MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Report

Chief Financial Officer

- Water Revenue Refunding Bonds, 2006 Series A-1 and A-2 Transaction

Summary

On May 25, 2006, Metropolitan closed a $74.1 million water revenue refunding bond issue to refund $73.4 million of outstanding water revenue bonds. The savings on this transaction are anticipated to be on average $670,000 per year through July 2021, resulting in net present value savings of $6.4 million (8.64 percent).

Detailed Report

On May 24, 2006, Metropolitan priced the $74.1 million Water Revenue Refunding Bonds, 2006 Series A-1 and A-2 issue. The variable rate refunding bond transaction closed on May 25, 2006. Banc of America Securities LLC served as underwriter and remarketing agent for the Series A-1 bonds, and Morgan Stanley served as underwriter and remarketing agent for the Series A-2 bonds. Public Resources Advisory Group (PRAG) served as financial advisor. Nixon Peabody LLP served as bond counsel.

In addition to the refunding bonds, the structure of the transaction involved interest rate swaps that were originally priced in April 2005. The swap transactions became effective in April 2006. Metropolitan will pay a fixed rate of 3.21 percent on a notional amount of $62.4 million, and a fixed rate of 2.91 percent on a notional amount of $12.1 million to two swap counterparties. In return, Metropolitan will receive 63 percent of the three-month LIBOR rate, a variable rate that will approximate the variable rate payments on the 2006 A1 and A2 bonds. The swap counterparties for the swap transactions are JPMorgan Chase Bank and UBS Financial Services Inc. PRAG served as financial advisor and swap advisor. O'Melveny & Myers served as swap counsel. As of May 31, 2006, the mark-to-market value of the interest rate swaps associated with this refunding is a positive $2.1 million. This is a result of interest rates rising since the swaps were priced one year ago.

The all-in true interest cost (TIC) for the refunding transaction was 3.80 percent with an average life of 11.3 years. The refunding transaction will produce present value savings of $6.4 million through July 2021, which is equal to 8.64 percent of refunding bonds. The all-in TIC and the savings are net of any costs and expenses incurred by Metropolitan for the transactions (including the costs associated with the interest rate swaps). Maturities from July 2012 to July 2021 of the 1996 Series B bonds totaling $73.4 million in par value were refunded.

The transaction was structured to produce net present value savings in accordance with Metropolitan's bond refunding guidelines, and to realize cash flow savings over the life of the bonds. The transaction will save approximately $670,000 per year through July 2021. As requested by the Committee, we have provided the following breakdown of the estimated costs and expenses associated with the transactions:

Estimated Costs: Refunding Bonds

	Amount	$/1,000 Bond
Bond Counsel	$ 110,000	$ 1.48
Rating Agencies	$ 68,000	0.92
Financial Advisors	$ 50,000	0.68
Liquidity Counsel	$ 25,000	0.34
Printing/Mailing	$ 20,000	0.27
Escrow/Paying Agents	$ 7,000	0.09
Other/Contingency	$ 20,000	0.27
Total	$ 300,000	$ 4.05

Date of Report: June 7, 2006

Underwriter's Discount

	Amount	$/1,000 Bond
Takedown (sales fees)	$ 55,605	$ 0.75
Management Fee	$ 30,000	0.40
Expenses		
- Underwriters Counsel	$ 25,000	0.34
- Other (e.g. CDIAC, Day Loan, BMA Fees, etc.)	$ 21,335	0.29
Total	$ 131,940	$ 1.78
Total Costs of Bond Issuance	$ 431,940	$ 5.83

Estimated Costs: Swap Transaction

	Amount
Swap Advisors	$ 35,000
Swap Counsel	$ 18,000

Savings from Bond Refundings

Since February 2001, Metropolitan has issued over $1.57 billion of water revenue refunding bonds, saving about $100 million on a present value basis and over $7.3 million per year (on average) over the next 20 years. This equates to approximately $3.65 per acre-foot of savings on future water rates. The following table summarizes each of the transactions, along with the net present value savings, the average annual savings, true interest cost, and the average maturity of the refunding bond issue:

Revenue Refunding Bond Issue		NPV Savings	Average Annual Savings	True Interest Cost	Average Maturity
2001 Series A:	$195.7M	$ 9.6 million	$ .7 million	4.50%	12.7 years
2001 Series B1-B2:	$224.8M	$15.0 million	$1.0 million	4.22%	15.2 years
2002 Series A&B:	$132.2M	$ 9.7 million	$ .7 million	3.30%	18.1 years
2003 Series A:	$ 36.2M	$ 3.0 million	$ .1 million	3.34%	9.1 years
2003 Series C1-C3:	$338.2M	$21.1 million	$1.3 million	3.26%	20.8 years
2004 Series A1-A2:	$162.5M	$11.4 million	$1.1 million	2.92%	15.4 years
2004 Series B:	$274.4M	$12.2 million	$1.1 million	3.14%	8.3 years
2004 Series C:	$136.1M	$11.0 million	$ .6 million	3.23%	14.9 years
2006 Series A1-A2:	$ 74.1M	$ 6.4 million	$ .7 million	3.22%	11.3 years