THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

August 17, 2010
Chief Financial Officer

- **Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A; Water Revenue Refunding Bonds, 2010 Series B; and Interest Rate Swap Novation from UBS AG to Deutsche Bank AG**

Summary

On June 24, 2010, Metropolitan closed the $128.0 million Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A issue to refund $132.8 million of outstanding variable rate water revenue bonds; on July 22, 2010, Metropolitan closed the $88.8 million Water Revenue Refunding Bonds, 2010 Series B issue to refund $100.0 million of outstanding variable rate water revenue bonds; and on July 22, 2010 Metropolitan successfully novated four interest rate swaps totaling $311.7 million notional amount from UBS AG to Deutsche Bank AG.

Detailed Report

Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A

On June 23, 2010, Metropolitan priced the $128.0 million Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A issue to refund Metropolitan's outstanding Water Revenue Refunding Bonds, 2004 Series C issue. The transaction closed on June 24, 2010.

The Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A issue was the first issuance of variable rate water revenue bonds supported by Metropolitan's own liquidity and balance sheet in lieu of a third party bank liquidity facility. The Nineteenth Supplemental Resolution to the Master Revenue Bond Resolution adopted by the Board in December 2009 provided authorization for the "self-liquidity" variable rate bonds. The 2004 Series C Bonds were variable rate bonds supported by a standby bond purchase agreement with Dexia Credit Local.

Wells Fargo served as underwriter and remarketing agent for the refunding transaction. Public Resources Advisory Group (PRAG) served as financial advisor. Nixon Peabody LLP and Quateman LLP served as co-bond counsel.

Water Revenue Refunding Bonds, 2010 Series B

On July 14, 2010, Metropolitan priced the $88.8 million Water Revenue Refunding Bonds, 2010 Series B issue to refund Metropolitan's outstanding Water Revenue Bonds, 2005 Authorization Series B-1 and Series B-2 issues. The transaction closed on July 22, 2010.

The 2005 Authorization Series B-1 and Series B-2 Bonds were variable rate bonds supported by a standby bond purchase agreement with Citibank, N.A. The Water Revenue Refunding Bonds, 2010 Series B issue are traditional fixed rate tax-exempt bonds with an all-in true interest cost of 3.25 percent and an average life of 10.7 years. Average annual debt service for the bonds will be $7.7 million, and total debt service will be $131.2 million with bonds maturing from July 2014 to July 2027.

Wells Fargo Securities served as book-running senior manager for the financing, with Loop Capital Markets, LLC serving as co-senior manager. The remainder of the underwriting team included Citi; De La Rosa & Co.; Jefferies & Company; J.P. Morgan; Morgan Stanley; Ramirez & Co., Inc.; Siebert Brandford Shank & Co., LLC; and Stone & Youngberg.

Public Resources Advisory Group (PRAG) served as financial advisor. Nixon Peabody LLP and Quateman LLP served as co-bond counsel.

Interest Rate Swap Novation

On July 22, 2010, Metropolitan successfully novated (assigned) four interest rate swaps with a notional amount of $311.7 million from UBS AG to Deutsche Bank AG at no cost to Metropolitan other than fees paid for legal services and for swap advisory services. The novation will allow Metropolitan to have more favorable swap documents with the new swap counterparty; improve collateral posting thresholds, as Metropolitan will not be required to post collateral to Deutsche Bank AG unless Metropolitan's credit ratings fall to the A3/A- rating category; and Deutsche Bank AG is a more active and higher rated swap counterparty than UBS AG, thereby reducing counterparty risk to Metropolitan.

As requested by the Committee, and consistent with our practice, we have provided the following breakdown of the estimated costs and expenses associated with the Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A issue; the Water Revenue Refunding Bonds, 2010 Series B issue; and the interest rate swap novation from UBS AG to Deutsche Bank AG:

Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A

Estimated Costs:

	Amount	$/1,000 Bond
Co-Bond Counsel	$ 176,000	$ 1.38
Rating Agencies	122,750	0.96
Financial Advisor	65,000	0.51
Printing/Mailing	25,000	0.19
Other/Contingency	24,707	0.19
Total	**$ 413,457**	**$ 3.23**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$ 192,008	$ 1.50
Expenses		
- Underwriters Counsel	25,000	0.19
- Other (e.g. SIFMA, CDIAC, CUSIP Fees, etc.)	7,459	0.06
Total	**$ 224,467**	**$ 1.75**
Total Costs of Issuance	**$ 637,926**	**$ 4.98**

Water Revenue Refunding Bonds, 2010 Series B

Estimated Costs:

	Amount	$/1,000 Bond
Co-Bond Counsel	$ 75,000	$ 0.84
Rating Agencies	82,642	0.93
Financial Advisor	60,000	0.68
Printing/Mailing	25,000	0.28
Other/Contingency	22,358	0.25
Total	**$ 265,000**	**$ 2.98**

Underwriter's Discount:

	Amount	$/1,000 Bond
Takedown (sales fees)	$ 432,675	$ 4.87
Expenses		
- Underwriters Counsel	20,000	0.23
- Other (e.g. Dalcomp, CDIAC, CUSIP Fees, etc.)	8,920	0.10
Total	**$ 461,595**	**$ 5.20**

Total Costs of Issuance	**$ 726,595**	**$ 8.18**

Interest Rate Swap Novation

Estimated Costs:

	Amount
\Bond Counsel	$ 45,000
Swap Advisor	100,000
Total	**$ 145,000**

Savings from Water Revenue Refunding Bonds

Since February 2001, Metropolitan has issued over $3.37 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 $7.50 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	N/A (a)	N/A (a)	N/A (a)	9.6 years
2007 Series B	$ 81.9M	N/A (a)	N/A (a)	N/A (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
2009 Series B (e)	$106.7M	N/A	N/A	4.44%	16.3 years
2009 Series C (f)	$ 91.2M	N/A	N/A	4.97%	23.3 years
2009 Series D (g)	$ 81.1M	N/A	N/A	3.07%	8.1 years
2009 Series E (h)	$ 26.1M	N/A	N/A	2.59%	6.8 years
2010 Series A (i)	$128.0M	N/A	N/A	3.14%	9.2 years
2010 Series B (j)	$ 88.8M	N/A	N/A	3.25%	10.7 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; to eliminate the need and exposure to rising costs for liquidity facilities; to eliminate put risk to Metropolitan which could lead to higher costing bank bonds; and to offer bonds into the marketplace that will trade solely on the basis of Metropolitan's credit rating.

(e) Issued fixed rate water revenue bonds to refund the 2003 C3 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; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(f) Issued fixed rate water revenue bonds to refund the 2000 B-1 variable rate water revenue bonds secured by a liquidity facility with WestLB. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of WestLB; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(g) Issued fixed rate water revenue bonds to refund the 2002 A variable rate water revenue bonds secured by a liquidity facility with LBBW. The bonds were refunded to eliminate higher interest rates due to any future credit downgrades of LBBW; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(h) Issued fixed rate water revenue bonds to refund the 2002 B variable rate water revenue bonds secured by a liquidity facility with Lloyds Bank. The bonds were refunded to take advantage of a historically low interest rate market; to eliminate higher interest rates due to any future credit downgrades of Lloyds; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.

(i) Issued to refund the 2004C 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; to eliminate the need and exposure to rising costs for liquidity facilities; to eliminate put risk to Metropolitan which could lead to higher costing bank bonds; and to offer bonds into the marketplace that will trade solely on the basis of Metropolitan's credit rating. Metropolitan's first issuance of Special Variable Rate Water Revenue Refunding Bonds supported by Metropolitan's own liquidity and balance sheet in lieu of a third party bank liquidity facility (authorization: 19th Supplemental Resolution to the Master Revenue Bond Resolution).

(j) Issued fixed rate water revenue bonds to refund the 2005 B1-B2 variable rate water revenue bonds secured by a liquidity facility with Citibank. The bonds were refunded to take advantage of a historically low interest rate market; to eliminate higher interest rates due to any future credit downgrades of Citibank; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk to Metropolitan which could lead to higher costing bank bonds.