THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Report

Chief Financial Officer
June 8, 2009

- **Water Revenue Refunding Bonds, 2009 Series A-1 and 2009 Series A-2**

Summary

On May 20, 2009, Metropolitan closed a $208.4 million water revenue refunding bond issue to refund $222.0 million of outstanding variable rate water revenue bonds. The 2009 Series A1-A2 bonds were issued as SIFMA Index Notes, and will allow Metropolitan to eliminate the need for bank liquidity in support of the bonds.

Detailed Report

Metropolitan priced the $208.4 million Water Revenue Refunding Bonds, 2009 Series A1 and Series A2 issue on May 18, 2009. As reported to the Business and Finance Committee at its meeting of May 11, 2009, the 2009 A1-A2 bonds were issued as SIFMA Index Notes that were used to refund the Water Revenue Refunding Bonds 2003 Series C-1 and 2003 Series C-2 issue. The 2003 Series C-1 and C-2 Bonds were variable rate bonds supported by a standby bond purchase agreement with Dexia. The transaction closed on May 20, 2009.

The 2009 Series A1 and Series A2 bonds were issued as variable rate SIFMA Index Notes with Goldman Sachs & Co. and Stone & Youngberg serving as underwriters for the sale and initial placement. The SIFMA Notes were structured as long-term bonds with interest rates set on a weekly basis. Initially, the rate will be based on the SIFMA Index plus five basis points. The SIFMA Notes have a mandatory tender on June 1, 2010. In addition, Metropolitan has the option to require a mandatory tender on any day after November 16, 2009. The optional call feature on the SIFMA Notes ensures that the bonds will be remarketed at an attractive price to Metropolitan, and allows Metropolitan financial flexibility in the event that a remarketing is not successful. Public Resources Advisory Group (PRAG) served as financial advisor. Nixon Peabody LLP and Curls Bartling P.C. served as co-bond counsel.

The all-in true interest cost (TIC) for the SIFMA Notes is estimated to be 2.62 percent with an average life of 16.3 years. Average annual debt service for the 2009 Series A1 and Series A2 bonds will be $14.0 million, and total debt service will be $295.8 million with bonds maturing from July 2020 to July 2030.

The following shows the estimated costs and expenses associated with the 2009 Series A1 and Series A2 transaction:

Estimated Costs:

	Amount	$/1,000 Bond
Co-Bond Counsel	$ 270,000	$ 1.30
Rating Agencies	$ 117,000	0.56
Financial Advisor	$ 65,000	0.31
Printing/Mailing	$ 30,000	0.14
Other/Contingency	$ 34,000	0.16
Total	**$ 516,000**	**$ 2.47**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$ 364,639	$ 1.75
Management Fee	$ -0-	0.00
Expenses		
- Underwriters Counsel	$ 60,000	0.29
- Other (e.g. BMA Fees, CUSIP, DTC, etc.)	$ 24,831	0.12
Total	**$ 449,470**	**$ 2.16**

Total Costs of Issuance	**$ 965,470**	**$ 4.63**

Date of Report: June 8, 2009

Savings from Bond Refundings

Since February 2001, Metropolitan has issued over $2.84 billion of water revenue refunding bonds, with estimated savings over $238 million on a present value basis and at least $15.2 million per year (on average) over the next 20 years. This equates to approximately $6.50 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 issues:

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
2006 Series B	$ 45.9M	$ 2.0 million	$ .1 million	4.48%	16.4 years
2007 Series A1-A2	$218.4M	NA (a)	NA (a)	NA (a)	9.6 years
2007 Series B	$ 81.9M	NA (a)	NA (a)	NA (a)	26.8 years
2008 Series A1-A2	$501.6M	$89.2 million (b)	$4.4 million	3.47% (b)	17.3 years
2008 Series B	$133.4M	$ 6.8 million	$ .7 million	4.11%	11.9 years
2008 Series C	$ 79.0M	$ 9.6 million (c)	$ .7 million	3.77%(c)	7.3 years
2009 Series A1-A2(d)	$208.4M	$30.6 million	$ 2.0 million	2.62%	16.3 years

(a) The 2007 Series A1-A2 and 2007 Series B variable rate water revenue refunding bonds were Auction Rate Securities, and were refunded by the 2008 Series A1-A2 variable rate water revenue refunding bonds, anticipated savings reflected in projected savings for the 2008 Series A1-A2 issue.

(b) Variable rate bonds, initial weekly interest rate of 1.85%, weekly interest rates will vary over time. Savings calculations based on an average interest rate of 3.43% on the 2008 Series A1-A2 issue, and an average interest rate of 5.00% on the refunded ARS.

(c) Savings calculations were based on Metropolitan paying an average rate of 4.165% on the 1996 Series A Ambac insured VRDO's; receiving 60% of one-month LIBOR equal to 1.48% from AIG; paying 4.99% to AIG on the cost of funds swap; and paying 32.5 basis points for remarketing fees and liquidity costs over the life of the bonds resulting in a net cost to Metropolitan of 8.00%. If the swap termination payment is included in the calculation, the all-in TIC is 5.51%.

(d) Issued to refund the 2003 C1-C2 variable rate water revenue bonds secured by a liquidity facility with Dexia. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of Dexia; eliminate the need and exposure to rising costs for liquidity facilities; eliminate put risk which could lead to higher costing bank bonds.