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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

7-4

October 23, 1997

To: Board of Directors (Organization and Personnel Committee--Action)
(Legal and Claims Committee--Action)

From: General Manager

For:

General Counsel *for*

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Subject: Amendment of 457 Plan

RECOMMENDATION(S)

It is recommended that the Board of Directors:

- (i) Approve and adopt The Metropolitan Water District of Southern California 1997 Deferred Compensation Plan in the form attached as Exhibit A;
- (ii) Authorize the inclusion of the 1997 Plan in the Administrative Code; and
- (iii) Authorize the General Manager and the Treasurer to execute a Trust Agreement, substantially in the form of Exhibit B with such changes as are approved by the General Counsel, establishing a trust to carry out the purposes of the 1997 Plan.

EXECUTIVE SUMMARY

Amendments to the tax laws which were passed by Congress in August 1996 made significant changes to Section 457 of the Internal Revenue Code, which governs Metropolitan's deferred compensation plan. The 1997 Plan was prepared to provide the benefits of those changes to Metropolitan's employees and to assure continued compliance of Metropolitan's deferred compensation plan with federal tax law.

The 1996 amendments to the Internal Revenue Code, in an effort to safeguard the retirement savings of government employees, require that Section 457 Plan assets be placed in a trust or similar vehicle which ensures that the assets are used exclusively to pay benefits to plan participants and their beneficiaries by January 1, 1999. The 1997 Plan provides that plan assets are held by a trustee pursuant to a trust arrangement which is separate and apart from Metropolitan's assets. Authorization of a Trust Agreement substantially in the form of Exhibit B is recommended in conjunction with approval of the 1997 Plan so that the 1997 Plan will satisfy the tax code requirement for a separate trust. The 1997 Plan also includes other tax law changes, described below.

The 1997 Plan, if authorized, will be incorporated in Metropolitan's Administrative Code.

DETAILED REPORT

Metropolitan maintains a deferred compensation plan established pursuant to Section 457 of the Internal Revenue Code (currently the Metropolitan Water District of Southern California 1983 Deferred Compensation Plan), as well as two tax-deferred savings plans under Internal Revenue Code Section 401(k) for its employees. Section 457 plans are available only to governmental employers and tax-exempt organizations.

Amendments to the tax laws which were passed by Congress in August 1996 made significant changes to Section 457, described below. The 1997 Plan was prepared to provide the benefits of those changes to Metropolitan's employees and to assure continued compliance of Metropolitan's deferred compensation plan with federal tax law. Following adoption of the 1997 Plan, participant accounts under the 1983 Plan will automatically be transferred to the 1997 Plan.

When the 1983 Plan was established the Internal Revenue Code required that the assets of eligible deferred compensation plans remain the property of the employer and be subject to the claims of the employer's general creditors. The 1996 amendments, in an effort to safeguard the retirement savings of government employees, require that Section 457 Plan assets be placed in a trust or similar vehicle which ensures that the assets are used exclusively to pay benefits to plan participants and their beneficiaries. The deadline for establishing such a trust is January 1, 1999.

The 1997 Plan provides that plan assets are held by a trustee pursuant to a trust arrangement which is separate and apart from Metropolitan's assets. Authorization of a Trust Agreement substantially in the form of Exhibit B is recommended so that the 1997 Plan will satisfy the requirement for a separate trust well before the 1999 deadline. The Trust Agreement provides that Metropolitan's Treasurer will hold the 1997 Plan assets and invest them on behalf of the participants, similar to the manner in which the Treasurer currently invests deferred compensation under the 1983 Plan.

Other tax code changes which are incorporated in the 1997 Plan include:

- the maximum annual contribution of \$7,500 is now allowed to increase with inflation;
- participants may make a one-time change in the date they intend to withdraw 457 plan funds;
- inactive 457 accounts with balances of \$3,500 or less may be distributed to the participant; and
- deferral of income attributable to qualified military service is permitted.

The 1997 Plan also changes the definition of “normal retirement age” to provide additional flexibility following Metropolitan’s amendment of its PERS contract to incorporate the 2% at 55 formula.

The 1997 Plan, if authorized, will be incorporated in Metropolitan’s Administrative Code.

SBB:mg

Attachment(s)

**ARTICLES OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA 1997
DEFERRED COMPENSATION PLAN**

SECTION 6800. Article I – Name.

The name of this Plan is The Metropolitan Water District of Southern California 1997 Deferred Compensation Plan (hereinafter referred to as the “1997 Plan”).

SECTION 6801. Article II -- Purposes.

The purposes of the 1997 Plan are to enable employees of The Metropolitan Water District of Southern California to defer portions of their compensation and to provide retirement, disability and death benefits, pursuant to the provisions of Section 457 of the Internal Revenue Code of 1986, as amended (the “Code”).

SECTION 6802. Article III -- Definitions.

For the purposes of the 1997 Plan, certain words or phrases will have the following meanings:

- a) “Compensation” shall mean the total of all amounts payable by the District to or for the benefit of an employee in return for the employee’s services.
- b) “Amounts deferred” shall mean compensation deferred under the 1997 Plan, plus any income or minus any losses or charges attributable to such deferred compensation.
- c) “Separation from service” shall mean termination of the participant’s employment with the District by means of retirement, resignation, death, or otherwise.
- d) “Normal retirement age” shall mean, with application to any participant, any age, irrevocably designated in writing by that participant and filed with the General Manager, within the range of ages beginning no earlier than age 50 and ending no later than age 70 ½. If the participant continues to work for the District beyond the participant’s previously designated normal retirement age, that normal retirement age shall be adjusted for purposes of initiating payments of amounts deferred (but not for the use of the “catch-up” provision of Article IX), to the age at which the participant separates from service. If a participant fails to designate a normal retirement age prior to separation from service, it shall be established as the later of (a) the normal retirement age specified in the contract between the board of directors of the California Public Employees Retirement System and the board of directors of the Metropolitan Water District of Southern California or (b) the participant’s age at separation from service, unless separation from service is a result of the death of the participant, in which case the participant’s normal retirement age shall be the participant’s age at date of death.
- e) “District” shall mean The Metropolitan Water District of Southern California, providing that the General Manager, or the General Manager’s designee for that purpose, shall exercise on behalf of the District any discretion or other function given to the District under the 1997 Plan.
- f) “General Manager” shall mean the General Manager of the District, or the General Manager’s successors or designee(s).
- g) “Employee” shall mean any officer or employee of The Metropolitan Water District of Southern California.

h) "Participant" shall mean any eligible employee who has fulfilled the requirements of enrollment into the 1997 Plan, or any former employee who has amounts deferred held by the District.

i) "Beneficiary" shall mean any person, trust, corporation or firm, or the estate of the participant, or any combination of the foregoing designation by a participant to receive benefits under the 1997 Plan. Beneficiary may be singular or plural, primary or contingent. The designation must be in writing on a form approved by and filed with the General Manager, and shall be revocable by written notice filed with the General Manager, unless otherwise expressly provided by the designation. If a participant does not have on file with the General Manager a valid and effective beneficiary designation, the participant's estate shall be the beneficiary.

j) "Surviving spouse" shall mean a husband or wife who was married to the participant for a continuous period beginning at least one year prior to and ending on the date of the death of the participant.

k) "Trustee" shall mean any person who is appointed by the General Manager to hold in trust and administer some or all of the assets of the 1997 Plan.

l) "Trust Agreement" shall mean any agreement between the District and a Trustee to hold in trust and administer some or all of the assets of the 1997 Plan.

m) "Valuation Date" shall mean the last business day of each calendar quarter, unless provided otherwise in the Trust Agreement.

SECTION 6803. Article IV – General Provisions.

For purposes of the 1997 Plan, the following general provisions shall apply:

a) The captions used are for the purposes of convenience only and shall not limit, restrict or enlarge the provisions of the 1997 Plan.

b) The 1997 Plan shall be binding upon and shall inure to the benefit of the District, its successors and assigns, all participants and beneficiaries and their heirs and legal representatives.

c) In referring to the General Manager, an employee, participant, beneficiary or surviving spouse, the masculine form shall be deemed to refer also to the feminine, and the feminine also to the masculine.

d) Deductions for employee contributions to the Public Employees' Retirement System and for various applicable group insurance policies shall be made from the participant's salary as if no amounts were deferred.

e) Any notice or other communication required or permitted under the 1997 Plan shall be in writing and, if directed to the District, shall be sent to the General Manager at District Headquarters, and if directed to a participant or beneficiary, shall be sent to such participant or beneficiary at the last known address as it appears on the District's records.

f) Compensation shall be taken into account at its present value and the amount of compensation limited by the 1997 Plan's ceiling shall be determined without regard to community property laws.

g) The 1997 Plan will be governed and administered pursuant to the laws of the United States and the State of California.

h) The General Manager may on behalf of the District execute all enrollment agreements with the District's officers and employees which are necessary for said person's participation in the 1997 Plan, except that any enrollment agreement for the General Manager shall be executed by the General Counsel on behalf of the District.

i) A participant may not, with respect to the participant's own participation, exercise on behalf of the District any discretion conferred upon the latter by the 1997 Plan.

j) A copy of the 1997 Plan shall be made available to each eligible employee prior to the employee's enrollment.

SECTION 6804. Article V -- Administration.

The General Manager shall have full authority to adopt rules and regulations for the administration of the 1997 Plan and to interpret, alter, amend or revoke any rules and regulations so adopted.

SECTION 6805. Article VI -- Eligibility.

All employees of the District, excepting any class of employees designated by the General Manager as being ineligible, may become participants in the 1997 Plan.

SECTION 6806. Article VII -- Enrollment.

Any eligible employee of the District may enroll or re-enroll (except as provided in Paragraph (d) of Article X below) as a participant in the 1997 Plan by filing a written election to participate with the District on a form approved by the General Manager. The election, if consented to by the District, shall become effective with respect to compensation for services rendered to the District by the employee on the date specified in the election, but not earlier than the first day of the second biweekly pay period next following the date of the District's consent and shall remain effective for a minimum of four weeks. The election shall thereafter continue in full force and effect unless revoked by the District or the participant by written notice by the revoking party to the other party at least 20 days prior to commencement of the biweekly pay period for which the revocation is to be effective. The form of enrollment shall specify the amount per pay period or the percentage of compensation which is to be deferred pursuant to the 1997 Plan. If the employee is married, the District may require the consent of the employee's spouse to the terms and conditions of the participation.

SECTION 6807. Article VIII -- Plan Ceiling.

The maximum amount of compensation that may be deferred under the 1997 Plan (except as provided in Article IX) in any year (the Plan ceiling) shall not exceed the least of (a) \$7,500 or (b) such greater amount as may be determined by the Secretary of the Treasury pursuant to Section 457(e)(15) of the Code; or (c) 33 1/3 percent of the participant's includible compensation. For purposes of this article, includible compensation shall mean compensation for services performed for the District as defined in Section 457(e)(5) of the Internal Revenue Code and any deemed compensation as provided in Section 414(u)(7) of the Code. The minimum amount shall be as prescribed by the General Manager from time to time. For any taxable year that a participant has a period of qualified military service as described in Section 414(u)(2)(A) of the Code, the participant may, over the period described in Section 414(u)(2)(A) of the Code, defer the amount that he or she could have deferred during any such period of qualified military

service, had the participant performed services for the District and received includible compensation from the District during such period as described in Section 414(u)(7) of the Code.

SECTION 6808. Article IX -- Catch-up Provisions.

For one or more of the participant's last three years ending before the participant attains normal retirement age under the 1997 Plan, the maximum compensation that may be deferred shall be the lesser of (a) \$15,000 or (b) the sum of (1) the Plan ceiling for the year under article VII plus (2) the accumulative amount of compensation that this participant could have deferred within the 1997 Plan ceiling under the original Metropolitan Water District Deferred Compensation Plan, from 1979 through 1982, the 1983 Metropolitan Water District Deferred Compensation Plan, from 1983 through 1996, and under this 1997 Plan in years beginning with 1997, less the amounts of compensation actually deferred by this participant in those years. The participant must irrevocably designate a normal retirement age prior to the participant's use of this provision.

SECTION 6809. Article X -- Availability of Amounts Deferred.

Amounts deferred under the 1997 Plan will be paid to the Trustee not later than the 30 days after the end of the payroll period in which deferred and held pursuant to the terms of the Trust Agreement. The General Manager shall direct the Trustee as to benefits to be paid hereunder, provided that amounts deferred will be distributed to or made available to participants or beneficiaries only in the following circumstances:

- a) The participant is separated from service: or
- b) The participant is confronted with an unforeseeable emergency as provided in Article XV.

SECTION 6810. Article XI -- Payments to Participant.

a) Amounts deferred will be paid in a lump sum to that participant on the 10th day of the second month next following the month in which the participant separates from service, if the participant is living at that time, unless not later than 30 days before that date the participant, with the consent of the District, irrevocably elects to defer commencement of payments of some portion or all of the participant's amounts deferred to a fixed or determinable date, but not later than the 10th of February next following the calendar year in which the participant attains normal retirement age. If the participant makes this election in a timely manner, the participant may select distribution by periodic payments on a monthly, quarterly, semiannual, or annual basis for a specific length of time.

b) Pursuant to Section 457(e)(9)(B) of the Code, if a participant has elected a deferred periodic payment or is scheduled to receive a lump sum payment, but in either case, has not yet actually received any payment, and provided that the participant has not previously rescheduled a payment pursuant to this paragraph, the participant may elect a later distribution commencement date, provided that any such rescheduled date shall comply with the requirements of this Article XI.

c) No payment schedule selected by a participant shall be effective unless it is consented to by the District in its sole discretion. The District shall, however, only consent to the schedule if it conforms to Section 457 of the Code and regulations thereunder. In particular, unless otherwise permitted by law, any periodic payment schedule selected by the participant will be consented to by the District only if it is:

i) In conformity with section 457(d)(2)(A) and Section 401(a)(9) of Code and the regulations thereunder, which, in general, provide that amounts deferred will be distributed (A) over the life of the participant or over the lives of the participant and the participant's spouse or (B) over a period not extending beyond the life expectancy of the participant or the life expectancy of the participant and the participant's spouse;

ii) In conformity with Section 457(d)(2)(B), which, in general, provides that a substantial portion of amounts deferred must be paid during the life expectancy of the participant so that the death benefit is incidental to the lifetime benefit; and

iii) In conformity with Section 457(d)(2)(C), which provides that periodic distribution of amounts deferred must be in a form in which the payments are made no less frequently than annually and do not substantially increase in amount.

SECTION 6811. Article XII -- Payments to Beneficiary.

If the participant dies before the entire amount deferred is paid to the participant, any amounts deferred and remaining unpaid shall be paid to or on behalf of a beneficiary in a lump sum on the 10th day of the second month next following the month in which the participant dies.

SECTION 6812. Article XIII -- Payments to Surviving Spouse.

Notwithstanding the provisions of Article XII, if the participant's surviving spouse is a beneficiary, the surviving spouse, with the consent of the District, prior to the time that the lump sum payment provided for in Article XII is first payable, may elect to defer payment of some portion or all of the amount which would otherwise be paid to the surviving spouse in a lump sum, for a period not to exceed the surviving spouse's actuarial life expectancy. If the surviving spouse does make such timely election, any amounts remaining unpaid at the date of his or her death shall be paid in a lump sum to his or her estate. Any distribution option selected by the surviving spouse shall comply with the limitation of Section 457(d) of the Code.

SECTION 6813. Article XIV -- Minimum Rate of Periodic Payments.

If an election by the participant or a surviving spouse beneficiary would result in periodic payments less than \$2,400 per year, the District will instruct the Trustee to shorten the designated period so that periodic payments of \$2,400 per year will be made until all amounts deferred have been paid.

SECTION 6814. Article XV -- Payments for Unforeseeable Emergencies.

The District, in its sole discretion, may direct the Trustee to make payments to a participant from the participant's amounts deferred to meet an unforeseeable emergency. An unforeseeable emergency is defined for purposes of this 1997 Plan as a severe financial hardship to the participant resulting from the occurrence of a sudden and unexpected illness or accident affecting the participant or a dependent of the participant; loss of the participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant. Payments under this article may not be made to the extent the hardship is or may be relieved through compensation by insurance, by liquidation of the participant's other assets (to the extent the liquidation would not itself cause severe financial hardship) or by cessation of further deferrals under the Plan. Payments of amounts based upon an unforeseeable emergency will be made only to the extent reasonably required to satisfy the

emergency need. For purposes of this article only, participant shall also mean a beneficiary if the right to eventual payment has already vested in the beneficiary as a result of the death of the participant.

SECTION 6815. Article XVI -- QDRO's.

The District shall recognize and comply with a court order that the District determines (in its sole discretion) meets the requirements of a Qualified Domestic Relations Order" ("QDRO") within the meaning of Section 414(p) of the Code. Any such order must comply with the provisions of Article XI.

SECTION 6816. Article XVII -- Participant's Accounts.

a) The District shall separately account for each participant to which it shall credit the amount of each deferral of compensation under the 1997 Plan. The participant's account shall be credited or debited as the case may be with the net amount of any gains or losses which may result from the investment of all or any portion of the participant's deferred amounts, and any administrative costs charged. The District will furnish to each participant quarterly statements each year reflecting the amounts of compensation deferred, gains, losses and administrative charges (expressed either in dollar amounts or as a percentage of current earnings) for that quarterly period, and the balance of amounts deferred in such participant's account.

b) As of November 18, 1997, the account of each participant in the District's 1983 Deferred Compensation Plan (Section 6730 and following of the District's Administrative Code) who was employed by the District was transferred to and became a part of the participant's account under the 1997 Plan.

SECTION 6817. Article XVIII -- District's Obligations.

The District agrees to direct the Trustee to make payments in accordance with the provisions of Articles XI through XV of the amounts deferred by the participant, as reflected in the participant's account, as provided for in Article XVI.

SECTION 6818. Article XIX -- Ownership and Investment.

a) The District shall direct the Trustee to invest funds held by the District pursuant to agreements between participants and the District to defer compensation otherwise receivable by the participants.

b) As of each Valuation Date, the Trustee shall determine the value of each participant's account, including the net realized and unrealized gains and losses of each investment, plus any additional contributions made and less any distributions made and less any expenses charged to the account pursuant to Article XXII of the 1997 Plan.

c) The District and the Trustee may enter into contracts with firms, corporations, or investment institutions to facilitate or accomplish any investments made pursuant to this 1997 Plan.

d) All amounts of compensation deferred under the 1997 Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or

rights, shall be held for the exclusive benefit of the participants and their Beneficiaries and it shall be impossible by operation of the 1997 Plan or of the Trust Agreement, by termination of either, by power of revocation or amendment, by the happening of any contingency, by collateral arrangement, or by any other means, for any part of the corpus or income of any trust fund maintained pursuant to the 1997 Plan, or any funds contributed thereto, to be used for, or diverted to, purposes other than the exclusive benefit of Participants or their Beneficiaries.

SECTION 6819. Article XX -- Participant's Risk of Loss.

a) No action by the District shall be considered to be either an endorsement or guarantee of any investment of deferred amounts, nor shall it be considered to attest to the financial soundness or the suitability of any investment for the purpose of meeting future obligations provided for in the 1997 Plan.

b) While the District will endeavor to use reasonable care in the selection of any investment of amounts deferred, neither the Trustee nor the District nor its directors or employees shall be liable to any participant or beneficiary for disappointing results, or loss, flowing from any deficiencies in this regard and a participant, as a condition to participation in the 1997 Plan, shall be required to execute an agreement wherein the participant, for the participant, and for the participant's heirs and beneficiaries, agrees to hold the Trustee, the District, its directors and employees harmless and agrees to waive any cause of action the participant might otherwise have or obtain as a result of participation in the 1997 Plan, other than for the performance of the District's obligation under Article XVIII or the Trustee's performance of the Trustee's obligations under the Trust Agreement.

SECTION 6820. Article XXI -- Participant's Rights.

Each participant shall be deemed to have assented to all of the terms and conditions of the 1997 Plan. No participant may sell, transfer, assign, hypothecate or otherwise dispose of all or any part of the participant's amounts deferred or any right thereto which the participant may have under the 1997 Plan, provided, however, that each participant shall have the right to designate a beneficiary to receive any benefits which may be payable under the 1997 Plan upon the death of the participant.

SECTION 6821. Article XXII -- Administrative Cost.

The General Manager shall determine in a manner deemed fair and equitable to the General Manager to cost to the District in withholding compensation deferred pursuant to the 1997 Plan or in making investments or otherwise administering or implementing this Plan. The General Manager may withhold or collect, or have withheld or collected, such costs in such manner as the General Manager deems equitable either (1) from the Trust or (2) by direct charge to the participants. Statements of accounts distributed to participants shall specify any amounts paid pursuant to this article.

SECTION 6822. Article XXIII -- Amendment or Termination of 1997 Plan.

This 1997 Plan may be amended or terminated by the District at any time, or the District may without amending or terminating the Plan, cease to set aside assets under the Plan. No amendment or termination of the Plan and no cessation of the setting aside of assets shall reduce or impair the rights of any participant or beneficiary which have already accrued. Upon termination of the Plan the District may, at its option, direct the Trustee to begin to distribute deferred compensation account balances at the rate of \$5,000 per year or, if greater, at 10 percent per year of the participant's book account, or it may direct the Trustee to distribute the amounts deferred in accordance with the provisions of Articles X through XV.

SECTION 6823. Article XXIV -- Leave of Absence.

Approved leave of absence with pay shall not affect agreements to participate in the 1997 Plan. Approved leave of absence without pay shall be considered to be a temporary revocation of the participant's agreement to participate in the Plan. Participation will be automatically reinstated as of the first day of the next pay period subsequent to the termination of the leave of absence without pay status.

SECTION 6824. Article XXV -- Special Limitation on Plan Ceiling.

If at any time the District should make available a benefit under Section 403(b), Section 402(a)(8) or Section 402(h)(1)(B) of the Internal Revenue Code, any amount that would thereby be excluded from the taxable income of the participant shall be treated as an amount deferred under the 1997 Plan for the purpose of applying the limitations of Articles VIII and IX.

SECTION 6825. Article XXVI -- Advisory Committee.

An advisory committee may be established and may advise the General Manager concerning policies and guidelines relating to the administration of the 1997 Plan. The General Manager shall give due consideration to said advice, but shall not be bound by any such advice. The presence of participants as members of any advisory committee shall in no way give or be deemed to give any participants any control whatsoever over the 1997 Plan, or the investment, disbursement or distribution of any portion of the amounts deferred.

SECTION 6826. Article XXVII -- Transfers Between Plans.

a) In the event a participant terminates employment with the District and commences employment with another eligible employer (as defined in Section 457(e)(1) of the Internal Revenue Code), the District, in its sole discretion, may permit the participant to elect to transfer all or any portion of the amount of Trust assets otherwise payable to such participant under separation from service with the District to the new employer's eligible deferred compensation Plan. Such an election must be made prior to the time such amount would be payable to the participant under Article XI above. Any cost attributable to such transfer shall be a direct charge to the participant under Article XXII above.

b) In the event an employee terminates employment with another eligible employer (as defined in Section 457(e)(1) of the Internal Revenue Code), and commences employment with the District, the District, in its sole discretion, may permit a transfer into the Trust of all or

any portion of the amount which would be otherwise payable to such participant from the former employer's eligible deferred compensation Plan. Such a transfer shall only be accepted if the participant has elected to make such transfer prior to the time that the amount transferred would have been payable to the participant under the other employer's eligible deferred compensation Plan. Any cost attributable to such transfer shall be a direct charge to the participant under Article XXII above. Upon the receipt of such transfer, a separate "transfer" account shall be maintained for the transferred amount in the manner described in Article XVII(a) above.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

TRUST AGREEMENT

Effective November 18, 1997, this trust agreement is made and entered into by and between The Metropolitan Water District of Southern California (hereinafter referred to as the "District"), and Roger N. Marumoto, the Trustee. This Trust is established to hold the assets of the Metropolitan Water District of Southern California 1997 Deferred Compensation Plan (the "Plan"). This Trust forms a part of such Plan.

W I T N E S S E T H:

WHEREAS, the District has established the Metropolitan Water District of Southern California 1997 Deferred Compensation Plan; and

WHEREAS, said Plan provides for the establishment of one or more trusts to carry out its purposes by the creation of a fund to which contributions paid under the Plan will be paid and from which benefits under such Plan will be paid; and

WHEREAS, the parties hereto desire to execute a trust agreement which sets forth the rights and duties of the Trustee and the terms and conditions under which said fund is to be established and administered;

NOW, THEREFORE, it is mutually understood and agreed as follows:

ARTICLE I
ACCEPTANCE OF TRUST

1.1 - Acceptance of Trust by Trustee.

The Trustee hereby accepts the Trust created hereunder and agrees to perform the obligations imposed by this Trust Agreement.

ARTICLE II
DEFINITIONS

2.1 - Definitions.

Unless the context or subject matter otherwise requires, all terms herein shall be defined in accordance with the Metropolitan Water District of Southern California 1997 Deferred Compensation Plan.

ARTICLE III
ACTIONS OF GENERAL MANAGER

3.1 - General Manager.

The General Manager shall administer the Plan. The General Manager may appoint an Investment Manager to direct the investment of Plan assets. If no Investment Manager is appointed, the Trustee shall have sole discretion with respect to investing Plan assets.

3.2 - General Manager Directions to Trustee.

All directions by the General Manager to the Trustee shall be in writing and signed by the General Manager.

3.3 - General Manager Sole Responsibility.

The General Manager shall have sole responsibility for the exercise of his rights and duties as set forth in the Plan, specifically including the determination of the existence, nonexistence, nature and amount of rights and interests of all persons in the Trust.

3.4 - Maintenance of Records.

The General Manager shall have the duty and responsibility to maintain the individual Participant records and to prepare and file all reports and other information required by any federal or state law or regulation relating to the Plan, except for such reports or information returns as are required by law to be prepared and filed by the Trustee.

3.5 - Designation of Agents.

The General Manager shall in his sole discretion have the right to appoint such agents as he may deem necessary to carry out his duties pursuant to the provisions of the Plan and this Trust. The General Manager may notify the Trustee in writing that one or more delegates have been appointed by him to carry out all or a portion of his duties under this Trust. Upon such notification, the Trustee shall be entitled to rely upon actions of such delegate (to the extent of the duties delegated) to the same extent as if the actions were performed directly by the General Manager.

ARTICLE IV
CONTRIBUTIONS

4.1 - Contributions.

The Trustee shall receive all contributions paid under the Plan in cash or other property acceptable to the Trustee. All contributions so received, together with the income therefrom and any increment thereon, shall be held, managed and administered by the Trustee as a single Trust pursuant to the terms of the Plan without distinction between principal and income. The Trustee shall have no duty to require any contributions to be made to it by the District and shall have no authority to compute any amount to be paid to it by the District nor to determine whether the amounts received by it from the District comply with the Plan or to determine that the assets of the Trust comply with the Plan or to determine that the assets of the Trust are adequate to provide any benefits payable pursuant to the Plan.

ARTICLE V
PAYMENTS FROM TRUST FUND

5.1 - Payments by Trustee to Participants and Beneficiaries.

All distributions from the Trust shall be made by the Trustee to such persons, in such manner, at such times and in such amounts as the General Manager shall direct and the Trustee shall be under no duty to make inquiry as to whether any distribution directed by the General Manager is made pursuant to the provisions of the Plan. In the event that the General Manager directs that any payment be made only during or until the time a certain condition exists, it shall be the responsibility of the General Manager to notify the Trustee in writing as to the future existence or nonexistence of such condition and any payments made by the Trustee prior to such notification shall as to the Trustee be proper.

5.2 - Trustee Compensation and Expenses.

The Trustee shall be paid no additional compensation for his services as Trustee. The Trustee shall be reimbursed for his expenses that are reasonably necessary and incident to his administration of the Trust. Such expenses shall include counsel fees, if any, incurred by the Trustee for the purpose of determining his responsibilities under the Trust. All such amounts shall be paid to the Trustee from the Trust unless such expenses are paid by the District. The District shall indemnify the Trustee, to the fullest extent permitted by law, against any liability or expense resulting

from his service as Trustee, except for liability or expense incurred by reason of his own willful misconduct.

5.3 - Taxes.

The Trustee is authorized, with or without direction from the General Manager, to pay from the Trust assets all real and personal property taxes, income taxes and other taxes of any kind levied or assessed under existing or future laws against the Trust assets. The Trustee shall not be personally liable for any such taxes.

5.4 - Alienation.

Other than as expressly permitted by the Plan, the benefits, proceeds, payments or claims of any Participant or Beneficiary of the Plan payable from the Trust assets shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary. Any attempt to anticipate, alienate sell, transfer, assign, pledge, encumber, garnish, levy or otherwise dispose of or execute upon any right or benefit payable hereunder shall be void. The Trust assets shall not in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any Participant entitled to benefits hereunder and such benefits shall not be considered an asset of the Participant in the event of his or her insolvency or bankruptcy.

5.5 - General Manager Expenses.

No expenses or fees of the General Manager or the District for the administration of the Plan and services in relation thereto for legal and accounting and other similar expenses shall be paid from the Trust assets and all such expenses shall be paid by the District, unless the District determines that any or all of such expenses will be paid by the Trust and such payment does not violate any law.

ARTICLE VI
INVESTMENT OF TRUST ASSETS

6.1 - Fiduciary Responsibilities

Unless an Investment Manager is appointed by the General Manager, the Trustee shall have full discretion in the exercise of investment authority with regard to the Trust assets and earnings thereon.

6.2 - Relationship of Parties.

It is the intent of the District, Trustee, General Manager, and any other person or persons designation under the provisions of Article III that each shall be solely responsible for its own acts or omissions. Except to the extent imposed by the Code, no such party shall have the duty to question whether any other party is fulfilling any or all of the responsibilities imposed upon it by the Plan or the Trust. No such party shall have any liability for a breach of responsibility of another party with respect to the Plan and this Trust.

ARTICLE VII POWERS OF TRUSTEE

7.1 - Powers of Trustee.

Except as otherwise provided by law, the Trustee is authorized and empowered, but not by way of limitation except as specifically set forth:

- (a) To purchase, hold, sell, invest and reinvest assets of the Trust, together with the income therefrom, in stock, (including common, preferred, and convertible preferred stock), evidences of indebtedness (including debentures, convertible debentures and bonds), mortgages, notes (including loans to Participants to the extent authorized under the Plan), mutual fund shares, interests in unit trusts, interests in partnerships, interests in money market funds, time certificates of deposit, commercial paper and other evidences of indebtedness), other securities, and property (personal, real or mixed, and tangible or intangible) the value of which are readily ascertainable and readily marketable;
- (b) To retain in cash or other property unproductive of income, without liability for interest, so much of the Trust assets as may be determined; to deposit cash in any bank and select any bank as custodian; and to cause securities or other property to be registered and / or held in its individual name, either with or without disclosing fiduciary capacity, or in the name of its nominee;
- (c) To manage, control, sell, convey, exchange, partition, divide, subdivide, improve, and repair; to grant options and to sell upon deferred payments; to lease for terms within or extending beyond the duration of this Trust for any purpose, including exploration for and removal of gas or other minerals; to enter

into community oil leases; to create restrictions, easements and other servitudes;

- (d) To compromise, arbitrate or otherwise adjust claims in favor of or against the Trust; and to institute, compromise and defend actions and proceedings;
- (e) To transfer part or all of the money constituting assets of the Trust to and as an investment in any type of interest-bearing account, including those evidenced by time certificates of deposit;
- (f) To appoint agents to carry out those Trustee responsibilities that can be efficiently carried out through an agent; and
- (g) Generally to do all such acts, execute all such instruments, take all such proceedings, and exercise all such rights and privileges with relation to property constituting the Trust assets as if the Trustee were the absolute owner thereof.

7.2 - Controversy or Disagreement.

Except as otherwise provided by law, if any controversy arises with respect to this Trust, the Trustee shall take such action as directed by the General Manager or, in the absence of such directions, as it deems advisable, whether by legal proceedings, compromise or otherwise. The Trustee may retain the funds or property involved without liability pending settlement of the controversy.

ARTICLE VIII ACCOUNTS OF THE TRUSTEE

8.1 - Records.

The Trustee or his delegate shall maintain accurate records and accounts of all transactions hereunder, which shall be available at all reasonable times for inspection or audit by any person or persons designated by the General Manager.

8.2 - Reports

If the General Manager so directs, the Trustee or his delegate shall submit to the General Manager such interim valuations, reports or other information as the General Manager may reasonably require. Within 90 days following (a) the close of each Plan Year or (b) the effective date of the removal or resignation of the Trustee, the Trustee or his delegate shall file with the General Manager (1) a written account settling forth all transactions effected by it subsequent to the end of the period covered by its last previous account, and listing the assets of the

Trust, showing carrying and market values of such assets, at the close of the period covered by such account; and (2) such information which is within the control of the Trustee, and a certification by the Trustee of the accuracy thereof, as shall be necessary or appropriate for the General Manager to complete all required disclosures and reporting with respect to the Plan and Trust.

8.3 - Value of Trust Assets.

For the purposes of this Article, the fair market value of assets in the Trust shall be determined by the Trustee or his delegate based upon such sources of information as it may deem reliable including, but not limited to, information reported in (1) newspapers of general circulation, (2) standard financial periodicals or publications, (3) statistical and valuation services, (4) the records of securities exchanges or brokerage firms deemed by the Trustee to be reliable, (5) independent valuation, or any combination thereof.

ARTICLE IX RESIGNATION AND REMOVAL OF TRUSTEE

9.1 - Method and Procedure.

The Trustee may resign at any time by delivering to the General Manager a written notice or resignation, to take effect at a date specified therein, which shall not be less than 30 days after the delivery thereof, unless such notice shall be waived.

The General Manager shall have the right to remove the Trustee by delivery of a written notice of removal to take effect at a specified time therein, which shall not be less than 30 days after the delivery thereof, unless such notice shall be waived.

In the event the Trustee notifies the General Manager of his intention to resign, or the General Manager removes the Trustee, in accordance with the foregoing provisions of this Article IX, the General Manager shall appoint a successor trustee and in default thereof, such successor trustee may be appointed by a court of competent jurisdiction. The Trustee hereunder shall thereupon deliver to the successor trustee all property of this Trust, less such amounts as said Trustee shall deem necessary to provide for any expenses, compensation and taxes or advances, together with such records as may be reasonably required to enable the successor trustee to properly administer the Trust.

In the case of his resignation or removal, the Trustee shall have the right to a settlement of his account, which may be made, at the option of the Trustee, either (1) by a judicial statement in an action instituted by the Trustee in a court of

competent jurisdiction, or (2) by agreement of settlement between the Trustee and the General Manager.

Upon such settlement, all right, title and interest of such Trustee in the assets of the Trust and all rights and privileges under the Plan and this Trust theretofore vested in such Trustee shall vest in the successor trustee, and thereupon all future liability of such Trustee shall terminate; provided, however, that the Trustee shall execute, acknowledge and deliver all documents and written instruments which are necessary to transfer and convey the right, title and interest in the Trust assets, and all rights and privileges, to the successor trustee.

9.2 - Successor Trustee.

In the event the Trustee notifies the General Manager of his intention to resign or the General Manager removes the Trustee, unless the Trust assets attributable to the Participants employed by the District are distributed to or held by another trust qualifying under the applicable provisions of Sections 457 and 501(a) of the Code, the District shall terminate the Plan and the General Manager shall terminate this Trust in accordance with the provisions of the Plan.

ARTICLE X
AMENDMENT AND TERMINATION

10.1 - Amendment and Termination.

The General Manager shall have the right at any time and from time to time (1) to modify or amend in whole or in part, by written agreement with the Trustee, any or all of the provisions of this Trust Agreement, or (2) to terminate this Trust Agreement upon 30 days prior notice in writing to the Trustee; and the General Manager hereby covenants and agrees with the Trustee as follows:

- (a) No such termination, modification, or amendment shall have any retroactive effect so as to deprive any Participant of any benefit already vested, except such changes, if any, as may be required to permit this Trust Agreement to meet the applicable requirements of the Code;
- (b) No such termination, modification, or amendment shall permit, prior to the satisfaction of all liabilities with respect to Participants and their Beneficiaries, any part of the principal or income of this Trust to be used for, or diverted to, purposes other than the exclusive benefit of Participants and their Beneficiaries. In the event of termination of this Trust, all cash, securities and other property then constituting the assets of the Trust, less any amounts constituting charges and

expenses payable from the assets of the Trust, shall be paid over or delivered by the Trustee to or on order of the General Manager.

ARTICLE XI MISCELLANEOUS

11.1 - Contribution Not Recoverable.

It shall be impossible for any part of the principal or income of this Trust to be used for, or diverted to, purposes other than the exclusive benefit of Participants or their Beneficiaries; provided, however, that notwithstanding this or any other provision of this Trust, if the District Director of Internal Revenue determines that the Plan does not initially meet the requirements of the Code and Regulations, the District shall be entitled to withdraw all contributions theretofore made, in which event this Trust shall thereupon terminate and all right, if any, of the Participants thereunder, shall cease and come to an end with the same effect as if the Trust had not been adopted.

11.2 - Limitation on Participants' Rights.

Participation in this Trust shall not give any employee the right to be retained in the District's employ or any right to interest in this Trust other than as herein provided. The District reserves the right to dismiss any employee without any liability for any claim either against this Trust, except to the extent provided herein, or against the District. All benefits payable hereunder shall be provided solely from the assets of the Trust.

11.3 - Receipt or Release.

Any payment to any Participant or his Beneficiary in accordance with the provisions of this Trust shall, to the extent thereof, be in full satisfaction of all claims against the Trustee, the General Manager and the District and the Trustee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

11.4 - Governing Law.

This Trust Agreement and the Trust hereby created shall be construed, administered and governed in all respects under the laws of the State of California, except to the extent federal law controls; provided, however, that if any provision is susceptible to more than one interpretation, such interpretation shall be given thereto as is consistent with the Trust being a

qualified trust within the meaning of Sections 457 of the Code. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

11.5 - Headings, etc., Not Part of Agreement.

Headings and subheadings in this Trust Agreement are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

11.6 - Instrument in Counterparts.

This Trust Agreement has been executed in several counterparts, each of which shall be deemed an original and said counterparts shall constitute but one and the same instrument, which may be sufficiently evidenced by any one counterpart.

11.7 - Successors and Assigns.

This Trust Agreement shall inure to the benefit of and be binding upon the parties hereto and their successors and assigns.

11.8 - Masculine Gender Includes Feminine and Neuter.

As used in this Trust Agreement, the masculine gender shall include the feminine and neuter genders.

IN WITNESS WHEREOF, the undersigned have executed this Trust Agreement effective as of the later day set forth below.

Approved as to Form:

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

N. Gregory Taylor
General Counsel

EXECUTED _____

By _____
Sr. Deputy General Counsel

BY _____
General Manager

TRUSTEE:

EXECUTED _____

BY _____
Treasurer