000	75,000	75,000
Outside Services - Non Professional / Mainte	69,000	50,000	50,000	50,000
Subsidies & Incentives	26,400	35,000	40,000	40,000
Materials & Supplies	20,900	25,000	20,000	20,000
Other Accounts	29,400	62,500	55,000	57,500
Totals	9,517,200	10,165,000	10,165,000	10,376,000
% Change	—	6.8%	0.0%	2.1%
Regular	34	35	32	32
Temporary	1	2	2	2
Total Personnel	35	37	34	34

Note – Totals may not foot due to rounding..

General Counsel Department

Capital Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	0	0	0	0
Professional Services	468,300	1,423,000	650,000	780,000
Construction	0	0	0	0
Totals	468,300	1,423,000	650,000	780,000
% Change	—	203.9%	(54.3%)	20.0%
Regular	0	0	0	0
Temporary	0	0	0	0
Total Personnel	0	0	0	0

Note – Totals may not foot due to rounding..

Capital Expenditure Plan

Program	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Diemer Water Treatment Plant - Improvements Program	0	25,000	0	0
Inland Feeder	316,800	1,003,000	350,000	0
Perris Valley Pipeline	148,100	380,000	250,000	730,000
San Diego Pipeline No. 6	3,400	15,000	50,000	50,000
Totals	468,300	1,423,000	650,000	780,000
% Change	—	203.9%	(54.3%)	20.0%
Personnel	0	0	0	0

Note – Totals may not foot due to rounding..

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

O&M

Salaries and Benefits – Reflects the elimination of three administrative positions offset by anticipated merit and benefits cost increases.

Professional Services – Anticipated increases in professional services expenditures due to Bay-Delta legal costs.

Regular Personnel – Eliminated three administrative staff positions.

Capital

Decrease in anticipated legal costs for Inland Feeder due to settlement of *Campus Crusade for Christ* litigation.

Increase in anticipated legal costs for Perris Valley Pipeline resulting from potential construction claims.

General Counsel Department

OFFICE OF THE GENERAL COUNSEL

The Office of the General Counsel is responsible for providing a full range of legal services in a professional, timely, cost-effective, and creative manner. The General Counsel is the chief legal

spokesperson for Metropolitan and the Board of Directors and oversees the department's administrative functions.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	6,757,000	6,702,000	6,939,500	6,775,000
Professional Services	2,427,800	3,095,500	2,875,500	3,248,500
Other	332,500	367,500	350,000	352,500
Totals	9,517,300	10,165,000	10,165,000	10,376,000
% Change	—	6.8%	0.0%	2.1%
Personnel	35	37	34	34

Note – Totals may not foot due to rounding..

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects the elimination of three positions offset by anticipated merit and benefits cost increases.

Professional Services – Anticipated increases in professional services expenditures due to Bay-Delta legal costs.

Regular Personnel – Eliminated three administrative staff positions.

General Counsel Department

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	10,376,000	10,826,800	11,276,200
% Change	—	4.3%	4.2%
Personnel	32	32	32
Capital	780,000	665,000	688,300
% Change	—	(14.7%)	3.5%
Personnel	0	0	0
Total	11,156,000	11,491,800	11,964,500
Regular Personnel	32	32	32
Temporary Personnel	2	2	2
Total Personnel	34	34	34

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

Reflects an anticipated increase in salaries and the cost of employee benefits consistent with inflation and CalPERS forecasts, and a 3.5%

allowance for inflation in outside services. No staffing changes are projected.

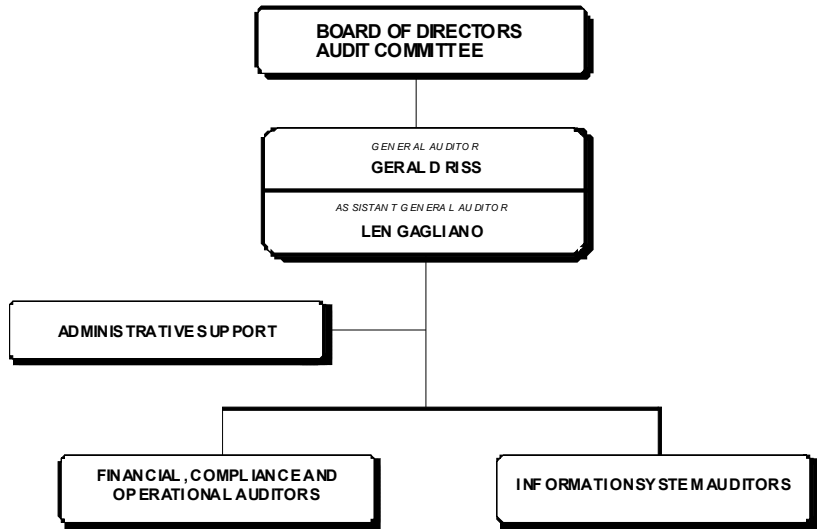
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General Auditor Department

MISSION, ROLES, AND RESPONSIBILITIES

The mission of the Audit Department is to provide independent, professional, and objective assurance and consulting services designed to add value to and improve Metropolitan’s operations. The department helps the

organization accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



The scope of work of the Audit Department is to determine whether Metropolitan’s network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified, managed, and monitored;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations;

- Resources are acquired economically, used efficiently, and protected adequately;
 - Programs, plans, and objectives are achieved;
 - Quality and continuous improvement are fostered in the organization’s control processes; and
 - Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- Opportunities for strengthening internal controls, improving efficiency, and protecting the organization’s image may be identified during audits. They will be communicated to the appropriate level of management.

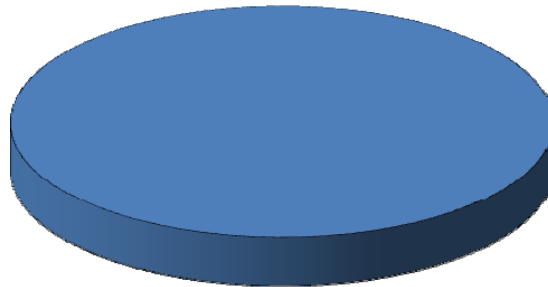
General Auditor Department

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	2,451,500	2,719,000	2,672,600	2,682,100	9,500	(36,900)
% Change	—	—	—	—	0.4%	(1.4%)
Totals	2,451,500	2,719,000	2,672,600	2,682,100	9,500	(36,900)
% Change	—	—	—	—	0.4%	(1.4%)
Regular	13	13	12	12	0	(1)
Temporary	0	0	0	0	0	0
Total Personnel	13	13	12	12	0	(1)

Note – Totals may not foot due to rounding..

**Program Expenditures
2010/11 Budget
\$2.7 Million**



**Audit
100%**

2009/10 ACCOMPLISHMENTS

Completed 32 audit assignments, 13 information technology continuous monitoring assignments, six audit comfort letters to underwriters on Metropolitan's bond issues, three special audit requests from management, and provided audit assistance in connection with KPMG's annual financial testing and Human Resources audit.

Allocated Audit resources to the highest risk areas in order to provide insight regarding Metropolitan's governance processes to the Board and management and emphasized test work in significant areas. Provided on-going training and coaching to ensure auditors continue to develop necessary professional and technical skills and are knowledgeable about emerging issues. Evaluated management's response to audit reports to ensure that the internal control structure has been improved (existing controls strengthened) or enhanced (new controls added) and performed verification tests of selected responses to confirm that changes made to controls achieve the intended purpose. Presented the Audit Evidence and Supporting Documentation training to clients.

BUDGET ISSUES AND CONSTRAINTS

The Audit Department eliminated a position and reduced labor costs by 2%. This reduction was achieved by the redistribution of work

assignments and audit schedules to internal audit staff. Productivity may decrease due to additional assignments and projects resulting from elimination of the position.

2010/11 OBJECTIVES

Provide risk perspective and auditing advice and counsel to the Board and management in operational and financial activities.

Publish risk focused audit reports designed to communicate clearly the General Auditor's opinion regarding the internal control structure, significant control issues, and recommendations to mitigate noted risks.

Improve the completion time for audits and evaluate the adequacy and timeliness of management's responses to, and corrective actions taken on, all significant control issues noted in audit reports.

Emphasize test work of significant projects.

Encourage training opportunities for Audit Department staff to enhance competencies in risk assessment and broaden their knowledge of Metropolitan operations. Utilize this knowledge in fine-tuning the Annual Audit Risk Assessment and Audit Plan.

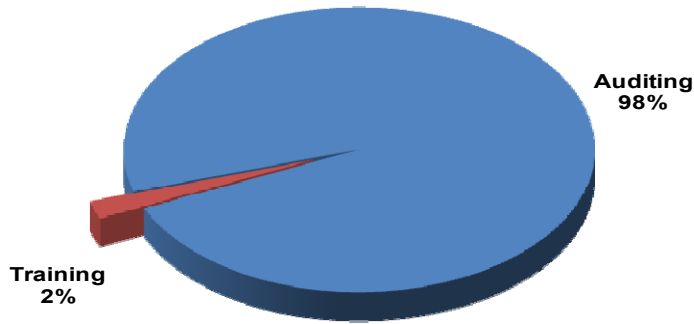
Efficiently manage the department's budget for maximum effectiveness of stated budgetary objectives.

General Auditor Department

Performance Measures Summary

Performance Measure	Measurement Intent	FY 08/09 Baseline Information	FY 09/10 Performance	FY 10/11 Target
O&M Budget Performance	Demonstrate prudent financial management, control and accountability.	96%	92%	100%
Employee Evaluation Completion Rate	Ensure employees' performance evaluations are completed in a timely manner, within 30 days of the anniversary date.	100%	100%	100%
Audit Plan Objectives	Quarterly evaluation and update in a timely manner of Metropolitan's projects and / or activities for risk tolerance as it relates to Metropolitan's objectives.	4	4	4 per year
Audit Conclusion and Report Distribution	Complete and distribute final audit report within the following 15 days.	15 days	15 days	15 days
Annual Quality Assurance (self assessment)	Adherence to IIA Audit Standards.	Generally Conformance	Generally Conformance	Generally Conformance
Audit's Performed	Complete all high risk and Board of Directors / Management requested audits.	42	40	Complete Annual Audit Plan

**Major Activity Distribution
2010/11 Budget
\$2.7 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,109,500	2,076,700	2,030,300	2,053,200
Professional Services	283,900	571,800	571,800	558,400
Other	0	0	0	0
Subsidies & Incentives	15,500	15,000	15,000	15,000
Materials & Supplies	20,300	14,000	14,000	14,000
Training & Seminars Costs	5,100	14,000	14,000	14,000
Travel Expenses	3,900	7,500	7,500	7,500
Rent & Leases	4,300	5,500	5,500	5,500
Memberships & Subscriptions	4,700	5,000	5,000	5,000
Other Accounts	4,400	9,500	9,500	9,500
Totals	2,451,600	2,719,000	2,672,600	2,682,100
% Change	—	10.9%	(1.7%)	0.4%
Regular	13	13	12	12
Temporary	0	0	0	0
Total Personnel	13	13	12	12

Note – Totals may not foot due to rounding..

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects elimination of a position partially offset by merit increases for eligible employees and an increase in employee benefit costs.

General Auditor Department

GENERAL AUDITOR

The General Auditor is accountable to the Board of Directors and the Audit and Ethics Committee to advise them on the adequacy and effectiveness of Metropolitan's internal control structure. These efforts include evaluating the processes for controlling activities and managing risks; reporting significant internal control

deficiencies related to these processes, presenting recommendations to improve these controls, tracking findings through resolution; and coordinating with other Metropolitan control and monitoring functions (risk management, legal, ethics, security, and environmental).

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	2,109,500	2,076,700	2,030,300	2,053,200
Professional Services	283,900	571,800	571,800	558,400
Other	58,100	70,500	70,500	70,500
Totals	2,451,500	2,719,000	2,672,600	2,682,100
% Change	—	10.9%	(1.7%)	0.4%
Personnel	13	13	12	12

Note – Totals may not foot due to rounding..

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects elimination of a position partially offset by an increase in employee benefit costs and an increase in

salaries associated with merit increases for eligible employees.

General Auditor Department

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	2,682,100	2,784,400	2,868,000
% Change	—	3.8%	3.0%
Personnel	12	12	12
Capital	0	0	0
% Change	—	—	—
Personnel	0	0	0
Total	2,682,100	2,784,400	2,868,000
Regular Personnel	12	12	12
Temporary Personnel	0	0	0
Total Personnel	12	12	12

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

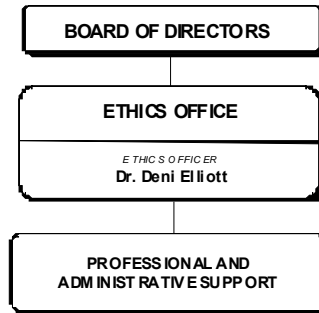
Reflects cost increases consistent with inflation and CalPERS forecasts. No change in personnel is projected.

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MISSION, ROLES, AND RESPONSIBILITIES

Metropolitan is committed to the fulfillment of its mission in an ethical fashion. Ethical practice includes two levels: a level of compliance in which directors, officers, and employees follow relevant laws, rules, regulations, and policies; and a level of ethically ideal behavior in which directors, officers, and employees strive to incorporate Metropolitan’s core values in their daily work life.

The Ethics Office provides leadership through enforcement of ethics-related laws, rules and policies; education for directors, officers, and employees about how ethics apply to their work; and enhancement of the ethical culture of Metropolitan.



Responsibilities include: develop and revise ethics policies; enforce related state mandates and internal rules and regulations; provide advice, guidance and training to the Board,

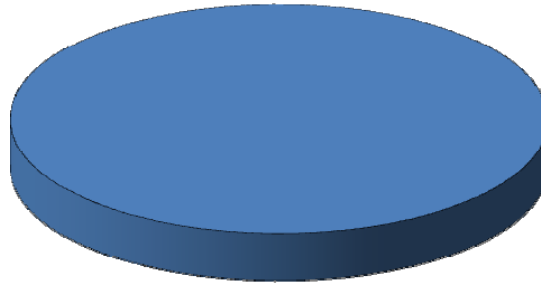
employees, contractors, and the community on matters of ethics; and ensure compliance with provisions of Senate Bill 60.

Budget Summary

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Projected	Change from Budget
O&M	592,300	609,600	609,100	624,200	15,100	14,600
% Change	—	—	—	—	2.5%	2.4%
Totals	592,300	609,600	609,100	624,200	15,100	14,600
% Change	—	—	—	—	2.5%	2.4%
Regular	3	4	3	3	0	(1)
Temporary	1	0	1	1	0	1
Total Personnel	4	4	4	4	0	0

Note – Totals may not foot due to rounding.

**Program Expenditures
2010/11 Budget
\$0.6 Million**



**Ethics
100%**

2009/10 ACCOMPLISHMENTS

Reviewed relevant bills and met state mandates, including annual SB 520 and SB 60 reporting.

Provided advice and support to the Board at committee and general board meetings.

Amended the Administrative Code to reflect changes in Ethics Office complaint review procedures.

Revised and distributed the Directors' Ethics Manual to reflect policy changes put into effect since the initial writing.

Reviewed, investigated, and resolved expressions of concern and inquiries.

Provided mandated AB 1234 ethics training to directors and officers and Brown Act training.

Developed and provided online training opportunities for directors and employees.

Provided advice, training and/or support for Reasonable Suspicion Training for managers and employees, CRG Leadership Forum for managers, and Leadership Orientation for new managers.

Invited member agency representatives to workshops and made materials available to member agency representatives as requested.

Participated in in-house training for professional development activities.

Created the seventh series of ethics awareness posters for distribution at all Metropolitan facilities.

Posted the first in a series of on-line decision trees, one for directors on the Board of Directors web site and one for employees on the Intranet.

BUDGET ISSUES AND CONSTRAINTS

The 2010/11 budget for the Ethics Department is higher due to the recent classification compensation study and employee benefit cost increases. Last fiscal year, a reduction was achieved by reducing the budget for investigative services. This fiscal year, the budget for investigative services was again reduced, which may have minimal consequence but does present the risk of exceeding the budget should those services be required as part of enforcing Metropolitan's Ethics Program.

2010/11 OBJECTIVES

Continue to meet state mandates and agency expectations for enforcement, education, and enhancement of ethics policies and programs.

Continue to address matters brought to the attention of the Ethics Office.

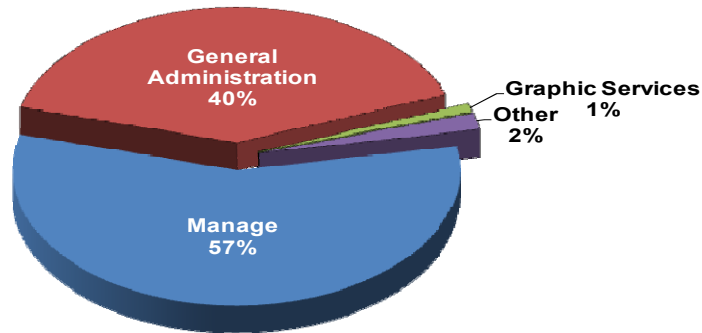
Continue director and employee education in ethics in face-to-face and on-line contexts.

Promote ethics program visibility throughout Metropolitan.

Provide materials, invitations, and assistance to support member agency ethics programs.

Encourage professional development activities for Ethics Office staff.

**Major Activity Distribution
2010/11 Budget
\$0.6 Million**



O&M Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	559,700	532,500	562,700	571,400
Professional Services	14,100	40,000	25,000	30,000
Other	0	0	0	0
Graphics & Reprographics	100	10,000	5,000	5,000
Memberships & Subscriptions	5,000	3,500	3,600	3,500
Rent & Leases	2,600	3,500	3,500	3,500
Training & Seminars Costs	2,500	6,500	2,000	2,000
Travel Expenses	2,600	4,000	2,000	2,000
Subsidies & Incentives	1,400	1,500	1,400	1,500
Reference Books	700	1,500	800	1,200
Other Accounts	3,500	6,600	3,100	4,100
Totals	592,200	609,600	609,100	624,200
% Change	—	2.9%	(0.1%)	2.5%
Regular	3	4	3	3
Temporary	1	0	1	1
Total Personnel	4	4	4	4

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects increases associated with the classification / compensation study and anticipated merit and employee benefits costs.

Professional Services – Reflects a decrease in investigative services to offset increases in other budget costs.

ETHICS OFFICE

The mission of the Office of Ethics is to develop and implement policies and programs that promote a business environment where integrity,

respect, and accountability are incorporated into all aspects of doing business at Metropolitan.

O&M Program Financial Summary

Expense Category	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget
Salaries and Benefits	559,700	532,500	562,700	571,400
Professional Services	14,100	40,000	25,000	30,000
Other	18,400	37,100	21,500	22,800
Totals	592,200	609,600	609,200	624,200
% Change	—	2.9%	(0.1%)	2.5%
Personnel	4	4	4	4

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Salaries and Benefits – Reflects an increase associated within the class compensation study and anticipated merit and employee benefits costs.

Professional Services – Reflects a decrease in investigative services to offset increases in other budget costs.

Three-Year Outlook

Estimated Expenditures

	2010/11	2011/12	2012/13
O&M	624,200	657,100	698,000
% Change	—	5.3%	6.2%
Personnel	3	3	3
Capital	0	0	0
% Change	—	—	—
Personnel	0	0	0
Total	624,200	657,100	698,000
Regular Personnel	3	3	3
Temporary Personnel	1	1	1
Total Personnel	4	4	4

Note – Totals may not foot due to rounding.

ASSUMPTIONS FOR 2011/12 AND 2012/13

Ethics Office expenditures are anticipated to remain static. Salaries and benefits reflect an increase due to anticipated salary consistent

with the rate of inflation and benefit cost increases consistent with CalPERS forecasts.

Staffing Summary

Summary of Employees

Group/Department	2008/09 Budget	2009/10 Budget	2010/11 Budget
Regular Employees			
Office of the General Manager	35	33	45
Water System Operations	965	963	928
Water Resource Management	88	86	69
Corporate Resources	671	665	616
Human Resources	51	49	48
Real Prop Dev & Mgmt	53	49	48
Office of the Chief Financial Officer	51	50	46
External Affairs	55	53	52
Subtotal Department	1,969	1,948	1,852
General Counsel	35	35	32
General Auditor	13	13	12
Office of Ethics	4	4	3
Subtotal Regular Employees	2,021	2,000	1,899
Temporary Employees			
District Temporary	23	16	22
Agency Temporary	8	3	3
Subtotal Temporary Employees	31	19	25
Total Employees	2,052	2,019	1,924

Expenses			
District Regular	179,306,700	184,393,800	181,195,800
District Temporary	1,073,100	1,081,200	1,385,300
Overtime	5,007,000	5,012,600	5,593,800
Agency Temporary	229,000	261,000	135,000
Premium	2,027,700	1,966,000	2,049,400
Fringe Benefits	88,478,100	86,969,500	87,705,400
Total Expenses	276,121,600	279,684,100	278,064,700

Note – Totals may not foot due to rounding.

Staffing Summary

Office of the General Manager

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	33	32	45	12	13
District Temporary	0	0	1	1	1
Agency Temporary	0	0	0	—	—
Totals	33	32	46	13	14

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	4,222,100	4,314,100	5,781,300	1,559,200	1,467,200
District Temporary	0	0	100,000	100,000	100,000
Overtime	20,500	20,500	3,000	(17,500)	(17,500)
Agency Temporary	0	0	0	—	—
Fringe Benefits	1,948,500	2,095,200	2,689,600	741,100	594,400
Totals	6,191,100	6,429,800	8,573,900	2,382,800	2,144,100

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects the transfer of eleven positions from WRM and one position from External Affairs to support the Bay-Delta Initiatives Program and the transfer of one position from Human Resources to support the Business Outreach Program partially offset by the elimination of one position from the Office of the General Manager.

District Temporary – Reflects the need for temporary help in support of Bay-Delta initiatives.

Expense

District Regular – Reflects the transfer of positions from other organizations to the Office of the General Manager in support of the Bay-Delta Initiatives Program and merit increases for eligible employees partially offset by the retirement of one employee and elimination of that position.

District Temporary – Reflects labor expense associated with one FTE, as described above.

Fringe Benefits – Reflects the transfer of positions into the Office of the General Manager as well as benefits cost increases in accordance with the CalPERS actuarial study partially offset by the elimination of one position.

Staffing Summary

Water System Operations

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	963	941	928	(35)	(13)
District Temporary	14	16	19	4	2
Agency Temporary	1	1	2	1	1
Totals	978	958	948	(30)	(10)

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	78,659,100	79,266,400	78,510,500	(148,600)	(755,900)
District Temporary	962,200	847,900	1,060,600	98,400	212,700
Overtime	4,478,900	4,591,100	5,101,900	623,000	510,800
Agency Temporary	30,000	20,000	120,000	90,000	100,000
Premium	1,798,000	1,797,500	1,856,700	58,700	59,200
Fringe Benefits	37,527,300	42,528,200	38,891,300	1,364,000	(3,636,900)
Totals	123,455,500	129,051,100	125,541,000	2,085,500	(3,510,100)

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects a reduction of 34 positions after re-prioritization of projects and functions, and the transfer of a position to CRG for a net reduction of 35 positions.

District Temporary – Reflects a shift of using temporary labor, instead of outside services, to handle coating tasks for the Desert Region.

Agency Temporary – Reflects an increase for an agency temporary to backfill regular employees.

Expense

District Regular – Reflects elimination of positions and conversion of 17 vacant positions to recruit new apprentices offset by merit increases for eligible employees.

Premium – Reflects slightly higher premium hours anticipated by the Water Conveyance and Distribution Section.

Fringe Benefits – Reflects anticipated increase in the cost of employee benefits consistent with the CalPERS actuarial study.

Overtime – Reflects an anticipated merit increases and support for additional facilities throughout the service area.

Staffing Summary

Water Resource Management

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	86	81	69	(17)	(12)
District Temporary	0	0	0	—	—
Agency Temporary	0	0	0	—	—
Totals	86	81	69	(17)	(12)

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	8,757,100	8,459,000	7,751,400	(1,005,700)	(707,600)
Overtime	95,500	84,900	92,000	(3,500)	7,100
Agency Temporary	0	0	0	—	—
Fringe Benefits	4,057,600	4,131,100	3,672,000	(385,600)	(459,100)
Totals	12,910,200	12,675,000	11,515,400	(1,394,800)	(1,159,600)

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects elimination of five positions, the transfer of 11 positions to the new Bay Delta Initiatives Program organization, and the transfer of one position to the Real Property Development and Management Group.

Expense

District Regular – Reflects a reduction of 17 positions partially offset by merit increase for eligible employees.

Fringe Benefits – Reflects a reduction of 17 positions partially offset by an increase in the cost of employee benefits consistent with the CalPERS actuarial study.

Staffing Summary

Corporate Resources

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	665	626	616	(49)	(10)
District Temporary	0	1	0	—	(1)
Agency Temporary	0	0	0	—	—
Totals	665	627	616	(49)	(11)

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	66,272,000	60,041,000	62,535,800	(3,736,200)	2,494,800
District Temporary	0	0	0	—	—
Overtime	288,700	283,700	292,800	4,100	9,100
Agency Temporary	0	0	0	—	—
Premium	167,800	183,600	192,400	24,600	8,800
Fringe Benefits	30,666,500	35,138,500	29,800,800	(865,700)	(5,337,700)
Totals	97,395,000	95,646,800	92,821,800	(4,573,200)	(2,825,000)

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects a decrease of 50 O&M and CIP positions: 13 from Business Services, 30 from Engineering Services, and 7 from Information Technology partially offset by the transfer of 1 position from WSO to the Office of Group Manager for ARRA grant funding development.

Expense

District Regular – Reflects the elimination of a net 49 positions, partially offset by merit increases for eligible employees.

Overtime – Increase in overtime reflects peak workloads associated with web-enabled enterprise applications such as Oracle Financials, PeopleSoft, and Maximo Maintenance Management.

Fringe Benefits – Reflects the elimination of a net 49 positions partially offset by benefit cost increases based on CalPERS actuarial estimates.

Staffing Summary

Human Resources

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	49	48	48	(1)	—
District Temporary	0	0	0	—	—
Agency Temporary	0	0	0	—	—
Totals	49	48	48	(1)	—

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	4,795,300	5,149,400	5,147,700	352,400	(1,700)
District Temporary	5,000	4,200	0	(5,000)	(4,200)
Overtime	13,500	2,200	1,500	(12,000)	(700)
Agency Temporary	66,000	8,100	0	(66,000)	(8,100)
Premium	0	0	0	—	—
Fringe Benefits	2,211,800	2,491,400	2,419,900	208,100	(71,500)
Totals	7,091,600	7,655,300	7,569,100	477,500	(86,200)

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

Reflects the transfer of one position to Business Outreach during FY2009/10 and the elimination of a manager position partially offset by the addition of an administrative support position.

Expense

District Regular – Reflects a cost of living increase, classification study adjustments and merit increases for eligible employees partially offset by a reduction in labor dollars for one FTE.

Fringe Benefits – Reflects an increase in the cost of employee benefits consistent with the CalPERS actuarial study.

Staffing Summary

Real Property Development & Management

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	49	48	48	(1)	—
District Temporary	0	0	0	—	—
Agency Temporary	0	0	0	—	—
Totals	49	48	48	(1)	—

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	4,708,300	4,435,500	4,604,000	(104,300)	168,500
District Temporary	0	0	0	—	—
Overtime	57,000	54,800	45,600	(11,400)	(9,200)
Premium	0	100	100	100	—
Fringe Benefits	2,185,600	2,253,400	2,193,300	7,700	(60,100)
Totals	6,950,900	6,743,800	6,843,000	(107,900)	99,200

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

Regular Personnel – Reflects elimination of one Real Estate Representative position.

Expense

District Regular – Reflects promotions associated with the group realignment and an allowance for merit increases for eligible employees offset by the elimination of a position.

Fringe Benefits – Reflects an increase in the cost of employee benefits consistent with the CalPERS actuarial study.

Staffing Summary

Office of the Chief Financial Officer

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	50	47	46	(4)	(1)
District Temporary	0	0	0	—	—
Agency Temporary	0	0	0	—	—
Totals	50	47	46	(4)	(1)

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	4,662,000	4,719,500	4,652,700	(9,300)	(66,800)
Overtime	27,000	27,000	25,500	(1,500)	(1,500)
Agency Temporary	0	0	0	—	—
Premium	0	0	0	—	—
Fringe Benefits	2,152,800	2,295,700	2,207,000	54,200	(88,700)
Totals	6,841,800	7,042,200	6,885,200	43,400	(157,000)

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects elimination of a Senior Clerk and a Principal Accountant position in the Controller Section and a Senior Administrative Analyst and Administrative Secretary position in the Treasury and Debt Management Section.

Expense

District Regular – Reflects elimination of four positions partially offset by merit increases for eligible employees.

Fringe Benefits – Reflects elimination of four positions offset by an increase in the cost of employee benefits consistent with the CalPERS actuarial study and in accordance with current labor agreements.

Staffing Summary

External Affairs

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	53	53	52	(1)	(1)
District Temporary	0	0	0	—	—
Agency Temporary	1	0	1	—	1
Totals	54	53	53	(1)	—

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	5,949,900	5,969,300	6,038,100	88,200	68,800
Overtime	21,000	21,000	21,000	—	—
Agency Temporary	15,000	0	15,000	—	15,000
Premium	0	0	0	—	—
Fringe Benefits	2,743,400	2,895,400	2,841,600	98,200	(53,800)
Totals	8,729,300	8,885,700	8,915,700	186,400	30,000

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects elimination of positions upon retirement of two staff members, offset by transfer of one staff member from the Water Resources Management group.

Expense

District Regular – Reflects an increase in salaries associated with merit increases for eligible employees partially offset by personnel reduction.

Fringe Benefits – Reflects an increase in employee benefit costs consistent with the CalPERS actuarial study.

Staffing Summary

General Counsel

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	35	32	32	(3)	—
District Temporary	2	2	2	—	0
Agency Temporary	0	0	0	—	—
Totals	37	34	34	(3)	0

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	4,473,700	4,576,100	4,493,000	19,300	(83,100)
District Temporary	114,000	96,500	114,000	—	17,500
Overtime	10,000	8,000	10,000	—	2,000
Premium	200	200	200	—	—
Fringe Benefits	2,104,100	2,258,700	2,157,800	53,700	(100,900)
Totals	6,702,000	6,939,500	6,775,000	73,000	(164,500)

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects the elimination of three administrative staff positions.

Expenses

District Regular – Reflects the elimination of three positions offset by anticipated merit increases for eligible employees.

Fringe Benefits – Reflects the elimination of three positions offset by anticipated increase in the cost of employee benefits consistent with CALPERS actuarial study.

Staffing Summary

General Auditor

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	13	12	12	(1)	—
District Temporary	0	0	0	—	—
Agency Temporary	0	0	0	—	—
Totals	13	12	12	(1)	—

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	1,422,400	1,368,800	1,396,700	(25,700)	27,900
Fringe Benefits	654,300	661,500	656,500	2,200	(5,000)
Totals	2,076,700	2,030,300	2,053,200	(23,500)	22,900

Note – Totals may not foot due to rounding.

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular – Reflects the elimination of one Deputy Auditor position.

Expense

District Regular – Reflects elimination of a position partially offset by merit increases for eligible employees.

Staffing Summary

Ethics Office

Employees	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	4	3	3	(1)	—
District Temporary	0	1	1	1	—
Agency Temporary	0	0	0	—	—
Totals	4	4	4	—	—

Expenses	2009/10 Budget	2009/10 Projected	2010/11 Budget	Change from Budget	Change from Projected
District Regular	364,200	275,300	284,600	(79,600)	9,300
District Temporary	0	103,600	110,700	110,700	7,100
Overtime	500	0	500	—	500
Agency Temporary	0	4,300	0	—	(4,300)
Fringe Benefits	167,800	179,500	175,600	7,800	(3,900)
Totals	532,500	562,700	571,400	38,900	8,700

REASONS FOR CHANGES 2009/10 BUDGET TO 2010/11 BUDGET

Employees

District Regular / Temporary - Reflects a change in how the Ethics Officer (recurrent employee) is administratively accounted for.

Expense

District Regular - Reflects a change in how the Ethics Officer (recurrent employee) is administratively accounted for within the system partially offset by merit increases for eligible employees.

District Temporary - Reflects classification of Ethics Officer as a recurrent employee.

INTRODUCTION

The primary focus of the CIP is to provide information on all capital programs that are scheduled to begin or will be underway during FY 2010/11. Scope, accomplishments, objectives and financial projections are given for each program.

Since each project is submitted individually to the Board for authorization and funding during the fiscal year, no action is required on this section.

CAPITAL INVESTMENT PLAN DEVELOPMENT

Background

The projects that comprise the proposed CIP have been identified from many Metropolitan studies of projected water needs that are embodied in board-approved documents such as the IRP, Distribution System Overview Study, and the General Manager's Business Plan. In addition, staff and consultants have studied operational demands on aging facilities as well as new regulations and made recommendations for capital projects that will maintain infrastructure reliability and water quality standards, studied business and operational processes, and made recommendations for programs that will improve efficiency and provide future cost savings.

CIP Development Process

The CIP is structured to reflect Metropolitan's strategic goals of providing a reliable supply of high-quality water at the lowest cost possible. As part of the CIP process, all new and existing projects are evaluated against an objective set of criteria to ensure existing and future capital investments are aligned with Metropolitan's Business Plan Priorities for Water Supply Reliability and Water Quality. A team comprised of staff from Water System Operations, Water Resource Management, Real Property Development and Management, Corporate Resources, and Office of Chief Financial Officer evaluate and rate all projects. Those projects that directly support the priorities of Water Supply Reliability and Water Quality are prioritized for inclusion in Metropolitan's proposed CIP.

This rigorous evaluation process has resulted in a thorough review and assessment of all proposed capital projects by staff and managers prior to submittal to the evaluation team. Staff continues to conduct comprehensive field investigations that identify critical replacement and refurbishment projects and a variety of necessary facility upgrades related to infrastructure reliability as well as regulatory compliance. Project schedules are evaluated regularly in order to plan for steadily increasing capital investments in infrastructure reliability and to accommodate the urgency of each project.

An iterative process is employed to first score and rank every new and existing project, and then solicit feedback from project sponsors, customers, and resource providers in order to establish schedules and cash flow requirements for FY 2010/11, as well as for the next several years. Those schedules, along with analyses of facility shutdown requirements, environmental permitting timeframes, and contracting process requirements, also enable resource managers to identify staffing needs for the upcoming year. The final schedule and implementation plan for FY 2010/11 is reflected in the budget and objectives for each of the individual programs described later in this section.

Project Evaluation

Before a project is included in the CIP, it is evaluated and rated against an established set of criteria. Staff is required to submit proposals for all projects that include scope, justification, alternatives, impact of scheduling work for a later time, impact on operations and maintenance costs, and estimate of cost. For existing projects, staff must also provide justification for continuing the project, explain any changes since inception of the project, and describe critical phases for FY 2010/11.

Guidelines for project proposals start on page 251. The evaluation criteria cover four characteristics or objectives for capital projects: Project Necessity, Directive, Service Disruption, and Cost/Productivity/Sustainability. In addition, a multiplier is applied to a project rating to factor in a risk assessment. See page 254 for a description of each criterion and multiplier.

New Projects for FY 2010/11

This year, a total of 61 new projects were recommended by the CIP Evaluation Team to either proceed as proposed, or be staged to

perform only a portion of the work in FY 2010/11, and have been incorporated into existing programs or included in one of the newly established Capital Programs shown in Table 23.

Table 23 – New CIP Projects/Programs for FY 2010/11

Program No.	Description	Total Program Estimate
10101	Capital Programs for Projects Costing Less Than \$250,000 for FY2010/11	\$ 3,500,000
10102	Water Operations Control Program	17,285,000
Various	New Projects Incorporated into Existing Programs	<u>164,215,000</u>
Total Estimate – New Projects/Programs		\$185,000,000

New Projects by Driver

A driver is the primary reason a project is being implemented and is identified within the context of Metropolitan’s goals of providing a reliable supply of high-quality water. The projects in the CIP have been assigned to the following categories: Supply and Delivery Reliability,

Infrastructure Reliability, Water Quality, Cost Efficiency/Productivity, and Stewardship. These categories reflect the types of drivers that justify the need for projects in the CIP. The table below provides a definition of the drivers.

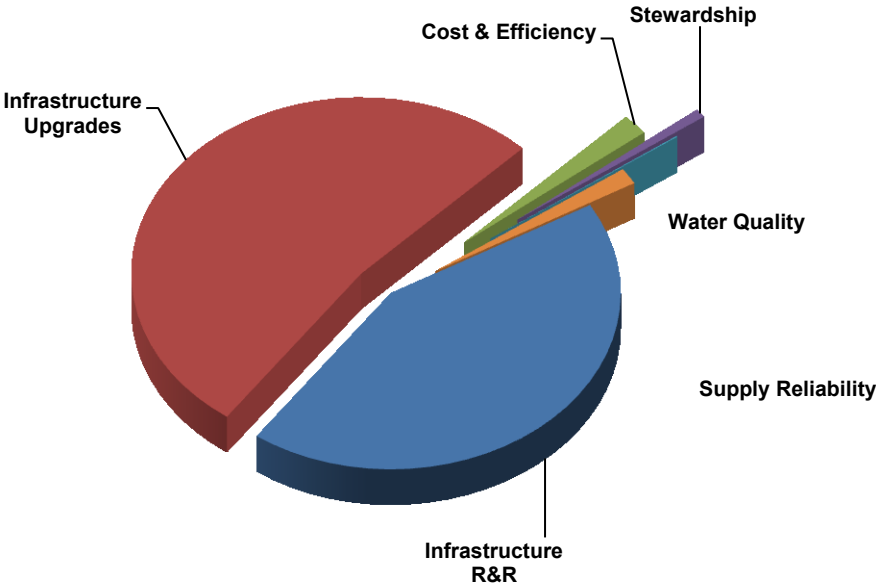
Table 24 – Project Drivers

Driver	Definition
Supply & Delivery Reliability	Implementing the project will improve the capacity of Metropolitan’s water supply and delivery infrastructure to meet projected demand increases.
Infrastructure Reliability	
➤ Replacement & Refurbishment	Implementing the project will replace or refurbish existing facilities and components in order to continue to reliably meet current service demands.
➤ Facility Upgrades	Implementing the project will improve or modify Metropolitan’s treatment, conveyance, storage, or distribution facilities to effectively respond to changing operational conditions or requirements, and utilize new processes and/or technologies.
Water Quality	Implementing the project will ensure Metropolitan meets all applicable water quality regulations.
Cost/Efficiency/Productivity	Implementing the project will provide economic savings that outweigh project costs through enhanced business and operating processes.
Stewardship	Implementing the project will help ensure the protection, safety, and security of Metropolitan’s employees, visitors, and all real and intellectual properties and assets. Other Stewardship projects provide for prudent use and management of Metropolitan’s assets in compliance with all applicable regulations and codes.

Figure 18 shows a breakdown of the new projects identified for FY 2010/11 by the driver categories.

The total estimate of expenditures for all new projects is \$185 million.

Figure 18 – New CIP Projects by Driver Category



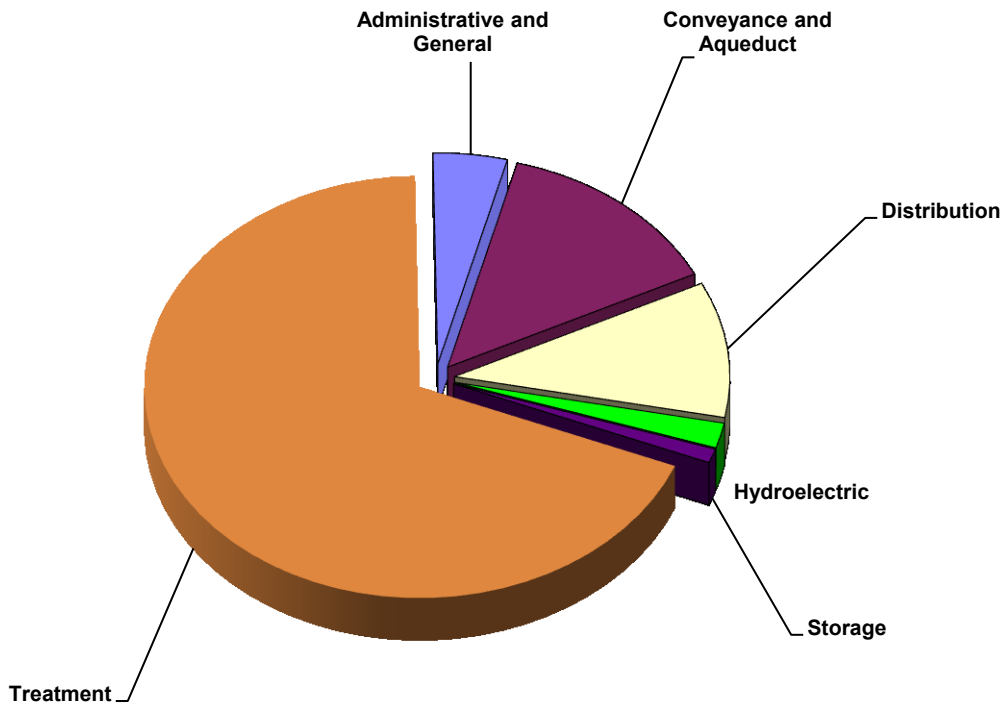
Total New Project Estimates – \$185 million

Cost of Service Category

The Cost of Service Categories for each program are: source of supply, conveyance and aqueduct, distribution, storage, treatment, hydroelectric, and administrative and general.

The categories support the development of rates and charges. Table 25 explains the Cost of Service Categories. Figure 18 shows the breakdown of the FY 2010/11 CIP by category.

Figure 19 – Cost of Service Category for Fiscal Year 2010/11



Total for FY 2010/11 – \$259 million

Table 25 – Cost of Service Categories

Category	Description
Source of Supply	This category includes capital costs for water supplies. Included in those costs are supply-related programs such as Colorado River conjunctive use programs, in-basin conjunctive use programs, and other capital projects that develop additional reliable supplies.
Conveyance and Aqueduct	This category includes the capital costs for CRA facilities that convey water to Southern California and into Metropolitan’s distribution system. The Inland Feeder is a Conveyance and Aqueduct facility. Conveyance and Aqueduct facilities can be distinguished from Metropolitan’s other facilities primarily by the fact that they do not typically include direct connections to the member agencies.
Transmission/ Distribution	This category includes capital costs for facilities and programs, for “in-basin” feeders, canals, pipelines, laterals and other appurtenant works. The “in-basin” facilities are distinguished from Conveyance and Aqueduct facilities at the point of connection to the SWP (with the exception of the Inland Feeder), the terminal reservoirs of the CRA, Lake Mathews, and other major turnouts along the CRA facilities.
Storage	This category includes the capital costs for Metropolitan’s reservoirs.
Treatment	This category includes the capital costs for Metropolitan’s five treatment plants.
Hydroelectric	Hydroelectric costs include the capital costs incurred for the 16 small hydroelectric plants located throughout the distribution system.
Administrative and General	This category includes capital costs for other projects such as information technology system upgrades that benefit all of the service function categories listed above.

MAJOR OBJECTIVES FOR FISCAL YEAR 2010/11

The total estimated capital expenditure for FY 2010/11 is expected to be \$259 million.

Major capital programs that will be underway include the following:

Table 26 – Major Programs Underway in FY 2010/11

Program Description	FY 2010/11 Estimate
Diemer Water Treatment Plant – Oxidation Retrofit Program	\$54.8 million
Weymouth Water Treatment Plant – Improvements Program	\$29.9 million
Weymouth Water Treatment Plant – Oxidation Retrofit Program	\$23.9 million
Conveyance and Distribution System – Rehabilitation Phase II	\$17.1 million
Diemer Water Treatment Plant – Improvements Program	\$14.4 million
CRA – Reliability Program Phase II	\$12.6 million
Diemer Water Treatment Plant – Improvements Program Phase II	\$10.3 million
Distribution System – Treated Water Cross Connection	\$8.7 million
Conveyance and Distribution System – Rehabilitation Phase I	\$8.0 million
CRA – Pumping Plant Reliability Program	\$7.0 million

Below, grouped by driver category, are descriptions of major activities anticipated to be underway or completed during the fiscal year for the major programs.

Water Quality

Diemer Water Treatment Plant – Oxidation Retrofit Program

Continue with the ozonation facilities construction contract. Obtain board approval and funding for the start-up of ozonation operation.

Weymouth Water Treatment Plant – Oxidation Retrofit Program

Complete relocation of Inlet Conduit. Complete final design of Weymouth Ozone Facilities.

Distribution System – Treated Water Cross Connection

Complete relocation/modification of 69 structures from subsurface manholes/vaults to above-ground locations for packages 7, 8, and 10. Advertise bid packages 9, 11, and 12 covering 78 structures. Request board authorization and funding to award

the construction packages 9, 11, and 12 and start construction.

Infrastructure Reliability

Weymouth Water Treatment Plant – Improvements Program

Complete construction of Coagulant Tank Farm Improvements, Incoming Electrical Service by SCE, Rapid Mix System, and Junction Structure Seismic Upgrades. Continue construction of Electrical Upgrades.

Conveyance and Distribution System – Rehabilitation Phases I and II

Complete the repairs/replacement of several PCCP sections of the Box Springs Feeder. Complete the design and begin the replacement of the cement mortar lining on the Etiwanda Pipeline.

Complete design and construction of the refurbishment of cathodic protection systems on portions of the Sepulveda and Second Lower Feeders.

Diemer Water Treatment Plant – Improvements Program

Start Washwater Reclamation Plant No. 3 preliminary design. Complete construction by Southern California Edison of the Power System Upgrade to 66kV. As part of the ORP contract, continue construction of the Electrical Systems Upgrade project. Start final design for Seismic Upgrades to the Northeast Filter Outlet Conduit. Complete construction of Diemer Plant North Access Road.

Diemer Water Treatment Plant – Improvements Program Phase II

Complete Improvements to the WWRP No. 2 Flocculators and Pillow Blocks and East Washwater Tank Roof. Start construction for the new Fire and Potable Water Pump Station and Emergency Broadcast System Rehabilitation. Request board authorization and funding for procurement of Filter Valves, preliminary design of Administration and Filter Buildings Seismic Upgrades, Chemical System Upgrades and Sample Line and Analyzer Improvements. Complete installation of Alternative Water Supply for Solids Handling Facility.

CRA Reliability Program II

Continue construction of the upgrades of the access roads to the CRA pumping plant water tanks and aqueduct access structures. Begin design of the emergency standby generator replacements and upgrades at all five desert pumping plants. Complete construction of the Fault Current Protection Upgrades. Complete final design of the 230kV and 69kV Disconnect Switch Replacement project. Complete final design of the Mile 12 Flow and Chlorine Monitoring Station Upgrades. Obtain board authorization for preliminary design of the Switch House Seismic Upgrades. Obtain board authorization and funding for construction of the Intake Power and Communications Line Replacement.

CRA Pumping Plant Reliability Program

Complete construction of the Water Strainers Replacement and Circulating Water System Piping Rehabilitation. Complete study to evaluate alternatives for replacing existing pump motor exciters. Complete construction of the Desert Water Tank Access and Safety Improvements project. Obtain board authorization and funding for preliminary design of the main pump motor exciters rehabilitation. Obtain board authorization and funding for construction of Phase 2 of the Pumping Plant Delivery Line Expansion Joint Rehabilitation.

Financial Projections

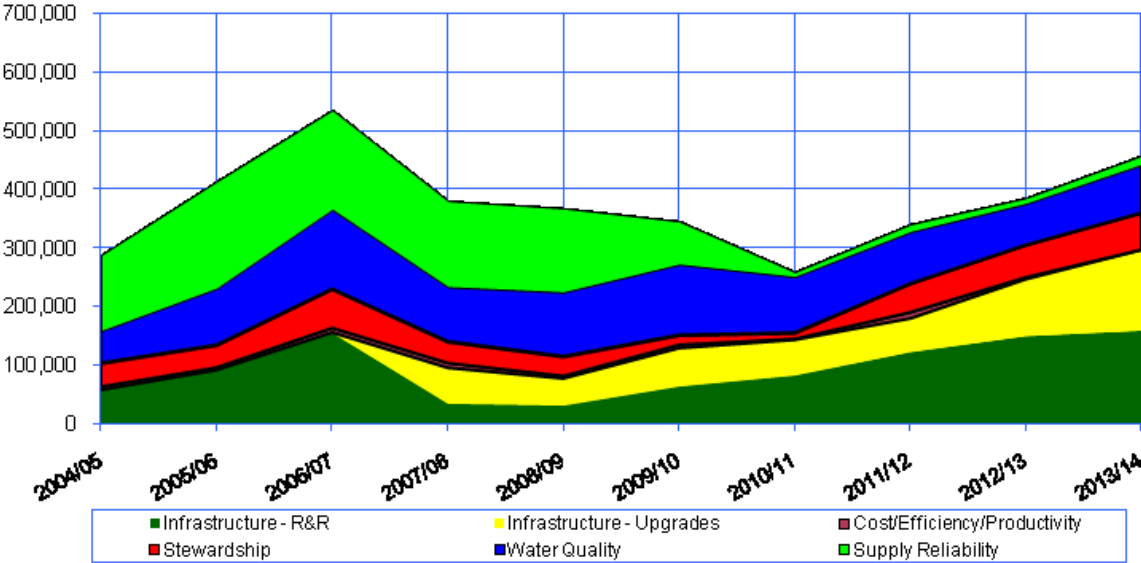
Figure 20 depicts a combination of actual and projected capital expenditures over a 10-year window, from FY 2004/05 through 2013/14. FY 2004/05 was the last time the IRP was updated. Values for annual expenditures from 2009/10 on are based on the projected actual budget for FY 2009/10. The evaluation and assessment process described earlier, which occurs on an annual basis, has resulted in projected expenditures of \$259 million for FY 2010/11. Total projected capital expenditures over the next several years have been reduced by almost \$10 million. This is primarily due to lower than anticipated bids on some major construction contracts as well as schedule adjustments to the Weymouth ORP and San Diego Pipeline No. 6, and a reduction in the scope of the Hayfield Groundwater project.

over \$280 million planned for the Diemer and Weymouth ORP, Solids Handling Facilities at the Jensen and Mills treatment plants, and the Electrical Upgrades at the Weymouth water treatment plant. With the completion of construction on the 45-mile Inland Feeder conveyance system in 2009 and the planned completion of the Oxidation Retrofit Program, the future CIP is primarily comprised of numerous facility upgrade and replacement or refurbishment projects. This shift in driver category expenditures reflects the need to establish ever increasing investments in Metropolitan’s aging infrastructure. The need for increasing future expenditures on infrastructure reliability will be the focus of continuing investigations and analysis as the major expansion and oxidation retrofit work at the treatment plants near completion.

Over the next three years, approximately \$1 billion dollars is budgeted in the capital program, with

Figure 20 –10-year CIP

**FY 2010/11 CIP – All Projects
10 Year Period 2004/05 – 2013/14**



HOW TO USE THIS DOCUMENT

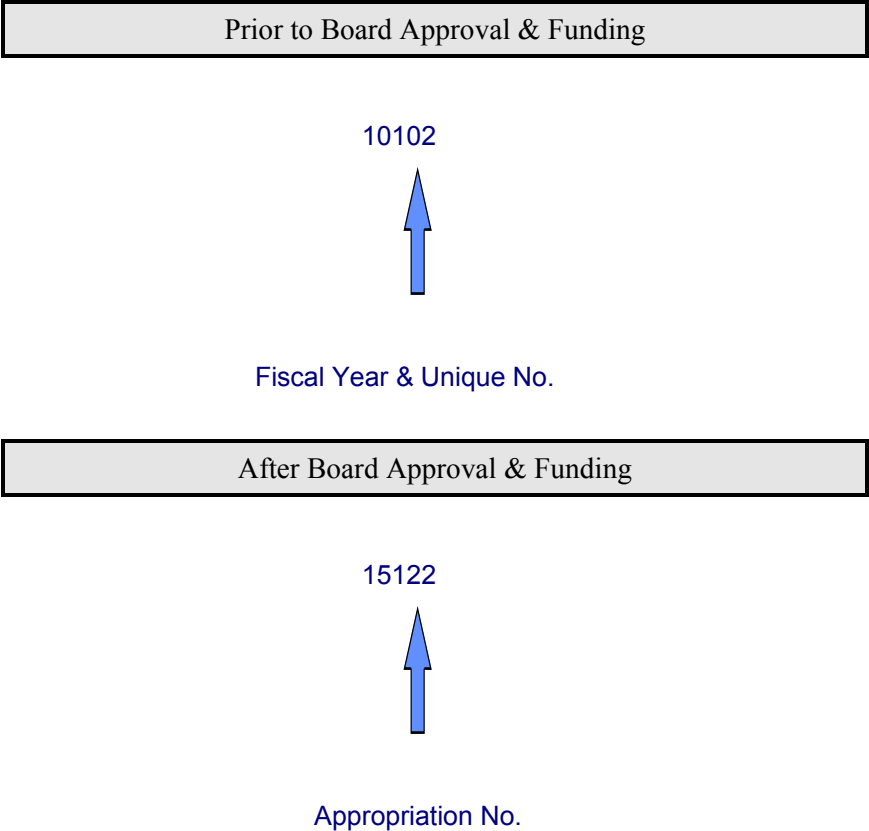
The core of this section is the Individual Program Summary, which provides information for each capital program that is scheduled to begin or will be underway during FY 2010/11. The Individual Program Summary is ordered by program title, starting on page 261. For assistance in locating a specific program, refer to page 259.

Explanation of Capital Program Numbers

Program numbers are comprised of a five-digit number. The five-digit number uniquely identifies a program.

If a program has not yet received board approval, the first three numeric digits represent the fiscal year the program was identified (e.g. “101” is FY 2010/11), the last two numeric digits uniquely identify the new program. If by board action, the authority to perform work and appropriation funding has been established, the five-digit numbers in the program number change to the appropriation number. Figure 21 shows examples of both types of program numbers.

Figure 21 – Program Number Naming Convention



Explanation of Individual Program Summary

Each program planned to be underway during FY 2010/11 is included in the Individual Program Summary. For each program, key financial and schedule information is highlighted, and narratives are provided.

Key Information

For each program, key information is highlighted at the top of the Individual Program Summary page and includes total program estimate, appropriated amount, FY 2010/11 estimate, total projected cost through June 30, 2010, estimated percent complete and estimated completion date. Table 27 provides an explanation of each item.

Table 27 – Key Program Information

Item	Description
Total Program Estimate	<p>The total estimate of cost from inception to completion of a program. It includes escalation and contingency, and may include actual expenditures if the program is underway.</p> <p>The total program estimate may have: (a) no funding authorization from the Board; (b) partial funding from the Board; or (c) complete funding from the Board.</p>
Appropriated Amount	Amount of expenditures the General Manager is authorized to spend on a program.
FY 2010/11 Estimate	Estimate of expenditures from July 2010 through June 2011.
Total Projected through June 30, 2010	Actual expenditures to date and estimate of expenditures through June 2010.
Estimated Percent Complete	Estimated percent of work to be completed through June 2010.
Estimated Completion Date	Fiscal year in which the program will be completed according to the current schedule.

GUIDELINES FOR PROJECT PROPOSALS

Project Proposal

Sponsors are required to submit proposals for all projects to be considered for inclusion into the CIP

for FY 2010/11. The projects are evaluated, rated and prioritized based on the contents of the proposals. The following guidelines are provided to the sponsors.

Table 28– New Project Proposal Guidelines

Section	Guideline
Program Title	If applicable, indicate the program to which the project belongs. For instance, the Weymouth Chlorine Containment and Handling Facilities is part of the Chlorine Containment and Handling Facilities Program.
Project Title	Provide a title for the project being proposed.
Sponsoring Group	Indicate the project sponsor from the following list of organizations: 1) Office of General Manager 2) Water System Operations 3) Water Resources Management 4) Corporate Resources 5) Human Resources 6) Real Property Development and Management 7) Office of Chief Financial Officer 8) External Affairs 9) General Counsel Department 10) General Auditor Department 11) Ethics Office
Total Project Estimate	Show the total estimate of cost from inception to completion of a project, including administrative overhead and contingency.
GM Business Plan	Indicate which GM Business Plan Strategy/Initiative the proposed project best fits.
Project Goal	Indicate which of the CIP goals below this project supports: 1) Reliability 2) Water Quality 3) Other Board Directive 4) Both Reliability and Water Quality
Project Drivers	Indicate which of the following is driving the need for the project: (see Table 2 for description of Drivers) 1) Supply Reliability 2) Infrastructure Reliability 3) Water Quality 4) Cost Efficiency/Productivity 5) Stewardship

Section	Guideline
Project Status:	
% Complete Now	Percent complete as of the date proposal submitted
% Estimated Complete on 6/30/10	Estimated percent complete as of June 30, 2010.
No. of Repair Calls and/or Cost of Maintenance	Rehabilitation projects should include the number of component maintenance repairs to substantiate the need to do the project.
Project Description	In describing the project, include any opportunities to “stage” the work. Include if it makes sense economically to only perform a portion of a project to meet foreseeable customer needs. Consider the possibility of new technology, changing demands, as well as environmental impacts and economies of scale
Changes to Existing Project	Explain any changes that have occurred on the project since its last evaluation.
Justification	Explain why the proposed project should be done (i.e., answer the question “why do we need to do the project?”). Describe how the project is essential for meeting the GM’s goals of Reliability and Water Quality and how it fits into the Business Plan. Include an explanation of the project driver(s) and Maximo documentation when available to substantiate the need for the project.
Impact of Deferral	Assess any risk and discuss the impacts of not implementing the project in the next fiscal year. Include risks of not meeting service demands, violating regulatory requirements, increasing future costs, etc.
Project Dependency	Identify any projects that are dependent upon or linked to this project.
Alternatives	Describe any alternatives to the project. Discuss both positive and negative aspects of each alternative. Include an alternative where the project would not be done at all. For IT projects, explain what other similar companies are doing about this issue.
Background Information	Provide any supplemental information (e.g., detailed history of a problem, supporting technical information) that will help in evaluating the project. This can also be attached to the proposal.
Schedule	Provide an overall schedule for the project. Indicate if there are any time sensitivity issues (e.g., shutdown windows) and if the work can be staged. If work can be staged, indicate when subsequent stages can be implemented. A standard phasing plan is provided in the template. Indicate the proposed beginning and end dates for all appropriate phases, and when initial authorization will need to be requested from the Board.
Detailed Project Estimate	Itemized list of all costs for the project include: <ol style="list-style-type: none"> 1) Direct Labor with additives 2) Materials and Supplies 3) Incidental Expenses 4) Professional/Technical Services (e.g., consultants) 5) Right-of-Way and Land Purchases (e.g., easements, fee title, escrow fees)

Section	Guideline
	<ul style="list-style-type: none"> 6) Operating Equipment Use and Rental 7) Contract Payments (e.g., construction contracts) 8) Administrative Overhead 9) Credits and Contingency <p>A phase-based estimating form is linked through the template. All new project proposals and existing projects that have not yet been board authorized must include this estimating form.</p>
Benefit/Cost Analysis and Pay-Back Period	Perform a simple economic analysis that quantifies the cost to do the project, O&M savings and/or avoided costs. Discuss intangible benefits and costs. State assumptions. For IT projects, include Return on Investment analysis, if available.
O&M Impacts, Costs, and Benefits	To the extent available/known, provide a description of the impacts, costs, and/or benefits this capital project is anticipated to have on Metropolitan’s current and future O&M expenses and services upon completion (e.g., labor, maintenance, and equipment costs; enhanced reliability; improved water quality, etc. For example, “Ozone generators will substantially increase electrical consumption by approximately \$1 million annually and the number of new pieces of equipment will require periodic maintenance per the manufacturer’s recommendations beginning in FY 2013/14. PDR and future studies will provide additional detail on the overall lifecycle costs”). This is required for projects greater than \$2 million and whose planned implementation date is within the next five fiscal years.
Approvals	<ul style="list-style-type: none"> 1) Person submitting and/or sponsoring the proposed project 2) Team manager of the person submitting and/or sponsoring the project 3) Unit manager of the person submitting and/or sponsoring the project 4) Section manager of the person sponsoring the project (e.g. all new and existing WSO-sponsored projects) 5) Group manager sponsoring the project (e.g., all new WSO-sponsored projects) 6) Project manager signs in concurrence. (e.g., Engineering and IT organizations)

Evaluation Criteria

The evaluation criteria cover four characteristics or objectives for capital projects: Project Necessity, Directive, Service Disruption, and Cost/Productivity/Sustainability. In addition a

multiplier is applied to a project rating to factor in a risk assessment. Table 29 provides a description of the criteria and multiplier.

Table 29 – Evaluation Criteria and Multiplier

Criteria	Description
Necessity	Assessment of the overall importance of a project. Criterion looks at whether or not a project does the following: <ul style="list-style-type: none"> <input type="checkbox"/> Infrastructure Reliability/Integrity/Business Systems Reliability <input type="checkbox"/> Stewardship <input type="checkbox"/> Water Supply
Directive	Assessment of whether or not a project is specifically identified in one of the core or strategic initiatives: <ul style="list-style-type: none"> <input type="checkbox"/> Regulatory/Legal Settlement <input type="checkbox"/> Special Initiative/Directive
Service Disruption	Assessment of not doing a project. Criterion evaluates the following: <ul style="list-style-type: none"> <input type="checkbox"/> Impact to Metropolitan’s business operations <input type="checkbox"/> Impact to system delivery and/or reliability <input type="checkbox"/> Cascading impact on system due to failure <input type="checkbox"/> Impact to operations
Cost/Productivity/Sustainability	Assessment of whether or not a project improves cost efficiency/productivity, specifically: <ul style="list-style-type: none"> <input type="checkbox"/> Cost/benefit analysis <input type="checkbox"/> Increased productivity <input type="checkbox"/> Sustainability <input type="checkbox"/> Customer service
Multiplier	Description
Risk Assessment	Assessment of the probability of: <ul style="list-style-type: none"> <input type="checkbox"/> Increased future costs <input type="checkbox"/> Dependent projects <input type="checkbox"/> Facility/component/process failure <input type="checkbox"/> Workplace health and safety <input type="checkbox"/> Loss of outside funding <input type="checkbox"/> Lost opportunity <input type="checkbox"/> Not meeting service demands

Narratives

For each program, narratives include the scope and purpose of the program, accomplishments through FY 2009/10, and objectives for

FY 2010/11. In these narratives, major activities, milestones and actions presented to the Board are highlighted

Capital Investment Plan FY 2010/11

Capital Investment Plan Summary – Three-Year Outlook

Program		Estimates		
		FY 2010/11	FY 2011/12	FY 2012/13
New Programs				
10101	Capital Program for Projects Costing Less than \$250,000 for FY2010/11	575,900	1,949,400	2,480,900
10102	Water Operations Control Program	1,247,700	5,826,800	9,908,300
	Total	1,823,600	7,776,200	12,389,200
Programs in Progress				
15295	All Facilities – Security Systems Improvements	419,300	1,179,200	767,700
15297	Assess the Condition of Metropolitan's Prestressed Concrete Cylinder Pipe	478,200	0	0
15320	Cabazon Radial Gate Facility Improvement	132,800	254,000	516,900
15430	Capital Program for Program costing less than \$250,000 for FY2005/06	140,900	0	0
15433	Capital Program for Program costing less than \$250,000 for FY2006/07	151,700	0	0
15448	Capital Program for Program costing less than \$250,000 for FY2007/08	12,000	0	0
15454	Capital Program for Projects Costing Less than \$250,000 for FY2008/09	120,000	0	0
15460	Capital Program for Projects Costing Less than \$250,000 for FY2009/10	970,700	560,400	736,900
15346	Chlorine Containment and Handling Facilities	4,235,900	2,414,300	411,600
15397	Control System Enhancement Program	1,027,700	2,620,200	1,237,200
15377	Conveyance and Distribution System – Rehabilitation Program	7,970,200	6,846,900	9,055,300
15441	Conveyance and Distribution System – Rehabilitation Program Phase II	17,119,900	22,361,000	4,929,500
15373	CRA – Conveyance Reliability Program	1,677,200	12,007,400	14,084,300
15385	CRA – Discharge Containment Program	492,300	4,184,100	1,827,400
15384	CRA – Electrical/Power Systems Reliability Program	446,100	584,600	271,200
15374	CRA – Pumping Plant Reliability Program	7,023,700	1,584,000	10,083,400
15413	CRA – Real Property Recordation Program	1,578,700	1,172,900	650,800
15438	CRA – Reliability Program Phase II	12,614,400	16,408,700	4,219,800
15419	Dam Rehabilitation & Safety Improvements	1,299,000	1,056,100	1,180,100

Capital Investment Plan – FY 2010/11

Program		Estimates		
		FY 2010/11	FY 2011/12	FY 2012/13
15331	Diemer Water Treatment Plant – Construct Sedimentation Basin Spillways	557,700	0	0
15380	Diemer Water Treatment Plant – Improvements Program	14,442,700	5,062,900	31,948,700
15436	Diemer Water Treatment Plant – Improvements Program Phase II	10,341,000	11,833,800	11,670,000
15389	Diemer Water Treatment Plant – Oxidation Retrofit Program	54,780,500	35,691,000	8,352,300
15363	Diemer Water Treatment Plant – Solids Handling and Water Reclamation	404,100	163,600	0
15171	Distribution System - Treated Water Cross Connection Prevention Program	8,727,600	4,877,100	1,697,300
15402	Hayfield Ground Storage Program	625,400	173,400	0
15457	Hydroelectric Power Development Program	307,400	165,300	0
15458	Hydroelectric Power Plant Improvement Program	4,743,200	10,233,300	1,088,900
15411	Information Technology System – Business, Finance & HR	2,334,300	7,057,600	1,723,600
15376	Information Technology System – Infrastructure	3,951,300	10,311,100	1,854,000
15378	Information Technology System – Security Program	450,700	476,000	0
15122	Inland Feeder	3,518,200	1,880,600	0
15371	Jensen Water Treatment Plant – Improvements Program	5,397,000	8,211,400	35,487,100
15442	Jensen Water Treatment Plant – Improvements Program Phase II	6,268,900	9,266,900	7,974,200
15253	Lake Mathews Watershed – Drainage Water Quality Management Plan	260,100	0	0
15395	La Verne Shop Facilities Upgrades	1,292,700	11,912,900	6,807,000
15424	Mills Water Treatment – Capacity Upgrade	179,900	6,058,700	24,350,100
15381	Mills Water Treatment Plant – Improvements Program	646,200	593,900	896,900
15452	Mills Water Treatment Plant – Improvements Program Phase II	3,824,000	5,579,500	1,810,700
15434	Mills Water Treatment Plant – Ozone System Reliability Program	2,154,800	1,134,700	0
15425	Perris Valley Pipeline	3,643,700	7,000,000	0
15447	Quagga Mussel Control Program	1,346,400	1,513,000	657,000

Capital Investment Plan FY 2010/11

Program		Estimates		
		FY 2010/11	FY 2011/12	FY 2012/13
15462	Regional Water Purification Program	528,900	0	0
15417	Reservoir Cover and Replacement Program	538,600	8,226,300	6,832,500
15121	San Diego Pipeline No. 6	170,800	2,406,800	2,914,000
15365	Skinner Water Treatment Plant – Improvements Program	4,922,800	3,384,000	3,064,200
15435	Skinner Water Treatment Plant – Improvements Program Phase II	991,600	2,198,900	4,504,700
15388	Skinner Water Treatment Plant – Oxidation Retrofit Program	1,133,400	1,692,200	1,698,100
15369	Weymouth Water Treatment Plant – Improvements Program	29,880,500	12,908,500	23,035,100
15440	Weymouth Water Treatment Plant – Improvements Program Phase II	7,977,700	8,060,200	12,287,500
15392	Weymouth Water Treatment Plant – Oxidation Retrofit Program	23,855,500	42,579,000	57,410,300
	Totals	258,108,600	293,886,400	298,036,200

Program		Estimates		
		FY 2010/11	FY 2011/12	FY 2012/13

Future Programs

15415	All Water Treatment Plants – Install Roofs for Chemical Tank Farms	0	414,100	1,265,200
15119	Central Pool Augmentation and Water Quality	0	618,900	78,200
15334	Diamond Valley Lake Property Transformation	0	3,561,300	5,438,800
10201	Future System Reliability Projects FY 2011/12	0	12,019,800	20,234,500
10301	Future System Reliability Projects FY 2012/13	0	0	11,547,100
03407	Information Technology Decision Support System	0	1,642,300	0
05065	Operations Support Facilities Improvement Program	0	343,800	928,400
15431	Pilot Plant Testing and Equipment Storage Facility	0	3,300,600	3,220,400
15391	Power Reliability and Energy Conservation Program	0	10,414,000	23,710,700
10104	Real Property Development Program	0	500,000	1,000,000
10105	Regional Sustainable Landscaping Improvement Program	0	736,900	679,600

Capital Investment Plan – FY 2010/11

Program		Estimates		
		FY 2010/11	FY 2011/12	FY 2012/13
15451	Riverside Treatment Plant Land Acquisition	0	489,700	0
15429	Water Treatment Plants – Algae Control	0	262,000	1,048,600
15341	White Water Siphon Protection	0	896,600	4,531,800
15379	Yorba Linda Power Plant Modifications	0	4,162,000	1,705,000
	Totals	0	39,362,000	75,388,300
	Report Totals	259,932,200	341,025,000	385,813,700

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Capital Program for Projects Costing less than \$250,000 for FY2007/08	15448	266
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Capital Investment Plan – FY 2010/11

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Mills Water Treatment Plant – Improvements Program Phase II	15452	300
Mills Water Treatment Plant – Ozone System Reliability Program	15434	301
Perris Valley Pipeline	15425	302
Quagga Mussel Control Program	15447	303
Regional Water Purification Program	15462	304
Reservoir Cover and Replacement Program	15417	305
San Diego Pipeline No. 6	15121	306
Skinner Water Treatment Plant – Improvements Program	15365	307
Skinner Water Treatment Plant – Improvements Program Phase II	15435	308
Skinner Water Treatment Plant – Oxidation Retrofit Program	15388	309
Water Operations Control Program	10102	310
Weymouth Water Treatment Plant – Improvements Program	15369	311
Weymouth Water Treatment Plant – Improvements Program Phase II	15440	312
Weymouth Water Treatment Plant – Oxidation Retrofit Program	15392	313

All Facilities - Security Systems Improvements 15295

Total Program Estimate:	\$19,600,000	Total Projected Through June 30, 2010:	\$15,278,000
Appropriated Amount:	\$19,600,000	Estimated Percent Complete:	80%
FY 2010/11 Estimate:	\$419,000	Estimated Completion Date:	2015-2016

Scope

This program is to mitigate security threats district-wide and to provide security improvements based upon a comprehensive threat assessment matrix developed by staff that identifies potential risks of physical, chemical and biological threats, as well as necessary modifications and improvements at all facilities. Major components of this program consist of physical security improvements, landscape screening, and water quality monitoring enhancements. Current projects include: District-Wide Physical Security Improvements; Perimeter Defense Implementation, and Critical Lock Identification and Change-Out.

Purpose

To mitigate security threats district-wide and improve the security of Metropolitan personnel and property.

Accomplishments Through FY 2009/10

Since September 1996, the Board approved four actions to appropriation 15295 and authorized the total funded amount. Completed projects include: Phase I-Physical Security System Improvements; Landscape Screening at Jensen Plant- Balboa Blvd. and Weymouth Plant-Wheeler Avenue entrances; Water Quality Remote Monitoring, Containment Monitoring Equipment, and Containment Instrumentation Development; and Copper Basin Security Network Connectivity. Also, completed studies for the Entry Control Point Standardization, Perimeter Alarm and Vehicle Barrier as well as Critical Lock Identification and Change-Out projects. Performed an annual risk assessment and compared the results with the latest Metropolitan Vulnerability Assessment (VA) completed in fiscal year 2008/09. Coordinated with Engineering Section and completed the development of Security Design Guidelines which will become a part of Engineering Standards for all Metropolitan projects. Managed Security Master Agreement and worked with Metropolitan Project Managers to ensure proper security system implementation as part of all major projects. The Security Master Agreement has provided for over 27 contracts covering new construction and facility modifications at all Metropolitan sites. Implement uniform security enhancements for chlorine facilities at all treatment plants. Implemented uniform security enhancements at Metropolitan warehouses. Implemented security enhancements for the Skinner ORP and Solar Facilities as well as the Quagga Mussel containment facilities at Copper Basin and Lake Mathews. Initiated entry control enhancements at Jensen and Weymouth plants.

Objectives For FY 2010/11

Implement security enhancements at Metropolitan facilities based on the emerging requirements for critical infrastructure protection being imposed and inspected by agencies including the Environmental Protection Agency, the Department of Homeland Security, the California Department of Public Health, the Federal Regulatory Commission, and the Transportation Security Administration. Continue design of entry control enhancements at Jensen and Weymouth plants as well as the Chemical Unloading Facility as part of the active capital investment projects. Initiate purchase and installation of locking control system at critical Metropolitan sites. Continue oversight of Security Master Agreement to consistently and effectively integrate required security systems into all new construction and facility modifications.

Assess the Condition of Metropolitan's Prestressed Concrete Cylinder Pipe **15297**

Total Program Estimate:	\$9,200,000	Total Projected Through June 30, 2010:	\$6,866,000
Appropriated Amount:	\$7,870,000	Estimated Percent Complete:	80%
FY 2010/11 Estimate:	\$478,000	Estimated Completion Date:	2011-2012

Scope

Perform pre-stressed concrete cylinder-pipe (PCCP) inspection on Metropolitan's 163 miles of PCCP line. Conduct soil studies and associated geotechnical investigations to identify areas of high corrosion susceptibility. PCCP is fabricated with reinforcing wire that is pre-stressed and operating pressures may result in catastrophic failure due to damage and corrosion. In addition, perform pipe inspection using various technologies to locate and evaluate distressed areas of PCCP. Program consists of three projects: 1) Phase 1- Initial Electromagnetic Inspections, 2) Phase 2 - Reinspections to determine rates of corrosion, 3) Phase 3 - Reinspection to further identify and baseline distressed pipelines and develop plan for future inspections and monitoring.

Purpose

To identify areas of potential PCCP failures which could result in major property damage, personal injury, and disruption to essential services.

Accomplishments Through FY 2009/10

In December 1996, the Board approved initial funding for soil studies and geotechnical investigations. In September 2000, the Board authorized funds to complete Phase 1, initial electromagnetic inspection of all 163 miles of PCCP over a 3-year period. In September 2004, the Board authorized Phase 2 to inspect distressed pipe segments to measure rate of degradation of previously inspected pipelines. Phase 1 and Phase 2 inspections are completed. In December 2007, the Board authorized Phase 3 inspections of all outstanding pipelines previously not inspected during Phase 2 and entered into an agreement for third inspections of pipelines that maybe at higher risk due to corrosive soils, geographic location and higher level of broken wires previously detected. Inspected 3.5 miles of the Rialto Pipeline and 24.5 miles of Sepulveda Feeder. Inspected 13 miles of the Second Lower Feeder. Completed urgent repairs of Sepulveda Feeder at three sites. From January 2009 through June 2010 the following pipes were inspected: 1 mile of Lake Skinner outlet conduit; 4.5 miles of the Rialto Pipeline; 0.56 miles of San Jacinto Pipeline; 8 miles of San Diego Pipeline No. 4; 7.8 miles of San Diego No. 5; and 0.32 miles Skinner Plant No. 2 Influent and Effluent pipeline, and 1.3 miles of East Lake Skinner Bypass.

Objectives For FY 2010/11

Complete inspection of the remaining 48 miles of pipeline with distressed pipe sections as shutdowns allow and evaluate near and long term program.

Cabazon Radial Gate Facility Improvements **15320**

Total Program Estimate:	\$3,896,000	Total Projected Through June 30, 2010:	\$277,000
Appropriated Amount:	\$456,000	Estimated Percent Complete:	11%
FY 2010/11 Estimate:	\$133,000	Estimated Completion Date:	2014-2015

Scope

Convert the Cabazon Radial Gates Facility from an "active" spillway, which requires an operator to activate the gates, to a "passive" spillway which does not require an operator, by replacing both radial gates with a weir structure. Work includes: design, environmental documentation, purchase of materials and construction by contract.

Purpose

To divert flow during an emergency from the Colorado River Aqueduct into the San Gorgonio Wash, and ultimately into the Whitewater River.

Accomplishments Through FY 2009/10

In June 1998, the Board approved Appropriation No. 15320 to finance all costs for work performed in advance of award of a construction contract. Completed engineering study and preliminary design. Pursuant to the recommendations of the CIP Evaluation Team, this project was deferred for fiscal years 2004/05 through 2009/10. Staff is determining the level of environmental documentation required for the proposed work.

Objectives For FY 2010/11

Develop project description, update cost estimate, begin process for development of the environmental documentation.

Capital Program for Projects Costing Less Than \$250,000 for FY2005/06 15430

Total Program Estimate:	\$3,240,000	Total Projected Through June 30, 2010:	\$2,600,000
Appropriated Amount:	\$3,240,000	Estimated Percent Complete:	94%
FY 2010/11 Estimate:	\$141,000	Estimated Completion Date:	2010-2011

Scope

Design, purchase of materials, and construction for capital projects costing less than \$250,000 on the distribution systems, conveyance systems, and treatment plants during fiscal year 2005/06. In addition to the scheduled capital projects, the need invariably arises for additional unscheduled capital projects where there is no viable alternative but to perform the work. This policy saves valuable time, reduces administrative costs, and enables the Board and its committees to devote time to more important issues.

Purpose

To increase operational reliability and efficiency, and decrease maintenance costs.

Accomplishments Through FY 2009/10

In August 2005, the Board approved Appropriation No. 15430 to finance capital projects costing less than \$250,000 identified during fiscal year 2005/06. Design, purchase of materials, and construction was started for nineteen authorized projects. Completed fifteen projects.

Objectives For FY 2010/11

Complete the design, purchase of materials, and construction of the four remaining projects.

Capital Program for Projects Costing Less Than \$250,000 for FY2006/07 **15433**

Total Program Estimate:	\$5,600,000	Total Projected Through June 30, 2010:	\$3,993,000
Appropriated Amount:	\$5,600,000	Estimated Percent Complete:	78%
FY 2010/11 Estimate:	\$152,000	Estimated Completion Date:	2010-2011

Scope

Design, purchase of materials, and construction for capital projects costing less than \$250,000 on the distribution systems, conveyance systems, and treatment plants during fiscal year 2006/07. In addition to the scheduled capital projects, the need invariably arises for additional unscheduled capital projects where there is no viable alternative but to perform the work. This policy saves valuable time, reduces administrative costs, and enables the Board and its committees to devote time to more important issues.

Purpose

To increase operational reliability and efficiency, and decrease maintenance costs.

Accomplishments Through FY 2009/10

In June 2006, the Board approved Appropriation No. 15433 to finance capital projects costing less than \$250,000 identified during fiscal year 2006/07. Design, purchase of materials, and construction was started for forty-three authorized projects. Twenty projects have been completed, and nine more are schedule to be completed by the end of this fiscal year.

Objectives For FY 2010/11

Continue the design, purchase of materials, and construction of the twenty-three remaining projects.

Capital Program for Projects Costing Less Than \$250,000 for FY2007/08 15448

Total Program Estimate:	\$5,000,000	Total Projected Through June 30, 2010:	\$3,749,000
Appropriated Amount:	\$5,000,000	Estimated Percent Complete:	83%
FY 2010/11 Estimate:	\$12,000	Estimated Completion Date:	2010-2011

Scope

Design, purchase of materials, and construction for capital projects costing less than \$250,000 on the distribution systems, conveyance systems, and treatment plants during fiscal year 2007/08. In addition to the scheduled capital projects, the need invariably arises for additional unscheduled capital projects where there is no viable alternative but to perform the work. This policy saves valuable time, reduces administrative costs, and enables the Board and its committees to devote time to more important issues.

Purpose

To increase operational reliability and efficiency, and decrease maintenance costs.

Accomplishments Through FY 2009/10

In July 2007, the Board approved Appropriation No. 15448 to finance capital projects costing less than \$250,000 identified during fiscal year 2007/08. Design, purchase of materials, and construction was started for thirty-six projects authorized by the Board. Eleven projects were completed and nine are scheduled to be completed by the end of the fiscal year.

Objectives For FY 2010/11

Continue design, purchase of materials, construction of the twenty-five remaining projects.

Capital Program for Projects Costing Less Than \$250,000 for FY2008/09 **15454**

Total Program Estimate:	\$4,825,000	Total Projected Through June 30, 2010:	\$3,982,000
Appropriated Amount:	\$4,825,000	Estimated Percent Complete:	87%
FY 2010/11 Estimate:	\$120,000	Estimated Completion Date:	2010-2011

Scope

Design, purchase of materials, and construction for capital projects costing less than \$ 250,000 on the distribution systems, conveyance systems, and treatment plants during fiscal year 2008/09. In addition to the scheduled capital projects, the need invariably arises for additional unscheduled capital projects where there is no viable alternative but to perform the work. This policy saves valuable time, reduces administrative costs, and enables the Board and its committees to devote time to more important issues.

Purpose

To increase operational reliability and efficiency, and decrease maintenance costs.

Accomplishments Through FY 2009/10

In June 2008, the Board approved Appropriation No. 15454 to finance capital projects costing less than \$ 250,000 identified during fiscal year 2008/09. Design, purchase of materials, and construction was started for twenty-five authorized projects. Six projects have been completed.

Objectives For FY 2010/11

Continue the design, purchase of materials, and construction of the nineteen remaining projects.

Capital Program for Projects Costing Less Than \$250,000 for FY2009/10 **15460**

Total Program Estimate:	\$4,150,000	Total Projected Through June 30, 2010:	\$586,000
Appropriated Amount:	\$4,150,000	Estimated Percent Complete:	44%
FY 2010/11 Estimate:	\$971,000	Estimated Completion Date:	2012-2013

Scope

Design, purchase of materials, and construction for capital projects costing less than \$ 250,000 on the distribution systems, conveyance systems, and treatment plants during fiscal year 2009/010. In addition to the scheduled capital projects, the need invariably arises for additional unscheduled capital projects where there is no viable alternative but to perform the work. This policy saves valuable time, reduces administrative costs, and enables the Board and its committees to devote time to more important issues.

Purpose

Accomplishments Through FY 2009/10

In June 2009, the Board approved Appropriation No. 15460, finance capital projects costing less than \$ 250,000 identified during fiscal year 2009/10. Design, purchase of materials, and construction was started for twenty-four remaining projects.

Objectives For FY 2010/11

Continue the design, purchase of materials, and construction of the twenty-four remaining projects.

Capital Program for Projects Costing Less Than \$250,000 for FY2010/11 **10101**

Total Program Estimate:	\$3,500,000	Total Projected Through June 30, 2010:	\$1,500
Appropriated Amount:	0	Estimated Percent Complete:	0%
FY 2010/11 Estimate:	\$576,000	Estimated Completion Date:	2012-2013

Scope

Design, purchase of materials, and construction for capital projects costing less than \$250,000 on the distribution systems, conveyance systems, and treatment plants during fiscal year 2010/11. In addition to the scheduled capital projects, the need invariably arises for additional unscheduled capital projects where there is no viable alternative but to perform the work. This policy saves valuable time, reduces administrative costs, and enables the Board and its committees to devote time to more important issues.

Purpose

to increase operational reliability and efficiency, and decrease maintenance costs.

Accomplishments Through FY 2009/10

N/A

Objectives For FY 2010/11

Request Board approval and funding in July 2010. Subject to Board approval and funding proceed with design, purchase of materials, and construction of capital projects costing less than \$250,000 identified during fiscal year 2010/11.

Chlorine Containment and Handling Facilities **15346**

Total Program Estimate:	\$163,509,000	Total Projected Through June 30, 2010:	\$113,847,000
Appropriated Amount:	\$124,300,000	Estimated Percent Complete:	72%
FY 2010/11 Estimate:	\$4,236,000	Estimated Completion Date:	2015-2016

Scope

This program includes construction of facilities that handle and contain chlorine to prevent a chlorine leak and to comply with security and safety regulations; and other related facilities that handle chlorine to meet water treatment process requirements. This program includes: 1) chlorine containment and handling facilities at all five water treatment plants and the Chemical Unloading Facilities (CUF); 2) a sodium hypochlorination facility at Mills; 3) filter-influent chlorine system improvements at Diemer and Weymouth; 4) Post Oxidation Retrofit Program (ORP) Chlorine System Modifications at all plants; and 5) a dechlorination system at CUF.

Purpose

To enhance hazardous chemical safety by reducing the potential for exposure to plant personnel or the public of a release of chlorine, and ensure compliance with current California Fire Code requirements.

Accomplishments Through FY 2009/10

From April 1999 through June 2009, the Board approved eighteen actions to Appropriation 15346 for funding design and construction of chlorine containment facilities at all five water treatment plants and other phases of the remaining projects listed above. Completed construction of chlorine containment facilities at five water treatment plants; sodium hypochlorite system at Mills; the filter-influent chlorine improvements at Diemer and Weymouth; and the Mills and Skinner post-ORP chlorine system improvements. Obtained Board authorization for final design for the Weymouth and Diemer post-ORP chlorine system improvements. Completed preliminary design of the CUF chlorine containment facility. Completed construction of the CUF dechlorination system.

Objectives For FY 2010/11

Request Board authorization and funding to begin final design for the chlorine containment facility at CUF, which will include a chlorine recompressor. Complete construction of post-ORP chlorine system modifications at Jensen and Diemer. Complete final design for Weymouth post-ORP chlorine system modification.

Control System Enhancement Program

15397

Total Program Estimate:	\$22,686,000	Total Projected Through June 30, 2010:	\$16,449,000
Appropriated Amount:	\$19,081,000	Estimated Percent Complete:	77%
FY 2010/11 Estimate:	\$1,028,000	Estimated Completion Date:	2012-2013

Scope

This program is designed to coordinate the capabilities of Metropolitan's control system (Supervisory Control and Data Acquisition – SCADA) with new initiatives and enhancements that accommodate operational and business needs. The guiding document for this program is the Water System Control Master Plan (WSCMP). Work within this program is designed to provide increased and updated functionality to meet WSO and Business System needs. The program objectives include the investigation, planning and deployment of control system and core business programs for WSO and other operations support functions. Projects include; control system upgrades, improved SCADA communications reliability and security; data warehousing and reporting, hydraulic modeling, automatic meter reading system upgrades, energy management, and other core business support projects.

Purpose

To more fully automate the distribution, treatment and conveyance systems, and replace aging and out-dated computers, software and AMR components. Investigate and prepare for Phases II and III (Integration and Optimization) of the Water System Control Master Plan.

Accomplishments Through FY 2009/10

Completed the following projects: Phases I and II of the Programmable Logic Controllers (PLC) replacement projects; Phases I and II of the Energy Management System (EMS); Simulation and Modeling Assisted Real Time Operations (SMART Ops); Automatic Meter Reading (AMR); Plant Influent Flow Metering Upgrade; Control Systems Communications Upgrade; Control System Enhancement Program (CSEP) Implementation; Oxidation Demonstration Plant (ODP); and Control Systems Data Storage.

In December 2009 the Board approved the Water Quality Monitoring & Rapid Event Detection System (WQMREDS) project.

Objectives For FY 2010/11

Complete the Water Quality Monitoring & Rapid Event Detection System (WQMREDS) project.

Conveyance and Distribution System - Rehabilitation 15377

Total Program Estimate:	\$88,504,000	Total Projected Through June 30, 2010:	\$59,051,000
Appropriated Amount:	\$60,726,000	Estimated Percent Complete:	76%
FY 2010/11 Estimate:	\$7,971,000	Estimated Completion Date:	2013-2014

Scope

This program was established to plan and implement multiple projects throughout the Distribution System. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. In fiscal year 2009/10, the program will contain approximately 29 active projects. After fiscal year 2006/07, no additional projects were added to this program. A new program (15441) was established in fiscal year 2006/07 in order to implement similar projects.

Purpose

To maintain the reliability of the distribution system through specific repair and rehabilitation projects on Metropolitan's distribution pipelines, reservoirs, and control structures.

Accomplishments Through FY 2009/10

From October 2001 through October 2009, the Board approved thirty actions to Appropriation No. 15377 to authorize and fund a total of fifty-eight projects. Twenty-nine projects have been completed. During fiscal year 2009/10, the Middle Feeder Cathodic Protection project, the San Diego Pipeline No. 4 Valve Replacement, the Lake Skinner East Bypass Screening Structure and the Box Springs Feeder Phase II repairs were completed.

Objectives For FY 2010/11

Complete the repairs/replacement of several PCCP sections of the Box Springs Feeder. Complete design and construction of the refurbishment of cathodic protection systems on portions of the North Middle Feeder. Continue design and environmental mitigation efforts on the West Valley Feeder No. 1 Access Roads and Structures Improvements and the Orange County Feeder Extension Lining Repairs projects.

Conveyance and Distribution System - Rehabilitation Phase II 15441

Total Program Estimate:	\$68,224,000	Total Projected Through June 30, 2010:	\$17,836,000
Appropriated Amount:	\$16,062,000	Estimated Percent Complete:	52%
FY 2010/11 Estimate:	\$17,120,000	Estimated Completion Date:	2013-2014

Scope

This program was established to plan and implement multiple projects throughout the Conveyance and Distribution System. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2006/07, numerous projects have been incorporated into this program and completed. In fiscal year 2010/11, the program will contain approximately 38 active projects.

Purpose

To maintain the reliability of the distribution system through specific repair and rehabilitation projects on Metropolitan's distribution pipelines, reservoirs and control structures.

Accomplishments Through FY 2009/10

Since September 2006, the Board approved Twenty-two actions to Appropriation No. 15441 to authorize and fund a total of nineteen projects. Six have been completed. During fiscal year 2009/10, the OC-71 Service Connection Repairs, and the Lake Skinner Outlet Conduit Repair were completed. In addition, final design was completed for the Palos Verdes Reservoir - Spillway Energy Dissipator Structure Modifications, OC-44 Service Connection Pavement Repair and Garvey Reservoir Automated Data Acquisition System Replacement.

Objectives For FY 2010/11

Complete the design and begin the replacement of the cement mortar lining on the Etiwanda Pipeline. Complete design and begin construction of corrosion and stray current mitigation on portions of the Second Lower Feeder, Sepulveda Feeder, West Valley Feeder No. 2, and Allen McColloch Pipeline. Continue design and begin construction of rehabilitation of control gates on the Upper Feeder

CRA - Conveyance Reliability Program

15373

Total Program Estimate:	\$106,134,000	Total Projected Through June 30, 2010:	\$64,082,000
Appropriated Amount:	\$73,388,000	Estimated Percent Complete:	62%
FY 2010/11 Estimate:	\$1,677,000	Estimated Completion Date:	2013-2014

Scope

This program was established to plan and implement multiple projects throughout the Colorado River Aqueduct Conveyance System. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. Since fiscal year 2006/07, the program has included 16 projects, and no additional projects have been added. A new program (15438) was established in fiscal year 2006/07 in order to implement similar projects.

Purpose

To ensure the reliability and operational efficiency of the Colorado River Aqueduct.

Accomplishments Through FY 2009/10

Since August 2001, the Board approved twelve actions to Appropriation No. 15373 to authorize and fund a total of sixteen projects. Eight projects have been completed. During fiscal year 2009/10, completed construction of DWCV-4 Valve Replacement and San Jacinto Diversion Structure upgrades in November 2009, completed the CRA tunnel study in December 2009, awarded construction contract for replacement of phase 1 access and manhole covers in December 2009, anticipate completion of preliminary design of sand trap cleaning equipment rehabilitation in May 2010, anticipate completion of final design of Dam Sluiceways and Outlet Gates Rehabilitation in June 2010.

Objectives For FY 2010/11

Continue design for the Access and Manhole Covers Replacement. Obtain Board authorization and funding for final design of the sand trap cleaning equipment rehabilitation and for construction of the Dam Sluiceways and Outlet Gates Rehabilitation.

CRA - Discharge Containment Program

15385

Total Program Estimate:	\$10,757,000	Total Projected Through June 30, 2010:	\$1,663,000
Appropriated Amount:	\$2,384,000	Estimated Percent Complete:	22%
FY 2010/11 Estimate:	\$492,000	Estimated Completion Date:	2012-2013

Scope

This program was established to implement multiple projects throughout the Colorado River Aqueduct. The major driver for most of the projects in this program is regulatory compliance. Since its inception in fiscal year 2001/02, several projects have been incorporated into this program and completed. Since fiscal year 2009/10, the program has included 7 projects.

Purpose

To decrease risk of discharging chemicals and waste to the environment and violating regulations.

Accomplishments Through FY 2009/10

Since January 2002, the Board approved six actions to Appropriation No. 15385 to authorize and fund a total of six projects. One project has been completed. Anticipate completion of final design of the Hinds Equipment Wash in May 2010. Anticipate completion of the Desert Sewer System Study in June 2010.

Objectives For FY 2010/11

Obtain Board authorization and funding for preliminary design of the Desert Sewer System project and final design of the Pump Plant Oil Containment project. Complete construction of the Hinds Equipment Wash.

CRA - Electrical/Power Systems Reliability Program

15384

Total Program Estimate:	\$20,459,000	Total Projected Through June 30, 2010:	\$17,783,000
Appropriated Amount:	\$18,875,000	Estimated Percent Complete:	89%
FY 2010/11 Estimate:	\$446,000	Estimated Completion Date:	2012-2013

Scope

This program was established to plan and implement multiple projects throughout the Colorado River Aqueduct’s electrical and power systems. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. Since fiscal year 2009/10, the program has included 11 projects, and no additional projects have been added. A new program (15438) was established in fiscal year 2006/07 in order to implement other similar projects.

Purpose

To ensure reliability of the power systems along the Colorado River Aqueduct by repairing or replacing aging and/or original electrical equipment/parts.

Accomplishments Through FY 2009/10

Since January 2002, the Board approved six actions to Appropriation No. 15384 to authorize and fund a total of ten projects. Eight projects have been completed. During fiscal year 2009/10, anticipate completion of the final design for the Danby tower footings study in May 2010 and completion of the Transformer Reliability/Replacement study in June 2010.

Objectives For FY 2010/11

Obtain Board authorization and funding for preliminary design of CRA auxiliary power systems rehabilitation, and construction of repairs to the Danby tower footings.

CRA - Pumping Plant Reliability Program

15374

Total Program Estimate:	\$42,963,000	Total Projected Through June 30, 2010:	\$10,838,000
Appropriated Amount:	\$13,227,000	Estimated Percent Complete:	42%
FY 2010/11 Estimate:	\$7,024,000	Estimated Completion Date:	2013-2014

Scope

This program was established to plan and implement multiple projects at the five Colorado River Aqueduct pumping plants. The common driver for all of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. Since fiscal year 2006/07, the program includes 12 projects, and no additional projects have been added. A new program (15438) was established in fiscal year 2006/07 in order to implement other similar projects.

Purpose

To rehabilitate and/or replace aging equipment at the pumping plants to ensure reliability.

Accomplishments Through FY 2009/10

Since August 2001, the Board approved nine actions to Appropriation No. 15374 to authorize and fund a total of twelve projects. Five projects have been completed. During fiscal year 2009/10, awarded a construction contract for the Desert Water Tanks Access and Safety Improvements project, awarded a construction contract for Phase 1 of the Pumping Plant Delivery Pipe Expansion Joint Repairs, and completed construction of the automation of Pump Unit 1 at Intake Pumping Plant. Anticipate completion of Phase 1 of the Delivery Pipe Expansion Joint Rehabilitation in June 2010.

Objectives For FY 2010/11

Complete construction of the water strainers replacement and circulating Water System Piping Rehabilitation. Complete study to evaluate alternatives for replacing existing pump motor exciters and obtain Board authorization for preliminary design. Complete construction of the Desert Water Tank Access and Safety Improvements project. Obtain Board authorization and funding for construction of Phase 2 of the Pumping Plant Delivery Line Expansion Joint Rehabilitation.

CRA - Real Property Recordation Program

15413

Total Program Estimate:	\$24,934,000	Total Projected Through June 30, 2010:	\$19,270,000
Appropriated Amount:	\$24,665,000	Estimated Percent Complete:	84%
FY 2010/11 Estimate:	\$1,579,000	Estimated Completion Date:	2014-2015

Scope

This program will be implemented in a phased approach to survey, map, set permanent boundary markers, and record title/legal documentation for Metropolitan’s real property assets purchased in the 1930’s. Initially, “Official Maps”, now referred to as “Notice of Ownership of Real Property” (NOORP), based on the original Federal Government title documents, will be prepared and recorded with the county. In subsequent phases, consultants will perform the necessary field surveys, prepare detailed maps, set permanent boundary markers, identify encroachments, and record the maps with the county. In addition, consultants will perform title research, map and field book research, aerial photography and reconnaissance, field measurements, survey adjustments and analysis, CAD mapping, property monumentation, control monumentation, map processing and recordation.

Purpose

To record property at the county level and lessen Metropolitan's risk of losing its property and/or incurring substantial legal costs under California law.

Accomplishments Through FY 2009/10

In October 2003, the Board authorized a comprehensive eight-year plan to perform the field survey work to accurately locate properties, set visible boundary markers, identify encroachments, and record precise boundary mapping with the local county agencies. The Board directed staff to prioritize the work to initially address the more critical areas (e.g., areas with encroachments or recurring problems, such as illegal dumping or trespassing) and authorized four-year professional service agreements to perform the initial work. In August 2008, the Board authorized additional three-year professional service agreements to continuing critical surveying and mapping work. To date, a total of 350 external and internal task orders have been completed covering 130,000 acres, including all critical areas and approximately 10,500 boundary and 6,000 facilities markers have been set. In addition, deeds for all fee parcels purchased for the federal government have been recorded in the County Recorder’s Office, assessor parcel numbers have been assigned to all District properties in San Bernardino and Riverside Counties, and title insurance for all fee parcels purchased from the federal government have been received, filed and indexed. Lastly, data and graphics for 6370 parcels have been updated and made available to internal staff through geographic information systems, and during fiscal year 2009/10, anticipate completion of 436 Property Investigation Reports related to property and documentation issues.

Objectives For FY 2010/11

Complete 190 task orders being performed by external consultants and 80 task orders being performed by internal staff. Update data and graphics for the remaining 3640 parcels and make available to internal staff through our geographic information systems.

CRA - Reliability Program Phase II

15438

Total Program Estimate:	\$47,184,000	Total Projected Through June 30, 2010:	\$8,091,000
Appropriated Amount:	\$5,092,000	Estimated Percent Complete:	44%
FY 2010/11 Estimate:	\$12,492,000	Estimated Completion Date:	2013-2014

Scope

This program was established to continue to implement multiple projects throughout the Colorado River Aqueduct system. The major driver for most of the projects in this program is infrastructure reliability. This program was initiated in fiscal year 2006/07. For fiscal year 2010/11, the program includes 16 projects.

Purpose

To ensure the reliability and operational efficiency of the Colorado River Aqueduct and related facilities and equipment.

Accomplishments Through FY 2009/10

Since September 2006, the Board approved six actions to Appropriation No. 15438 to authorize and fund a total of six projects. During fiscal year 2009/10: completed final design and awarded a construction contract for the Fault Current Protection Upgrades project; completed the Intake Power and Communications Line Replacement Study completed preliminary design of Pumping Plant Standby Generators Replacement; completed preliminary design of the Gene Storage Building Replacement; completed preliminary design of the Mile 12 Flow and Chlorine Monitoring Station; obtained Board authorization for the Switch House Seismic Study. Anticipate completion of preliminary design of the 230kV and 69kV Disconnect Switch Replacement preliminary design. Anticipate completion of the Gene Storage Building Replacement final design. Anticipate Board authorization for: studies of the Pumping Plant Sump Piping Rehabilitation and the Pumping Plant Flow Meters Replacement; preliminary design of Service Connection DW-CV-2T Rehabilitation; and final design and procurement of the Aqueduct Isolation Gate Replacement.

Objectives For FY 2010/11

Complete design and construction of the Service Connection DW-CV-2T Rehabilitation. Complete construction of the Fault Current Protection Upgrades. Complete final design of the 230kV and 69kV Disconnect Switch Replacement project. Complete final design of the Mile 12 Flow and Chlorine Monitoring Station Upgrades. Obtain Board authorization for preliminary design of the Switch House Seismic Upgrades. Obtain Board authorization and funding for construction of the Intake Power and Communications Line Replacement.

Dam Rehabilitation & Safety Improvements 15419

Total Program Estimate:	\$14,712,000	Total Projected Through June 30, 2010:	\$2,397,000
Appropriated Amount:	\$3,960,000	Estimated Percent Complete:	25%
FY 2010/11 Estimate:	\$1,299,000	Estimated Completion Date:	2013-2014

Scope

This program was established to facilitate monitoring, and assess stability, risks, and capacities of Metropolitan's dams and reservoirs. The program contains 4 projects: 1) The Upgrade of Dam Monitoring Systems project will install monitoring systems to remotely collect data and permit quick response to seepage rate changes at 8 reservoir sites, 2) The Dam Stability Assessment project will analyze the static and seismic stability of dams and appurtenant structures and establish the groundwork for ongoing re-evaluation, 3) The Dam/Reservoir Risk Assessment project will quantify risks and provide a framework for evaluating and comparing risks, and 4) The Spillway Capacity Study will analyze the spillways at Lake Mathews and Lake Skinner to determine if existing structures have sufficient capacity to pass the Probable Maximum Flood in a controlled manner.

Purpose

To implement multiple projects that will facilitate monitoring, and assess stability, risks, and capacities of Metropolitan's dams and reservoirs.

Accomplishments Through FY 2009/10

In May 2004, Board approved Approp. No. 15419 for the Dam Stability Assessment and the Spillway Capacity Study. Completed Phases 1A, 1B and 2 of Dam Stability Assessment, Automated Deformation Monitoring, and seepage monitoring aspect of the Upgrade of Dam Monitoring System projects. Spillway Capacity Study for Lake Mathews and Lake Skinner has been completed, and final report with recommendations were completed in April 2007. The study of the spillways at Eagle and Iron Mountain reservoirs were completed in December 2007, with the final report and recommendations completed in January 2008. In December 2006, Board funded Phase 3 to perform more detailed field investigations, lab work, and analysis at 15 dams. In December 2006 a study to look at the existing riprap slope protection at DVL on the upstream face of the Owen Dam was added; this report was completed January 2008 and recommendations will be implemented under a new capital project. The Phase 3 seismic assessment of the Orange County Reservoir was completed in April 2008. The drafts of Phase 3d seismic assessments for Gene Wash and Copper Basin reservoirs are under review. The Phase 3 Garvey reservoir tower was completed in December 2009, the seismic assessment of the Garvey Reservoir is expected to be completed by February 2010. The Phase 3 seismic assessment of Palos Verdes Reservoir is expected to start by March of 2010.

Objectives For FY 2010/11

Start Phase 3 seismic assessment on the remaining 4 of 15 reservoirs and obtain authorization and funding to implement recommendations for the Owen Dam (West Dam) at Diamond Valley Lake slope protection.

Diemer Water Treatment Plant - Construct Sedimentation Basin Spillways **15331**

Total Program Estimate:	\$8,709,000	Total Projected Through June 30, 2010:	\$7,711,000
Appropriated Amount:	\$8,740,000	Estimated Percent Complete:	95%
FY 2010/11 Estimate:	\$558,000	Estimated Completion Date:	2010-2011

Scope

Construct permanent spillways for the Sedimentation Basins No. 4 (East Side) and No. 8 (West Side) to isolate the overflow conduits from filter effluent conduits and provide basins' freeboard. Engineering design, preparation of specifications, contract administration and construction inspection were performed by Metropolitan forces. Construction activities had been completed by contractor. Environmental mitigation and monitoring continues after project completion.

Purpose

To prevent unfiltered water from contaminating the finished water reservoir and to comply with regulations issued by California Department of Public Health.

Accomplishments Through FY 2009/10

Since February 1999, the Board approved four actions to Appropriation No. 15331 to authorize and fund work on spillways for Sedimentation Basins No. 4 and No. 8. Completed final design and construction for both Basin No. 4 and Basin No. 8 spillways. Continued landscape maintenance. Completed Basins Freeboard Study to eliminate potential spill over onto the plant road.

Objectives For FY 2010/11

Continue landscape maintenance for Basin No. 8 Spillway contract.

Diemer Water Treatment Plant - Improvements Program 15380

Total Program Estimate:	\$195,944,000	Total Projected Through June 30, 2010:	\$76,001,000
Appropriated Amount:	\$97,822,000	Estimated Percent Complete:	46%
FY 2010/11 Estimate:	\$14,443,000	Estimated Completion Date:	2016-2017

Scope

This program was established to plan and implement multiple projects within the Diemer Water Treatment Plant. The major driver for most of the projects in this program is infrastructure reliability in geotechnical engineering, seismicity, and operation. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. Since fiscal year 2006/07, no additional projects were added to this program. A new program (15436) was established in fiscal year 2006/07 in order to implement other similar projects.

Purpose

To maintain reliability and ensure regulatory compliance of the Diemer plant.

Accomplishments Through FY 2009/10

Since November 2001, the Board approved seventeen actions to Appropriation 15380 to authorize and fund a total of twenty-three projects. Nine projects have been completed. During fiscal year 2009/10, construction continued on Used Washwater Return Pumps, Plant Meters and Vault, Power Reliability Upgrade (Phase I), and Valve Starter and Electrical Wiring Upgrades projects. In addition, final designs for the Power System Upgrades to 66kV have been completed. Completed construction of Filter Valve Starter and Electrical wiring. In October 2009, the Board approved Diemer Plant North Access Road construction. Started final design of Power Reliability project (Phase II).

Objectives For FY 2010/11

Continue design for Washwater Reclamation Plant No. 3. Complete construction by SCE on Power System Upgrade to 66kV. As part of the ORP contract, continue construction of Power Reliability project (Phase I), Flow Meters and Vault Upgrades, and Used Washwater Return Pumps. Complete final design for the Finished Water Reservoir and East Washwater Tank Seismic Upgrades. Start final design for Seismic Upgrades to the Northeast Filter Outlet Conduit. Complete construction of Diemer Plant North Access Road.

Diemer Water Treatment Plant - Improvements Program Phase II 15436

Total Program Estimate:	\$155,182,000	Total Projected Through June 30, 2010:	\$5,658,000
Appropriated Amount:	\$5,774,000	Estimated Percent Complete:	10%
FY 2010/11 Estimate:	\$10,341,000	Estimated Completion Date:	2016-2017

Scope

This program was established in fiscal year 2006/07 to plan and implement multiple projects at the Diemer Water Treatment Plant, similar to Program 15380. The major driver for most projects in the Phase II program is infrastructure reliability. During fiscal year 2008/09, nine projects were added to this program. In fiscal year 2009/10, approximately fourteen new projects are added to this program.

Purpose

To maintain reliability and ensure regulatory compliance of the Diemer plant.

Accomplishments Through FY 2009/10

In August 2004, the Board approved final design of the Basin Rehabilitation project in Appropriation No. 15380. Due to other high priority projects, such as the Oxidation Retrofit Program (ORP) (Appropriation No. 15389) and Solids Handling & Water Reclamation (Appropriation No. 15363), construction of Basin Rehabilitation was deferred until after the ORP construction, which is scheduled for mid 2012. Final design of Basin Rehabilitation was suspended at approximately 60 percent completion and has been administratively moved into this program. Since July 2006, the Board approved eight actions to Appropriation No. 15436 to authorize and fund a total of seventeen projects. During fiscal year 2009/10, final designs for the Fire and Potable Water Pump Station, East Washwater Tank Roof Refurbishment, Emergency Broadcast System Rehabilitation, and Filter Media Replacement have been completed. Construction of the East Basins Perimeter Waterline has also been completed.

Objectives For FY 2010/11

Complete Improvements to the WWRP No. 2 Flocculators and Pillow Blocks and East Washwater Tank Roof . Start construction for the new Fire and Potable Water Pump Station, and Emergency Broadcast System Rehabilitation. Request Board authorization and funding for procurement of Filter Valves, and preliminary design of Administration and Filter Buildings Seismic Upgrades, Chemical System Upgrades and Sample Line and Analyzer Improvements. Complete installation of Alternative Water Supply for Solids Handling Facility.

Diemer Water Treatment Plant - Oxidation Retrofit Program 15389

Total Program Estimate:	\$373,730,000	Total Projected Through June 30, 2010:	\$226,991,000
Appropriated Amount:	\$361,252,000	Estimated Percent Complete:	75%
FY 2010/11 Estimate:	\$54,780,000	Estimated Completion Date:	2012-2013

Scope

Design and construction of oxidation retrofit facilities at the Diemer plant. Program consists of the following projects: 1) Chemical Tank Farm - Final Design, 2) Plant Maintenance Facility and Vehicle Maintenance Center - Final Design, 3) Plant Maintenance Facilities - Construction, 4) Vehicle Maintenance Center - Construction, 5) Phase 1 Chemical System Upgrades - Construction, 6) Site Preparation (South Slope Stabilization), 7) Ozone Facility - Final Design, 8) Purchase of Ozone Equipment, and 9) Ozone Facility - Construction.

Purpose

To reduce the level of disinfection by-products in the treated water supplied by the Diemer plant in order to meet state and federal standards.

Accomplishments Through FY 2009/10

In March 2002, the Board approved Appr. No. 15389 for preliminary design and environmental documentation for implementing ozonation, or an alternative disinfectant at the Diemer plant. The Board authorized the final design of 1) the Vehicle Maintenance Center and Plant Maintenance Facilities, 2) the South Slope Stabilization, and 3) the Ozonation Facilities projects in December 2003, March 2004, and June 2004, respectively. The Board awarded contracts for 1) the Vehicle Maintenance Center, 2) the Plant Maintenance Facilities, 3) the Phase 1 Chemical Tank Farm and the Ozone Equipment, and 4) South Slope Stabilization projects in May 2005, October 2005, December 2005, and April 2006, respectively. Completed construction of the Vehicle Maintenance Center, and Plant Maintenance Facilities projects in 2007. Initiated fabrication of ozone equipment for the Diemer plant in late 2007. Completed construction of South Slope Stabilization and advertised the construction documents of the Ozonation Facilities project in early 2008. Obtained Board authorization to decrease Appropriation to transfer Seismic Reliability work originally included in Diemer ORP to the Diemer Improvements Program. In July 2008, the Board awarded the construction contract for the Ozonation Facilities project. Completed Site Preparation, fabrication of Ozone equipment, and Phase 1 Chemical System Upgrades Projects.

Objectives For FY 2010/11

Continue with the ozonation facilities construction contract. Obtain Board approval and funding for the start-up of ozonation operation.

Diemer Water Treatment Plant - Solids Handling

15363

Total Program Estimate:	\$43,061,000	Total Projected Through June 30, 2010:	\$37,780,000
Appropriated Amount:	\$43,061,000	Estimated Percent Complete:	87%
FY 2010/11 Estimate:	\$404,000	Estimated Completion Date:	2011-2012

Scope

A study was conducted to increase Diemer's solids handling capacity and to eliminate regular discharges from regulated outfalls at the plant. Phase 1 work included re-grading Sludge Lagoons 4, 5 and 6 and the recovery of water from the Plant Rejection Structure, Finished Water Reservoir and laboratory process sample sink. Phase 2 work includes concrete lining of the three north lagoons, construction of a bridge at Carbon Canyon Creek and the elimination of discharges from the north lagoons. Phase 3 includes studies to support operation at elevated coagulation levels, modifications to the existing thickeners, construction of interim and permanent solids handling facilities, and enlarging the sludge transfer system from the sedimentation basins to the thickeners. The permanent solids handling and facilities includes the addition of two new thickeners, three belt filter presses, sludge loading facility, solids storage hoppers and a new pump station.

Purpose

To increase Diemer's solids handling capacity and to eliminate discharges from regulated Plant Outfalls to eliminate monitoring, reporting and the potential for discharge violations at these NPDES permitted discharge points.

Accomplishments Through FY 2009/10

Since February 2001, the Board approved five actions to Appropriation No. 15363 to authorize and fund work for this program. Completed Phases 1 and 2. For Phase 3, completed construction of interim belt presses and permanent solids handling facilities. Completed final design and started construction of the solids transfer system modifications.

Objectives For FY 2010/11

Complete construction of the solids transfer system modifications.

Distribution System - Treated Water Cross Connection

15171

Total Program Estimate:	\$53,844,000	Total Projected Through June 30, 2010:	\$34,703,000
Appropriated Amount:	\$32,062,000	Estimated Percent Complete:	81%
FY 2010/11 Estimate:	\$8,728,000	Estimated Completion Date:	2013-2014

Scope

The program consists of the work necessary to identify all potential cross connection structures on the treated-water distribution system, perform preliminary design for each of the structures and propose relocation/modification configurations to prevent potential cross connection, make CEQA determination, select at-risk structures, prepare final design documents for the at-risk structures, and complete construction as required by the regulations of the State of California Department of Public Health (CDPH). In fiscal year 2010/11, the program will include one active project for Phase 3 and Phase 4 construction.

Purpose

Eliminate potential cross connection and prevent possible contamination of the drinking water supplies along distribution system.

Accomplishments Through FY 2009/10

In September 1990, the Board approved Appropriation No. 15171 to finance projects included in this program. Identified 1,440 structures with potential cross connection, completed investigation and CEQA determination and selected 472 at-risk structures for relocation/modification. Completed relocation/modification of 325 structures from subsurface manholes/vaults to above ground locations. Completed design drawings for remaining packages 7 thru 12 in December 2009. Advertised and Awarded bid packages Nos. 7, 8, and 10 covering 69 structures, leaving 78 structures to be completed in the next two years.

Objectives For FY 2010/11

Complete relocation/modification of 69 structures from subsurface manholes/vaults to above ground locations, packages 7, 8, and 10. Advertise bid packages Nos. 9, 11, and 12 covering 78 structures. Request Board authorization and funding to award construction Packages 9, 11, and 12 and start construction.

Hayfield Groundwater Storage Program

15402

Total Program Estimate:	\$25,715,000	Total Projected Through June 30, 2010:	\$13,643,000
Appropriated Amount:	\$25,715,000	Estimated Percent Complete:	54%
FY 2010/11 Estimate:	\$625,000	Estimated Completion Date:	2011-2012

Scope

Design and construction of facilities to enable the storage and retrieval of approximately 500,000 acre-feet of Colorado River Aqueduct water in the Hayfield groundwater basin. The annual “put and take” capacity is expected to be approximately 100,000 acre-feet per year.

Purpose

To help ensure maximization of Colorado River water supplies in Metropolitan’s service area in accordance with the Integrated Resources Plan, Strategic Plan, and California’s Colorado River Water Use Plan.

Accomplishments Through FY 2009/10

Feasibility studies and large-scale infiltration tests were conducted in 1998 and 1999. In June 2000, the Board authorized the Hayfield Groundwater Storage Program and appropriated funds for study and preliminary design. Subsequent to pump well and water spreading tests conducted in Cholla Wash, the Board increased funding to further proceed with additional aquifer characterization in December 2002. Approximately 72,000 acre-feet of CRA water was spread into the Hayfield Basin. Per Board action in November 2004, the study was put on hold due to hydrologic conditions of the CRA and results of initial ground water modeling. In September 2007, a feasibility study was initiated to determine the feasibility, cost and duration of retrieving the existing CRA water stored in the basin. The study consisted of ground water hydrogeology modeling, ground water testing and preliminary engineering analysis. A draft report was issued in February 2008. In July of 2008, a management directive was given to proceed with study to withdraw the 72,000 acre feet of stored water. February 2009, Metropolitan board authorized a hydrogeologic investigations to drill a full-scale prototype well. The goal was to characterized Hayfield groundwater basin aquifer. Construction of the full-scale prototype well is completed. A February 2010 Board action is planned for authorizing final design to convert the prototype well into a production well.

Objectives For FY 2010/11

Perform final design for conversion of the full-scale prototype well into a production well. Continue water quality sampling and analysis, survey deformation monitoring, and ground water level monitoring activities.

Hydroelectric Power Development Program

15457

Total Program Estimate:	\$1,280,000	Total Projected Through June 30, 2010:	\$695,000
Appropriated Amount:	\$670,000	Estimated Percent Complete:	78%
FY 2010/11 Estimate:	\$307,000	Estimated Completion Date:	2011-2012

Scope

To perform a preliminary design study on two Hydroelectric Power (HEP) sites identified by the HEP Feasibility Study. The preliminary design study will produce a 30 percent design, and will assess these sites for final design. These sites can generate up to 4-megawatts of renewable power with payback periods ranging between 6 to 8 years. The sites are: Collis Avenue Pressure Control Structure (PCS) and Covina PCS.

Purpose

To provide some enhanced reliability of power during peak periods. Will enhance Metropolitan's stewardship of the environment by utilizing green power source.

Accomplishments Through FY 2009/10

Complete the HEP preliminary design study.

Objectives For FY 2010/11

Obtain Board authorization to proceed with final design of the new hydroelectric power generation facilities.

Hydroelectric Power Plant Improvements Program

15458

Total Program Estimate:	\$18,416,000	Total Projected Through June 30, 2010:	\$1,620,000
Appropriated Amount:	\$227,000	Estimated Percent Complete:	35%
FY 2010/11 Estimate:	\$4,743,000	Estimated Completion Date:	2012-2013

Scope

Implementing a comprehensive rehabilitation plan that will identify deficiencies, ensure compliance with regulatory requirements, improve plant efficiency, and reduce maintenance on all HEP plants. Multidiscipline inspection teams comprised of engineers and operations staff will assess each hydroelectric power plant and document their findings. The inspection will identify physical conditions, needed repairs, upgrades, changes to maintenance procedures, and any unusual conditions.

Purpose

To ensure reliability of Metropolitan's hydroelectric power plants.

Accomplishments Through FY 2009/10

Complete the HEP improvement study on the remaining 7 HEP plants.

Objectives For FY 2010/11

Request Board authorization to proceed with design work on any conditions discovered that require replacement or refurbishment.

Information Technology System - Business, Finance and HR 15411

Total Program Estimate:	\$31,781,000	Total Projected Through June 30, 2010:	\$19,214,000
Appropriated Amount:	\$21,519,000	Estimated Percent Complete:	68%
FY 2010/11 Estimate:	\$2,335,000	Estimated Completion Date:	2012-2013

Scope

This program was established to assess and implement multiple projects to ensure the regulatory adherence, customer service, cost efficiency/productivity, risk management and reliability of Metropolitan’s Business, Finance and Human Resources applications. This program consists of (2) active projects: CAD Management and Electronic Discovery Management System and (6) proposed projects: Environmental Health & Safety (EHS) Replacement, Oracle 12 Upgrade, Enterprise Content Management, Real Property Management System, AP Imaging and Water Conservation Application.

Purpose

To ensure reliability, efficiency, and effectiveness of Business, Finance, and HR applications.

Accomplishments Through FY 2009/10

Completed the following projects: Phases I and II of the Human Resources Improvement Plan; Integrated Budget Management System (IBMS); Water Billing System; Fleet Management; Inventory Bar-Coding; Project Accounting and Grant Management. Obtained Board approval in September 2009 for CAD Management and Electronic Discovery System projects.

Objectives For FY 2010/11

Commence the design and implementation of Oracle 12 Upgrade, Accounts Payable Imaging, and the Water Conservation Application. Complete implementation of the Electronic Discovery Management System (E-discovery).

Information Technology System - Infrastructure 15376

Total Program Estimate:	\$46,982,000	Total Projected Through June 30, 2010:	\$26,326,000
Appropriated Amount:	\$34,261,000	Estimated Percent Complete:	64%
FY 2010/11 Estimate:	\$3,951,000	Estimated Completion Date:	2014-2015

Scope

The scope is to implement multiple projects to ensure the reliability and efficiency of the Information Technology Infrastructure in support of Metropolitan’s operational and business applications. This program contains (13) completed projects, (5) active projects: Phase Two IT Network Upgrade, Phase Two of the Two-Way Radio System Upgrade, DRF Environmental Systems Upgrade, Telephone System Replacement and Exchange 2007; and (5) proposed projects including Phase III Network Upgrade, Union Station Datacenter Sustainability Upgrade, Enterprise UNIX Server Upgrade, Business Systems Data Recovery Phase II, and Union Station Datacenter – UPS Upgrade.

Purpose

To ensure reliability of IT infrastructure for critical business applications.

Accomplishments Through FY 2009/10

Completed IT Telecommunications Upgrade projects, Establish GIS Infrastructure, IT Business System Data Recovery, Exchange Replacement, Phonemail Replacement, Field Emergency Generator Replacement, Phase One IT Network Upgrade, Union Station Headquarters Technology Upgrade; Enterprise Infrastructure Upgrade and Phase One of the Two-Way Radio project.

Objectives For FY 2010/11

Complete the design and implementation of microwave communications upgrades for the Phase Two IT Network Upgrade project. Complete the design for the Telephone System Replacement project, and commence planning and implementation for: Union Station Datacenter Sustainability Upgrade, Enterprise UNIX Server Upgrade, Business Systems Data Recovery Phase II, and Union Station Datacenter – UPS Upgrade.

Information Technology System - Security Program 15378

Total Program Estimate:	\$5,155,000	Total Projected Through June 30, 2010:	\$3,791,000
Appropriated Amount:	\$4,436,000	Estimated Percent Complete:	82%
FY 2010/11 Estimate:	\$451,000	Estimated Completion Date:	2012-2013

Scope

The IT Strategic Plan (ITSP) Implementation Program recommended necessary improvements to key IT information security areas to protect against cyber threats and to ensure continued reliability of the IT infrastructure used to run core business applications. Consequently, an IT Security Program was created to enhance and upgrade the functionality, reliability, and security of Metropolitan’s business systems. This program consists of (6) completed projects: Information Security Monitoring Improvement, SCADA Security Improvement project, the PeopleSoft Upgrade project, SCADA Operator Authentication, Information Security Administration Software and Comprehensive Information Security Assessment. There is (1) active project: Phase II of the Information Security Remediation initiative, and (1) proposed project: Phase III of the Information Security Assessment/Remediation.

Purpose

To implement technologies that provide most cost-effective and threat reducing benefits to Metropolitan with public safety and security represented at all levels.

Accomplishments Through FY 2009/10

Completed the Information Security Monitoring Improvement, SCADA Security Improvement, SCADA Operator Authentication, PeopleSoft Upgrade, the Information Security Administration Software project and the Comprehensive Information Security Assessment project.

Objectives For FY 2010/11

Complete the procurement activities for Phase III of the Information Security Assessment/Remediation project.

Inland Feeder

15122

Total Program Estimate:	\$1,186,460,000	Total Projected Through June 30, 2010:	\$1,143,979,000
Appropriated Amount:	\$1,186,460,000	Estimated Percent Complete:	100%
FY 2010/11 Estimate:	\$3,518,000	Estimated Completion Date:	2011-2012

Scope

Construction of a major raw water conveyance facility to deliver State Project water. The 44.2-mile long tunnel/pipeline will provide system reliability by linking together the State Water Project and Colorado River systems and will improve water quality by blending State Project and Colorado River waters, and by conveying and storing available water in groundwater basins and surface reservoirs within the District's service area for use during drought emergency conditions. The system is made up of seven segments beginning at the Devil Canyon in the San Bernardino mountains and terminating at the Eastside pipeline in Riverside County. The segments are as follows: Arrowhead West Tunnel, Arrowhead East Tunnel, Highland Pipeline, Mentone Pipeline, Riverside Badlands Tunnel, Riverside North Pipeline, and Riverside South Pipeline.

Purpose

To ensure projected system demands are met, maximize groundwater management programs, improve system reliability, and help facilitate Metropolitan's salinity goal of 500 mg/L total dissolved solids.

Accomplishments Through FY 2009/10

Completed construction of all program reaches. On September 30, 2009, the Inland Feeder was placed into operation with water flowing from Devil Canyon to Diamond Valley Reservoir. Continued execution of environmental monitoring and mitigation program.

Objectives For FY 2010/11

Continue work on the environmental monitoring and mitigation program.

Jensen Water Treatment Plant - Improvements Program 15371

Total Program Estimate:	\$121,935,000	Total Projected Through June 30, 2010:	\$28,518,000
Appropriated Amount:	\$31,474,000	Estimated Percent Complete:	28%
FY 2010/11 Estimate:	\$5,397,000	Estimated Completion Date:	2014-2015

Scope

This program was established to plan and implement multiple projects within the Jensen Water Treatment Plant. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into the program and completed. In fiscal year 2010/11, the program will contain approximately 9 active projects. A new program (15442) was established in fiscal year 2006/07 in order to implement similar projects.

Purpose

To maintain reliability and ensure regulatory compliance of the Jensen plant.

Accomplishments Through FY 2009/10

Since August 2001, the Board approved fifteen actions to Appropriation No 15371 to authorize and fund a total of twenty-three projects. Ten projects have been completed. During fiscal year 2008/09, awarded contract and began construction of Washwater Return Pumping Station Upgrade, and Solids Thickeners 5 and 6. Completed preliminary design of Module 1 Filter Valve Replacement, and Module 1 Traveling Bridge. Completed final design of Tank Farm Chemical Repair, Administration Building Seismic Upgrades, and Entrance Improvements. Completed final design of Chemical Tank Conversion. Began preliminary design of Flocculator/ Pillow Blocks Repair/Replacement. Advertised and awarded a construction contract for Jensen Administrative Building Seismic Upgrades. Completed construction of the Washwater Return Pump Station Upgrade, Solids Thickeners 5 and 6 and Administration Building Seismic Upgrades.

Objectives For FY 2010/11

Request Board authorization and funding for preliminary design of Module 2 and 3 Traveling Bridge Repairs, and final design for Module 1 Filter Valve Replacement, Flocculator/Pillow Blocks Repair/Replacement, and Module 1 Traveling Bridge Repairs. Advertise and seek Board authorization and funding for construction of Bulk Chemical Tank Farm Upgrades. Complete preliminary design, environmental impact report, and request Board for final design funding for Jensen Solids Dewatering Facility and Lagoons project.

Jensen Water Treatment Plant - Improvements Program Phase II 15442

Total Program Estimate:	\$42,512,000	Total Projected Through June 30, 2010:	2,165,000
Appropriated Amount:	\$3,026,000	Estimated Percent Complete:	20%
FY 2010/11 Estimate:	\$6,269,000	Estimated Completion Date:	2014-2015

Scope

This program was established to plan and implement multiple projects at the Jensen Water Treatment Plant. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2006/07, numerous projects have been incorporated into the program. The program includes 8 active projects in fiscal year 2010/11.

Purpose

Implement rehabilitation projects at the Jensen Water Treatment Plant to improve operational reliability

Accomplishments Through FY 2009/10

Since December 2006, the Board approved three actions to Appropriation No. 15442 to authorize and fund a total of six projects. During fiscal year 2008/09, completed design and construction of Ground Fault Protection Upgrade. Complete preliminary design of Electrical Vault, Filters 1-20 Surface Wash System Upgrade, and washwater tank seismic upgrade. Completed study of Chlorine Railcar Seismic Restraint, Irrigation System, and Electrical System Reliability. Completed final design of Chemical Trench Extension and Filters Nos. 1-20 Surface Wash System Upgrade.

Objectives For FY 2010/11

Seek Board authorization and funding for preliminary design for Electrical System Reliability, Tank Farm Modification, and Irrigation Loop System Upgrade. Complete final design of Wash Water Tank seismic Upgrade. Seek Board authorization and funding, and begin construction of Filters Nos. 1-20 Surface Wash System Upgrade, and Chemical Trench Extension.

Lake Mathews Watershed - Drainage Water Quality **15253**

Total Program Estimate:	\$37,400,000	Total Projected Through June 30, 2010:	\$35,684,000
Appropriated Amount:	\$37,400,000	Estimated Percent Complete:	96%
FY 2010/11 Estimate:	\$260,000	Estimated Completion Date:	2010-2011

Scope

Joint participation in the Drainage Water Quality Management Plan (Plan) for the Lake Mathews watershed. Under the Plan, Metropolitan will participate in the design and construction of the Cajalco Creek Dam and Detention Basin and four smaller detention basins to protect the quality of water in Lake Mathews. The facilities will be designed by consultants and operated by Metropolitan. Metropolitan may also advance funds as necessary to the Riverside County Flood Control and Water Conservation District for design and construction of several flow-through wetland and water quality pond facilities in the upper watershed. In addition, funds have been appropriated to assist the RCFC & WCD in the construction of the Smith Road sediment detention basin, which will reduce the sediment load on Metropolitan's facility. The original Plan also called for construction of additional water quality facilities to protect the Lake. The concept for these facilities is out of date and the project is currently conducting a study to redefine the need for these facilities.

Purpose

To protect water quality in Lake Mathews.

Accomplishments Through FY 2009/10

In December 1999, the Board awarded a construction contract for the Cajalco Creek Dam and Detention Basins and associated facilities to Kiewit Pacific in the amount of \$22.085 million. Construction of the dam was completed on November 21, 2001. Facilities were turned over to Water System Operations (WSO) on December 19, 2001. In addition, funds were appropriated to assist the RCFC & WCD in the construction of the Smith Road sedimentation detention basin, which reduces the sedimentation load on Metropolitan's facility. In 2007-08 Metropolitan and RCFC & WCD's and Riverside County concluded that the previous study of means to further improve the watershed drainage were outdated and that the prior recommendations no longer were practical or consistent with regulations imposed by regulatory agencies. The parties agreed to jointly fund and update the earlier study to determine options for further protecting Lake Mathews. The agencies defined the investigation scope and solicited proposals from qualified consultants. Tetra Tech was selected to do the watershed modeling and update the options for improving the quality of water draining for the watershed into Lake Mathews. The study is in progress and is scheduled to be completed by December 2010.

Objectives For FY 2010/11

Complete the study by the end of December of 2010.

LaVerne Shop Facilities Upgrade

15395

Total Program Estimate:	\$41,660,000	Total Projected Through June 30, 2010:	\$5,699,000
Appropriated Amount:	\$6,470,000	Estimated Percent Complete:	17%
FY 2010/11 Estimate:	\$1,293,000	Estimated Completion Date:	2014-2015

Scope

This program contains three projects that will modernize the Maintenance Support Unit (MSU) facilities at La Verne: 1) Existing Machine and Fabrication Shop Equipment Upgrades, 2) Shop Building Expansions (Coating, Machine, and Fabrication Shops), and 3) Quality Management System – ISO certification & Compliance. This program will evaluate, recommend, design and build new or remodel shop building facilities, and upgrade through refurbishment or replacement aging shop equipment.

Purpose

To modernize the machine, coatings, and fabrication shops so that they can continue to provide emergency response services, support routine maintenance throughout the District, and perform fee-for-service work for member agencies and the California Department of Water Resources (DWR). Also, to address regulatory and safety concerns, and improve shop efficiency.

Accomplishments Through FY 2009/10

Since July 2002, the Board approved three actions to Appropriation No. 15395. In fiscal year 2009/10 staff completed final design for all equipment and building upgrades and expansions. Advertised and awarded the Machine shop roof replacement and Fabrication shop seismic retrofit construction contracts.

Objectives For FY 2010/11

Complete construction of the machine shop roof replacement and fabrication shop seismic upgrades. Finalize bid package for construction of the new coating shop buildings expansion and existing machine and fabrication shop equipment procurements.

Mills Water Treatment Plant - Capacity Upgrade 15424

Total Program Estimate:	\$204,371,000	Total Projected Through June 30, 2010:	\$32,351,000
Appropriated Amount:	\$32,668,000	Estimated Percent Complete:	16%
FY 2010/11 Estimate:	\$180,000	Estimated Completion Date:	2016-2017

Scope

Design and construct two additional ozone contactors for 326 mgd operation. Upgrade the equipment and processes of Modules 1 and 2, upgrade the post-filter disinfection system, and provide new enhanced solids handling capability for Modules 1 through 4. These upgrades will maximize the use of the Mills plant by improving and adding new facilities to upgrade its design capacity from 160 mgd to 326 mgd.

Purpose

To provide additional treatment capacity to meet projected growth demand in Riverside County by 2013.

Accomplishments Through FY 2009/10

Since March 2005, the Board approved four actions to Appropriation No. 15424 to authorize and fund a total of five projects. Completed construction of Contactors 3 & 4. Completed final designs for the Chemical System Capacity Upgrades and Modules 1 & 2 Rehabilitation projects. Completed preliminary design for solids handling and washwater reclamation plant (WWRP).

Objectives For FY 2010/11

Obtain Board authorization and funding for the design and procurement of new Caustic Soda tanks and advertise for construction.

Mills Water Treatment Plant - Improvements Program **15381**

Total Program Estimate:	\$7,248,000	Total Projected Through June 30, 2010:	\$4,485,000
Appropriated Amount:	\$4,777,000	Estimated Percent Complete:	71%
FY 2010/11 Estimate:	\$647,000	Estimated Completion Date:	2012-2013

Scope

This program was established to plan and implement multiple projects within the Mills Water Treatment Plant. The major driver for many of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. After fiscal year 2006/07, no additional projects were added to this program. A new program (15452) was established in fiscal year 2007/08 in order to implement similar projects. In fiscal year 2010/11, the program will include one active project.

Purpose

To maintain reliability and ensure regulatory compliance of the Mills water treatment plant.

Accomplishments Through FY 2009/10

Since November 2001, the Board approved nine actions to Appropriation No. 15381 to authorize and fund a total of twelve projects. Seven projects have been completed. Five projects are on hold pending approval of proposed implementation schedules. Completed preliminary design of Mills Hazardous Waste Staging & Containment Facility.

Objectives For FY 2010/11

Seek Board authorization and funding to initiate final design of Hazardous Waste Staging & Containment Facility.

Mills Water Treatment Plant - Improvements Program Phase II 15452

Total Program Estimate:	\$16,016,000	Total Projected Through June 30, 2010:	\$2,587,000
Appropriated Amount:	\$280,000	Estimated Percent Complete:	40%
FY 2010/11 Estimate:	\$3,824,000	Estimated Completion Date:	2013-2014

Scope

This program was established to plan and implement multiple projects at the Mills Water Treatment Plant. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2007/08, numerous projects have been incorporated into this program. In fiscal year 2010/11, the program will contain seven active projects.

Purpose

To maintain reliability and ensure regulatory compliance of the Mills water treatment plant.

Accomplishments Through FY 2009/10

Since March 2008, the Board approved seven actions to Appropriation No. 15452 to authorize and fund a total of seven projects. During fiscal year 2009/10, completed studies for Electrical Reliability Improvements and Plant Laboratory Expansion; completed preliminary design for Industrial Wastewater Handling Facilities Improvements and Modules nos. 3&4 Potable Water Safety Stations; completed final design for Electrical Buildings Nos. 1&2 Seismic Upgrades; initiated final design for Sodium Hydroxide Tank Replacement; and initiated construction of Modules Nos. 3&4 Weir Gate Rehabilitation.

Objectives For FY 2010/11

Seek Board authorization and funding, for preliminary design of Electrical Reliability Improvements, final design of Industrial Wastewater Handling Facilities Improvements, and construction of Electrical Buildings 1&2 Seismic Upgrades, complete Value Engineering study for Plant Laboratory Expansion; complete final design and initiate construction of Modules Nos. 3&4 Potable Water Safety Stations; and complete construction of Modules 3&4 Weir Gate Rehabilitation.

Mills Water Treatment Plant - Ozone System Reliability

15434

Total Program Estimate:	\$7,729,000	Total Projected Through June 30, 2010:	\$3,943,000
Appropriated Amount:	\$5,000,000	Estimated Percent Complete:	79%
FY 2010/11 Estimate:	\$2,155,000	Estimated Completion Date:	2011-2012

Scope

This program will provide an additional ozone generator, an additional power supply unit, an additional liquid oxygen (LOX) storage tank, a new nitrogen injection system, additional ambient ozone and oxygen gas analyzers, piping extensions, power feeds, control system programming, and related accessories. The additional equipment will provide standby ozonation capacity to enhance plant reliability at the Mills Water Treatment Plant (WTP) as the plant expands from 220 mgd to 326 mgd.

Purpose

To meet the increasing ozone production and treatment demands while maintaining a standby ozone generation system as the capacity at Mills Plant is expanded from 220 mgd to 326 mgd.

Accomplishments Through FY 2009/10

In August 2006, the Board authorized and funded the Mills Ozone Generation and Supply System Expansion Project. In November 2007, the Board awarded a procurement contract to Ozonia North America for ozone equipment. Completed final design for installation of ozone equipment. Received delivery of ozone and nitrogen equipment.

Objectives For FY 2010/11

Receive a liquid oxygen storage tank that will be Metropolitan furnished equipment to the installation contract. Obtain Board authorization and funding to install ozone, nitrogen, and liquid oxygen equipment.

Perris Valley Pipeline

15425

Total Program Estimate:	\$133,626,000	Total Projected Through June 30, 2010:	\$112,069,000
Appropriated Amount:	\$129,100,000	Estimated Percent Complete:	87%
FY 2010/11 Estimate:	\$3,644,000	Estimated Completion Date:	2011-2012

Scope

Design and construct a 6.5-mile, 96-inch diameter pipeline from the Mills water treatment plant to Eastern Municipal Water Districts’ member agency boundary, southeast of the Mills plant. This pipeline will have 4 new service connections. The project will be undertaken as a cooperative effort between Metropolitan, Eastern Municipal Water District, and Western Municipal Water District. The majority of the project will be designed and constructed by Metropolitan utilizing a traditional design-bid-build delivery. Construction will be performed utilizing two separate construction contracts for the North and South Reaches.

Purpose

Expand service to Eastern Municipal Water District and Western Municipal Water District

Accomplishments Through FY 2009/10

In March 2005, the Board authorized Metropolitan, Eastern, and Western entered into reimbursement agreements. An EIR was certified by Western acting as Lead Agency and adopted by Metropolitan and Eastern as Responsible Agencies. Western completed construction of the Perris Valley Pipeline Tie-In on July 12, 2006. Metropolitan awarded a construction contract for the North Reach in July 2007 and for the South Reach in June 2008. North Reach construction is completed; though the contractor has filed claims. South Reach construction is nearing completion but is encountering unforeseen groundwater conditions. A portion of the South Reach contract may need to be deleted and re-bid as a separate contract.

Objectives For FY 2010/11

Complete construction of the South Reach contract. Complete design and re-bid selected portions of the South Reach contract and request Board authorization to award a contract and begin construction.

Quagga Mussel Control Program

15447

Total Program Estimate:	\$18,169,000	Total Projected Through June 30, 2010:	\$8,809,000
Appropriated Amount:	\$10,680,000	Estimated Percent Complete:	56%
FY 2010/11 Estimate:	\$1,346,000	Estimated Completion Date:	2013-2014

Scope

Metropolitan's Quagga Mussel Control Program (QMCP) is a comprehensive plan that incorporates enhanced detection, surveillance and mitigation strategies for controlling quagga mussel growth. The QMCP will be conducted in at least three phases. Phase I addressed immediate quagga mussel detection, surveillance and mitigation strategies for the first 7 months of infestation. Phase II consists of a comprehensive, multi-year approach for mussel management, and Phase III will address long-term needs and costs minimization strategies. Projects included in this program are: 1) Interim chlorination facility at Copper Basin 2) Interim chlorination facility at Lake Mathews, 3) Permanent chlorination facility at various locations, 4) Isolation gates along the Colorado River Aqueduct, 5) Additional chlorine injection point at Lake Skinner outlet conduit, and 6) Skinner ozone cooling water system quagga mussel control, 7) Diemer ozone cooling water system quagga mussel control, and 8) DVL quagga mussel control facility.

Purpose

This program was established to assess the extent of the infestation within the CRA and other Metropolitan's facilities to implement a comprehensive plan that incorporate enhanced detection, surveillance and mitigation strategies.

Accomplishments Through FY 2009/10

In September 2007, the Board authorized design and construction of interim chlorination facilities at Copper Basin and Lake Mathews, conceptual and preliminary design of permanent chlorination facilities at various locations, and preliminary design of isolation gates. In February 2008, Board authorized design and construction of an additional chlorine injection point at the Skinner plant. In August 2008, the Board authorized additional funding to complete the interim chlorination facility at Copper Basin and at Lake Mathews. In June 2009, the Board authorized design and construction of the Skinner ozone equipment cooling water chlorination system. Completed the design and construction of: the interim chlorination facility at Copper Basin in June 2008 and at Lake Mathews in November 2008. Completed design and construction of the new chlorine injection point at Lake Skinner outlet conduit and the new ozone equipment cooling water chlorination system in September 2009. Completed the study of the CRA isolation gates in September 2009. Completed the construction of the Lake Mathews interim chlorination facility roof cover in February 2010.

Objectives For FY 2010/11

Continue conceptual and preliminary design of permanent chlorination facilities at various locations. Request Board authorization and funding for the design and construction of the DVL quagga control facility. Request funding for design and construction of Diemer ozone cooling water system quagga mussel control. Complete construction of Diemer ozone cooling water system quagga mussel control facility.

Regional Water Purification Program 15462

Total Program Estimate:	\$947,000	Total Projected Through June 30, 2010:	\$334,000
Appropriated Amount:	\$947,000	Estimated Percent Complete:	91%
FY 2010/11 Estimate:	\$529,000	Estimated Completion Date:	2010-2011

Scope

Evaluate the feasibility of a joint venture with the Los Angeles County Sanitation Districts (LACSD) to implement a regional water purification program to increase local water supplies and reduce discharges of treated wastewater to the Pacific Ocean. The potential program would involve the purification of treated wastewater from LACSD using advanced treatment technologies to achieve near-distilled water quality. The purified water would then be blended into an untreated potable water supply, such as a groundwater aquifer, and stored for sufficient time to permit additional treatment from natural processes and mixing. The water would later be withdrawn and further treated for potable use. The feasibility of this potential program will be studied in phases. The initial phase will evaluate the potential quantity of purified water that member agencies can store and extract in Los Angeles County groundwater basins under current basin adjudications, assess the feasibility of storing and extracting the water in the basins, and assess current regulatory requirements. LACSD estimates that 200 mgd of treated wastewater is currently available for purification and reuse.

Purpose

Evaluate the feasibility and cost of developing a significant local supply of reliable, drought resistant water to enhance Metropolitan’s supply reliability.

Accomplishments Through FY 2009/10

In August 2009, presented information on a potential regional water purification program to the Special Committee on Desalination and Recycling. Dependent on initial Board Action in February 2010, 1) Execute a Memorandum of Understanding with LACSD, 2) award a professional services contract to provide specialized support for the study, and 3) initiate the first phase of the study.

Objectives For FY 2010/11

Work with LACSD, member agencies and regulatory agencies to complete the first phase of the study, and initiate subsequent phases to determine the facility requirements and potential cost of the program, and explore funding opportunities.

Reservoir Cover and Replacement Program **15417**

Total Program Estimate:	\$25,425,000	Total Projected Through June 30, 2010:	\$7,130,000
Appropriated Amount:	\$8,330,000	Estimated Percent Complete:	30%
FY 2010/11 Estimate:	\$539,000	Estimated Completion Date:	2012-2013

Scope

Install replacement floating covers (1,200,000 square feet) at Palos Verdes, Orange County Reservoirs (395,000 sf), and Skinner Finished Water Reservoir (700,000 sf). Perform studies, prepare design and construction documents, and coordinate with California Department of Public Health (CDPH) and Division of Safety of Dams (DSOD); remove existing covers, repair reservoir gunite lining, modify structures and protective grillages on reservoir bottoms, install underdrain leakage collection systems, install new geocomposite drainage course, install new Hypalon flexible membrane liners and floating covers, and upgrade reservoir electrical systems and surface drainage to accommodate new cover dewatering pumps. Repair and modify inlet structure for Jensen Reservoir No. 2 Floating Cover (510,000 sf).

Purpose

To replace reservoir floating covers that have exceeded their useful life and are increasingly difficult to repair.

Accomplishments Through FY 2009/10

Received Board authorization and began the construction of Skinner Reservoir cover replacement. Complete final design of replacement cover for Orange County Reservoir. Completed construction of the Skinner Finished Water Reservoir cover. Continued final design for Palos Verdes Reservoir cover replacement.

Objectives For FY 2010/11

Receive Board authorization for design of the repair and modify inlet structure for Jensen Reservoir No. 2 floating cover. Advertise and seek Board authorization and funding for construction of Palos Verdes Reservoir. Complete final design then advertise, and seek Board authorization and funding for construction of Jensen Reservoir No. 2 Floating Cover.

San Diego Pipeline No. 6 **15121**

Total Program Estimate:	\$472,302,000	Total Projected Through June 30, 2010:	\$105,281,000
Appropriated Amount:	\$117,914,000	Estimated Percent Complete:	22%
FY 2010/11 Estimate:	\$171,000	Estimated Completion Date:	2026-2027

Scope

The San Diego Pipeline No. 6 Program, a joint project between Metropolitan and the SDCWA, includes the construction of a 30-mile, nine to ten-foot diameter pipeline and tunnel conveyance system to meet supplemental water needs in southern Riverside and San Diego Counties. The current total program estimate only includes costs for the portion in Riverside County.

Purpose

To provide raw water for municipal, industrial, and agricultural users in southern Riverside and San Diego counties, and to increase system reliability and operational flexibility.

Accomplishments Through FY 2009/10

In Oct 2002, the Board authorized staff to proceed with design and land acquisition for the north reach of San Diego Pipeline 6. By June 2004, the supplemental EIR had been approved. The construction of the North Reach was successfully completed and the Notice of Completion was issued on January 26, 2007. In March 2006 the Board authorized staff to conduct feasibility investigations of alternative alignments in order to determine the most cost-effective project corridor for the remaining portions of Pipeline 6. In February 2007, the Board authorized staff to enter into agreement with Jacobs Associates to conduct geological, geotechnical, and hydrogeological investigations, and tunnel engineering feasibility analyses and cost estimates. It is anticipated that the final feasibility report, including San Diego’s portion, will be presented to the Board in early 2010. A request to the Board to authorize funding to proceed with final aerial surveys, preliminary design, CEQA, and securing right of way entry permits, for the recommended alignment is planned for 2010.

Objectives For FY 2010/11

Continue remaining mitigation and monitoring measures associated with the supplemental EIR and permits along the completed North Reach.

Skinner Water Treatment Plant – Improvements Program 15365

Total Program Estimate:	\$155,840,000	Total Projected Through June 30, 2010:	\$139,417,000
Appropriated Amount:	\$153,450,000	Estimated Percent Complete:	93%
FY 2010/11 Estimate:	\$4,923,000	Estimated Completion Date:	2013-2014

Scope

This program was established to plan and implement multiple projects within the Skinner Water Treatment Plant. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. In fiscal year 2010/11, the program will include 7 active and planned projects.

Purpose

To maintain reliability and ensure regulatory compliance of the Skinner plant.

Accomplishments Through FY 2009/10

Since March 2001, the Board approved nineteen actions to Appropriation 15365 to authorize and fund a total of nineteen projects. Eleven projects have been completed. In June 2009, the Board authorized the design and construction of Skinner Module 5 and 6 Filter Surface Wash Water Header Rehabilitation project. In August 2009, the Board awarded the construction contract of the Skinner Chemical Systems and Solids Collection Improvements project. In December 2009, the Board authorized the construction of Skinner Electrical Building Upgrades and Skinner Ground Fault Protection Upgrades projects. During fiscal year 2009/10, Skinner WWRP 3 Construction project and Skinner Chemical Systems Modifications Construction project were completed. Started purchase of material required for the construction of Skinner Electrical Building Upgrades and Skinner Ground Fault Protection Upgrades projects.

Objectives For FY 2010/11

Start the procurement of valves and actuators for the replacement of Surface Wash Valves & Actuators for Modules No. 4 to 6. Request authorization and fund, and start the preliminary design of the Solids Handling Area Improvement. Complete the construction contract of the Skinner Chemical Systems and Solids Collection Improvements Project. Start the construction of the Electrical Buildings Upgrade and Ground Fault Protection Upgrade Projects. Complete the construction of the Module 5 & 6 Wash Water Header Rehabilitation Project.

Skinner Water Treatment Plant - Improvements Program Phase II 15435

Total Program Estimate:	\$41,784,000	Total Projected Through June 30, 2010:	\$2,717,000
Appropriated Amount:	\$3,475,000	Estimated Percent Complete:	9%
FY 2010/11 Estimate:	\$992,000	Estimated Completion Date:	2014-2015

Scope

This program was established to plan and implement multiple projects at the Skinner Water Treatment Plant. The major driver for most of the projects is infrastructure reliability. In fiscal year 2010/11, the program will include 18 projects.

Purpose

To maintain reliability and ensure regulatory compliance of the Skinner plant.

Accomplishments Through FY 2009/10

Since July 2006, the Board has approved five actions to Appropriation 15435 to authorize and fund a total of five projects. In July 2006, the Board authorized the upgrades to the dry polymer mixing control panels which was completed. In February 2007, the Board authorized the replacement of the Plant 1 filter drain gate stems. In June 2009, the Board authorized the design and construction of the common chlorine point for Plants 2 and 3. In July 2009, the Board authorized the design and construction of the second potable water connection at the Skinner finished water effluent conduit; construction was completed in March 2010. In August 2009, the Board awarded the construction contract for replacing Skinner Maintenance Building insulation; construction was completed in December 2009.

Objectives For FY 2010/11

Start design for the following projects: 1) Dry Polymer Building Roof Rehabilitation, and 2) Water Line to Utility Building, Drainage Repair & Paved Access to Chemical Injection Building. Start the construction of 1) Replacement of Plant 1 Filter Gate Stems and Nuts, 2) Modules 1 & 2 Traveling Bridge Piping and Valve Replacement.

Skinner Water Treatment Plant - Oxidation Retrofit Program 15388

Total Program Estimate:	\$251,373,000	Total Projected Through June 30, 2010:	\$224,434,000
Appropriated Amount:	\$245,492,000	Estimated Percent Complete:	90%
FY 2010/11 Estimate:	\$1,134,000	Estimated Completion Date:	2012-2013

Scope

Design and construction of oxidation retrofit facilities at the Skinner Water Treatment Plant. This program consists of four contracts: 1) Site preparation, 2) Oxygen Equipment Procurement, 3) Oxidation Retrofit Program (ORP) General Construction, and 4) ORP large pipe procurement. This program also includes design and construction of the Skinner Incoming 33 kV Electrical service by Southern Calif. Edison, design and construction of the ORP Facilities Access Road project, and design and construction of the ORP Completion Project.

Purpose

To reduce the level of disinfection by-products in the treated water supplied by the Skinner plant in order to meet state and federal standards.

Accomplishments Through FY 2009/10

In March 2002, the Board approved Appropriation 15388 for preliminary design and environmental documentation for ozone or an alternative disinfectant. In July 2003, the Board authorized final design, up to the award of competitively bid construction contracts, for Skinner ORP. In May 2004, the Board awarded an ozonation system equipment procurement contract and site preparation construction contract. In November 2004, the Board approved funding for potable and fire water pumping station modifications to support ORP. In February 2005, the Board awarded a procurement contract for ORP major plant influent piping. In June 2005, the Board awarded a general construction contract for the construction of Skinner ORP. Ozonation system equipment was delivered to the site in January 2007 with the exception of the liquid oxygen storage tanks which were delivered in June 2008. In February 2007, the Board authorized final design and construction of the Skinner Incoming 33 kV Electrical Service by Southern California Edison, which was completed in November 2008. In February 2008, the Board authorized final design of the ORP Facilities Access Road project, which will be completed in May 2011. The construction of Skinner ORP was completed in December 2009. In July 2009, the Board authorized “wrap-up” activities at the Skinner plant (Skinner Completion Project), and for construction inspection and support activities to complete the principal Skinner ORP construction contract.

Objectives For FY 2010/11

Complete start-up of the Skinner ORP facilities and as-built drawings. Complete construction of the Skinner ORP Completion Project.

Water Operations Control Program

10102

Total Program Estimate:	\$17,285,000	Total Projected Through June 30, 2010:	\$302,000
Appropriated Amount:	\$ 0	Estimated Percent Complete:	9%
FY 2010/11 Estimate:	\$1,248,000	Estimated Completion Date:	2012-2013

Scope

This program is the progression of work started, and mostly completed, under program 15397, the Control System Enhancement Program. The program objectives include the investigation, planning and deployment of control system and core business programs for WSO and other operations support functions. Presently identified projects include; control system upgrades (DVL, system-wide controls update planning), water planning applications, and treatment process and energy optimization projects. Additional WSO / core business projects are likely to be added as identified.

Purpose

To increase operational efficiency and reduce operational risk by more fully automating, integrating and optimizing the conveyance, distribution, and treatment IT systems, in conjunction with core WSO business needs and processes.

Accomplishments Through FY 2009/10

Prepare assessment of the DVL Control System, complete requirements and initiate procurement for the Control System Upgrade

Objectives For FY 2010/11

Based on management assessment and priorities, request Board authorization and funding for the DVL Controls System Upgrade Project.

Weymouth Water Treatment Plant - Improvements Program 15369

Total Program Estimate:	\$244,036,000	Total Projected Through June 30, 2010:	\$106,107,000
Appropriated Amount:	\$152,913,000	Estimated Percent Complete:	56%
FY 2010/11 Estimate:	\$29,881,000	Estimated Completion Date:	2015-2016

Scope

This program was established to plan and implement multiple projects throughout/within the Weymouth Water Treatment Plant. The major driver for most of the projects in this program is infrastructure reliability. Since its inception in fiscal year 2001/02, numerous projects have been incorporated into this program and completed. In fiscal year 2010/11, the program will contain approximately 20 active projects. A new program (15440) was established in fiscal year 2006/07 in order to implement new infrastructure reliability projects at Weymouth.

Purpose

To maintain reliability and ensure regulatory compliance of the Weymouth plant.

Accomplishments Through FY 2009/10

Since August 2001, the Board approved thirty actions to Appropriation No. 15369 to authorize and fund a total of thirty-five projects. Ten projects have been completed. Continued construction of Coagulant Tank Farm Modifications. Began construction of Rapid Mix System, Fire/ Domestic Water Upgrade and Junction Structure Seismic Upgrades. Completed Weymouth Future Treatment Facilities Conceptual Design Study.

Objectives For FY 2010/11

Complete construction of Coagulant Tank Farm Improvements, Incoming Electrical Service by SCE, Rapid Mix System, and Junction Structure Seismic Upgrades. Continue construction of Electrical Upgrades.

Weymouth Water Treatment Plant - Improvements Program **15440**
Phase II

Total Program Estimate:	\$134,440,000	Total Projected Through June 30, 2010:	\$2,703,000
Appropriated Amount:	\$2,020,000	Estimated Percent Complete:	8%
FY 2010/11 Estimate:	\$7,978,000	Estimated Completion Date:	2016-2017

Scope

This program was established to implement multiple rehabilitation projects at the Weymouth plant. The major driver for most of these projects is infrastructure reliability. Since its inception in fiscal year 2006/07, numerous projects have been incorporated into this program. In fiscal year 2009/10, the program will contain approximately 19 active projects.

Purpose

To maintain reliability and ensure regulatory compliance of the Weymouth plant.

Accomplishments Through FY 2009/10

Since September 2006, the Board approved five actions to Appropriation No. 15440 to authorize and fund a total of seven projects. During fiscal year 2009/10, completed final design of Reservoir Inlet Gates Replacement and Filter Rehabilitation. Completed preliminary design of Dry Polymer System, Public Address System Upgrade, and Caustic and Ammonia Trench. Completed final design of Filter Outlet Conduit Repairs. Awarded a construction contract for the four Filters Rehabilitation project. Authorized Metropolitan force construction to replace Reservoir Inlet Gates.

Objectives For FY 2010/11

Complete final design of Reclamation Plant Sludge Pump Instrumentation, and Emergency Broadcast System Upgrade & Expansion. Continue with construction of Raw Water Bypass Phase I project. Complete construction of four Filters Rehabilitation, Filter Outlet Conduit Repairs, and Reservoir Inlet Gate Replacement, Advertise for construction of the Raw Water Bypass – Phase II, and Emergency Broadcast System.

Weymouth Water Treatment Plant - Oxidation Retrofit Program 15392

Total Program Estimate:	\$404,925,000	Total Projected Through June 30, 2010:	\$40,625,000
Appropriated Amount:	\$70,612,000	Estimated Percent Complete:	16%
FY 2010/11 Estimate:	\$23,855,000	Estimated Completion Date:	2015-2016

Scope

The scope of the Weymouth Oxidation Retrofit Program (ORP) includes all the systems and facilities that are required to provide ozone disinfection capability and to integrate those systems and facilities into the existing plant operations. This Program currently consists of the following projects: 1) Weymouth Filtration Plant Oxidation - Design, 2) Ozone Equipment Procurement, 3) Inlet Conduit Relocation, 4) Oxidation Facilities - Final Design, and 5) ORP Switchgear - Construction.

Purpose

To reduce the level of disinfection by-products in the treated water supplied by the Weymouth plant in order to meet state and federal standards.

Accomplishments Through FY 2009/10

In March 2002, the Board approved Appropriation 15392 for preliminary design and environmental documentation for ozone or an alternative disinfectant. In July 2003, the Board authorized staff to proceed with planning for the use of ozone as the primary disinfectant at all Metropolitan treatment plants. In September 2003, the Board authorized amending a professional services agreement with a consultant to include Weymouth ORP preliminary engineering design services. In April 2005, the Board authorized final design of Weymouth ORP and certified the Environmental Impact Report. In December 2005, the Board approved the procurement of ozonation equipment for the Weymouth and Diemer plants. Fabrication of ozonation equipment was completed in April 2008. To minimize plant operations disruption, the program is being staged across several construction contracts. The first project is to reroute the inlet conduit from underneath the Administration Bldg. to the location of the planned ozone contactor. In December 2007, the Board authorized final design of the new plant inlet conduit. In December 2008, Metropolitan's Board authorized an agreement for temporary storage of the ozone equipment. In August 2009, the Board authorized construction to relocate the Inlet Conduit. In September 2009, the Board authorized final design of Weymouth Ozone Facilities with a staged approach. In November 2009, the Board authorized construction of ORP Switchgear project.

Objectives For FY 2010/11

Complete relocation of Inlet Conduit. Complete final design of Weymouth Ozone Facilities.

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ACE – Association of Confidential Employees; an employee bargaining unit at Metropolitan.

Acre-Foot (AF) – A unit of measure equivalent to 325,851.4 gallons of water, which meets the needs of two average families in and around the home for one year.

AFSCME – American Federation of State County and Municipal Employees.

Assembly Bill 1234 - This bill requires a local agency that provides reimbursement for expenses to members of its legislative body to adopt a written policy on the duties for which legislative body members may receive compensation, other than meetings of the legislative body or an advisory body or attendance at a conference or organized educational activity. The bill requires such a governing body to adopt a written policy concerning what occurrences qualify a member to receive reimbursement of expenses for travel, meals, and lodging and would impose related requirements, including the filing of expense reports, which would be public records.

AWT – Arrowhead West Tunnel; part of the Inland Feeder Project.

Bay-Delta – An environmentally sensitive area of the Sacramento/San Joaquin River Delta through and from which water flows to reach portions of California from the San Francisco Bay Area to San Diego. Moving water across the delta during the high-demand summer months is becoming more difficult as additional water is set aside to mitigate for environmental impacts.

Bay-Delta Surcharge – A surcharge designed to recover the costs of the additional supply costs that Metropolitan faces as a result of pumping restriction, lost value in supplies available from the State Water Project, and the cost of personnel and consultants working to develop improved supply and ecological conditions in the Delta.

Bromide –Bromide is an inorganic salt that combines with disinfectants used in treating domestic water to form disinfection by-products. Bromide occurs in varying amounts in ground water and surface waters in coastal areas as a result of seawater intrusion. Chlorination and ozonation of bromide-laden waters may form brominated trihalomethanes and bromate, respectively. Bromate formation is currently controlled by reducing the pH of ozonation with the addition of sulfuric acid. This practice increases the use of chemicals at Metropolitan's water treatment plants.

Budgeted Position – A staff position approved by the Board of Directors for the fiscal year.

Business Outreach – This program's intent is to solicit participation in the performance of all construction contracts, professional services contracts, and procurement of supplies and equipment for Metropolitan by all individuals and businesses, including but not limited to small, locally owned, women owned, minority owned, and economically disadvantaged business enterprises.

CALFED – A state/federal coalition of urban, environmental, and agricultural water interests established to find a permanent solution to Bay-Delta environmental and water issues.

California's Colorado River Water Use Plan – A planning document designed to reduce California's reliance on Colorado River water to 4.4 MAF over the next 15 years.

Capacity Charge – Recovers the cost of providing peak water service capacity within the distribution system. Member agencies pay the capacity charge based on their maximum daily flow during the summer months.

Capital Investment Plan (CIP) – Metropolitan's CIP is designed to refurbish existing facilities needed to ensure a reliable distribution system, expand treatment facilities to meet current and future water quality regulations, and expand storage and conveyance facilities to meet current and future storage requirements.

Capital Project – A project that results in a new asset (e.g., a facility, betterment, replacement, equipment, etc.) that has a total cost of at least \$50,000 and a useful life of at least five years. Computer software can be capitalized if it costs \$250,000 or more and has a useful life of at least three years.

The California Environmental Quality Act (CEQA) - A statute that requires state and local agencies to identify the significant environmental impacts of their actions and to avoid or mitigate those impacts, if feasible.

CII – Commercial/Industrial/Institutional – A Metropolitan program that provides incentives and programs to large institutions and businesses to implement processes and/or equipment to increase water conservation.

Colorado River Aqueduct (CRA) – The 242-mile-long water conveyance system built by Metropolitan to carry water from the Colorado River to its Southern California service area.

Conservation Credits Program (CCP) – A program where Metropolitan provides financial assistance for the development of conservation programs (e.g. energy efficient washing machines, low flush toilets, etc.).

CRG – Corporate Resources Group, an organization within Metropolitan providing a broad range of engineering, information technology, and business support services.

Debt Service – The annual cost of repaying outstanding debt.

Department of Water Resources (DWR) – A department within the California Resources Agency which is responsible for the state's management and regulation of water usage.

Distribution System – Refers to the network of pipelines and canals used for the conveyance of water from Metropolitan's terminal reservoirs to member agency service connections.

Department of Interior (DOI) – A department of the United States federal government responsible for conservation of designated government land and water resources.

DVL – Diamond Valley Lake. A reservoir built by Metropolitan with a capacity of 800,000 AF.

EIR – Environmental Impact Report.

EMS – Energy Management System.

Endangered Species Act (ESA) – An act of the federal government enacted in 1973 that provides for the conservation of species that are endangered or threatened and the conservation of the ecosystems on which they depend. A species is considered endangered if it is in danger of extinction throughout all or a significant portion of its range. A species is considered threatened if it is likely to become an endangered species within the foreseeable future.

ERP – Emergency Response Plan.

Ethics Program – State law mandates that Metropolitan maintain a program to address and seek to avoid potential ethical abuses relating to business relationships, solicitation and/or receipt of campaign contributions, and public notice and approval procedures for contracts of \$50K or more. This program includes on-going training for board members and employees regarding ethics in the workplace.

FCC – Federal Communications Commission.

FERC – Federal Energy Regulatory Commission.

Five-Year Water Supply Plan – A cooperative effort by Metropolitan and its member agencies to identify and implement water supply and demand management programs. Program implementation would be accelerated so that water supply augmentation would occur in the next five years to help the region cope with ongoing challenges on the State Water Project and to maintain storage reserves.

GFOA – Government Finance Officers Association.

GHG – Green House Gas.

IID/Metropolitan Conservation Agreement – A water conservation agreement with the Imperial Irrigation District (IID) that allows for the development of certain water conservation capital structures by Metropolitan in the Imperial Valley. Metropolitan, in turn, gets the quantity of water conserved during the term of this agreement, four years during construction, and 35 years after completion. It encompasses both the operating and maintenance, indirect, and capital cost of developing and implementing the program. This agreement is renewable.

Information Technology Strategic Plan (ITSP) – A roadmap for investment in IT projects over the next 3 to 5 years.

Integrated Area Study (IAS) – A collaborative study between Metropolitan and its member agencies aimed at: 1) promoting a common understanding of key concerns of all agencies; 2) achieving a consensus on demand projections and facility timing assessments; 3) clarifying policy issues related to facility planning; 4) considering alternative approaches to meeting future demands; and 5) identifying areas within the service area that will need additional study.

IRWMP – Integrated Regional Water Management Plan.

Integrated Resources Plan (IRP) – An open and participatory planning process that takes a broad view of all water resource options available to the region and searches for the right combination of investments to achieve water supply objectives in a cost-conscious and environmentally responsible manner.

Interim Agricultural Water Program – A program that provides a rate at which water is sold to farmers for agricultural purposes.

Local Resources Program (LRP) – A program in which Metropolitan provides financial assistance to its member agencies for the development of local groundwater recycling and groundwater recovery projects.

Long Range Financial Plan (LRFP) – A financial planning document upon which Metropolitan and its member agencies can base future capital and operating decisions. The document is updated periodically.

Member Agency – Refers to any of the 26 cities or public water agencies that comprise the Metropolitan Water District and whose representatives constitute the Board of Directors of Metropolitan.

Metropolitan/Arizona Interim Surplus Guidelines Agreement – This May 23, 2001 agreement between the State of Arizona and Metropolitan was voided when the Quantification Settlement Agreement was not in full force and effect by December 31, 2002. Arizona and California have completed negotiations on a replacement agreement.

MAF (million acre-feet) – A unit measure of water.

MWDOC – Municipal Water District of Orange County; one of 26 member agencies that comprise Metropolitan.

MOU (Memorandum of Understanding) – Legal agreements entered into between Metropolitan and any of the four employee bargaining units that dictate terms and conditions of employment.

NDMA – N-nitrosodimethylamine is an organic chemical that is associated with the use of liquid rocket fuels and has been used in various industrial applications. NDMA is also a suspected by-product of water disinfection / treatment. The U.S. Environmental Protection Agency has identified NDMA as a probable human carcinogen.

Operating Equipment – Any portable equipment costing \$5,000 or more and having a useful life of five years or more.

Operations Maintenance Power & Recovery (OMP&R) – A component of the State Water Contract that is billed to the contracting agencies to maintain the system.

OPEB – Other Post Employment Benefits.

ORP – Oxidation Retrofit Program.

Ozone – Is a faintly blue gas with a pungent odor. It is an unstable form of oxygen composed of three-atom molecules that break down readily to normal oxygen and nascent oxygen. The latter is a powerful oxidizing agent and has germicidal action. Ozone is usually produced with on-site generators by passing high-voltage electricity through dry atmospheric air or pure oxygen between stationary electrodes. This process converts a small percentage of the oxygen in the air into ozone. It is usually injected into the water to be treated in a highly baffled mixing chamber.

PAYGO – The practice of funding construction expenditures from current operating revenues in lieu of using debt proceeds.

PVID – Palo Verde Irrigation District.

Palo Verde Land Management and Water Supply Program – Calls for the development of a flexible water supply of between 25,000 and 111,000 acre-feet per year for 35 years through a land management and crop rotation program to be implemented by participating farmers in the Palo Verde Valley. The maximum water supply that could be developed would be about 3.63 million acre-feet during the 35-year term while the minimum water supply required to be developed would be 1.76 million acre-feet.

Pelagic – of, relating to, living, or occurring in the open sea.

PVVCIF – Palo Verde Valley Community Improvement Fund.

Perchlorate – A primary component of solid rocket fuel propellants, missiles, and fireworks that is being detected in ground and surface waters near high use and manufacturing areas. Metropolitan's Colorado River source has 4 to 6 parts per billion of perchlorate. The California Department of Health Services will establish a primary health-based standard by January 2004.

Performance Excellence – A long-term effort to implement best practices in day-to-day operations and maintenance activities, emphasizing continuous improvement in operations and maintenance practices.

Performance Measure – An indicator of progress toward completing an initiative, achieving a goal, or implementing a strategy. Performance measures are quantifiable and tracked over time. Measures can indicate problem areas that need attention or be a guide for continual performance improvement through specific initiatives and actions.

PCCP – Pre-stressed Concrete Cylinder Pipe.

PPCP – Pharmaceutical and personal care products.

Power Recovery – Energy generated from the operation of sixteen Metropolitan-owned hydroelectric generating facilities. The term "recovery" derives from the capture of potentially wasted electrical energy from Metropolitan's water distribution system.

Proposition 13 – Refers to the water bond that was approved by California voters in March 2000. The Governor's Budget Act of 2000 directed \$69 million in Proposition 13 funding to Metropolitan for groundwater conjunctive-use projects (\$45 million), agricultural water transfers (\$20 million), and water quality studies (\$4 million).

Proposition 50 – Refers to a water bond that was approved by California voters in November 2002 that provides funding through a competitive grant program for river parkways projects. Eligible projects must provide public access or be a component of a larger parkway plan that provides public access.

Quagga Mussel – a destructive non-native species of mussel from the Ukraine region that could clog pipes and water lines.

Quantification Settlement Agreement (QSA) – An agreement between the Coachella Valley Water District, Imperial Irrigation District, and Metropolitan regarding the priority, use, and transfer of Colorado River Water.

Readiness-To-Serve (RTS) Charge – A charge designed to provide firm revenue for Capital Investment Plan (CIP) debt service to meet the reliability and quality needs of existing and potential users.

RPDM – Real Property Development and Management (group); an organization within Metropolitan that provides real property related services.

Regional Urban Water Management Plan – A document prepared in response to the California Urban Water Management Act, Water Code Sections 10610 through 10656, enacted in 1983. The Act requires that every urban water supplier providing water for municipal purposes to more than 3,000 customers or supplying more than 3,000 acre-feet of water annually prepare an adopt an urban water management plan that describes and evaluates reasonable, practical, and efficient water uses, recycling, conservation activities, and drought contingency planning. These plans must be updated every five years and filed with the California Department of Water Resources.

Replacement and Refurbishment (R&R) – Capital projects that invest in Metropolitan's aging infrastructure by restoring them to optimal operating status.

Replenishment Water Rate – A discounted rate to encourage member agencies to purchase water to replenish local groundwater storage during the winter months when demands are low.

Reserves – Funds set aside to comply with bond covenants, working capital policy, or other board policies as part of a prudent financial strategy.

Reserve Transfer – Fund transfers required to maintain a given level of fund balances in accordance with Board policies and bond covenants.

Revenue Remainder Fund – See Financial Policies for description.

SCADA – Supervisory Control and Data Acquisition; automated systems that are used to monitor, operate, and control Metropolitan's water conveyance, treatment, and distribution systems.

SDCWA – San Diego County Water Authority; one of 26 member agencies that make up Metropolitan.

Sarbanes-Oxley – An act of the federal government signed into law in July 2002 that introduced highly significant legislative changes to financial practice and corporate governance regulation. It introduced stringent new rules with the stated objective: "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws".

Senate Bill 520 - This bill added Section 127 to the Metropolitan Water District Act in 1999 requiring an annual report to the California State Legislature describing complaints and other communications from its member public agencies that allege unethical, unauthorized, or illegal activities by Metropolitan against any member public agency or the public in the previous calendar year.

Senate Bill 60 - This bill requires Metropolitan to place increased emphasis on sustainable, environmentally sound, and cost-effective water conservation, recycling, and groundwater storage and replenishment measures and, commencing February 1, 2001, to prepare and submit to the Legislature a prescribed annual report relating to water conservation.

South Delta Improvement Program - A DWR program that allows it to increase its ability to pump water at the Banks Pumping Plant while also taking actions to improve water quality and water levels for local users in the Delta and to enhance protection of Delta fisheries.

State Water Contract (SWC) – Metropolitan's agreement with DWR for a specified water supply in return for paying a portion of the costs associated with the construction and operation of the SWP, a major water conveyance system designed to transport water from the Bay Delta to central and southern portions of California. The term may also be used to refer to State Water Contractors.

State Water Project (SWP) – A water development and distribution system owned and operated by the State of California DWR to transport water from the Bay Delta to central and southern portions of California. It entails the development of an aqueduct system and power associated with pumping the water.

System Access Rate (SAR) – A volumetric rate that member agencies pay for use of Metropolitan's conveyance and distribution system.

System Overview Study – An analysis of Metropolitan's current delivery and treatment capacities versus projected needs during the planning horizon. The System Overview Study, coupled with the Integrated Area Study, analyzes various portfolios of projects that could be used to meet future demand and then develops a potential CIP. Finally, the System Overview Study analyzes the potential impact to rates from the proposed facilities.

System Power Rate (SPR) – A volumetric rate to recover the cost of pumping water through the Colorado River Aqueduct and the State Water Project.

TAF (thousand acre-feet) – A unit of measure of water.

Tier 1 Supply Rate – A rate applied to recover the cost of maintaining reliable water supplies.

Tier 2 Supply Rate – A rate that reflects the cost of developing additional imported supply sources. The Tier 2 Rate is intended to encourage cost-effective water conservation, recycling, groundwater recovery as well as water transfers.

Total Dissolved Solids (TDS) – Refers to the total organic carbon concentration in water. Measurement of TOC removal is used as a surrogate for disinfection by-product precursor removal.

Treatment Plants – Facilities used by Metropolitan for the treatment of water to remove contaminants or total dissolved solids thus ensuring that such water is potable before it is distributed to member agencies.

Treatment Surcharge – Additional charge to users of treated water to pay the operations, maintenance and capital costs of treating imported water supplies.

THM – Trihalomethane; a disinfection by-product usually associated with the treatment of water with chlorine.

U.S. Department of the Interior, Bureau of Reclamation (USBR) – Largest wholesaler of water and second largest supplier of hydroelectric power in the American West. Promotes water conservation, recycling, and reuse.

Glossary of Terms

Vacancy Factor – A calculated reduction to the O&M labor budget that attempts to account for vacancies that occur within organizations throughout the year. Budgeted labor dollars assume that budgeted positions will be filled for the entire fiscal year (2,080 hours). However, positions routinely become vacant throughout Metropolitan for part of the year as staff transfer to other positions or leave employment in the company and time elapses during the recruitment period to refill the vacated positions.

WRSF – Water Rate Stabilization Fund. See Financial Policies for description.

WRM – Water Resource Management (group); an organization within Metropolitan that focuses on water resource planning and management, including conservation.

WSF – Water Stewardship Fund. See Financial Policies for description.

Water Stewardship Rate (WSR) – A volumetric rate to recover the cost of demand management programs including the Conservation Credits Program (CCP) and the Local Resources Program (LRP).

Water Supply Programs – Water transfer and storage programs that supplement Colorado River and State Water Project supplies.

WINS (Water Information System) – The billing system used to invoice member agencies for water deliveries.

WSO – Water System Operations (group); an organization within Metropolitan responsible for operating and maintain Metropolitan’s water conveyance, treatment, and distribution system and its appurtenant systems.

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

