



- Board of Directors
Finance and Insurance Committee

6/12/2012 Board Meeting

8-8

Subject

Authorize the execution and distribution of Official Statements in connection with issuance of the Water Revenue Refunding Bonds, 2012 Series C, 2012 Series D, and 2012 Series E, and amendment and termination of interest rate swaps

Description

Metropolitan anticipates issuing its Water Revenue Refunding Bonds, 2012 Series C (Tax-Exempt), 2012 Series D (Taxable), and 2012 Series E (Tax-Exempt Put Bonds) later this month to refund multiple series of variable rate water revenue bonds originally issued between 2004 and 2010, and to terminate all or a portion of multiple interest rate swaps that are associated with certain variable rate water revenue bonds.

Benefit to Metropolitan

As presented at the May 7, 2012 meeting of the Finance and Insurance Committee, Metropolitan may benefit from a unique opportunity now present in the interest rate swap market and the municipal bond market. Interest rates are at all-time lows in the municipal bond market, and are a lower cost alternative for Metropolitan than utilizing the swap market through the next ten-year period (i.e., fixed rate municipal bonds for bond maturities over the next ten-year period are presently a lower cost alternative to Metropolitan than entering into a one- to ten-year interest rate swap transaction). Therefore, it is economically attractive for Metropolitan to issue low cost fixed rate water revenue refunding bonds and use the proceeds to refund multiple series of variable rate water revenue bonds and pay the costs for terminating all or a portion of various interest rate swaps associated with certain water revenue bonds.

Plan of Refunding

The economic benefit to Metropolitan will be realized by issuing tax-exempt and taxable fixed rate water revenue refunding bonds, and by potentially issuing tax-exempt "Put Bonds." The Put Bonds bear rates that are fixed for an initial period (such as three, four or five years) until the Put Date when Metropolitan will convert the Put Bonds to another authorized variable rate or fixed rate mode (fixed rate bonds, SIFMA Index bonds, commercial paper, etc.). The Put Bond structure will enable Metropolitan to match the notional amortization of certain interest rate swaps with bond maturities and lock in savings to the Put Date.

These bond refundings and interest rate swap terminations will reduce future costs; enable Metropolitan to lock in the original savings anticipated from prior bond refundings and associated interest rate swap transactions thereby providing economic certainty over the remaining life of the bond refunding transactions; and eliminate or mitigate various risks associated with maintaining the variable rate debt and interest rate swap program including reduction of collateral posting requirements for certain interest rate swap agreements. These transactions are dependent upon favorable conditions in the municipal bond and interest rate swap markets, so the water revenue bonds to be refunded, interest rate swap terminations and amounts and series of refunding bonds to be issued will be determined at the time of pricing.

Authority

The 2012 Series C, 2012 Series D, and 2012 Series E Bonds will be issued pursuant to the Metropolitan Water District Act as amended and supplemented, Resolution 8329 adopted by the Board on July 9, 1991, as amended and supplemented (Metropolitan's Master Resolution for Water Revenue Bonds and Water Revenue Refunding Bonds) and Resolution 8387 adopted by the Board on January 12, 1993 (the Fourth Supplemental Resolution). Metropolitan's Master Resolution for Water Revenue Bonds and Water Revenue Refunding Bonds and the Fourth Supplemental Resolution authorize the issuance of Water Revenue Refunding Bonds, including the 2012 Series C, 2012 Series D, and 2012 Series E Bonds, and delegates to an Ad Hoc Committee (comprised of the Chairman of the Board, the Chairman of the Finance and Insurance Committee, and the General Manager) the authority to establish the terms and conditions of the bonds, negotiate the sale of the bonds, and deem the Offering Statement final. The Ad Hoc Committee or its designee is authorized to execute the bond documents, including the Offering Statements. The Offering Statement is more specifically referred to as an Official Statement for a primary bond offering. An Offering Statement describes the bonds, provides summary information on Metropolitan, including Metropolitan's financial and operating condition and its investment portfolio and an analysis of risk factors.

Official Statements

The attached draft Official Statements for the 2012 Series C and 2012 Series D Bonds (**Attachment 1**), and the 2012 Series E Bonds (**Attachment 2**) were prepared by bond counsel, the financial advisor, the underwriters, underwriters' counsel and Metropolitan staff and are provided for review by the Board and approval for the General Manager, or other designee of the Ad Hoc Committee, to finalize and execute. Following board review and approval, staff will finalize the Official Statements, working with bond counsel, the financial advisor, underwriters' counsel, and the underwriters. The Official Statements will be updated for material developments occurring up to the time of posting. Staff and underwriters will then electronically distribute the Official Statements to potential investors to provide them with material information concerning the 2012 Series C, 2012 Series D, and 2012 Series E Bonds to assist in investment decisions concerning such bonds. The final Official Statements will be posted on the Finance page of Metropolitan's external website and on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system.

Appendices C, D, F, and G, included in **Attachment 1** and **Attachment 2**, are specific to each bond issue and summarize the authorizing resolutions, describe the book-entry system for registration of the bonds, and provide copies of the bond counsel opinion and continuing disclosure undertaking. Appendices A, B, and E to the draft Official Statements are in **Attachment 3** and are identical for both Official Statements. Appendix A to the draft Official Statements was prepared by Metropolitan and contains information about Metropolitan's water supply, water delivery system, capital investment plan, governance and management, historical and projected revenues and expenditures, and power sources and costs. Appendix B is a copy of Metropolitan's most recent audited financial statements and quarterly financial statements which are available at <http://www.mwdh2o.com/mwdh2o/pages/finance/finance01.html>, "Annual Financial Report 2010-2011: [Basic Financial Statements](#)" and "[Quarterly Financial Statements – Unaudited](#)." Appendix E was prepared by the Center for Continuing Study of the California Economy and provides demographic and economic information about Metropolitan's service area. Appendices A and E will be updated to describe material events, if any, that occur after distribution of this letter and before the Official Statements are published.

Metropolitan may utilize the authorization for the Official Statements for the 2012 Series C, 2012 Series D, and 2012 Series E Bonds for other water revenue bond issues and remarketings. Offering Statements for Metropolitan's Bonds that would be issued or remarketed within a short time after this authorization would incorporate by reference then current appendices to either the Official Statement for the 2012 Series C and 2012 Series D Bonds, or to the 2012 Series E Bonds.

Amendment and Termination of Interest Rate Swaps

In addition, this letter requests authorization by the Board for amendment of interest rate swaps subject to full or partial termination to accomplish the transactions described in this board letter. Section 2.04 of Resolution 8773, as amended (Metropolitan's Master Swap Resolution), authorizes the Chief Financial Officer to terminate in

whole or in part any interest rate swap entered into pursuant to the Master Swap Resolution in accordance with its terms, provided that authorization of the Ad Hoc Committee is required if the termination payment exceeds \$5 million. In addition, Section 2.06 of the Master Swap Resolution and Section 10 of the Amended and Restated Master Swap Policy (approved by the Board on May 11, 2010) authorize the amendment of any existing interest rate swap solely with the approval of the Chief Financial Officer if such amendment does not cause an increase in Metropolitan's termination exposure under such interest rate swap of more than \$2.5 million, after adjusting for any up-front payments either made or received by Metropolitan. If the amendment does not increase the termination exposure, by more than \$5 million, after adjusting for any up-front payments either made or received by Metropolitan, the amendment may be authorized solely with the approval of the Ad Hoc Committee.

One of the interest rate swaps identified for partial termination may be formally amended to allow for termination in part or such limitation waived by the counterparty in connection with the proposed transaction. Each of the interest rate swaps will be amended to reflect any partial termination and to provide for reinstatement, which would include an adjustment in the fixed rate payable by Metropolitan thereunder to reflect intervening market movements prior to reinstatement, in the unlikely event that issuance of the associated refunding bonds is delayed or does not close. Thus this letter requests that the Board authorize the Ad Hoc Committee or its designee to approve and the Chief Financial Officer, or the Ad Hoc Committee's designee, to execute amendments to existing interest rate swaps, as necessary to permit partial termination, provide for reinstatement and add or modify other provisions that it deems necessary or convenient to accomplish the transactions described in this board letter, including any such amendments that increase the termination exposure, after adjusting for any up-front payments, by more than \$5 million.

Policy

Metropolitan Water District Act Sections 237 and 290; Resolution 8329, dated July 9, 1991, as amended and supplemented, including as amended and supplemented by Resolution 8387, dated January 12, 1993; Resolution 8773, dated September 11, 2001, as amended and supplemented by Resolution 9098, dated July 14, 2009 and Resolution 9112, dated May 11, 2010; Metropolitan's Amended and Restated Master Swap Policy, dated May 11, 2010

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and

- a. Approve the draft Official Statements substantially in the form attached to this board letter, with changes approved by the General Manager and General Counsel;
- b. Authorize the General Manager, or any designee of the Ad Hoc Committee, to execute the Official Statements;
- c. Authorize distribution of the Official Statement in connection with issuance of the bonds; and
- d. Authorize the Ad Hoc Committee or its designee to approve and the Chief Financial Officer to execute amendment and termination of interest rate swaps (in whole or in part) related to the subject refunding.

Option #2

Adopt the CEQA determination and

- a. Approve the draft Official Statements substantially in the form attached to this board letter as modified by the Board, with changes approved by the General Manager and General Counsel;
- b. Authorize the General Manager, or any designee of the Ad Hoc Committee, to execute the Official Statements;
- c. Authorize distribution of the Official Statements in connection with issuance of the bonds; and
- d. Authorize the Ad Hoc Committee or its designee to approve and the Chief Financial Officer to execute amendment and termination of interest rate swaps (in whole or in part) related to the subject refunding.

Staff Recommendation

Option #1



 Gary Breaux
 Chief Financial Officer

6/3/2012
Date



 Marcia L. Scully
 General Counsel

6/4/2012
Date

Attachment 1 – Draft Official Statement and Appendices C,D, F and G for the 2012 Series C and 2012 Series D Bonds

Attachment 2 – Draft Official Statement and Appendices C,D, F and G for the 2012 Series E Bonds

Attachment 3 – Draft Appendices A, B and E

Ref# cfo12618756

Fulbright & Jaworski LLP – Draft 06/04/12**PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2012****[MWD Logo]****NEW ISSUE
(FULL BOOK-ENTRY)**

See “RATINGS” herein

In the opinion of Co-Bond Counsel to Metropolitan, under existing law interest on the 2012C Bonds and the 2012D Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2012C Bonds is excluded, pursuant to section 103(a) of the Internal Revenue Code of 1986, from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. Metropolitan has taken no action to cause, and does not intend, interest on the 2012D Bonds to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. See “TAX MATTERS.”

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**\$277,080,000*****Water Revenue Refunding Bonds, 2012 Series C****\$56,335,000*****Water Revenue Refunding Bonds, 2012 Series D
(Federally Taxable)****Dated: Date of Delivery****Due: July 1, as shown on the inside cover page**

The Metropolitan Water District of Southern California (“Metropolitan”) is issuing its \$277,080,000* Water Revenue Refunding Bonds, 2012 Series C (the “2012C Bonds”) and its \$56,335,000* Water Revenue Refunding Bonds, 2012 Series D (the “2012D Bonds”) and, together with the 2012C Bonds, the “2012 Bonds”) for the purpose of providing funds, together with certain other available moneys (including proceeds of certain Bonds to be issued concurrently with the 2012 Bonds as described herein), to provide for the refunding of a portion of Metropolitan’s outstanding Bonds, funding the costs of terminating all or a portion of certain interest rate swap agreements and paying the costs of issuance of the 2012 Bonds. Concurrently with the issuance of the 2012 Bonds, Metropolitan is issuing its \$89,460,000* Water Revenue Refunding Bonds, 2012 Series E-1, Series E-2 and Series E-3 (collectively, the “2012E Bonds”). See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.” The 2012C Bonds, the 2012D Bonds and the 2012E Bonds are sometimes referred to collectively herein as the “2012 Refunding Bonds.” *Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.*

The 2012 Bonds will mature in the principal amounts in the years, and will bear interest at the respective rates of interest per annum, as set forth on the inside cover page hereof. Metropolitan will pay interest on the 2012 Bonds on January 1 and July 1 of each year, commencing January 1, 2013.

The 2012C Bonds are not subject to redemption prior to their maturity. The 2012D Bonds are subject to redemption prior to their maturity as described herein. See “DESCRIPTION OF THE 2012 BONDS – Redemption of 2012D Bonds.”

Principal of and interest on the 2012 Bonds are secured solely by and payable solely from Net Operating Revenues, which are revenues that Metropolitan receives from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures. Metropolitan will issue the 2012 Bonds on a parity with the Bonds and Parity Obligations. Metropolitan will not fund a reserve for the 2012 Bonds.

The 2012 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. The 2012 Bonds do not constitute general obligation indebtedness of Metropolitan. As of June 1, 2012, Metropolitan had outstanding \$4.61 billion aggregate principal amount of Bonds payable from Net Operating Revenues (including the Bonds to be refunded from the proceeds of the 2012 Refunding Bonds). Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012 Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2012 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues.

The 2012 Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Fulbright & Jaworski L.L.P. and Alexis S. M. Chiu, Esq. Co-Bond Counsel to Metropolitan. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Underwriters by their counsel, Orrick, Herrington &

* Preliminary, subject to change.

Sutcliffe LLP. Public Resources Advisory Group, Los Angeles, California is serving as Financial Advisor to Metropolitan in connection with the issuance of the 2012 Bonds. Metropolitan anticipates that the 2012 Bonds will be available for delivery through the facilities of DTC on or about June 28, 2012.

2012C Bonds Underwriters

2012D Bonds Underwriter

Goldman, Sachs & Co.

Barclays

De La Rosa Morgan Stanley Ramirez & Co.

Citi Siebert Brandford Shank & Co. LLC

June ____, 2012

MATURITY SCHEDULE***\$277,080,000*****THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE REFUNDING BONDS, 2012 SERIES C**

Maturity (July 1)	Principal Amount*	Interest Rate	Yield	Price	CUSIP No.† (59266)
2017	\$62,245,000	%	%		
2018	72,535,000				
2019	95,235,000				
2020	27,850,000				
2021	19,215,000				

\$56,335,000***THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE REFUNDING BONDS, 2012 SERIES D**

Maturity (July 1)	Principal Amount*	Interest Rate	Yield	Price	CUSIP No.† (59266)
2013	\$ 745,000	%	%		
2013	6,740,000				
2014	9,360,000				
2015	17,975,000				
2016	14,480,000				
2017	7,035,000				

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**MAJOR WATER CONVEYANCE FACILITIES
TO SOUTHERN CALIFORNIA**

[map to come]

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Officers of the Board of Directors**

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Vice Chair
RANDY A. RECORD

Vice Chair
GLORIA GRAY

Vice Chair
JOHN W. MURRAY JR.

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**Calleguas Municipal Water
District**
TED GRANDSEN

**Central Basin Municipal
Water District**
PHILLIP D. HAWKINS
RUDY C. MONTALVO

**Eastern Municipal Water
District**
RANDY A. RECORD

**Foothill Municipal Water
District**
JAMES T. EDWARDS

**Inland Empire Utilities
Agency**
MICHAEL CAMACHO

**Las Virgenes Municipal
Water District**
GLEN D. PETERSON

**Municipal Water District of
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LINDA ACKERMAN
BRETT R. BARBRE
LARRY D. DICK
JOHN V. FOLEY

**San Diego County Water
Authority**
LYNNE L. HEIDEL
KEITH LEWINGER
FERN STEINER
DOUG WILSON

**Three Valleys Municipal
Water District**
DAVID D. DE JESUS

**Upper San Gabriel Valley
Municipal Water District**
STEPHEN MILLARD

**West Basin Municipal Water
District**
GLORIA D. GRAY
EDWARD C. "ED" LITTLE

**Western Municipal Water
District of Riverside County**
THOMAS P. EVANS

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER
General Manager

MARCIA SCULLY
General Counsel

GERALD C. RISS
General Auditor

JEFFREY CABLE
Interim Ethics Officer

DEBRA C. MAN
*Assistant General
Manager/Chief
Operating Officer*

GILBERT F. IVEY
*Assistant General
Manager/Chief
Administrative Officer*

GARY BREAU
*Assistant General
Manager/Chief
Financial Officer*

ROGER K. PATTERSON
*Assistant General
Manager/Strategic Water
Initiatives*

LINDA WAADE
*Deputy General Manager/
External Affairs*

DAWN M. CHIN
Board Executive Secretary

Co-Bond Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Alexis S. M. Chiu, Esq.
San Francisco, California

Financial Advisor

Public Resources Advisory Group
Los Angeles, California

Fiscal Agent

Roger N. Marumoto
Metropolitan Treasurer

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

Escrow Agent

Wells Fargo Bank, National Association
Los Angeles, California

This Official Statement does not constitute an offer to sell the 2012 Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Official Statement is not to be construed as a contract with the purchasers of the 2012 Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the offering of the 2012 Bonds, and if given or made, investors must not rely on such information or representations.

The information set forth herein has been obtained from Metropolitan and other sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, imply that there has been no change in the affairs of Metropolitan since the date hereof.

The Underwriters have provided the following three sentences for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In connection with the offering of the 2012 Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market prices of such 2012 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association, and is set forth herein for convenience of reference only. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "estimate," "budget" or other similar words. The achievement of results or other expectations contained in forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results may not meet Metropolitan's forecasts. Metropolitan is not obligated to issue any updates or revisions to the forward-looking statements in any event.

Metropolitan maintains a website. However, the information presented on that website is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2012 Bonds.

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SUMMARY STATEMENT

Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered to be a complete statement of the facts material to making an investment decision. Capitalized terms used in this Summary Statement, if not defined herein, have the meanings specified in APPENDIX C or in the Resolutions (as defined herein).

Metropolitan

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 37-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan provides 40 to 60 percent of the water used within its service area in any year. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the 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. The member agencies of Metropolitan are not currently obligated by contract to purchase water from Metropolitan. For a description of voluntary purchase orders entered into by member agencies, see APPENDIX A – “METROPOLITAN REVENUES – Member Agency Purchase Orders.”

For general information regarding Metropolitan, including information regarding Metropolitan’s operations and finances, see APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” and APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED).” For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Economy of Metropolitan’s Service Area

Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura (the “Six County Area”). Almost 19 million people resided within Metropolitan’s service area in 2011. In 2010, the Six County Area had a gross regional product of approximately \$1 trillion, which is larger than the gross national or gross domestic product of all but 12 nations of the world. For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Authorization for the 2012 Bonds

Metropolitan is issuing its 2012 Bonds (defined below) pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), and Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the “Master Resolution”), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the “Bonds.”

Purpose of the 2012 Bonds

Metropolitan is issuing its \$277,080,000* Water Revenue Refunding Bonds, 2012 Series C (the “2012C Bonds”) and its \$56,335,000* Water Revenue Refunding Bonds, 2012 Series D (the “2012D Bonds”) and, together with the 2012C Bonds, the “2012 Bonds”) for the purpose of providing funds, together with certain other available moneys (including proceeds of certain Bonds to be issued concurrently with the 2012 Bonds as described below), to provide for the refunding of a portion of Metropolitan’s outstanding Bonds, funding the costs of terminating all or a portion of certain interest rate swap agreements and paying the costs of issuance of the 2012 Bonds. Concurrently with the issuance of the 2012 Bonds, Metropolitan will issue its \$89,460,000* Water Revenue Refunding Bonds, 2012 Series E-1, Series E-2 and Series E-3 (collectively, the “2012E Bonds” and, together with the 2012 Bonds, the “2012 Refunding Bonds”). Each Series of the 2012 Refunding Bonds is being delivered concurrently. It is a condition precedent to the delivery of each Series of the 2012 Refunding Bonds that all Series be delivered. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.”

General Terms of the 2012 Bonds

Metropolitan will date the 2012C Bonds and the 2012D Bonds the date of their delivery. The 2012 Bonds will mature in the principal amounts in the years, and will bear interest at the respective rates of interest per annum, all as set forth on the inside cover page hereof. Metropolitan will issue the 2012 Bonds as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Metropolitan will pay interest on the 2012 Bonds on January 1 and July 1 of each year, commencing January 1, 2013. See “DESCRIPTION OF THE 2012 BONDS.”

The 2012C Bonds are not subject to redemption prior to their maturity. The 2012D Bonds are subject to redemption prior to their maturity as described herein. See “DESCRIPTION OF THE 2012 BONDS – Redemption of 2012D Bonds.”

Book-Entry Only

Metropolitan will issue the 2012 Bonds as fully registered bonds and will register the 2012 Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2012 Bonds. Purchasers will not receive certificates representing 2012 Bonds purchased by them. Metropolitan will pay principal of and interest on the 2012 Bonds directly to DTC as the registered owner of the 2012 Bonds. Upon receipt of payments of principal and interest DTC is obligated to remit such payments of principal and interest to the DTC

* Preliminary, subject to change.

Participants for subsequent disbursement to the Beneficial Owners of the 2012 Bonds. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

Security for the 2012 Bonds

The 2012 Bonds are limited obligations of Metropolitan and will be payable, as to principal of and interest thereon, solely from and secured solely by a pledge of and a lien and charge upon Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described herein.

The 2012 Bonds when issued will be payable on a parity with Metropolitan’s outstanding bonds issued pursuant to the Resolutions (referred to in this Official Statement as the “Bonds”). As of June 1, 2012, \$4.61 billion of such Bonds (the “Parity Bonds”) were outstanding (which includes \$ _____* principal amount of Bonds to be refunded with the proceeds of the 2012 Refunding Bonds. Metropolitan also will pay the principal of and interest on the 2012 Bonds on a parity with existing Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS.”

The 2012 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon Net Operating Revenues. The 2012 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012 Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2012 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except Net Operating Revenues.

Metropolitan has established reserve funds for some of the series of outstanding Bonds. However, Metropolitan will not fund a reserve fund for the 2012 Bonds. Amounts held or to be held in a reserve fund or account established for any other series of Bonds or any Reserve Fund Credit Policy for any other series of Bonds will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2012 Bonds.

Rate Covenant

Metropolitan covenants under the Master Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in the estimates, will provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority: (1) Operation and Maintenance Expenditures; (2) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as they become due and payable; (3) all other payments required for compliance with the Master Resolution or any Supplemental Resolution; and (4) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Rate Covenant.”

* Preliminary, subject to change.

Additional Indebtedness

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012 Bonds, the Parity Bonds or the Parity Obligations.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2012 Bonds, the Parity Bonds and existing Parity Obligations to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Resolution. Metropolitan may also incur obligations junior and subordinate to the 2012 Bonds or any Parity Bonds or Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Additional Indebtedness."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan's obligation to pay principal of and interest on the 2012 Bonds and the Parity Bonds. See APPENDIX A – "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

Continuing Disclosure

Metropolitan has agreed to provide with respect to the 2012 Bonds, or to cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended, certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriters named on the cover page hereof in complying with the Rule. See "CONTINUING DISCLOSURE" and APPENDIX G – "FORM OF CONTINUING DISCLOSURE UNDERTAKING." [Metropolitan has not failed in the previous five years to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of certain events; provided, that the annual report for 2008 was timely filed on December 12, 2008, and was supplemented on February 4, 2009.] [confirming the inclusion of service area AV tables with respect to GO annual reports]

Miscellaneous

The summaries of and references to the Act and all resolutions, documents, statutes, reports and other information referred to herein do not purport to be complete, comprehensive or definitive and each such summary or reference is qualified in its entirety by reference to the Act and such resolutions, documents, statutes, reports and other information. Copies of such information may be obtained from the Assistant General Manager/Chief Financial Officer of The Metropolitan Water District of Southern California at 700 North Alameda Street, Los Angeles, California 90012; telephone (213) 217-7121.

OFFICIAL STATEMENT

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA	THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
\$277,080,000*	\$56,335,000*
Water Revenue Refunding Bonds, 2012 Series C	Water Revenue Refunding Bonds, 2012 Series D (Federally Taxable)

INTRODUCTION

This Official Statement (which includes the cover and inside cover page hereof, the Summary Statement and all Appendices hereto) provides information concerning The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the sale by Metropolitan of its 2012 Bonds (described below).

This Introduction is not a summary of this Official Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “State”), including the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), and any resolutions and documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The source of information herein is Metropolitan unless otherwise stated. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Resolutions (described below). A summary of certain provisions of the Resolutions and a list of selected defined terms are set forth in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

Metropolitan is issuing its 2012 Bonds pursuant to the Act, and Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the “Master Resolution”), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the “Bonds.” As of June 1, 2012, \$4.61 billion of such Bonds (the “Parity Bonds”) were outstanding. The 2012 Bonds when issued will be payable on a parity with then outstanding Parity Bonds.

Metropolitan is issuing its \$277,080,000* Water Revenue Refunding Bonds, 2012 Series C (the “2012C Bonds”) and its \$56,335,000* Water Revenue Refunding Bonds, 2012 Series D (the “2012D Bonds” and, together with the 2012C Bonds, the “2012 Bonds”) for the purpose of providing funds, together with certain other available moneys (including proceeds of certain Bonds to be issued concurrently with the 2012 Bonds as described herein), to provide for the refunding of a portion of Metropolitan’s outstanding Bonds, funding the costs of terminating all or a portion of certain interest rate swap agreements and paying the costs of issuance of the 2012 Bonds. Concurrently with the issuance of the 2012 Bonds, Metropolitan will issue its \$89,460,000* Water Revenue Refunding Bonds, 2012 Series E-1, Series E-2 and Series E-3 (collectively, the “2012E Bonds” and, together with the 2012 Bonds, the

* Preliminary, subject to change.

“2012 Refunding Bonds”). Each Series of the 2012 Refunding Bonds is being delivered concurrently. It is a condition precedent to the delivery of each Series of the 2012 Refunding Bonds that all Series be delivered. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.”

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012 Bonds, the Parity Bonds or the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Additional Indebtedness.” Metropolitan may issue additional Parity Bonds and other obligations (the “Parity Obligations”), however, from time to time payable and secured on a parity with the 2012 Bonds upon action of Metropolitan’s Board of Directors (the “Board”) under the Master Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Parity Bonds and Parity Obligations.”

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with the 2012 Bonds and the Parity Bonds. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

DESCRIPTION OF THE 2012 BONDS

General

Metropolitan will date the 2012 Bonds the date of their delivery. The 2012 Bonds will mature in the principal amounts in the years and bear interest at the respective rates of interest per annum, as set forth on the inside cover page hereof. Interest on the 2012 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Metropolitan will issue the 2012 Bonds as fully registered bonds in denominations of \$5,000 or any integral multiple thereof, in book-entry only form, and will register the 2012 Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). See “DESCRIPTION OF THE 2012 BONDS – Book-Entry Only System” and APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

Metropolitan will pay interest on the 2012 Bonds on January 1 and July 1 of each year, commencing on January 1, 2013. Metropolitan will pay interest on the 2012 Bonds on each interest payment date to the registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the 2012 Bonds, the close of business on the fifteenth (15th) day of each month preceding an interest payment date.

The 2012C Bonds are not subject to redemption prior to their maturity. The 2012D Bonds are subject to redemption prior to their maturity as described herein. See “DESCRIPTION OF THE 2012 BONDS – Redemption of 2012D Bonds.”

The principal of and interest on the 2012 Bonds will be payable in lawful money of the United States of America upon presentation and surrender of such 2012 Bonds at the corporate office of Metropolitan. Interest on the 2012 Bonds will be paid by check or draft mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of the 2012 Bonds as of the close of business on the Record Date at such persons’ addresses as they appear on such registration books. In the case of any Owner of \$1,000,000 or more in aggregate principal amount of 2012 Bonds, interest may be paid by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least thirty (30) days preceding any interest payment date, specifying the wire transfer instructions for such Owner.

Book-Entry Only System

Metropolitan will issue the 2012 Bonds as fully registered bonds in the name of Cede & Co., as nominee of DTC. The 2012 Bonds will be available to Beneficial Owners (as defined in APPENDIX D - "BOOK-ENTRY ONLY SYSTEM") only under the book-entry system maintained by DTC. Beneficial Owners of 2012 Bonds will not receive physical certificates representing their interests in the 2012 Bonds. So long as the 2012 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the 2012 Bonds. Metropolitan will pay principal of and interest on the 2012 Bonds directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2012 Bonds. Disbursements of such payments to DTC's Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC's Direct Participants and Indirect Participants ("Participants"). See APPENDIX D - "BOOK-ENTRY ONLY SYSTEM."

Metropolitan and the Fiscal Agent will have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2012 Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2012 Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of or interest on, the 2012 Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) if applicable, the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2012 Bonds are redeemed in part. See APPENDIX D - "BOOK-ENTRY ONLY SYSTEM."

Redemption of 2012D Bonds*

Optional Redemption. The 2012D Bonds are subject to redemption prior to their stated maturities, at the option of Metropolitan, as a whole or in part on any Business Day, at the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is the greater of (i) 100% of the principal amount of the 2012D Bonds of such maturity to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2012D Bonds of such maturity to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2012D Bonds are to be redeemed, discounted to the date on which the 2012D Bonds of such maturity are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate (defined below) plus _____ () basis points, plus, in each case, accrued and unpaid interest on the 2012D Bonds of each such maturity to be redeemed to the redemption date.

For purposes of determining the Make-Whole Redemption Price, the following definitions apply:

"Treasury Rate" means, with respect to any redemption date of any maturity of the 2012D Bonds, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular 2012D Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the 2012D Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new

* Preliminary, subject to change.

issues of debt securities of comparable maturity to the remaining average life of the 2012D Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular 2012D Bond: (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means the Reference Treasury Dealer appointed by Metropolitan.

“Reference Treasury Dealer” means the firm or firms, specified by Metropolitan from time to time, that are primary United States Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, that if any of them ceases to be a Primary Treasury Dealer, Metropolitan will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular 2012D Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

Selection of 2012D Bonds for Redemption. If less than all of the outstanding 2012D Bonds of any maturity are to be redeemed prior to maturity, then the Fiscal Agent shall instruct DTC to instruct the DTC Participants to select the specific 2012D Bonds for redemption *pro rata*, and neither Metropolitan nor the Fiscal Agent shall have any responsibility to ensure that DTC or the DTC Participants properly select such 2012D Bonds for redemption. The portion of any registered 2012D Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof. The Fiscal Agent will select such portions of 2012D Bonds to be redeemed in such manner as the Fiscal Agent in its discretion may deem to be fair and appropriate.

Notice of Redemption. Each notice of redemption of the 2012D Bonds will be mailed by first-class mail by the Fiscal Agent, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner whose 2012D Bonds are called for redemption, the Securities Depositories and one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services will be given by registered or overnight mail. Each notice of redemption will state the date of such notice, the distinguishing designation of the 2012D Bonds to which such notice relates, the date of issue of such 2012D Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the 2012D Bonds of such maturity to be redeemed and, in the case of 2012D Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said 2012D Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2012D Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon will cease to accrue, and will require that such 2012D Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice.

In addition to the notice requirements for redemption included in the Master Resolution, any notice of redemption of the 2012D Bonds must either (a) state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient moneys to pay the full Redemption Price of the 2012D Bonds to be redeemed, plus interest accrued and unpaid to the redemption date or (b) be sent only if sufficient moneys to pay the full Redemption Price of the 2012D Bonds to be redeemed, plus interest accrued and unpaid to the redemption date, are on deposit in the applicable fund or account.

Failure by the Fiscal Agent to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice or any defect in any such notice will not affect the sufficiency of the proceedings for redemption.

Effect of Redemption. If notice of redemption has been given in the manner described under the caption “DESCRIPTION OF THE 2012D BONDS – Redemption – Notice of Redemption” above, and if, on the designated redemption date, sufficient moneys to pay the full Redemption Price are on deposit in the applicable fund or account, then the 2012D Bonds or portions thereof so called for redemption will become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and upon presentation and surrender thereof at the office specified in such notice, such 2012D Bonds, or portions thereof, will be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there is drawn for redemption a portion of a 2012D Bond, Metropolitan will execute and the Fiscal Agent will authenticate and deliver, upon the surrender of such 2012D Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2012D Bond so surrendered, a 2012D Bond of like maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the 2012D Bonds or portions thereof to be redeemed, together with interest to the redemption date, are available therefor on said date and if notice of redemption has been given as described above, then, from and after the redemption date, interest on the 2012D Bonds or portion thereof so called for redemption will cease to accrue and become payable. If said moneys are not so available on the redemption date, such 2012D Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS

General

Metropolitan’s obligation to pay principal of and interest on the 2012 Bonds is a limited obligation of Metropolitan payable solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues and the other funds, assets and security described under the Resolutions. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.” As defined in the Master Resolution, “Net Operating Revenues” are Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues. “Operating Revenues” are all revenues received by Metropolitan from charges for the sale and availability of water. “Operation and Maintenance Expenditures” are the necessary expenditures for operating and maintaining the properties, works and facilities of Metropolitan, including expenditures for the operation, maintenance, power and replacement charges payable by Metropolitan under the State Water Contract and the Devil Canyon-Castaic Contract and any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants; and such other expenditures of Metropolitan generally classified as operating and maintenance expenditures, excluding any charges for depreciation or amortization. The State Water Contract and the Devil Canyon-Castaic Contract are discussed in APPENDIX A under the caption “METROPOLITAN EXPENDITURES – State Water Contract Obligations.” Payment of capital costs and some other payments under the State Water Contract and the Devil Canyon-Castaic Contract are subordinate to the obligation of Metropolitan for payment of

Operation and Maintenance Expenditures and debt service on the 2012 Bonds, the Parity Bonds and the Parity Obligations. Accordingly, the debt service coverage on the 2012 Bonds, the Parity Bonds and the Parity Obligations does not take into account such expenses. See APPENDIX A – “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.”

The 2012 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. The 2012 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012 Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2012 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except the Net Operating Revenues as described in this Official Statement.

Rate Covenant

Metropolitan covenants in the Master Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues (i.e., interest, profits and other income received from the investment of any moneys of Metropolitan and other revenues of Metropolitan (other than Operating Revenues) to the extent available to pay debt service on the 2012 Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the order set forth:

1. Operation and Maintenance Expenditures;
2. Interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as the same become due and payable;
3. All other payments required for compliance with the Master Resolution or any Supplemental Resolution; and
4. All other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

Metropolitan previously issued and designated three series of Bonds in the aggregate principal amount of \$578,385,000 as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Build America Bonds”). Metropolitan expects to receive cash subsidies from the United States Treasury equal to 35 percent of the interest payable on all such outstanding Build America Bonds (the “Interest Subsidy Payments”). The Interest Subsidy Payments in connection with the Build America Bonds do not constitute Operating Revenues under the Master Resolution. Such Interest Subsidy Payments will constitute Additional Revenues, which Metropolitan may take into consideration when establishing its rates and charges and will be available to Metropolitan to pay principal and interest on the 2012 Bonds.

Water rates are established by a majority of the voting power of the Board. Metropolitan’s water rates are not subject to regulation by the Public Utilities Commission of California or by any other state, local or Federal agency. Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996, imposes additional limitations on the manner in which local agencies may impose certain taxes, fees, charges and assessments. Some of Metropolitan’s Operating Revenues are derived from standby and water availability charges. These revenues may be affected by the application of

Proposition 218. Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of “tax” in Article XIII C of the California Constitution to include levies, charges and exactions imposed by local governments. Metropolitan believes its water rates and charges are not taxes under Proposition 26. Nevertheless, Metropolitan is assessing whether Proposition 26 may affect future water rates and charges. These revenues may be affected by the application of Proposition 218. See APPENDIX A – “METROPOLITAN REVENUES – California Ballot Initiatives.”

Parity Bonds and Parity Obligations

As of June 1, 2012, Metropolitan had \$4.61 billion aggregate principal amount of Bonds (including the Bonds to be redeemed with proceeds of the 2012 Refunding Bonds) outstanding. See “OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings” and APPENDIX A – “METROPOLITAN EXPENDITURES.”

Interest Rate Swap Agreements. Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with the 2012 Bonds, the Parity Bonds and the Parity Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as set forth in APPENDIX A under the caption “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Index Tender Bonds. As of June 1, 2012, Metropolitan had outstanding \$535.8 million of Parity Bonds bearing interest in the index mode (the “Index Tender Bonds”). The Index Tender Bonds bear interest at a rate that fluctuates weekly based on the SIFMA Municipal Swap Index published weekly by Municipal Market Data; however, if the purchase price of a series of Index Tender Bonds is not paid from proceeds of remarketing or other funds following a scheduled mandatory tender, such Index Tender Bonds then will bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. The Index Tender Bonds are subject to mandatory tender under certain circumstances. Metropolitan anticipates that it will pay the purchase price of tendered Index Tender Bonds from the proceeds of remarketing such Index Tender Bonds or from other available funds. Metropolitan’s obligation to pay the purchase price of such Index Tender Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Index Tender Bonds in connection with a scheduled mandatory tender. If the purchase price of the Index Tender Bonds of any Series is not paid on a scheduled mandatory tender date, such Index Tender Bonds will be subject to special mandatory redemption in part 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on a parity with the Bonds and Parity Obligations. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations” and “ – Other Revenue Obligations.”

Concurrently with the issuance and delivery of the 2012 Bonds, Metropolitan will issue each Series of 2012E Bonds, in a term mode bearing interest at a term rate to the applicable scheduled mandatory tender date for such Series, all as described in the Official Statement for the 2012E Bonds. See “PLAN OF REFUNDING.”

Self-Liquidity Bonds. As of June 1, 2012, Metropolitan had outstanding \$127.0 million of Parity Bonds it has designated as self-liquidity bonds (the “Self-Liquidity Bonds”). The Self-Liquidity Bonds are variable rate demand bonds that bear interest at a weekly rate that the remarketing agent for the Self-Liquidity Bonds determines. The Self-Liquidity Bonds are subject to optional tender upon seven days’

notice by the Owners thereof and mandatory tender upon specified events. Metropolitan is irrevocably committed to purchase all Self-Liquidity Bonds tendered pursuant to any optional or mandatory tender to the extent that remarketing proceeds are insufficient therefor and no standby bond purchase agreement or other liquidity facility is in effect. Metropolitan's obligation to pay the purchase price of any tendered Self-Liquidity Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. In addition, Metropolitan's investment policy permits it to purchase tendered Self-Liquidity Bonds as an investment of its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds). Thus, while Metropolitan is only obligated to purchase tendered Self-Liquidity Bonds from Net Operating Revenues, Metropolitan may use the cash and investments in its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds) to purchase tendered Self-Liquidity Bonds. Metropolitan has not secured any liquidity facility or letter of credit to pay the purchase price of any tendered Self-Liquidity Bonds. See APPENDIX A – "METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts." For a discussion of Metropolitan's investment portfolio, see "OPERATING REVENUES AND DEBT SERVICE – Metropolitan's Investment Portfolio."

Approximately \$_____ * million principal amount of the outstanding Self-Liquidity Bonds are expected to be refunded with a portion of the proceeds of the 2012 Refunding Bonds. See "PLAN OF REFUNDING."

Additional Indebtedness

Metropolitan covenants in the Master Resolution that no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012 Bonds, the Parity Bonds or the Parity Obligations.

In addition, Metropolitan covenants in the Master Resolution that, except for Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations will be created or incurred unless:

FIRST: Metropolitan is not in default under the terms of the Resolutions, including as supplemented, modified or amended by any Supplemental Resolution.

SECOND: Either (1) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan, or (2) the estimated Net Operating Revenues for the first complete Fiscal Year when improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations will be in operation as estimated by and set forth in a certificate of Metropolitan plus, at the option of Metropolitan, any or all of certain other items permitted by the Resolutions, will have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations. In making this calculation, Metropolitan may take into consideration any increases in water rates or charges which have become effective prior to the creation of such additional Bonds or Parity Obligations, any increase in Net Operating Revenues which may arise from additions or improvements to the Water System to be made or

* Preliminary, subject to change.

acquired with the proceeds of such additional Bonds or Parity Obligations or using the proceeds of Bonds previously issued, or from additions recently placed in service, Additional Revenues and certain other funds specified in the Resolutions.

THIRD: On the date of delivery of and payment for such additional Bonds or Parity Obligations, the amount in any reserve fund or account for any Bonds or Parity Obligations previously established will not be less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The Interest Subsidy Payments that Metropolitan expects to receive from the United States Treasury in connection with its previously issued and designated Build America Bonds do not constitute Operating Revenues under the Master Resolution and is not pledged for the payment of debt service on the Build America Bonds or the Parity Bonds and Parity Obligations. Such subsidy will, however, constitute Additional Revenues, which Metropolitan will use when determining whether it has satisfied the requirements set forth in the Master Resolution for the creation or incurrence of additional Bonds or Parity Obligations. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Covenants – Limits on Additional Debt.”

Under the Act, the amount of outstanding Bonds and other evidences of indebtedness may not exceed 15 percent of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of June 1, 2012, Metropolitan’s outstanding Bonds and other indebtedness, in the aggregate amount of \$4.82 billion, constituted approximately 0.23 percent of the fiscal year 2011-12 taxable assessed valuation of approximately \$2,067.5 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan 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 outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2011 were \$6.26 billion. The aggregate amount of Bonds outstanding as of June 1, 2012 was \$4.61 billion.

Subordinate Obligations

Under the Resolutions, Metropolitan may issue obligations junior and subordinate to the Bonds, including the 2012 Bonds, and the Parity Obligations, subject to the provisions of the Act. Metropolitan currently is authorized to issue up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

In addition, Metropolitan obtained a \$20 million California Safe Drinking Water Revolving Fund Loan (the “California Safe Drinking Water Revolving Fund Loan”) in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Mills Filtration Plant in Riverside County. The loan will be repaid over twenty years. Payments commenced January 1, 2005. The loan payment obligation is subordinate to the Bonds, including the 2012 Bonds, and the Parity Obligations. The outstanding principal balance on the California Safe Drinking Water Revolving Fund Loan as of June 1, 2012 was \$13.6 million.

Under some circumstances, some interest rate swap agreements are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Some of such termination payments are secured on a basis subordinate in payment priority to the Bonds, including the 2012 Bonds, and the Parity Obligations. See APPENDIX A –

“METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations,” “– Other Revenue Obligations” and “– Subordinate Revenue Obligations.”

No Reserve Fund

The Fourth Supplemental Resolution provides for the establishment of a Reserve Fund for Bonds issued thereunder to be funded in an amount equal to the Bond Reserve Requirement for such Bonds as set forth in the applicable bond purchase contract. Metropolitan has determined that the Bond Reserve Requirement for the 2012 Bonds will be established at \$0 pursuant to the Bond Purchase Contracts (herein defined) and no Reserve Fund for the 2012 Bonds will be established or maintained. **Amounts held or to be held in a reserve fund or account established for any other series of Bonds or any Reserve Fund Credit Policy for any other series of Bonds shall not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2012 Bonds.**

Flow of Funds

Metropolitan will allocate all Operating Revenues to the Water Revenue Fund and will effect transfers from the Water Revenue Fund to the following funds or accounts as soon as practicable in each calendar month in the following order of priority, and such amounts will be withdrawn from said funds or accounts only for the following:

First, to the Operation and Maintenance Fund, an amount sufficient, together with any other revenues lawfully available therefor, to provide for the estimated Operation and Maintenance Expenditures during the current calendar month and the next succeeding calendar month.

Second, to the Bond Service Fund, an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of the interest becoming due and payable on the next interest payment date for all such Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110 percent of the aggregate amount of interest, estimated by the Treasurer of Metropolitan in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided that such amount may be reduced and will be increased under certain circumstances, as set forth in the Resolutions), and (iii) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly *pro rata* basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. Such amount is subject to adjustment as set forth in the Resolutions, in the event Term Bonds are purchased from the Bond Service Fund, redeemed by Metropolitan or deposited by Metropolitan with the Fiscal Agent. No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least

equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Master Resolution and then Outstanding but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates, and (ii) there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Master Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

Third, to the extent of any deficiency in any reserve fund or account for Bonds or Parity Obligations, to such reserve fund or account for such other Bonds or Parity Obligations (i) one-sixth of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and (ii) the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required to restore such reserve fund or account to the amount required to be maintained therein. If there is a deficiency of Operating Revenues to make the deposits required by this Third paragraph, such Operating Revenues will be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency.

Fourth, to any such excess earnings or rebate fund or account for Bonds or Parity Obligations, the amount (if any) required in accordance with a Supplemental Resolution or Metropolitan's tax and nonarbitrage certificate delivered in connection with the issuance of the Bonds or Parity Obligations.

Fifth, for any required transfer or deposit for the payment of any obligation of Metropolitan with a lien on, or payable from, Net Operating Revenues junior to the lien thereon of the Bonds and any Parity Obligations.

Sixth, except as otherwise provided in a Supplemental Resolution, to the Revenue Remainder Fund, any amounts remaining in the Water Revenue Fund after the above transfers. Provided Metropolitan is in compliance with all covenants contained in the Resolutions, the Revenue Remainder Fund may be used for any lawful purpose of Metropolitan.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Water Revenue Fund.”

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PLAN OF REFUNDING

Metropolitan is restructuring a portion of its outstanding variable rate Bonds to achieve an improved debt service structure and debt service savings in light of current market conditions. The restructuring plan includes the refunding of portions of certain series of its outstanding variable rate Bonds and the termination of all or a portion of the interest rate swap agreements currently associated with certain outstanding variable rate Bonds. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Concurrently with the issuance of the fixed rate 2012C Bonds and 2012D Bonds, Metropolitan expects to issue up to \$_____ * principal amount of its 2012E Bonds in one or more subseries, initially in a term mode, bearing interest at fixed interest rates for initial terms ending on July 1 in each of the years 2014, 2015 and/or 2016. Each Series of the 2012 Refunding Bonds is being delivered concurrently. It is a condition precedent to the delivery of each Series of the 2012 Refunding Bonds that all Series be delivered.

The proceeds of the 2012 Refunding Bonds will be applied to: (i) refund all or portions of certain maturities of Metropolitan’s outstanding Bonds; (ii) fund the costs of termination of all or portions of certain interest rate swap agreements; and (iii) fund costs of issuance of the 2012 Refunding Bonds.

The following table details the currently estimated Series, maturity date and principal amount of the Bonds currently expected to be refunded. Metropolitan may also refund all or a portion of any other Bonds or refunding Bonds selected by Metropolitan. The specific Bonds and refunding Bonds to be refunded (the “Refunded Bonds”) with the proceeds of the 2012 Bonds will be determined by Metropolitan at the time that Metropolitan and the respective underwriters for each Series execute the related bond purchase contract for each such Series. **All refunded Bonds, dates and amounts are subject to change by Metropolitan in its sole discretion.**

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* Preliminary, subject to change.

Refunded Bonds

Water Revenue Refunding Bonds	Issue Date	Maturity Date	CUSIP (Base No. 59266)	Principal Amount Outstanding	Principal Amount to be Redeemed*
2004 Series A-1	02/19/04	July 1, 2023 ⁽¹⁾	3K23	\$ 77,965,000	\$
2004 Series A-2	02/19/04	July 1, 2023 ⁽²⁾	3K31	77,965,000	
2006 Series A-1	05/25/06	July 1, 2021 ⁽³⁾	32G2	36,910,000	
2006 Series A-2	05/25/06	July 1, 2021 ⁽⁴⁾	32F4	36,915,000	
2008 Series A-1	03/25/08	July 1, 2037 ⁽⁵⁾	35E4		
2008 Series A-2	03/25/08	July 1, 2037 ⁽⁶⁾	35F1		
2010 Series A	06/24/10	October 1, 2029 ⁽⁷⁾	TCZ2	127,035,000	

⁽¹⁾ Portion of the Series 2004A-1 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2019*.

⁽²⁾ Portion of the Series 2004A-2 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2019*.

⁽³⁾ Portion of the Series 2006A-1 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2021*.

⁽⁴⁾ Portion of the Series 2006A-2 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2021*.

⁽⁵⁾ Portion of the Series 2008A-1 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2014 to 2021*.

⁽⁶⁾ Portion of the Series 2008A-2 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2014 to 2021*.

⁽⁷⁾ Portion of the Series 2010A Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on October 1 in each of the years 2013 to 2019*.

The Refunded Bonds identified in the table above are expected to be redeemed on or about July 20, 2012 (the "Redemption Date") at a redemption price of 100% of the principal amount thereof, without premium.

Pursuant to the terms of the Resolutions and the respective paying agent agreements for the Refunded Bonds, the refunding of the Refunded Bonds will be effected by depositing a portion of the proceeds of the 2012 Bonds, together with other available monies, in the respective escrow funds (the "Escrow Funds") created and established under the respective Escrow Instructions, each dated as of June 1, 2012, each by and between Metropolitan and Wells Fargo Bank, National Association, as escrow agent, for the applicable Series of Refunded Bonds. Such proceeds and other available monies deposited by Metropolitan in the Escrow Funds will be held by the Escrow Agent in cash and be sufficient to pay interest coming due on the Refunded Bonds prior to the date of redemption thereof and to pay the redemption price of the Refunded Bonds (i.e., 100% of the principal amount thereof) on the Redemption Date therefor, plus any interest accrued and unpaid thereon. See "ESTIMATED SOURCES AND USES OF FUNDS" and "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2012 Refunding Bonds and other available monies are shown below:

	2012C Bonds	2012D Bonds	2012E Bonds
<i>Estimated Sources of Funds:</i>			
Principal Amount of 2012C Bonds	\$		
Original Issue Premium of 2012C Bonds			
Principal Amount of 2012D Bonds			
Principal Amount of 2012E Bonds			
Original Issue Premium of 2012E Bonds			
Release from Bond Service Fund			
Release from Reserve Funds			
Equity Contribution			
Total	\$	\$	\$
<i>Estimated Uses of Funds:</i>			
Deposit to Escrow Funds	\$		
Swap Termination Payments ⁽¹⁾			
Costs of Issuance ⁽²⁾			
Total	\$	\$	\$

⁽¹⁾ Includes accrued amounts payable to the swap termination date.

⁽²⁾ Includes Underwriters' discounts, rating agency fees, financial advisory fees, verification agent fees, escrow agent fees, legal fees, printing costs and other costs of issuance.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by a vote of the electorates of eleven southern California cities under authority of the Act to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and information on Metropolitan's service area, see APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA." For a discussion of selected demographic and economic information on Metropolitan's service area, see APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

For information on the finances and operation of Metropolitan, see APPENDIX A and APPENDIX B.

OPERATING REVENUES AND DEBT SERVICE

Operating Revenues

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge, and capacity charge. See APPENDIX A – "METROPOLITAN REVENUES – Water Sales Revenues," "– Rate Structure" and "– Additional Revenue Components." In meeting the requirements of the Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent

available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and interest subsidy payments that may be received by Metropolitan in connection with any existing and future "Build America Bonds." No assurances are provided that Metropolitan will receive the interest subsidy payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2012 Bonds. For a description of "Operating Revenues" and the effect of Operation and Maintenance Expenditures on the amount of revenues available for payment of the 2012 Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Security for the 2012 Bonds." See also APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS." For information on Metropolitan's revenues and expenses, including historical and projected revenues and expenditures, see APPENDIX A – "METROPOLITAN REVENUES," "– METROPOLITAN EXPENDITURES" and "– HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES." See also Metropolitan's financial statements contained in APPENDIX B.

Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012 Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Additional Indebtedness."

Metropolitan has issued Parity Bonds pursuant to the applicable Resolutions, which are outstanding in the amounts listed in APPENDIX A under the subcaption "METROPOLITAN EXPENDITURES." All of the 2012 Bonds will be payable from Net Operating Revenues on a parity with the Parity Bonds and the Parity Obligations.

Anticipated Financings

Metropolitan anticipates that it will issue bonds, notes or other evidences of indebtedness under the Master Resolution in addition to the 2012 Bonds, the Parity Bonds and the Parity Obligations to finance improvements to its Water System and to refund outstanding revenue bonds or general obligation bonds from time to time depending on market conditions and other factors. Metropolitan currently assumes the issuance of additional Parity Bonds as follows: \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, \$180 million in fiscal year 2015-16 and \$190 million in fiscal year 2016-17. The current Capital Investment Plan is described in APPENDIX A. See APPENDIX A – "CAPITAL INVESTMENT PLAN." The Master Resolution establishes limitations on the issuance of additional obligations payable from Net Operating Revenues on a parity with the Outstanding Bonds.

The Master Resolution permits subsequent authorizations of additional Bonds as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Additional Indebtedness." The Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues on a parity with the Outstanding Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Additional Indebtedness." Metropolitan may also issue obligations junior and subordinate to the 2012 Bonds, subject to the limitations in the Act.

From time to time Metropolitan may enter into synthetic interest rate swaps, pursuant to which, for example, fixed rate obligations are converted to variable rate obligations or vice versa. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan’s outstanding Bonds and the 2012 Bonds.

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**The Metropolitan Water District of Southern California
Debt Service Requirements for Water Revenue Bonds**

Fiscal Year Ending June 30	Outstanding Bonds Debt Service⁽¹⁾⁽²⁾⁽³⁾	2012C Bonds Principal	2012C Bonds Interest	2012D Bonds Principal	2012D Bonds Interest	2012E Bonds Principal	2012E Bonds Interest⁽⁴⁾	Total⁽⁵⁾
2012								
2013								
2014								
2015								
2016								
2017								
2018								
2019								
2020								
2021								
2022								
2023								
2024								
2025								
2026								
2027								
2028								
2029								
2030								
2031								
2032								
2033								
2034								
2035								
2036								
2037								
2038								
2039								
2040								
2041								
Total⁽⁴⁾								

(Footnotes on next page.)

- (1) Indicated amounts include scheduled payments of principal of and interest on the Refunded Bonds.
- (2) For the \$1.15 billion of variable rate bonds associated with particular interest rate swap agreements, interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements. For the remaining \$514 million of variable rate debt, interest is calculated at an assumed interest rate of 1.80 percent per annum. Actual rates may differ from those set forth in this footnote.
- (3) Indicated amounts reflect the stated interest rate on Metropolitan's Water Revenue Bonds 2008 Authorization, Series C (Taxable Build America Bonds), Metropolitan's Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) and the 2010 Authorization, Series A Bonds, and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Bonds.
- (4) Assumes each Series of the 2012E Bonds are changed to a weekly mode after the initial Scheduled Mandatory Tender Date for such Series. Interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements.
- (5) Totals are rounded.

Summary of Net Operating Revenues

The following table shows a summary of actual and projected Net Operating Revenues available for debt service on the outstanding Parity Bonds and Parity Obligations of Metropolitan, including the 2012 Bonds and additional Bonds that Metropolitan projects it will issue.

In establishing water rates and charges, Metropolitan makes estimates relating to water supply and demand that assume no mandatory retail water use restrictions or allocations and normalized conditions for weather and the regional economy. As a result of unusually cool and wet weather conditions in Metropolitan's service area from summer 2010 through summer 2011, combined with mandatory water use restrictions and recessionary economic impacts, Metropolitan's water sales for the fiscal year 2010-11 were below the level that it projected for normal conditions at the time it established its rates and charges for this period. As a consequence, during fiscal year 2010-11, Metropolitan drew down \$61 million from the Water Rate Stabilization Fund and the Water Revenue Remainder Fund. See APPENDIX A – "METROPOLITAN REVENUES – Financial Reserve Policy."

Metropolitan is currently projecting that, on June 30, 2012, the aggregate balance in the Water Rate Stabilization Fund and the Water Revenue Remainder Fund will be \$271 million, which includes \$50 million held in financial reserves in Metropolitan's General Fund pursuant to the exchange contract between Metropolitan and San Diego County Water Authority due to the litigation challenging Metropolitan's rate structure, see APPENDIX A – "METROPOLITAN REVENUES – Litigation Challenging Rate Structure". Metropolitan is also projecting that it will meet its cost of service during fiscal year 2012-13, and thus will not draw any amount from the Rate Stabilization Fund and the Water Revenue Remainder Fund during fiscal year 2012-13. Such projections reflect Board adopted rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, which will become effective on effective January 1, 2013 and 5.0 percent, which will become effective on effective January 1, 2014. Rates and charges are projected to increase 3.0 percent per fiscal year thereafter, subject to adoption by the Board. Metropolitan's projections of water sales for fiscal year 2011-12 include the sale of 225,000 acre-feet of discounted replenishment service deliveries to member agencies delivered in calendar year 2011, resuming the sale of discounted water for groundwater replenishment that was discontinued on May 1, 2007, see APPENDIX A – "METROPOLITAN REVENUES – Classes of Water Service – Replenishment". The level of water sales estimated in Metropolitan's projections for fiscal year 2011-12 water revenues and expenditures and adopted budget and revenue requirements for fiscal years 2012-13 and 2013-14 reflect higher than normal levels of local supplies from the Los Angeles Aqueduct system and other systems based on hydrologic conditions that occurred in 2010 and in early 2011.

As shown in the tables below, the summary of projected financial operations for fiscal years 2012-13 through 2015-16 are based on the assumptions and estimates used in developing the adopted biennial budget for fiscal years 2012-13 and 2013-14. See APPENDIX A – "MANAGEMENT'S

DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES – Water Sales Receipts.” The Board must approve any rate increases effective in 2015 and thereafter. The summary of historical and projected financial operations is prepared on a cash basis for fiscal year ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016. For a description of the modified accrual basis of accounting, see “ACCOUNTING AND BUDGET MATTERS – Change in Budgetary Accounting Method.” By using the modified accrual basis of accounting rather than cash basis, projected revenues are \$11 million greater in fiscal year 2012-13 and \$17 million greater in fiscal year 2013-14. The primary reason for these greater amounts is that, under the modified accrual basis, the projections recognize two additional months of increased revenues during those fiscal years arising from adopted rate increases to be effective on January 1, 2013 and January 1, 2014. Under the cash basis of accounting, these additional two months of increased revenues would have been recognized in the fiscal year following the rate increase reflecting receipt of payments. Invoices for water sold are payable at the end of the second month after the month in which water is delivered.

For more detailed information, including information pertaining to Net Operating Revenues, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A. For a table summarizing actual and projected debt service coverage, see the information under caption “Debt Service Coverage” below. Actual results during the projection period may vary from those set forth in the following table. Under certain circumstances, such variances may be material.

	Actual			Projected					
	Years Ending June 30 ⁽¹⁾								
	(Dollars in Millions)								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Operating Revenues ⁽²⁾	\$290	\$326	\$321	\$296	\$408	\$441	\$520	\$557	\$588
Other Revenues ⁽³⁾	94	75	71	113	88	56	53	55	60
Adjusted Net Operating Revenues ⁽⁴⁾	385	401	392	409	496	497	573	612	648
Parity Obligations and Revenue Bonds Debt Service ⁽⁵⁾	(219)	(223)	(244)	(277)	(291)	(305)	(308)	(316)	(325)
Subordinate Revenue Obligations ⁽⁶⁾	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Funds Available From Operations	\$165	\$177	\$147	\$131	\$204	\$191	\$264	\$295	\$322

Source: Metropolitan.

⁽¹⁾ Unaudited. Prepared on a cash basis for fiscal year ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016. See “ACCOUNTING AND BUDGET MATTERS—Change in Budgetary Accounting Method.”

⁽²⁾ During the four fiscal years ended June 30, 2008 through June 30, 2011, annual water sales (in acre-feet) were 2.31 million, 2.17 million, 1.86 million and 1.63 million, respectively. See table entitled “SUMMARY OF WATER SOLD AND WATER SALES RECEIPTS” under the caption “METROPOLITAN REVENUES – Water Sales Revenues” in APPENDIX A. The water receipts projections are based upon estimated annual water sales (in acre-feet) of 1.67 million in fiscal year 2011-12 (including 225,000 acre-feet of replenishment sales), 1.7 million in fiscal year 2012-13, 1.7 million in fiscal year 2013-14, 1.75 million in fiscal year 2014-15 and 1.75 million in fiscal year 2015-16. Projections reflect Board adopted rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, which will become effective on January 1, 2013 and 5.0 percent, which will become effective on effective January 1, 2014. Rates and charges are projected to increase 3.0 percent per fiscal year thereafter, subject to adoption by the Board. See APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.”

⁽³⁾ “Other Revenues” include sales of hydroelectric power, interest on investments (not including interest applicable to bond construction funds) and the Interest Subsidy Payments that may be received in connection with Metropolitan’s Build America Bonds. See “OPERATING REVENUES AND DEBT SERVICE – Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues.”

⁽⁴⁾ “Adjusted Net Operating Revenues” includes additional available revenues, which the Master Resolution specifies may be considered by Metropolitan in setting rates and issuing additional Bonds and Parity Obligations.

Additional items may be taken into account in satisfying the provisions with respect to the issuance of additional Bonds and Parity Obligations. See “OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings.”

⁽⁵⁾ Net of investment income with respect to any reserve funds. Includes debt service on the sum of outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011) and additional Bonds (projected). Assumes the issuance of additional Parity Bonds as follows: \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, and \$180 million in fiscal year 2015-16. See “OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings.”

⁽⁶⁾ Represents California Safe Drinking Water Revolving Loan debt service.

Debt Service Coverage

The following table shows a summary of actual and projected debt service coverage on the outstanding Bonds and Parity Obligations (as projected by Metropolitan based on assumptions and estimates used in developing the adopted biennial budget for fiscal years 2012-13 and 2013-14). For more detailed information, including information pertaining to Net Operating Revenues, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A. Actual results during the projection period may vary from those set forth in the following table. Under certain circumstances, such variances may be material.

	Actual			Projected ⁽²⁾					
	Years Ending June 30 ⁽¹⁾								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Parity Bonds Debt Service Coverage ⁽³⁾	1.76	1.80	1.61	1.48	1.71	1.63	1.86	1.94	1.99
Debt Service Coverage on All Obligations ⁽⁴⁾	1.75	1.79	1.60	1.47	1.70	1.62	1.85	1.93	1.99
Fixed Charge Coverage ⁽⁵⁾	1.24	1.30	1.09	1.03	1.23	1.15	1.33	1.33	1.34

Source: Metropolitan.

⁽¹⁾ Unaudited. Prepared on a cash basis method for fiscal year ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016. See “ACCOUNTING AND BUDGET MATTERS – Change in Budgetary Accounting Method.”

⁽²⁾ Projections for fiscal years ending June 30, 2012 through 2016 reflect Board adopted water rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, which will become effective on effective January 1, 2013 and 5.0 percent, which will become effective on January 1, 2014. Rates and charges are projected to increase 3.0 percent for each fiscal year thereafter, subject to adoption by the Board. See APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.”

⁽³⁾ Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011) and additional Bonds (projected). Assumes the issuance of additional Parity Bonds as follows: \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, and \$180 million in fiscal year 2015-16. See “OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings.”

⁽⁴⁾ Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011), the subordinate lien California Safe Drinking Water Revolving Fund Loan and additional Bonds (projected).

⁽⁵⁾ Adjusted Net Operating Revenues divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011), the subordinate lien California Safe Drinking Water Revolving Fund Loan, and additional Bonds (projected). See APPENDIX A – “METROPOLITAN EXPENDITURES – State Water Contract Obligations.”

Metropolitan’s Investment Portfolio

As of April 30, 2012, Metropolitan’s investment portfolio had a market value of approximately \$1.034 billion. Metropolitan’s investment portfolio consists of the total cash and investments from all of its funds. The market value of Metropolitan’s investment portfolio is subject to market fluctuation and volatility and general economic conditions. Metropolitan’s investment portfolio includes funds derived from various sources, including Net Operating Revenues, property tax collections, hydroelectric power sales, investment earnings and invested construction funds. See APPENDIX A – “METROPOLITAN

REVENUES – Summary of Receipts by Source.” Over the three years ended March 31, 2012, the market value of the month-end balance of Metropolitan’s investment portfolio (excluding bond reserve funds) has averaged approximately \$916.3 million. The minimum month-end balance of Metropolitan’s investment portfolio (excluding bond reserve funds) during such period was approximately \$737.7 million on October 31, 2010. See APPENDIX A – “METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts” and “– Financial Reserve Policy” and APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED).”

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s accrual basis financial statements for the fiscal years ended June 30, 2011 and June 30, 2010. See APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED).”

Metropolitan’s budgeting and financial reporting will change from a cash basis to a modified accrual basis beginning with fiscal year 2012-13, to provide a better match of revenues and expenses. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses are recognized when incurred. See “OPERATING REVENUES AND DEBT SERVICE – Summary of Net Operating Revenues” and APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” The change to modified accrual accounting for budgeting and reporting purposes will not affect Metropolitan’s audited financial statements or continuing compliance with its rate covenant, limitations on additional bonds and other financial covenants with bondholders.

Change in Budgetary Accounting Method

Metropolitan’s accounting method for budgetary reporting will change from cash basis to a modified accrual basis beginning with fiscal year 2012-13, to provide a better match of revenues and expenses. The modified accrual basis of accounting that Metropolitan uses for these purposes varies from the accrual basis of accounting in the following respects: depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. Under this modified accrual basis of accounting, revenues will be recognized in the fiscal year in which they are earned and expenses will be recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods and services have been received. Under the cash basis of accounting, water sales revenues are recorded when received (two months later) and expenses when paid (approximately one month later). See “OPERATING REVENUES AND DEBT SERVICE – Summary of Net Operating Revenues” and APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” Metropolitan is changing to modified accrual accounting for budgeting purposes and it will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Resolutions in accordance with their terms.

Financial Statements

Metropolitan's financial statements for the fiscal years ended June 30, 2011 and June 30, 2010, included in APPENDIX B hereto, have been audited by KPMG LLP, independent auditors (the "Independent Auditor"). The Independent Auditor was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Independent Auditor with respect to any event subsequent to the date of its report.

Metropolitan's Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets for nine months ended March 31, 2012 and March 31, 2011 (unaudited) are included in APPENDIX B – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)."

The financial and statistical information contained in this Official Statement is included herein for informational purposes only and a complete review of the financial statements and the footnotes thereto set forth in APPENDIX B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Official Statement, other than the audited financial statements for the fiscal years ended June 30, 2011 and June 30, 2010 included in APPENDIX B.

Budget System

Metropolitan's budget system incorporates features of program budgeting, management by objectives, and performance reporting which provides for funding, analysis, review, and control. Operating budgets are prepared by each department and division annually. Each program and its required resources are reviewed by management and, upon acceptance, are incorporated into the overall budget for approval by the Board. Costs are maintained by project and activity, and expenditures are controlled by Board-approved appropriations. Each month, variances between budget estimates and actual receipts and expenditures are identified and evaluated. This review is performed as one of several control measures to assure progress in meeting Metropolitan's goals and program objectives.

RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2012 Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2012 Bonds are summarized below. The following description of risks to the payment of principal of and interest on the 2012 Bonds is not an exhaustive list of the risks associated with the purchase of the 2012 Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Limited Obligations

The 2012 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. The 2012

Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012 Bonds or the interest thereon.

The obligation to pay the principal of and interest on the 2012 Bonds are not a debt of Metropolitan, nor a legal or equitable pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues, except as described in this Official Statement.

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, redemption premium, if any, and interest on the 2012 Bonds and all other Outstanding Bonds. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. See APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA." Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its member agencies and establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Expenditures and debt service.

Risks Relating to Water Sales

Metropolitan's primary purpose is to provide a supplemental supply of imported water to its member public agencies. Metropolitan describes its water supply in more detail in APPENDIX A under the caption "METROPOLITAN'S WATER SUPPLY." The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of locally supplied water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. In recent years supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described below. Future water sales will be subject to variability due to these and other factors.

Water Supply Shortages. Metropolitan's principal sources of water are the State Water Project and the Colorado River, both of which are subject to drought conditions that in recent years have contributed to lower overall water deliveries to Metropolitan. While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, the recent drought conditions and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the "ESAs"), have placed additional limitations on Metropolitan's ability to obtain and deliver water supplies to its member agencies. See APPENDIX A – "METROPOLITAN'S WATER SUPPLY – State Water Project – *Endangered Species Act Considerations.*" Metropolitan may address water supply shortages by, among other things, suspending groundwater replenishment deliveries, reducing agricultural deliveries, drawing on its stored water supplies and pursuing additional water transfers. From July 1, 2009 to April 13, 2011, Metropolitan allocated available supplies among its member agencies pursuant to its Water Supply Allocation Plan. See APPENDIX A – "METROPOLITAN'S WATER SUPPLY – Water Supply Allocation Plan." This allocation led to the enactment of water use restrictions at the retail consumer level, such as limited days of outdoor watering and the imposition of penalty rates.

Economic Conditions. Retail level water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and Metropolitan's water sales. If economic conditions return to pre-recession levels, Metropolitan anticipates that demands for water will increase accordingly. See APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

Weather Conditions. Metropolitan provides a supplemental supply of water to its member agencies, most of whom have other sources of water. Regional water supplies are described in APPENDIX A under the caption “REGIONAL WATER RESOURCES.” Climatic conditions in Metropolitan’s service area and availability of local supplies affect demands for imported water purchased from Metropolitan. Metropolitan uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. Metropolitan’s reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan’s water sales. See APPENDIX A – “METROPOLITAN REVENUES – Financial Reserve Policy.”

Environmental Considerations. Current and proposed environmental laws, regulations and judicial decisions, including court-ordered restrictions and Federal and State administrative determinations relating to species on the “endangered” or “threatened” lists under the Federal or California ESAs, have materially affected the operations of the State Water Project and the water deliveries therefrom. Metropolitan cannot predict when and how additional laws, regulations, judicial decisions and other determinations (including listings of additional species under the Federal or California ESAs) will affect State Water Project and Colorado River operations, the water deliveries therefrom and Metropolitan’s operations in the future by requiring, among other things, additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Any of these laws, regulations and judicial decisions and other official determinations relating to Metropolitan’s water supply could have a materially adverse impact on the operation of the State Water Project and Colorado River operations and Metropolitan’s water reserves. See APPENDIX A – “METROPOLITAN’S WATER SUPPLY – State Water Project” and “– Colorado River Aqueduct.”

Actions to Manage Risks Relating to Water Sales. The drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. A reduction in water deliveries to Metropolitan’s member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Rate Covenant.” To address supply shortages due to prolonged drought conditions and environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012 BONDS – Rate Covenant.” See also APPENDIX A – “METROPOLITAN’S WATER SUPPLY” and “– CAPITAL INVESTMENT PLAN.”

Earthquakes, Wildfires and Other Natural Disasters

Southern California is characterized by geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires and areas of potential liquefaction and landslide. Earthquakes, wildfires or other natural disasters could interrupt operation of the Water System and thereby interrupt the ability of Metropolitan to generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See APPENDIX A – “METROPOLITAN’S WATER DELIVERY SYSTEM – Seismic Considerations.”

Limitations on Remedies

Upon the occurrence and continuance of an Event of Default under the Resolutions, the Owners of the 2012 Bonds have limited remedies and, except for limited circumstances, the Owners of the 2012 Bonds do not have the right to accelerate the payment of principal of or interest on the 2012 Bonds. See

APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Defaults and Remedies under the Master Resolution.”

In addition, the rights of the Owners of the 2012 Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, (b) the validity of the 2012 Bonds or the power and authority of Metropolitan to issue the 2012 Bonds, or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Resolutions.

For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see APPENDIX A, including information under the captions “METROPOLITAN EXPENDITURES – State Water Contract Obligations,” “METROPOLITAN’S WATER SUPPLY – State Water Project – *Endangered Species Act Considerations*” and “– Colorado River Aqueduct – *QSA Related Litigation*.” For a discussion of litigation challenging the allocation of costs to certain rates adopted on April 13, 2010, which could require changes in such rates, see APPENDIX A, including information under the caption “METROPOLITAN REVENUES – Rate Structure.”

Metropolitan is a party to various other legal proceedings affecting the Water System and is regularly involved in litigation regarding the condemnation of property in accordance with its authorization under the Act to exercise the powers of eminent domain. Metropolitan does not believe that an adverse ruling in any of these other proceedings could have a material adverse effect upon Operating Revenues of Metropolitan.

TAX MATTERS

2012C Bonds

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the 2012C Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2012C Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue of the 2012C Bonds. Metropolitan has covenanted in the Resolutions to comply with each applicable requirement of the Code necessary to maintain the excludability of the interest on the 2012C Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P. and Alexis S. M. Chiu, Esq. Co-Bond Counsel to Metropolitan, under existing law interest on the 2012C Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2012C Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Co-Bond Counsel is of the further opinion that under existing law, the 2012C Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2012C Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2012C Bonds owned by a corporation may affect the computation of its alternative

minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. In rendering the foregoing opinions, Co-Bond Counsel will rely upon representations and certifications of Metropolitan made in a Tax Certificate dated the date of delivery of the 2012C Bonds pertaining to the use, expenditure, and investment of the proceeds of the 2012C Bonds.

To the extent that a purchaser of a 2012C Bond acquires that 2012C Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its 2012C Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2012C Bond to the owner. Purchasers of 2012C Bonds at a price that includes bond premium should consult their own tax advisors with respect to the computation and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption, if applicable, or other disposition of the 2012C Bond.

The excess, if any, of the stated redemption price at maturity of 2012C Bonds of a maturity over the initial offering price to the public of the 2012C Bonds of that maturity is "original issue discount." Original issue discount accruing on a 2012C Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that 2012C Bond. Original issue discount on any 2012C Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2012C Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2012C Bond accruing during each period is added to the adjusted basis of such 2012C Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2012C Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2012C Bonds who purchase such 2012C Bonds other than at the initial offering price and pursuant to the initial offering. Purchasers of 2012C Bonds of a maturity having original issue discount should consult their own tax advisors with respect to the tax consequences of ownership of 2012C Bonds with original issue discount.

Co-Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2012C Bonds may affect the tax status of interest on the 2012C Bonds or the tax consequences of the ownership of the 2012C Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2012C Bonds from personal income taxation by the State or of the exclusion of the interest on the 2012C Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Co-Bond Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the 2012C Bonds, or the interest thereon, if any action is taken with respect to the 2012C Bonds or the proceeds thereof upon the advice or approval of other counsel.

Although Co-Bond Counsel is of the opinion that interest on the 2012C Bonds is exempt from California personal income tax and excluded from the gross income of the owners thereof for federal

income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2012C Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2012C Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2012C Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2012C Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2012C Bonds, (iii) interest on the 2012C Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2012C Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2012C Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2012C Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Co-Bond Counsel has expressed no opinion regarding any such other tax consequences.

Co-Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of Metropolitan described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2012C Bonds is commenced, under current procedures the Service is likely to treat Metropolitan as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2012C Bonds, Metropolitan may have different or conflicting interests from the owners. Public awareness of any future audit of the 2012C Bonds could adversely affect the value and liquidity of the 2012C Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change so as to reduce or eliminate the benefit to holders of the 2012C Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. Proposed legislative or administrative action, whether or not taken, could also affect the value and marketability of the 2012C Bonds. Prospective purchasers of the 2012C Bonds should consult with their own tax advisors with respect to any proposed changes in tax law.

A copy of the form of opinion of Co-Bond Counsel relating to the 2012C Bonds is included in APPENDIX F.

2012D Bonds

State Tax Exemption

In the opinion of Fulbright & Jaworski L.L.P. and Alexis S. M. Chiu, Esq. San Francisco, California, Co-Bond Counsel, under existing law interest on the 2012D Bonds is exempt from personal income taxes of the State of California.

Certain Federal Income Tax Considerations

The following is a general summary of certain United States federal income tax consequences of the purchase and ownership of the 2012D Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly, with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein.

The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors and generally does not address consequences relating to the disposition of a 2012D Bond by a Beneficial Owner thereof. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the 2012D Bonds in light of the investor's particular circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning any 2012D Bonds). Except as expressly set forth below, the discussion below does not discuss any aspect of state, local or foreign law or United States federal tax laws other than United States federal income tax law. This summary is limited to certain issues relating to initial investors who will hold the 2012D Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such 2012D Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to initial investors of the 2012D Bonds who are United States persons within the meaning of section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons.

Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any United States federal income tax consequences, including those discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE 2012D BONDS.

Internal Revenue Service Circular 230 Notice

Investors should be aware that:

- (i) the discussion herein with respect to United States federal income tax consequences of purchasing and owning the 2012D Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed under the Code;
- (ii) such discussion was written in connection with the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed herein; and
- (iii) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

This notice is given solely for the purposes of ensuring compliance with IRS Circular 230.

Stated Interest and Reporting of Interest Payments. The stated interest on the 2012D Bonds will be included in the gross income, as defined in Section 61 of the Code, of the Beneficial Owners thereof for federal income tax purposes as ordinary income at the time it is paid or accrued, depending on

the tax accounting method applicable to such Beneficial Owners. Subject to certain exceptions, the stated interest on the 2012D Bonds will be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address and taxpayer identification number (“TIN”) of the Beneficial Owner. A copy of Form 1099 will be sent to each Beneficial Owner of a 2012D Bond.

Original Issue Discount. If the first price at which a substantial amount of the 2012D Bonds of any stated maturity is sold at original issuance (the “Issue Price”) is less than the face amount by more than one quarter of one percent times the number of complete years to maturity, the 2012D Bonds of that maturity will be treated as being issued with “original issue discount”. The amount of the original issue discount on each 2012D Bond of that maturity will equal the excess of the principal amount payable on that 2012D Bond at maturity over the Issue Price, and the amount of the original issue discount on such 2012D Bond will be accrued over its term using the “constant yield method” provided in the Treasury Regulations. As original issue discount on a 2012D Bond accrues under the constant yield method, the Beneficial Owner of a 2012D Bond with original issue discount will be required to include as interest each such accrual in its gross income regardless of its regular method of accounting. This can result in taxable income to the Beneficial Owner of a 2012D Bond issued with original issue discount that exceeds actual cash distributions on that 2012D Bond in the taxable year.

The amount of any original issue discount that accrues on the 2012D Bonds each year will be reported annually to the IRS and to the Beneficial Owners. The portion of the original issue discount included in each Beneficial Owner’s gross income while the Beneficial Owner holds a 2012D Bond will increase the adjusted tax basis of the 2012D Bond in the hands of such Beneficial Owner.

Defeasance. Persons considering the purchase of a 2012D Bond should be aware that the bond documents permit the Authority under certain circumstances to deposit monies or securities with the Trustee, resulting in the release of the security interests created under the Indenture (a “defeasance”). A defeasance could result in the realization of gain or loss by the Beneficial Owner of a 2012D Bond for federal income tax purposes, without any corresponding receipts of monies by the Beneficial Owner. Such gain or loss generally would be subject to recognition for the tax year in which such realization occurs, as in the case of a sale or exchange. Owners are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

Backup Withholding. Under section 3406 of the Code, a Beneficial Owner of the 2012D Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on current or accrued interest on the 2012D Bonds or with respect to proceeds received from a disposition of the 2012D Bonds. This withholding applies if such Beneficial Owner of 2012D Bonds: (i) fails to furnish to the payor such Beneficial Owner’s social security number or other TIN; (ii) furnishes the payor an incorrect TIN; (iii) fails to properly report interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such Beneficial Owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain Beneficial Owners of the 2012D Bonds. Beneficial Owners of the 2012D Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the current rate of 30% (subject to change) on periodic income items arising

from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest income of such a Beneficial Owner of the 2012D Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the Beneficial Owner provides a statement to the payor certifying, under penalties of perjury, that such Beneficial Owner is not a United States person and providing the name and address of such Beneficial Owner; (ii) such interest is treated as not effectively connected with the Beneficial Owner's United States trade or business; (iii) interest payments are not made to a person within a foreign country that the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the 2012D Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such Beneficial Owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such Beneficial Owner is not a bank receiving interest on the 2012D Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the 2012D Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to Beneficial Owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge or reason to know that such person is a United States person.

A copy of the form of opinion of Co-Bond Counsel relating to the 2012D Bonds is included in APPENDIX F.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, certified public accountants (the "Verification Agent"), will deliver a report stating that the firm has verified (i) the accuracy of mathematical computations concerning the adequacy of the cash deposited in the Escrow Funds to pay the interest due with respect to the Refunded Bonds to and including the redemption date(s), and to pay on the redemption date(s) the redemption price(s) thereof and (ii) certain mathematical computations supporting the conclusion that the 2012 Bonds are not "arbitrage bonds" under the Code, which will be used in part by Co-Bond Counsel in concluding that interest on the 2012C Bonds is excluded from gross income for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligations to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

UNDERWRITING

Purchase of the 2012 Bonds

The 2012C Bonds are being purchased by Goldman Sachs & Co. ("Goldman Sachs"), as representative of itself, and the underwriters for the 2012C Bonds listed on the cover hereof (collectively, the "2012C Underwriters"), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the 2012C Underwriters relating to the 2012C Bonds (the "2012C Bond Purchase Contract"). Subject to the terms of the 2012C Bond Purchase Contract, the 2012C

Underwriters will purchase the 2012C Bonds at an aggregate purchase price of \$_____, which represents the principal amount of the 2012C Bonds of \$_____, (plus/minus) original issue (premium/discount) of \$_____, less an underwriters' discount of \$_____.

The 2012D Bonds are being purchased by Barclays Capital Inc. (the "2012D Underwriter" and, together with the 2012C Underwriters, the "Underwriters"), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the 2012D Underwriter relating to the 2012D Bonds (the "2012D Bond Purchase Contract" and, together with the 2012C Bond Purchase Contract, the "Bond Purchase Contracts"). Subject to the terms of the 2012D Bond Purchase Contract, the 2012D Underwriter will purchase the 2012D Bonds at an aggregate purchase price of \$_____, which represents the principal amount of the 2012D Bonds of \$_____, less an underwriters' discount of \$_____.

The Bond Purchase Contracts each require that the 2012C Bonds and the 2012D Bonds must all be purchased by the applicable Underwriters if any 2012 Bonds are purchased. The obligation to make such a purchase is subject to the terms and conditions set forth in the Bond Purchase Contracts, the approval of legal matters by counsel and other conditions.

The Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2012 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Metropolitan, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of Metropolitan.

Retail Brokerage Arrangements

Goldman Sachs, one of the Underwriters of the 2012C Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Series 2012C Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Series 2012C Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2012C Bonds that Incapital sells.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the 2012C Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley &

Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of 2012C Bonds.

De La Rosa & Co., one of the Underwriters of the 2012C Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the 2012C Bonds, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the 2012C Bonds, with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.

FINANCIAL ADVISOR

Metropolitan has retained Public Resources Advisory Group as financial advisor to Metropolitan (the "Financial Advisor") in connection with the issuance of the 2012 Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

LEGAL MATTERS

Fulbright & Jaworski L.L.P., Los Angeles, California, and Alexis S. M. Chiu, Esq., San Francisco, California, Co-Bond Counsel to Metropolitan, will render their opinion with respect to the 2012 Bonds, each substantially in the form set forth in APPENDIX F – "FORM OF OPINION OF CO-BOND COUNSEL." Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

RATINGS

Moody's Investors Service Inc. ("Moody's"), Standard & Poor's Financial Services LLC ("S&P"), and Fitch Ratings ("Fitch") have assigned the 2012C Bonds their ratings of "____," "____" and "____," respectively. Moody's, S&P, and Fitch have assigned the 2012D Bonds their ratings of "____," "____" and "____," respectively. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2012 Bonds.

CONTINUING DISCLOSURE

Metropolitan has agreed to execute a continuing disclosure undertaking (the "Continuing Disclosure Undertaking"), which provides for disclosure obligations on the part of Metropolitan for so long as the 2012 Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2012 Bonds to provide certain

financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notice Events") in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriters of the 2012 Bonds in complying with the Rule. [Metropolitan has not failed in the previous five years to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of certain events; provided, that the annual report for 2008 was timely filed on December 12, 2008, and was supplemented on February 4, 2009.] [confirming the inclusion of service area AV tables with respect to GO annual reports] See APPENDIX G – "FORM OF CONTINUING DISCLOSURE UNDERTAKING."

MISCELLANEOUS

The terms of the 2012 Bonds are set forth in the Resolutions and the Bond Purchase Contract. Copies of such documents may be obtained from the office of the Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012, telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Chief Financial Officer.

The attached appendices are integral parts of this Official Statement and should be read in their entirety. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Board of Directors of Metropolitan has duly authorized the delivery of this Official Statement.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By: _____
General Manager

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Master Resolution and the Fourth Supplemental Resolution. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

DEFINITIONS

The following are definitions of terms used in this Summary. Such definitions also apply to terms used in the Official Statement, to the extent such terms are not otherwise defined in the Official Statement. Terms used in this summary but not defined herein have the meanings specified in the Resolutions.

“Accreted Value” means, with respect to any Capital Appreciation Bond or Capital Appreciation Parity Obligation, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified therein. With respect to any Capital Appreciation Bonds, the Accreted Value at any date to which reference is made shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

“Accreted Value Table” means the table denominated as such, and to which reference is made in, a Supplemental Resolution for any Capital Appreciation Bonds issued pursuant to such Supplemental Resolution.

“Act” means the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and as supplemented by Article 11 of Chapter 3 (Section 53580 et seq.) and Chapter 6, of Part 1, Division 2, Title 5 (Section 54300 et seq.) of the Government Code of the State of California, as further amended from time to time.

“Additional Revenues” means, for any period of calculation, all interest, profits and other income received from the investment of any moneys of Metropolitan and any other revenues (other than Operating Revenues) of Metropolitan, in each case to the extent available to pay principal and Accreted Value of and interest on the Bonds during such period.

“Assumed Debt Service” means, with respect to any Excluded Principal Payment for any Fiscal Year (or other designated 12 month period) on or after the Excluded Principal Payment date the sum of the amount of principal and interest which would be payable in each such Fiscal Year (or other designated 12 month period) if that Excluded Principal Payment were amortized for a period specified by Metropolitan at the time of issuance of such Bonds or Parity Obligations (no greater than thirty (30) years from the date of such Excluded Principal Payment) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which Metropolitan could borrow (as of the time of calculation) for such period, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan at the time of issuance of such Bonds or Parity Obligations, which may rely conclusively on such certificate, within thirty (30) days of the date of calculation.

“Authorized Denominations” means \$5,000 and any integral multiple thereof.

“Board” or **“Board of Directors”** means the Board of Directors of Metropolitan.

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

“Bond Reserve Requirement” means, subject to the provisions of the Fourth Supplemental Resolution permitting deposit of a Reserve Fund Credit Policy, the amount to be deposited in a Reserve Fund established for a Series of Refunding Bonds, which shall be set forth in the terms of the Bond Purchase Contract pursuant to the terms of the Fourth Supplemental Resolution.

“Bond Service Fund” means the Water Revenue Bonds, Bond Service Fund established pursuant to the Master Resolution.

“Bonds” means The Metropolitan Water District of Southern California Water Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution.

“Business Day” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State of California or the State of New York are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized or obligated by law or executive order to be closed, and, (3) if specified in a Supplemental Resolution, a day upon which the principal office of Metropolitan is authorized to be closed.

“Capital Appreciation Bonds” means any Bonds the interest on which is compounded and not scheduled to be paid until maturity, prior redemption or conversion thereof.

“Capital Appreciation Parity Obligations” means any Parity Obligations the interest with respect to which is compounded and not scheduled to be paid until maturity, prior redemption or conversion thereof.

“Code” means the Internal Revenue Code of 1986, as amended.

“Controller” means the Controller of Metropolitan, who may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

“Credit Facility” means a letter of credit, line of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal or Accreted Value, premium and/or interest of such Series or portion of such Series of Bonds and/or the purchase price of such Series of Bonds or portion thereof. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

“Current Interest Bonds” means the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

“Excess Earnings Fund” means, with respect to a Series of Refunding Bonds, the Water Revenue Refunding Bonds Excess Earnings Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

“Excluded Principal Payment” means each payment of principal of Bonds or Parity Obligations which Metropolitan designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Obligations) to be an Excluded Principal Payment. No such determination shall affect the security for such Bonds or Parity Obligations or the obligation of Metropolitan to pay such payments from Net Operating Revenues or from the applicable reserve fund or account, if any.

“Expenditures” means cash disbursements of Metropolitan.

“Federal Securities” means direct obligations of or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or the Treasury Department of the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are held in safekeeping by a custodian on behalf of the owners of such receipts.

“Fiscal Agent” means, with respect to any Series of Bonds issued pursuant to the Fourth Supplemental Resolution, the Treasurer. With respect to any other Series of Bonds, “Fiscal Agent” means the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series (which may be the Treasurer or the Controller of Metropolitan).

“Fiscal Year” means the period beginning on July 1st of each year and ending on the next succeeding June 30th, or any other twelve-month period hereafter selected by Metropolitan as the official fiscal year of Metropolitan.

“Fourth Supplemental Resolution” means Resolution 8387 adopted by Metropolitan on January 12, 1993, and any amendments, modifications or supplements thereto.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and such other services providing information with respect to called bonds as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

“Mandatory Sinking Account Payment” means, with respect to Bonds of any Series and maturity, the amount required by the Resolution to be deposited by the Treasurer in the Bond Service Fund for the payment of Term Bonds of such Series and maturity.

“Master Resolution” means Resolution 8329 adopted by Metropolitan on July 9, 1991, as amended and supplemented.

“Maximum Annual Debt Service” means, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Obligations in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year, provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Parity Obligations or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Obligations or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Obligations or Bonds on the date of calculation or, if such Parity Obligations or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Obligations or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan;

(c) if the Parity Obligations or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on parity with the lien of the Parity Obligations or Bonds, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the lesser of (i) the then current "prime rate" of the provider of the Credit Facility and (ii) the maximum rate permitted on the Parity Obligations or Bonds;

(d) principal and interest payments on Parity Obligations and Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit (and investment earnings thereon) as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Obligations or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

(e) if the Bonds or Parity Obligations are Paired Obligations, the interest rate on such Bonds or Parity Obligations shall be the collective fixed interest rate to be paid by Metropolitan with respect to such Paired Obligations;

(f) in determining the principal amount due in each Fiscal Year, payment (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) shall be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds or Parity Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed an interest payment due on the scheduled redemption or payment date; and

(g) with respect to each interest rate swap agreement constituting a Parity Obligation then in effect, if any, there shall be added into the calculation of Maximum Annual Debt Service an amount equal to the greater of:

(i) 0, and

(ii) (a) if the swap rate applicable to Metropolitan under such interest rate swap agreement is fixed, an amount equal to (1) (x) such fixed swap rate less (y) the variable swap rate applicable to the counterparty to such interest rate swap agreement at such date of determination, times (2) the notional amount of such interest rate swap agreement, or

(b) if the swap rate applicable to Metropolitan under such interest rate swap agreement is variable, an amount equal to (1) (x) 1.20 times the variable swap rate at such date of determination less (y) the fixed swap rate applicable to the counterparty to such interest rate swap agreement, times (2) the notional amount of such interest rate swap agreement,

in each case the notional amount of, and swap rates applicable to each party on such date of determination under, such interest rate swap agreement shall be as set forth in a certificate of a financial advisor or investment banker delivered to Metropolitan.

Notwithstanding any other subsection of this definition of Maximum Annual Debt Service, except as set forth in subsection (g) above, no amounts payable under any interest rate swap agreement constituting a Parity Obligation shall be included in the calculation of Maximum Annual Debt Service.

“Municipal Obligations” means municipal obligations, rated in the highest Rating Category by any Rating Agencies, meeting the following conditions:

(a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Operating Revenues” means Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues.

“Operating Revenues” means all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan’s water rates, readiness-to-serve charge, standby charge, new demand charge, connection maintenance charge, and treated water peaking charge.

“Operation and Maintenance Expenditures” means the necessary Expenditures for operating and maintaining the properties, works, and facilities of Metropolitan and shall include (i) Expenditures for such charges as may be payable by Metropolitan under the State Water Contract and under that certain contract entitled “The Devil Canyon-Castaic Contract” between Metropolitan and certain other Southern California public agencies, dated June 23, 1972, as amended from time to time, which charges constitute operation, maintenance, power and replacement charges, (ii) any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants and (iii) such other Expenditures of Metropolitan generally classified as operating and maintenance Expenditures, excluding any charges for depreciation or amortization. Notwithstanding the preceding sentence, for purposes of payment of Operation and Maintenance Expenditures only (see “THE MASTER RESOLUTION – Water Revenue Fund – Operation and Maintenance Expenditures”), Operation and Maintenance Expenditures shall not include a portion of any payment calculated pursuant to Section 25(d) of the first aforementioned

contract which Metropolitan determines is attributable to the capital costs of off-aqueduct power facilities, as such facilities are defined in Article (1)(i)(2) of such contract.

“Operation and Maintenance Fund” means the fund of that name established and continued pursuant to the Master Resolution.

“Outstanding” means (1) when used as of any particular time with reference to Bonds (excluding, solely for the purpose of determining whether the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, or waiver, those Bonds which are owned by or held by or for the account of Metropolitan), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (A) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of Metropolitan shall have been discharged in accordance with the Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (D) Bonds no longer deemed to be outstanding under the Resolutions as provided in the Supplemental Resolution pursuant to which such Bonds were issued; and (2) when used as of any particular time with reference to Parity Obligations, all Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Parity Obligations.

“Owner” or **“Bondholder”** whenever used with respect to a Bond, means the person in whose name such Bond is registered.

“Paired Obligations” means any one or more Series (or portion thereof) of Bonds or Parity Obligations, designated as Paired Obligations in the Supplemental Resolution or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts, and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of Metropolitan for the term of such Bonds or Parity Obligations.

“Parity Obligations” means (1) any indebtedness or other obligation of Metropolitan for borrowed money, (2) any obligations of Metropolitan for deferred purchase price, (3) any lease obligation of Metropolitan, or (4) any other obligation of Metropolitan, in each case having a lien and charge upon, or being payable from, the Net Operating Revenues on parity with the Bonds.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Rating Agencies” means either or both of Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and such other securities rating agencies providing a rating with respect to a Series of Bonds.

“Rating Category” means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Redemption Fund” means the Water Revenue Bonds, Redemption Fund established and maintained by the Master Resolution with respect to the Bonds.

“Redemption Price” means, with respect to any Bond (or portion thereof) the principal amount or Accreted Value of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Resolution.

“Refunding Bonds” means Bonds authorized by the Fourth Supplemental Resolution to be issued pursuant to the Act and the Master Resolution, which Bonds are designated as “The Metropolitan Water District of Southern California Water Revenue Refunding Bonds.”

“Request” of Metropolitan means a written request signed by an authorized representative of Metropolitan.

“Reserve Fund” means, with respect to a Series of Refunding Bonds, a Water Revenue Refunding Bonds Reserve Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

“Reserve Fund Credit Policy” means an insurance policy, surety bond, letter of credit or other credit facility deposited with the Fiscal Agent pursuant to the terms of the Fourth Supplemental Resolution.

“Revenue Remainder Fund” means the fund of that name established and continued pursuant to the Master Resolution.

“Resolution” means the Master Resolution as supplemented, modified or amended by each Supplemental Resolution, including without limitation, the Fourth Supplemental Resolution.

“Securities Depositories” means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and such other securities depositories as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

“Serial Bonds” means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

“Series” whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Resolution.

“State Water Contract” means that certain contract entitled “A contract between the State of California Department of Water Resources and The Metropolitan Water District of Southern California for a Supply of Water,” dated November 4, 1960, as amended from time to time.

“Supplemental Resolution” means any resolution duly adopted by the Board, supplementing, modifying or amending the Master Resolution in accordance with the Master Resolution.

“Tax and Nonarbitrage Certificate” means, with respect to a Series of Refunding Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of Refunding Bonds.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Treasurer” means the Treasurer of Metropolitan, who may also be the Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

“Variable Rate Indebtedness” means any indebtedness or obligation, other than Paired Obligations, the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

“Water Revenue Fund” means the fund of that name established and continued pursuant to the Master Resolution.

“Water System” means the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water.

THE MASTER RESOLUTION

General

The Master Resolution authorizes the creation of “The Metropolitan Water District of Southern California Water Revenue Bonds,” which Bonds may be issued in the aggregate principal amount set forth under the Act and the Resolutions as described in the Official Statement, and shall be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Master Resolution. Metropolitan will not fund a reserve fund for the 2012C Bonds or the 2012D Bonds.

Supplemental Resolutions; Additional Bonds

The Bonds of each Series shall bear interest, if any, at such rate or rates or determined in such manner (not to exceed the maximum rate of interest permitted by law) and payable at such intervals as may be determined by Metropolitan at the time of issuance thereof (pursuant to the Supplemental Resolution under which such Series are issued), and shall mature and become payable on such date or dates and in such year or years as Metropolitan may determine (pursuant to the Supplemental Resolution creating such Series). The Bonds of each Series may be subject to mandatory or optional purchase or redemption upon such terms and conditions and upon such notice and with such effect as provided in the Supplemental Resolution creating such Series.

The Bonds of any Series may be issued in such denominations as may be authorized by the Supplemental Resolution creating such Series in fully registered or bearer form, with or without coupons or in fully registered book-entry form.

Redemption of Bonds

Terms of Redemption. Each Series of Bonds may be made subject to redemption prior to its respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Resolution creating such Series of Bonds. The 2012C Bonds are not subject to redemption prior to their maturity. The 2012D Bonds are subject to redemption prior to their maturity as described in this Official Statement.

Selection of Bonds to be Redeemed. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all Bonds of that Series are to be redeemed, the maturities of Bonds to be redeemed may be selected by Metropolitan. Metropolitan shall give written notice of its selection not later than 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent for that Series may give notice of redemption to the Owners

of the Bonds of that Series. If Metropolitan does not give notice of its selection, such Fiscal Agent shall, unless otherwise provided in the Supplemental Resolution creating such Series of Bonds, select the Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all of the Bonds of like maturity of that Series are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Fiscal Agent for such Series in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. Unless otherwise specified in a Supplemental Resolution creating a Series of Bonds, each notice of redemption of Bonds of any Series shall be mailed by first-class mail by the Fiscal Agent for that Series, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner whose Bonds are called for redemption, the Securities Depositories and one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered or overnight mail. Each notice of redemption shall state the date of such notice, the distinguishing designation of the Series of Bonds to which such notice relates, the date of issue of such Series of Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent for that Series), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither Metropolitan nor the Fiscal Agent for such Series shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither Metropolitan nor the Fiscal Agent for such Series shall be liable for any inaccuracy in such numbers.

Failure by the Fiscal Agent for a Series of Bonds being redeemed to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice of any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Master Resolution, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a Bond, Metropolitan shall execute and the Fiscal Agent for that Bond shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption dates, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portion thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Pledge of Net Operating Revenues

The Bonds of each Series are special limited obligations of Metropolitan and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal and Accreted Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) the Net Operating Revenues and (ii) the other funds, assets and security described in the Master Resolution and under the Supplemental Resolution creating that Series. Under the Master Resolution, Metropolitan pledges and places a charge upon all Net Operating Revenues to secure the payment of the principal and Accreted Value of, premium, if any, and interest on the Bonds and Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein, and the Net Operating Revenues constitute a trust for the security and payment of the interest and any premium on and principal and Accreted Value of the Bonds and Parity Obligations. There are thereby pledged to secure the payment of the principal and Accreted Value of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Fund, subject only to the provisions of the Master Resolution permitting the application thereof for the purpose and on the terms and conditions set forth therein. The pledge of Net Operating Revenues therein made shall be irrevocable until there are no Bonds Outstanding.

Equality of Security

The Master Resolution constitutes a contract between Metropolitan and the Owners from time to time of the Bonds. The covenants and agreements set forth in the Master Resolution to be performed by or on behalf of Metropolitan or the Fiscal Agent shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or in the Master Resolution. Nothing in the Master Resolution prevents additional security being provided to particular Series of Bonds under any Supplemental Resolution.

Water Revenue Fund

Metropolitan shall allocate all Operating Revenues to the Water Revenue Fund, and shall effect transfers from the Water Revenue Fund to the other funds held by it or by the Fiscal Agent in the amounts and in the following order of priority:

Operation and Maintenance Expenditures. As soon as practicable in each calendar month, Metropolitan shall transfer to the Operation and Maintenance Fund from the Water Revenue Fund an amount sufficient, together with any other revenues lawfully available therefor, to provide for the estimated Operation and Maintenance Expenditures during the current calendar month and the next succeeding calendar month. The Operation and Maintenance Fund shall be used for no other purpose than the payment of Operation and Maintenance Expenditures.

Bond Service Fund. As soon as practicable in each calendar month, there shall be set aside and transferred to the Bond Service Fund an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest

becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110 percent of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Bond Service Fund for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Bond Service Fund for any month shall be increased by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness, and (iii) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Bond Service Fund, or, during said period and prior to giving said notice of redemption, Metropolitan has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Fund, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Bond Service Fund. All Term Bonds purchased from the Bond Service Fund or deposited by Metropolitan with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a request of Metropolitan. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a request of Metropolitan.

In no event will the amounts set aside as provided above in connection with the Outstanding Bonds of each Series remain unspent for more than twelve months after the date on which such amounts are deposited in the Bond Service Fund, with the exception of a reasonable carry-over amount not to exceed the greater of twelve-months' earnings on such amounts or one-twelfth of the annual debt service on the Outstanding Bonds of such Series. At least once each year, on a date to be set forth in the Tax and Nonarbitrage Certificate prepared in connection with each Series of Bonds, any amount remaining in the Bond Service Fund in connection with each Series of Bonds that exceeds the reasonable carry-over amount described above will be transferred to the Water Revenue Fund.

Reserve Funds. Metropolitan shall deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency

therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there shall be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues shall be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency. **The 2012C Bonds and the 2012D Bonds are not secured by a reserve fund or account.**

Excess Earnings Funds. Metropolitan shall deposit in any excess earnings or rebate fund or account established in the Excess Earnings Fund pursuant to a Supplemental Resolution for a Series of Bonds such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

Payment of Other Obligations. In each calendar month Metropolitan shall make any required transfer or deposit for the payments of any obligations of Metropolitan with a lien on, or payable from, Net Operating Revenues junior to the lien thereon of the Bonds and any Parity Obligations.

Revenue Remainder Fund. Any amounts remaining in the Water Revenue Fund after the foregoing transfers, except as otherwise provided in a Supplemental Resolution, shall be transferred to the Revenue Remainder Fund. Provided Metropolitan is in compliance with all covenants contained in the Master Resolution, moneys in the Revenue Remainder Fund may be used for any lawful purpose of Metropolitan.

Establishment, Funding and Application of Redemption Fund

Metropolitan shall establish and the Treasurer shall maintain and hold in trust a special fund designated as the "Water Revenue Bonds, Redemption Fund." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds shall, unless otherwise directed by Metropolitan, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Bond Service Fund) as is directed by Metropolitan except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a request of Metropolitan.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be invested solely in any securities in which Metropolitan may legally invest funds subject to its control; provided that such securities must mature or be available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or any Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be credited to such fund or account.

Covenants

Under the Master Resolution, Metropolitan makes the following covenants with the Owners; provided, however, that said covenants do not require or obligate Metropolitan to use any of its moneys other than the Operating Revenues. The following covenants will be in effect so long as any of the Bonds issued under the Master Resolution are Outstanding and unpaid, or so long as provision for the full payment and discharge thereof at maturity or upon redemption thereof prior to maturity through the setting apart in the Bond Service Fund or in the Redemption Fund or in a special trust fund to insure the payment or redemption thereof (as the case may be) of money sufficient for that purpose has not been made.

Punctual Payment. Metropolitan covenants that it will duly and punctually pay or cause to be paid the principal and Accreted Value of and interest on every Bond issued under the Master Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Master Resolution, and that the payments into the Bond Service Fund and any reserve fund or account will be made, all in strict conformity with the terms of said Bonds and of the Master Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Master Resolution and any Supplemental Resolutions and of the Bonds issued thereunder, and that time of such payment and performance is of the essence of Metropolitan's contract with the Owners of the Bonds.

Discharge Claims. Metropolitan covenants that in order to fully preserve and protect the priority and security of the Bonds Metropolitan shall pay and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Operating Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. Metropolitan shall also pay all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the Operating Revenues therefrom.

Against Sale; Eminent Domain. Metropolitan covenants that the Water System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Water Revenue Fund sufficient in amount to permit payment therefrom of the principal and Accreted Value of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Obligations, and also to provide for such payments into any reserve fund or account as are required under the terms of the Master Resolution or any Supplemental Resolutions or any Parity Obligations documents. The Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Master Resolution or any Supplemental Resolutions. Metropolitan further covenants that it will not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal and Accreted Value of and interest on the Bonds or any Parity Obligations or which otherwise would impair the rights of the Owners with respect to the Operating Revenues or the operation of the Water System. If any part of the Water System is sold and such sale shall adversely affect the adequacy of Net Operating Revenues to pay principal and Accreted Value of and interest on the Bonds or any Parity Obligations, the payment therefor shall, at the option of the Board, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Water System or shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Master Resolution or any Supplemental Resolutions.

Metropolitan covenants that any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain or sale under threat thereof which

shall adversely affect the adequacy of Net Operating Revenues to pay principal and Accreted Value of and interest on the Bonds or any Parity Obligations shall either be used for the acquisition and/or construction of improvements and extensions of the Water System or shall be placed in the Bond Service Fund or the Redemption Fund and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Master Resolution.

Insurance. Metropolitan covenants that it shall at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the Water System shall be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, shall be applied to the retirement of any Outstanding Bonds.

Metropolitan shall also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for workers' compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect Metropolitan and the Owners.

Records and Accounts. Metropolitan shall keep proper books of records and accounts of the Water System separate from all other records and accounts in which complete and correct entries shall be made of all transactions relating to the Water System. Such books shall at all times be subject to the inspection of the Owners of not less than 10 percent of the Outstanding Bonds and any Parity Obligations, or their representatives authorized in writing.

Metropolitan shall cause the books and accounts of the Water System to be audited annually by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the Owners at the principal office of Metropolitan and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

Rates and Charges. Metropolitan shall prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay the following amounts in the order set forth: (a) Operation and Maintenance Expenditures; (b) the interest on and Bond Obligation (including Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) and Parity Obligations as they become due and payable; (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolutions; and (d) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

No Priority for Additional Bonds. No additional bonds, notes or other evidences of indebtedness payable out of the Operating Revenues shall be issued having any priority in payment of principal, premium, if any, or interest over the Outstanding Bonds or Parity Obligations.

Limits on Additional Debt. Except Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations shall be created or incurred unless:

First: Metropolitan is not in default under the terms of the Master Resolution; and

Second: Either (i) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations shall be in operation as estimated by and set forth in a certificate of Metropolitan, plus, at the option of Metropolitan, any or all of the items hereinafter in this covenant designated (a), (b), (c) and (d), shall have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations.

The items any or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in this covenant are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operation and Maintenance Expenditures) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate of Metropolitan.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Water System which has become effective prior to the incurring of such additional Bonds or Parity Obligations but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, as shown by the certificate of Metropolitan.

(c) Any Additional Revenues.

(d) Any other moneys of Metropolitan reasonably expected to be available to pay principal and Accreted Value of and interest on the Bonds or Parity Obligations, as evidenced by a certificate of Metropolitan.

Third: On the date of delivery of and payment for such additional Bonds or Parity Obligations, the amount in any reserve fund or account for any Bonds or Parity Obligations heretofore established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

Nothing in the Master Resolution shall limit the ability of Metropolitan to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Master Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Master Resolution or any Parity Obligations documents.

Operation in an Efficient and Economical Manner. Metropolitan covenants and agrees to conduct the operations of the Water System in an efficient and economical manner and to maintain and preserve the Water System in good repair and working order.

Amendments to Master Resolution

The Master Resolution and the rights and obligations of Metropolitan, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the Board with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding in connection with amendments to the Master Resolution.

No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Master Resolution prior to or on parity with the lien created by the Master Resolution, or deprive the Owners of the Bonds of the lien created by the Master Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Master Resolution), without the consent of the Owners of all of the Bonds then Outstanding or (3) modify any rights or duties of the Fiscal Agent without its consent.

The Master Resolution and the rights and obligations of Metropolitan of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the Board may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of Metropolitan to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), to surrender any right or power reserved to or conferred upon Metropolitan, each of which shall not materially and adversely affect the interests of the Owners of the Bonds, (2) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Master Resolution, and which shall not materially and adversely affect the interests of the Owners of the Bonds, (3) to modify, amend or supplement the Master Resolution to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds, (4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as Metropolitan may deem desirable, subject to certain limitations under the Master Resolution with respect to the issuance of Bonds, (5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds, (6) if Metropolitan has covenanted in a Supplemental Resolution to maintain the exclusion of interest on any Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion, and (7) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Defeasance

Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways:

- (a) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or
- (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer, the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), then, after irrevocable notice or provision therefor to the Owners in the case of a redemption prior to maturity, all liability of Metropolitan in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment.

The money or securities referenced above must be one or more of the following:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bond Obligation and all unpaid interest thereon to maturity or the Redemption Price and unpaid interest thereon to the redemption date, as the case may be; or
- (b) direct non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent (upon which opinion the Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed.

Payment of Bonds After Discharge of the Master Resolution

Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Master Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, shall, upon Request of Metropolitan, be released from the trusts created by the Master Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys shall thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal

Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary shall not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds shall be promptly released to Metropolitan and shall be promptly deposited into the Water Revenue Fund.

Defaults and Remedies under the Master Resolution

Events of Default. Each of the following events shall be an “Event of Default”:

- (a) Default by Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value of any Bond (whether at maturity, by acceleration, call for redemption or otherwise);
- (b) Default by Metropolitan in the due and punctual payment of the interest on any Bond;
- (c) Failure of Metropolitan to observe and perform any of its other covenants, conditions or agreements under the Master Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
- (d) (1) Failure of Metropolitan generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or to the taking possession by any such official of the Water System or any substantial part of Metropolitan’s property, (4) making by Metropolitan of any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of any of the foregoing;
- (e) The entry of any (1) decree or order for relief by a court having jurisdiction over Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or (3) order for the termination or liquidation of Metropolitan or its affairs; or
- (f) Failure of Metropolitan within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of subsection (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Master Resolution, Metropolitan shall not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Master Resolution shall

include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Metropolitan, and Metropolitan shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Master Resolution of any Owner, provided, however, that whenever any provision thereof requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Master Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation.

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsection (d), (e) or (f) of "Events of Default" above, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to Metropolitan, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration Metropolitan shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged in the Master Resolution for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Master Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to Metropolitan, rescind or annul such declaration and its consequence. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding shall be entitled to the appointment of a receiver upon

application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do.

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Master Resolution. No remedy conferred by the Master Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders thereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Unconditional Rights to Receive Principal, Accreted Value, Premium and Interest. Nothing in the Master Resolution shall affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Master Resolution, or the obligation of Metropolitan to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued thereunder to the respective holders thereof at the time and place, from the source and in the manner therein and in the Bonds expressed.

FOURTH SUPPLEMENTAL RESOLUTION

The Fourth Supplemental Resolution authorizes the issuance of Refunding Bonds issued pursuant to the Master Resolution. The provisions of the Fourth Supplemental Resolution include, but are not limited to, the following provisions. Metropolitan will not fund a reserve fund for the 2012C Bonds or the 2012D Bonds.

General

The Treasurer has been appointed as Fiscal Agent to act as the agent of Metropolitan for the Refunding Bonds. The Fiscal Agent shall perform such duties and only such duties as are specifically set forth in the Resolutions.

Redemption

Optional Redemption. The Refunding Bonds of any Series shall be subject to call and redemption prior to maturity, at the option of Metropolitan, in the amounts, at the redemption prices and on the dates as set forth in the Bond Purchase Contract with respect to that Series.

Mandatory Sinking Account Payments. The Outstanding Refunding Bonds of any Series which are Term Bonds shall be called before maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments which have been deposited in the Bond Service Fund, in the amounts and upon the dates established for each such maturity, as set forth in the Bond Purchase Contract with respect to that Series.

Reserve Fund

In connection with the issuance of a Series of Refunding Bonds, Metropolitan shall establish and the Treasurer shall maintain and hold in trust a fund separate from any other fund established or maintained under the Master Resolution and designated as the "Water Revenue Refunding Bonds Reserve Fund" and shall bear such additional designation as shall be determined by Metropolitan. Each Reserve Fund shall be funded as set forth in the Fourth Supplemental Resolution. All amounts held by the Treasurer in the Reserve Fund established with respect to such Series of Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such Series of Refunding Bonds in accordance with their terms.

Metropolitan shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the Reserve Fund established with respect to a Series of Refunding Bonds until such Series is discharged in accordance with the provisions of the Master Resolution. The amount of the Bond Reserve Requirement applicable to a designated Series of Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. In the event of any deficiency in a Reserve Fund, the Treasurer shall replenish such deficiency in accordance with the provisions of the Master Resolution.

All amounts in the Reserve Fund established with respect to a Series of Refunding Bonds shall be used and withdrawn by the Treasurer, as provided in the Resolutions, solely for the purpose of (i) paying principal of and interest on such Series of Refunding Bonds in the event moneys in the Bond Service Fund established for such Series are insufficient, or (ii) for the payment of the final principal and interest payment on such Series of Refunding Bonds. Any amounts in the Reserve Fund established with respect to a Series of Refunding Bonds in excess of the Bond Reserve Requirement for such Series shall be transferred to the Bond Service Fund established for such Series unless otherwise specified in a certificate of a Metropolitan.

Metropolitan has determined that the Bond Reserve Requirement for the 2012C Bonds and the 2012D Bonds will be established at \$0 and no Reserve Fund for the 2012C Bonds or the 2012D Bonds will be established or maintained.

Reserve Fund Credit Policy

At the option of Metropolitan, amounts required to be held in a Reserve Fund may be substituted, in whole or in part, by the deposit with the Fiscal Agent of a Reserve Fund Credit Policy in a stated amount equal to the amounts so substituted, provided that prior to the substitution of such Reserve Fund Credit Policy the Rating Agencies shall have been notified of such proposed substitution and the substitution shall not result in a downgrading or withdrawal of any rating of the applicable Refunding Bonds then in effect by the Rating Agencies. Any such substituted moneys shall be applied as provided in a certificate of Metropolitan. So long as a Reserve Fund Credit Policy shall be in force and effect, any deposits required to be made with respect to the applicable Reserve Fund pursuant to the Master Resolution shall include any amounts due to the provider of such Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy (which amounts shall constitute a "deficiency" or "withdrawal" from the applicable Reserve Fund within the meaning of the Master Resolution). Any such amounts shall be paid to the provider of such Reserve Fund Credit Policy as provided in such Reserve Fund Credit Policy or any related agreement.

Excess Earnings Funds

To ensure proper compliance with the tax covenants contained in the Fourth Supplemental Resolution, Metropolitan shall establish and the Treasurer shall maintain a fund for each Series of Refunding Bonds issued under the Fourth Supplemental Resolution, which fund shall be separate from

any other fund or account established and maintained thereunder or under the Master Resolution and shall be designated as the "Water Revenue Refunding Bonds Excess Earnings Fund" and shall bear such additional designation as shall be ascribed thereto by Metropolitan. All money at any time deposited in the Excess Earnings Fund with respect to a Series of Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series shall be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any Bonds of such Series of Refunding Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund shall be governed by the Fourth Supplemental Resolution and by the applicable Tax and Nonarbitrage Certificate. The Treasurer shall invest all amounts held in any such Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money shall not be transferred from the Excess Earnings Fund established for a Series of Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

Tax Covenants

In order to maintain the exclusion from gross income of the interest on the Refunding Bonds for federal income tax purposes, Metropolitan covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and Metropolitan agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate, as a source of guidance for compliance with such provisions. Notwithstanding any other provisions of the Master Resolution or the Fourth Supplemental Resolution to the contrary, upon Metropolitan's failure to observe, or refusal to comply with, these tax covenants, no Person other than the Owners of the Refunding Bonds shall be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Fourth Supplemental Resolution on the basis of Metropolitan's failure to observe, or refusal to comply with, such covenants.

APPENDIX D**BOOK-ENTRY ONLY SYSTEM****Introduction**

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites as described under “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The beneficial owners of the 2012 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2012 BONDS UNDER THE RESOLUTIONS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2012 BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2012 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2012 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2012 Bonds. The 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2012 Bond certificate will be issued for each maturity of the 2012 Bonds and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). Standard & Poor’s has rated DTC

“AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2012 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2012 Bonds, except in the event that use of the book-entry system for the 2012 Bonds is discontinued.

To facilitate subsequent transfers, all 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012 Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2012 Bonds documents. For example, Beneficial Owners of the 2012 Bonds may wish to ascertain that the nominee holding the 2012 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2012 Bonds of like maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012 Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for

the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2012 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Metropolitan, the Fiscal Agent and the Underwriters cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2012 Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Metropolitan, the Fiscal Agent and the Underwriters are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2012 Bonds or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2012 Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2012 Bonds certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2012 Bonds certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Metropolitan believes to be reliable, but Metropolitan takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2012 BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

If the book-entry only system is discontinued, payments of principal and purchase price of and interest on the 2012 Bonds will be payable as described in this Official Statement under the caption "DESCRIPTION OF THE 2012 BONDS – General."

APPENDIX F**FORMS OF OPINION OF CO-BOND COUNSEL**

[Closing Date]

The Metropolitan Water District
of Southern California
700 North Alameda Street
Los Angeles, California 90012

\$ _____

The Metropolitan Water District of Southern California
Water Revenue Refunding Bonds, 2012 Series C

Ladies and Gentlemen:

We have examined certified copies of the record of proceedings of the issuance of The Metropolitan Water District of Southern California Water Revenue Refunding Bonds, 2012 Series C (the "2012C Bonds") in the aggregate principal amount of \$ _____. The 2012C Bonds are being issued by The Metropolitan Water District of Southern California ("Metropolitan") pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 8329 adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 8387 adopted by the Board on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Resolutions or in the Bond Purchase Contract (as defined below).

The 2012C Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Bond Purchase Contract, dated June __, 2012 (the "Bond Purchase Contract"), by and between Metropolitan and Goldman Sachs & Co., as representative of itself and the underwriters listed therein, relating to the 2012C Bonds.

In our role as Co-Bond Counsel to Metropolitan, we have examined the record of proceedings referred to above, and such other matters of fact or law as we deemed necessary for the purposes of these opinions.

On the basis of the foregoing examination, we are of the opinion that:

1. The 2012C Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. Metropolitan is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds (including principal of and interest on the 2012C Bonds) and Parity Obligations as the same shall become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms.

4. Under existing law, interest on the 2012C Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenant described below, interest on the 2012C Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. The 2012C Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2012C Bonds is not treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, the receipt or accrual of interest on the 2012C Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the 2012C Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2012C Bonds to be included in gross income retroactive to the date of issue of the 2012C Bonds. Metropolitan has covenanted in the Resolutions to maintain the exclusion of interest on the 2012C Bonds from the gross income of the owners thereof for federal income tax purposes.

The opinions expressed in paragraphs 1, 2 and 3 above are qualified to the extent the enforceability of the 2012C Bonds and the Resolutions may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. Further, the enforceability of the 2012C Bonds and the Resolutions are subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in the State of California.

Our opinions expressed in paragraph 4 above are rendered in reliance on representations and certifications of Metropolitan made in a Tax Certificate dated the date hereof pertaining to the use, expenditure, and investment of the proceeds of the 2012C Bonds. Except as stated in paragraph 4 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2012C Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2012C Bonds, or the interest thereon, if any action is taken with respect to the 2012C Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2012C Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

[Closing Date]

The Metropolitan Water District
of Southern California
700 North Alameda Street
Los Angeles, California 90012

\$ _____
The Metropolitan Water District of Southern California
Water Revenue Refunding Bonds, 2012 Series D

Ladies and Gentlemen:

We have examined certified copies of the record of proceedings of the issuance of The Metropolitan Water District of Southern California Water Revenue Refunding Bonds, 2012 Series D (the "2012D Bonds") in the aggregate principal amount of \$ _____. The 2012D Bonds are being issued by The Metropolitan Water District of Southern California ("Metropolitan") pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 8329 adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 8387 adopted by the Board on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Resolutions or in the Bond Purchase Contract (as defined below).

The 2012D Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Bond Purchase Contract, dated June __, 2012 (the "Bond Purchase Contract"), by and between Metropolitan and Barclays Capital LLC, relating to the 2012D Bonds.

In our role as Co-Bond Counsel to Metropolitan, we have examined the record of proceedings referred to above, and such other matters of fact or law as we deemed necessary for the purposes of these opinions.

On the basis of the foregoing examination, we are of the opinion that:

1. The 2012D Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. Metropolitan is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds (including principal of and interest on the 2012D Bonds) and Parity Obligations as the same shall

become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms.

4. Under existing law, interest on the 2012D Bonds is exempt from personal income taxes of the State of California.

The opinions expressed in paragraphs 1, 2 and 3 above are qualified to the extent the enforceability of the 2012D Bonds and the Resolutions may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. Further, the enforceability of the 2012D Bonds and the Resolutions are subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in the State of California.

Our opinions expressed in paragraph 4 above are rendered in reliance on representations and certifications of Metropolitan made in a Tax Certificate dated the date hereof pertaining to the use, expenditure, and investment of the proceeds of the 2012D Bonds. Except as stated in paragraph 4 above, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2012D Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2012D Bonds, or the interest thereon, if any action is taken with respect to the 2012D Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2012D Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of June 1, 2012 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$_____ aggregate principal amount of Water Revenue Refunding Bonds, 2012 Series C (the “2012C Bonds”) and its \$_____ aggregate principal amount of Water Revenue Refunding Bonds, 2012 Series D (the “2012D Bonds” and, together with the 2012C Bonds, the “2012 Bonds”). The 2012 Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented by Article 11 of Chapter 3, and Chapter 6, of Part 1, Division 2, Title 5 of the California Government Code, as amended, Resolution 8329, adopted by the Board of Directors of Metropolitan (the “Board”) on July 9, 1991, as amended and supplemented (the “Master Resolution”), and Resolution 8387, adopted by the Board on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES AND DEBT SERVICE – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in APPENDIX A to the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage”; (iii) under the caption “METROPOLITAN REVENUES” in APPENDIX A to the Official Statement, the tables “Summary of Receipts by Source”, “Summary of Water Sold and Water Sales Receipts”, “Summary of Water Rates”, and “Ten Largest Water Customers”; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption “METROPOLITAN EXPENDITURES” in APPENDIX A to the Official Statement, the table “Summary of Expenditures”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan”; (v) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A to the Official Statement, historical revenues and expenditures for the then immediately past fiscal year, as presented in the table “Historical and Projected Revenues and Expenditures”; (vi) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A to the Official Statement, the percentage of operation and maintenance expenditures to total costs; (vii) under the caption “POWER SOURCES AND COSTS” in APPENDIX A to the Official Statement, the expenditures for electric power, for so long as such information shall be deemed to be material by Metropolitan; and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (1) above of financial information and operating data constituting Annual Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, or due to changes in accounting practices, or legislative or organizational changes, a statement to that effect shall be provided in lieu of such information. Comparable information shall be provided if available.

(2) “Audited Financial Statements” means the annual financial statements, if any, of Metropolitan, audited by such auditor as shall then be required or permitted by State law or the Resolutions. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that Metropolitan may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 4.2(d) hereof shall include a reference to the specific federal or State law or regulation describing such accounting principles.

(3) “Counsel” means Fulbright & Jaworski L.L.P., Los Angeles, California and/or the Alexis S. M. Chiu, Esq., San Francisco, California or another nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

(4) “EMMA System” means the MSRB’s Electronic Municipal Market Access system or any successor nationally recognized municipal securities information repositories recognized by the SEC for the purposes referred to in the Rule.

(5) “Event Notice” means written or electronic notice of a Notice Event.

(6) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(8) “Notice Event” means any of the following events with respect to the 2012 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notice of determinations with respect to the tax status of the 2012 Bonds, or other material events affecting the tax status of any 2012 Bonds;
- (vii) modifications to rights of security holders, if material;

- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(9) "Official Statement" means the Official Statement dated _____, 2012, of Metropolitan relating to the 2012 Bonds.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "State" means State of California.

(13) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE II The Undertaking

Section 2.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the 2012 Bonds and is being executed and delivered solely to assist the underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2011-12, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

(b) Metropolitan shall provide, in a timely manner, notice of any failure of Metropolitan to provide the Annual Financial Information by the dates specified in subsection (a) above to the EMMA System.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

Section 2.4. Event Notices. If a Notice Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, an Event Notice to the EMMA System.

Section 2.5. Additional Disclosure Obligations. Metropolitan acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to Metropolitan, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of Metropolitan under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

Section 2.7. No Previous Non-Compliance. Metropolitan represents that in the previous five years it has not failed to comply, in any material respects, with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Metropolitan provides Annual Financial Information by specific reference to documents (i) either (1) provided to the EMMA System, or (2) filed with the SEC, or (ii) if such document is a "final official statement," as defined in paragraph (f)(3) of the Rule, available from the MSRB or the EMMA System.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the 2012 Bonds.

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) the MSRB through the EMMA System or (ii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan's sole determination, subject to technical and economic feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of Metropolitan's information and notices.

Section 3.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Metropolitan's current fiscal year is July 1 to June 30, and Metropolitan shall promptly notify the EMMA System of each change in its fiscal year.

ARTICLE IV

Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination.

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the 2012 Bonds.

(b) Metropolitan's obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Resolution, prior redemption or payment in full of all of the 2012 Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Metropolitan (1) receives an opinion of Counsel, addressed to Metropolitan, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the 2012 Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the EMMA System.

Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the 2012 Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the 2012 Bonds or (ii) the holders of the 2012 Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Resolutions with consent of holders of 2012 Bonds, pursuant to the Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the

EMMA System.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the 2012 Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by Metropolitan to the EMMA System.

Section 4.3. Contract: Benefit; Third-Party Beneficiaries: Enforcement.

(a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the 2012 Bonds, except that beneficial owners of 2012 Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding 2012 Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of 25 percent in aggregate amount of Outstanding 2012 Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of 2012 Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of 2012 Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolutions and shall not result in any acceleration of payment of the 2012 Bonds, and the rights and remedies provided by the Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By: _____
Gary Breaux
Assistant General Manager and
Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By: _____
Assistant General Counsel

Fulbright & Jaworski LLP – Draft 06/04/12**PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2012****[MWD Logo]****NEW ISSUE
(FULL BOOK-ENTRY)****See “RATINGS” herein**

In the opinion of Co-Bond Counsel to Metropolitan, under existing law interest on the 2012E Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2012E Bonds is excluded, pursuant to section 103(a) of the Internal Revenue Code of 1986, from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See “TAX MATTERS.”

\$89,460,000*

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Water Revenue Refunding Bonds
(Term Mode)**

\$28,420,000*
2012 Series E-1
Initial Scheduled Mandatory
Tender Date: July 1, 2014

\$29,820,000*
2012 Series E-2
Initial Scheduled Mandatory
Tender Date: July 1, 2015

\$31,220,000*
2012 Series E-3
Initial Scheduled Mandatory
Tender Date: July 1, 2016

**Dated, Priced, Due and bearing interest at such initial Term Rates as set forth on the inside cover page
See “SUMMARY OF CERTAIN OFFERING TERMS.”**

The Metropolitan Water District of Southern California (“Metropolitan”) is issuing its Water Revenue Refunding Bonds, 2012 Series E-1, 2012 Series E-2 and 2012 Series E-3 (collectively, the “2012E Bonds” and each a Series”) for the purpose of providing funds, together with certain other available moneys (including proceeds of certain Bonds to be issued concurrently with the 2012E Bonds as described herein), to provide for the refunding of a portion of Metropolitan’s outstanding Bonds, funding the costs of terminating all or a portion of certain interest rate swap agreements and paying the costs of issuance of the 2012E Bonds. Concurrently with the issuance of the 2012E Bonds, Metropolitan is issuing its \$277,080,000* principal amount of Water Revenue Refunding Bonds, 2012 Series C (the “2012C Bonds”) and \$56,335,000* principal amount of Water Revenue Refunding Bonds, 2012 Series D (Federally Taxable) (the “2012D Bonds”). See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.” The 2012C Bonds, the 2012D Bonds and the 2012E Bonds are sometimes referred to collectively herein as the “2012 Refunding Bonds.” *Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.*

The 2012E Bonds will initially bear interest in the Term Mode. While in the Term Mode, the 2012E Bonds will bear interest at a Term Rate, except during a Purchase Default Period, in which case they will bear interest at the Purchase Default Rate. Metropolitan will pay interest on each Series of 2012E Bonds in the Term Mode on January 1 and July 1 of each year, commencing January 1, 2013, and on the applicable Mandatory Purchase Date for such Series in connection with a Term Mode Unscheduled Mandatory Tender and on the applicable Scheduled Mandatory Tender Date for such Series.

Metropolitan may redeem (in whole or in part) any Series of the 2012E Bonds on or after the applicable Call Protection Date for such Series or may require the Owners of any Series of the 2012E Bonds to tender their 2012E Bonds for purchase prior to maturity at any time on or after the applicable Call Protection Date for such Series. Additionally, the Owners of all of the 2012E Bonds of a Series must tender for purchase, and Metropolitan must purchase, all of the 2012E Bonds of such Series on the Scheduled Mandatory Tender Date of each Term Period for such Series. Failure to pay the Purchase Price of any Series of the 2012E Bonds upon the mandatory tender thereof on such Scheduled Mandatory Tender Date will constitute an event of default under the Paying Agent Agreement relating to such 2012E Bonds as described herein.

The 2012E Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan’s obligation to pay the Purchase Price of any 2012E Bonds tendered for purchase is an unsecured obligation payable solely from the sources specified in this Official Statement. The 2012E Bonds do not constitute general obligation indebtedness of Metropolitan. As of June 1, 2012, Metropolitan had outstanding \$4.61 billion aggregate principal amount of Bonds payable from Net Operating Revenues (including the Bonds to be refunded from the proceeds of the 2012 Refunding Bonds). Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012E Bonds or the interest thereon. The obligation to pay

*Preliminary, subject to change.

the principal of and interest on the 2012E Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.

The 2012E Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Fulbright & Jaworski L.L.P. and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Public Resources Advisory Group, Los Angeles, California is serving as Financial Advisor to Metropolitan in connection with the issuance of the 2012E Bonds. Metropolitan anticipates that the 2012E Bonds will be available for delivery through the facilities of DTC on or about June 28, 2012.

Goldman, Sachs & Co.

Morgan Stanley

Citi

De La Rosa

Ramirez & Co.

Siebert Brandford Shank & Co. LLC

June ____, 2012

SUMMARY OF CERTAIN OFFERING TERMS**\$28,420,000*****THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE REFUNDING BONDS, 2012 SERIES E-1**

Dated Date:	Date of Delivery
Initial Scheduled Mandatory Tender Date: [†]	July 1, 2014
Initial Term Yield:	____%
Initial Term Coupon:	____%
Price:	____%
Initial Call Protection Date: ^{††}	____, ____
Final Maturity Date:	July 1, 2032
CUSIP Number: ^{†††}	59266____
Remarketing Agent:	

\$29,820,000***THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE REFUNDING BONDS, 2012 SERIES E-2**

Dated Date:	Date of Delivery
Initial Scheduled Mandatory Tender Date: [†]	July 1, 2015
Initial Term Yield:	____%
Initial Term Coupon:	____%
Price:	____%
Initial Call Protection Date: ^{††}	____, ____
Final Maturity Date:	July 1, 2035
CUSIP Number: ^{†††}	59266____
Remarketing Agent:	

\$31,220,000***THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
WATER REVENUE REFUNDING BONDS, 2012 SERIES E-3**

Dated Date:	Date of Delivery
Initial Scheduled Mandatory Tender Date: [†]	July 1, 2016
Initial Term Rate:	____%
Price:	____%
Initial Call Protection Date: ^{††}	____, ____
Final Maturity Date:	July 1, 2037
CUSIP Number: ^{†††}	59266____
Remarketing Agent:	

* Preliminary, subject to change.

[†] If funds are not available for the purchase of all of the Outstanding 2012E Bonds of such Series on such date, they will not be purchased and the 2012E Bonds of such Series will go into a Purchase Default Period. See "DESCRIPTION OF THE 2012E BONDS – Event of Default and Purchase Default Period – *Purchase Default Period.*"

^{††} First optional call or Unscheduled Mandatory Tender Date.

^{†††} CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**MAJOR WATER CONVEYANCE FACILITIES
TO SOUTHERN CALIFORNIA**

[map to come]

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Officers of the Board of Directors**

Chairman

JOHN V. FOLEY

Vice Chair

RANDY A. RECORD

Vice Chair

GLORIA GRAY

Vice Chair

JOHN W. MURRAY JR.

Vice Chair

DAVID D. DE JESUS

Secretary

JOHN T. MORRIS

REPRESENTATIVES OF MEMBER PUBLIC AGENCIES

Anaheim

KRISTINE MURRAY

Beverly Hills

ROBERT WUNDERLICH

Burbank

GLENN A. BROWN

Compton

DIANA SANCHEZ

Fullerton

JAMES H. BLAKE

Glendale

LAURA FRIEDMAN

Long Beach

SUJA LOWENTHAL

Los Angeles

DAVID W. FLEMING
AARON A. GRUNFELD
JOHN W. MURRAY JR.
JESÚS E. QUIÑONEZ

Pasadena

TIMOTHY F. BRICK

San Fernando

SYLVIA BALLIN

San Marino

JOHN T. MORRIS

Santa Ana

DANIEL E. GRISET

Santa Monica

JUDY ABDO

Torrance

BILL D. WRIGHT

**Calleguas Municipal Water
District**

TED GRANDSEN

**Central Basin Municipal
Water District**

PHILLIP D. HAWKINS
RUDY C. MONTALVO

**Eastern Municipal Water
District**

RANDY A. RECORD

**Foothill Municipal Water
District**

JAMES T. EDWARDS

**Inland Empire Utilities
Agency**

MICHAEL CAMACHO

**Las Virgenes Municipal
Water District**

GLEN D. PETERSON

**Municipal Water District of
Orange County**

LINDA ACKERMAN
BRETT R. BARBRE
LARRY D. DICK
JOHN V. FOLEY

**San Diego County Water
Authority**

LYNNE L. HEIDEL
KEITH LEWINGER
FERN STEINER
DOUG WILSON

**Three Valleys Municipal
Water District**

DAVID D. DE JESUS

**Upper San Gabriel Valley
Municipal Water District**

STEPHEN MILLARD

**West Basin Municipal Water
District**

GLORIA D. GRAY
EDWARD C. "ED" LITTLE

**Western Municipal Water
District of Riverside County**

THOMAS P. EVANS

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER
General Manager

MARCIA SCULLY
General Counsel

GERALD C. RISS
General Auditor

JEFFREY CABLE
Interim Ethics Officer

DEBRA C. MAN
*Assistant General
Manager/Chief
Operating Officer*

GILBERT F. IVEY
*Assistant General
Manager/Chief
Administrative Officer*

GARY BREAUX
*Assistant General
Manager/Chief
Financial Officer*

ROGER K. PATTERSON
*Assistant General
Manager/Strategic Water
Initiatives*

LINDA WAADE
*Deputy General Manager/
External Affairs*

DAWN M. CHIN
Board Executive Secretary

Co-Bond Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Alexis S. M. Chiu, Esq.
San Francisco, California

Financial Advisor

Public Resources Advisory Group
Los Angeles, California

Fiscal Agent

Roger N. Marumoto
Metropolitan Treasurer

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

Paying Agent and Escrow Agent

Wells Fargo Bank, National Association
Los Angeles, California

This Official Statement does not constitute an offer to sell the 2012E Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Official Statement is not to be construed as a contract with the purchasers of the 2012E Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the offering of the 2012E Bonds, and if given or made, investors must not rely on such information or representations.

The information set forth herein has been obtained from Metropolitan and other sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, imply that there has been no change in the affairs of Metropolitan since the date hereof.

The Underwriters have provided the following three sentences for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In connection with the offering of the 2012E Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market prices of such 2012E Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association, and is set forth herein for convenience of reference only. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "estimate," "budget" or other similar words. The achievement of results or other expectations contained in forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results may not meet Metropolitan's forecasts. Metropolitan is not obligated to issue any updates or revisions to the forward-looking statements in any event.

Metropolitan maintains a website. However, the information presented on that website is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2012E Bonds.

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SUMMARY STATEMENT

Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered to be a complete statement of the facts material to making an investment decision. Capitalized terms used in this Summary Statement, if not defined herein, have the meanings specified in APPENDIX C or in the Resolutions (as defined herein).

Metropolitan

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 37-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan provides 40 to 60 percent of the water used within its service area in any year. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the 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. The member agencies of Metropolitan are not currently obligated by contract to purchase water from Metropolitan. For a description of voluntary purchase orders entered into by member agencies, see APPENDIX A – “METROPOLITAN REVENUES – Member Agency Purchase Orders.”

For general information regarding Metropolitan, including information regarding Metropolitan’s operations and finances, see APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” and APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED).” For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Economy of Metropolitan’s Service Area

Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura (the “Six County Area”). Almost 19 million people resided within Metropolitan’s service area in 2011. In 2010, the Six County Area had a gross regional product of approximately \$1 trillion, which is larger than the gross national or gross domestic product of all but 12 nations of the world. For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Authorization for the 2012E Bonds

Metropolitan is issuing its Water Revenue Refunding Bonds, 2012 Series E-1 (the “2012 E-1 Bonds”), 2012 Series E-2 (the “2012 E-2 Bonds”) and 2012 Series E-3 (the “2012 E-3 Bonds and, collectively with the 2012E-1 Bonds and 2012 E-2 Bonds, the “2012E Bonds”) pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), and Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the “Master Resolution”), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the “Bonds.”

Paying Agent Agreement

The 2012E Bonds are further described in the Paying Agent Agreement relating to the 2012E Bonds, dated as of June 1, 2012 (the “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”).

Purpose of the 2012E Bonds

Metropolitan is issuing the 2012E Bonds for the purpose of providing funds, together with certain other available moneys (including proceeds of certain Bonds to be issued concurrently with the 2012E Bonds as described below), to provide for the refunding of a portion of Metropolitan’s outstanding Bonds, funding the costs of terminating all or a portion of certain interest rate swap agreements and paying the costs of issuance of the 2012E Bonds. Concurrently with the issuance of the 2012E Bonds, Metropolitan will issue its \$277,080,000* principal amount of Water Revenue Refunding Bonds, 2012 Series C (the “2012C Bonds”) and \$56,335,000* principal amount of Water Revenue Refunding Bonds, 2012 Series D (Federally Taxable) (the “2012D Bonds”). It is a condition precedent to the delivery of each Series of the 2012 Refunding Bonds that all Series of the 2012 Refunding Bonds be delivered. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.” The 2012C Bonds, 2012D Bonds and 2012E Bonds are sometimes referred to collectively herein as the “2012 Refunding Bonds.”

Terms Relating to Interest on the 2012E Bonds

Interest Rate During Term Mode. Metropolitan will issue the 2012E Bonds in three Series, each of which will initially bear interest in the Term Mode until such time as Metropolitan may designate a new Interest Mode for such Series. Each Series of the 2012E Bonds while in the Term Mode will bear interest at a fixed interest rate (the “Term Rate”) for a specified period (each such period, a “Term Period”) applicable for such Series; provided, however, that, during a Purchase Default Period for any such Series of the 2012E Bonds, all of the 2012E Bonds of the affected Series will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The initial Term Rate applicable for each Series of 2012E Bonds is set forth under “SUMMARY OF CERTAIN OFFERING TERMS” on the inside cover page of this Official Statement, and with respect to subsequent Term Periods for each Series, if applicable, will be determined as described in this Official Statement.

Interest Payment Date. Metropolitan will pay interest on each Series of 2012E Bonds (including during a Purchase Default Period) (a) on January 1 and July 1 of each year, commencing January 1, 2013), (b) on each Mandatory Purchase Date in connection with a Term Mode Unscheduled Mandatory

*Preliminary, subject to change.

Tender for such Series (without duplication) and (c) on each Scheduled Mandatory Tender Date for such Series (without duplication).

Conversion to a New Interest Mode or a Fixed Interest Rate. Each Series of 2012E Bonds may bear interest calculated pursuant to a different Interest Mode (which may be the Daily Mode, the Weekly Mode, the Short-Term Mode or the Index Mode) and may be converted to a Fixed Interest Rate (as such terms are defined in the Paying Agent Agreement). All the 2012E Bonds of the same Series must be in the same Interest Mode or bear interest at a Fixed Interest Rate. See “DESCRIPTION OF THE 2012E BONDS.”

This Official Statement only describes the 2012E Bonds while bearing interest in the Term Mode. There are significant differences in the terms of the 2012E Bonds while they bear interest in an Interest Mode other than the Term Mode. This Official Statement is not intended to provide information with respect to a Series of 2012E Bonds bearing interest in an Interest Mode other than the Term Mode. Owners and prospective purchasers of the 2012E Bonds should not rely on this Official Statement for information in connection with any change of the 2012E Bonds to a different Interest Mode.

Book-Entry Only

Metropolitan will issue the 2012E Bonds as fully registered bonds, and will register the 2012E Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2012E Bonds. Beneficial ownership interests in the 2012E Bonds will be available in book-entry form only, in Authorized Denominations of \$5,000 and any integral multiple thereof. Purchasers will not receive certificates representing 2012E Bonds purchased by them. Metropolitan will pay principal of and interest on the 2012E Bonds directly to DTC as the registered owner of the 2012E Bonds. Payments of the Purchase Price for any 2012E Bonds will be paid directly to DTC as the registered owner of the 2012E Bonds. Upon receipt of payments of principal, interest or Purchase Price, DTC is obligated to remit such payments of principal, interest and Purchase Price to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 2012E Bonds. See APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

Redemption of the 2012E Bonds

Optional Redemption. The 2012E Bonds of each Series in the Term Mode will be subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, during the applicable Term Period for such Series, on any Business Day on or after the Call Protection Date for such Term Period, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium; *provided, however*, that, during a Purchase Default Period, the affected Series of 2012E Bonds will not be subject to optional redemption. See “DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Optional Redemption of 2012E Bonds.*”

Mandatory Sinking Fund Redemption. Each Series of 2012E Bonds will be subject to mandatory sinking fund redemption prior to maturity, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from Mandatory Sinking Account Payments which will have been deposited in the Bond Service Fund. See “DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Mandatory Sinking Fund Redemption of 2012E Bonds.*”

Special Mandatory Redemption. During any Purchase Default Period for a Series of 2012E Bonds, the 2012E Bonds of such Series will be subject to special mandatory redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from Special Mandatory Redemption Payments which will have been deposited in the Bond Service Fund; *provided, however*, that, upon the termination of such Purchase Default Period, such Series of 2012E Bonds will no longer be subject to special mandatory redemption. See “DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Special Mandatory Redemption of 2012E Bonds.*”

Tender and Purchase of the 2012E Bonds

While the 2012E Bonds of a Series bear interest in the Term Mode, the Owners of all of the 2012E Bonds of such Series must tender for purchase, and Metropolitan must purchase, all of the 2012E Bonds of such Series on the Scheduled Mandatory Tender Date of each Term Period for such Series of 2012E Bonds. While the 2012E Bonds of a Series bear interest in the Term Mode, during each Term Period applicable for such Series of 2012E Bonds, such Series will be subject to mandatory tender for purchase (in whole but not in part), pursuant to a Term Mode Unscheduled Mandatory Tender, on any Business Day from and after the Call Protection Date for such Series, at the Purchase Price, which is equal to the principal amount of such 2012E Bonds, plus accrued interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case, the Purchase Price will not include accrued interest, which will be paid in the normal course). See “DESCRIPTION OF THE 2012E BONDS – Tender and Purchase of 2012E Bonds.”

Scheduled Mandatory Tender Date

The Scheduled Mandatory Tender Date for the initial Term Period for each Series of 2012E Bonds is set forth under “SUMMARY OF CERTAIN OFFERING TERMS” on the inside cover page of this Official Statement. With respect to any subsequent Term Period for a Series of 2012E Bonds, the Scheduled Mandatory Tender Date will be the date determined by Metropolitan pursuant to the provisions of the Paying Agent Agreement. See “DESCRIPTION OF THE 2012E BONDS – Remarketing of 2012E Bonds.”

Call Protection Date

The Call Protection Date for the initial Term Period for each Series of 2012E Bonds is set forth under “SUMMARY OF CERTAIN OFFERING TERMS” on the inside cover page of this Official Statement. For any subsequent Term Period with respect to a Series of 2012E Bonds, the Call Protection Date will be the applicable Standard Call Protection Date. Under certain circumstances, Metropolitan may determine a different Call Protection Date for a Term Period for a Series of 2012E Bonds. See “DESCRIPTION OF THE 2012E BONDS – Remarketing of 2012E Bonds.”

Purchase Default Period

If Metropolitan fails to pay the Purchase Price of all of the 2012E Bonds of a Series pursuant to a Term Mode Scheduled Mandatory Tender, then such failure will be an “Event of Default” for such Series under the Paying Agent Agreement and a Purchase Default Period for such Series will commence.

During a Purchase Default Period for a Series of 2012E Bonds, the following will apply:

(a) All of the 2012E Bonds of the affected Series will bear interest at the Purchase Default Rate, which will be a per annum rate equal to the lower of (i) twelve percent (12%) and (ii) the higher of (A) eight percent (8%) and (B) the Prime Rate plus three percent (3%);

(b) The 2012E Bonds of the affected Series will not be subject to optional redemption (but as provided in (f) below, Metropolitan will remain obligated to purchase the 2012E Bonds of such Series);

(c) The 2012E Bonds of such Series will remain subject to Mandatory Sinking Fund Redemption;

(d) The 2012E Bonds of such Series will be subject to special mandatory redemption on the dates and in the principal amounts as set forth below under the caption "DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Special Mandatory Redemption of 2012E Bonds*;"

(e) Metropolitan will not require the Owners to tender their 2012E Bonds of the affected Series for purchase as set forth below under the caption "DESCRIPTION OF THE 2012E BONDS – Tender and Purchase of 2012E Bonds;"

(f) Metropolitan will continue to be obligated to purchase all of the 2012E Bonds of the affected Series tendered on the Scheduled Mandatory Tender Date for such Series at the Purchase Price, notwithstanding, and in addition to, its obligation to redeem Outstanding 2012E Bonds of such Series from Special Mandatory Redemption Payments; and

(g) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2012E Bonds of the affected Series, the Owners thereof will be obligated to sell and deliver their 2012E Bonds to Metropolitan.

Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of the 2012E Bonds of such Series will not constitute an Event of Default under the Master Resolution or under any other provision of the Resolutions.

Security for the 2012E Bonds

The 2012E Bonds are limited obligations of Metropolitan and will be payable, as to principal of and interest thereon, solely from and secured solely by a pledge of and a lien and charge upon Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described herein. The 2012E Bonds when issued will be payable on a parity with Metropolitan's outstanding bonds issued pursuant to the Resolutions (referred to in this Official Statement as the "Bonds"). As of June 1, 2012, \$4.61 billion of such Bonds (the "Parity Bonds") were outstanding (which includes the \$_____ principal amount of Bonds to be refunded with proceeds of the 2012 Refunding Bonds). Metropolitan also will pay the principal of and interest on the 2012E Bonds on a parity with existing Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS."

Metropolitan's obligation to pay the Purchase Price of any 2012E Bonds tendered for purchase is an unsecured obligation of Metropolitan payable solely from the sources specified in this Official Statement. The 2012E Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012E Bonds or the interest thereon or the Purchase Price thereof. The obligation

to pay the principal of, interest and redemption premium, if any, on or the Purchase Price upon a tender for purchase of the 2012E Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Official Statement.

Metropolitan has established reserve funds for some of the series of outstanding Bonds. However, Metropolitan will not fund a reserve fund for the 2012E Bonds. Amounts held or to be held in a reserve fund or account established for any other series of Bonds or any Reserve Fund Credit Policy for any other series of Bonds will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2012E Bonds.

Rate Covenant

Metropolitan covenants under the Master Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in the estimates, will provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority: (1) Operation and Maintenance Expenditures; (2) the interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds and Parity Obligations as they become due and payable; (3) all other payments required for compliance with the Master Resolution or any Supplemental Resolution; and (4) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues. Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2012E Bonds, including any Mandatory Sinking Fund Payments and, during any Purchase Default Period, Special Mandatory Redemption Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2012E Bonds in setting its rates and charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Rate Covenant."

Additional Indebtedness

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012E Bonds, the Parity Bonds or the Parity Obligations.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2012E Bonds, the Parity Bonds and existing Parity Obligations to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Resolution. Metropolitan may also incur obligations junior and subordinate to the 2012E Bonds or any Parity Bonds or Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Additional Indebtedness."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan's obligation to pay principal of and interest on the 2012E Bonds and the Parity Bonds. See APPENDIX A – "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

Continuing Disclosure

Metropolitan has agreed to provide with respect to the 2012E Bonds, or to cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended, certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriters named on the cover page hereof in complying with the Rule. See "CONTINUING DISCLOSURE" and APPENDIX G – "FORM OF CONTINUING DISCLOSURE UNDERTAKING." [Metropolitan has not failed in the previous five years to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of certain events; provided, that the annual report for 2008 was timely filed on December 12, 2008, and was supplemented on February 4, 2009.] [confirming the inclusion of service area AV tables with respect to GO annual reports]

Miscellaneous

The summaries of and references to the Act and all resolutions, documents, statutes, reports and other information referred to herein do not purport to be complete, comprehensive or definitive and each such summary or reference is qualified in its entirety by reference to the Act and such resolutions, documents, statutes, reports and other information. Copies of such information may be obtained from the Assistant General Manager/Chief Financial Officer of The Metropolitan Water District of Southern California at 700 North Alameda Street, Los Angeles, California 90012; telephone (213) 217-7121.

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OFFICIAL STATEMENT

\$89,460,000*

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Water Revenue Refunding Bonds
(Term Mode)**

\$28,420,000*
2012 Series E-1

\$29,820,000*
2012 Series E-2

\$31,220,000*
2012 Series E-3

INTRODUCTION

This Official Statement (which includes the cover and inside cover page hereof, the Summary Statement and all Appendices hereto) provides information concerning The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the sale by Metropolitan of \$28,420,000* aggregate principal amount of its Water Revenue Refunding Bonds, 2012 Series E-1 (the “2012 E-1 Bonds”), \$29,820,000* aggregate principal amount of its Water Revenue Refunding Bonds, 2012 Series E-2 (the “2012 E-2 Bonds”) and \$31,220,000* aggregate principal amount of its Water Revenue Refunding Bonds, 2012 Series E-3 (the “2012 E-3 Bonds” and, collectively with the 2012 E-1 Bonds and the 2012 E-2 Bonds, the “2012E Bonds” and each, a “Series”).

This Introduction is not a summary of this Official Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “State”), including the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), and any resolutions and documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The source of information herein is Metropolitan unless otherwise stated. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Resolutions (described below) or in the Paying Agent Agreement (as hereinafter defined). A summary of certain provisions of the Resolutions and a list of selected defined terms are set forth in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

This Official Statement only describes the 2012E Bonds while bearing interest in the Term Mode. There are significant differences in the terms of the 2012E Bonds while they bear interest in an Interest Mode other than the Term Mode. This Official Statement is not intended to provide information with respect to a Series of 2012E Bonds bearing interest in an Interest Mode other than the Term Mode. Owners and prospective purchasers of the 2012E Bonds should not rely on this Official Statement for information in connection with any change of the 2012E Bonds to a different Interest Mode.

Metropolitan is issuing the 2012E Bonds pursuant to the Act, and Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the “Master Resolution”), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area

*Preliminary, subject to change.

approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the "Bonds."

The 2012 E Bonds are further described in the Paying Agent Agreement relating to the 2012E Bonds, dated as of June 1, 2012 (the "Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent").

Metropolitan is issuing the 2012E Bonds for the purpose of providing funds, together with certain other available moneys (including proceeds of certain Bonds to be issued concurrently with the 2012E Bonds as described below), to provide for the refunding of a portion of Metropolitan's outstanding Bonds, funding the costs of terminating all or a portion of certain interest rate swap agreements and paying the costs of issuance of the 2012E Bonds. Concurrently with the issuance of the 2012E Bonds, Metropolitan will issue its \$277,080,000* principal amount of Water Revenue Refunding Bonds, 2012 Series C (the "2012C Bonds") and \$56,335,000* principal amount of Water Revenue Refunding Bonds, 2012 Series D (Federally Taxable) (the "2012D Bonds"). It is a condition precedent to the delivery of each Series of the 2012 Refunding Bonds that all Series of the 2012 Refunding Bonds be delivered. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS." The 2012C Bonds, 2012D Bonds and 2012E Bonds are sometimes referred to collectively herein as the "2012 Refunding Bonds."

As of June 1, 2012, \$4.61 billion of Metropolitan's Bonds (the "Parity Bonds") were outstanding (which includes \$_____ of Bonds to be refunded with proceeds of the 2012 Refunding Bonds). Metropolitan may issue additional Parity Bonds and other obligations (the "Parity Obligations"), however, from time to time payable and secured on a parity with the 2012E Bonds upon action of Metropolitan's Board of Directors (the "Board") under the Master Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Parity Bonds and Parity Obligations."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with the 2012E Bonds and the Parity Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Parity Bonds and Parity Obligations – *Interest Rate Swap Agreements*" and APPENDIX A – "METROPOLITAN EXPENDITURES – *Variable Rate and Swap Obligations*."

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012E Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Additional Indebtedness."

Metropolitan will not fund a reserve fund for the 2012E Bonds.

DESCRIPTION OF THE 2012E BONDS

General

Metropolitan will issue the 2012E Bonds in three Series and will date the 2012E Bonds the date of delivery. Each Series of the 2012E Bonds will initially bear interest in the Term Mode until such time as Metropolitan designates a new Interest Mode for such Series.

*Preliminary, subject to change.

This Official Statement only describes the 2012E Bonds while bearing interest in the Term Mode. There are significant differences in the terms of the 2012E Bonds while they bear interest in an Interest Mode other than the Term Mode.

Metropolitan will pay principal of, and premium, if any, on each 2012E Bond in lawful money of the United States of America upon presentment and surrender of such 2012E Bond at the Corporate Trust Office of the Paying Agent, as further described herein.

If under the Paying Agent Agreement the Paying Agent is required to deliver any notice to the Owners of 2012E Bonds, then, within two (2) Business Days after the delivery of such notice, the Paying Agent will deliver such notice by first-class United States mail, postage prepaid, to any Beneficial Owner (as defined in APPENDIX D) that delivers its postal address to the Paying Agent no less than thirty (30) days before the date that the Paying Agent delivers such notice to the Owners of the 2012E Bonds.

Book-Entry Only System

Metropolitan will issue the 2012E Bonds as fully registered bonds in the name of Cede & Co., as nominee of DTC. Beneficial ownership interests in the 2012E Bonds will be available in book-entry form only, in Authorized Denominations of \$5,000 and any integral multiple thereof. Beneficial Owners of 2012E Bonds will not receive physical certificates representing their interests in the 2012E Bonds. So long as the 2012E Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the 2012E Bonds. Metropolitan will pay principal of and interest on the 2012E Bonds directly to DTC or Cede & Co., so long as DTC or Cede & Co. is the registered owner of the 2012E Bonds. Payments of Purchase Price for any 2012E Bonds will be paid directly to DTC or Cede & Co., so long as DTC or Cede & Co. is the registered owner of the 2012E Bonds. Disbursements of such payments of principal, interest or Purchase Price to DTC's Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC's Direct Participants and Indirect Participants. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

Metropolitan and the Paying Agent will have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2012E Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2012E Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of, premium, if any, or interest on, or Purchase Price for the 2012E Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2012E Bonds are redeemed in part. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

Interest Rate Provisions

Term Rate. Metropolitan will issue the 2012E Bonds in three Series, each of which will initially bear interest in the Term Mode until such time as Metropolitan may designate a new Interest Mode for such Series. Each Series of the 2012E Bonds while in the Term Mode will bear interest at a fixed interest rate (the "Term Rate") for a specified period (each such period, a "Term Period") applicable for such Series; provided, however, that, during a Purchase Default Period for any such Series of the 2012E Bonds, all of the 2012E Bonds of the affected Series will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The initial Term Rate applicable for each Series of 2012E Bonds is set forth under "SUMMARY OF CERTAIN OFFERING TERMS" on the inside cover page of this Official Statement and, Term Rates with respect to subsequent Term Periods for each Series, if applicable, will be determined by the Remarketing Agent, as described below.

Interest Payment Date. Interest on the 2012E Bonds of a Series in the Term Mode will be payable (including during any Purchase Default Period) (a) on January 1 and July 1 of each year, commencing January 1, 2013), (b) on each Mandatory Purchase Date in connection with a Term Mode Unscheduled Mandatory Tender for such Series (without duplication) and (c) on each Scheduled Mandatory Tender Date for such Series (without duplication).

Determination of Term Rate for each Term Period. The interest rate payable with respect to 2012E Bonds of a Series in a Term Mode will be determined by the applicable Remarketing Agent for each subsequent Term Period by no later than 12:00 noon (New York City time) on a Business Day no later than the effective date of the applicable Term Period with respect to such Series of 2012E Bonds. The Term Rate will be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable in the judgment of the Remarketing Agent to the 2012E Bonds of such Series and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the 2012E Bonds of such Series, would enable such Remarketing Agent to sell the 2012E Bonds of such Series on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If, for any reason, the Term Rate for a Series of 2012E Bonds is not so determined for any subsequent Term Period for such 2012E Bonds by the Remarketing Agent on or prior to the first day of such Term Period for such 2012E Bonds, then such 2012E Bonds of such Series will continue to bear interest at the applicable Term Rate as in effect for the immediately preceding Term Period.

Term Periods. The duration of each Term Period is determined as described below. At the beginning of each Term Period, the Remarketing Agent will determine the Term Rate as described above. No Term Period will last beyond the Scheduled Mandatory Tender Date on which the Owners of all of the 2012E Bonds of a Series must tender for purchase, and Metropolitan must purchase, all of the 2012E Bonds of such Series.

Commencement of Term Periods. The initial Term Period for each Series of 2012E Bonds will commence on the date of delivery of such Series of 2012E Bonds. Thereafter, each Term Period for a Series of 2012E Bonds will commence on the first to occur of (a) the applicable Scheduled Mandatory Tender Date of the immediately preceding Term Period for such Series of 2012E Bonds, unless a Purchase Default Period for such Series of 2012E Bonds commences on such Scheduled Mandatory Tender Date, (b) a Mandatory Purchase Date in connection with any Term Mode Unscheduled Mandatory Tender of such Series of 2012E Bonds if all 2012E Bonds of such Series are actually purchased, and (c) the date on which Metropolitan delivers all or any portion of the 2012E Bonds of such Series in a Term Mode to new Owners after the termination of a Purchase Default Period for such Series of 2012E Bonds. See “Event of Default and Purchase Default Period” below.

Termination of Term Periods. Each Term Period for a Series of 2012E Bonds will terminate on the first to occur of (a) the applicable Scheduled Mandatory Tender Date for such Series of 2012E Bonds, (b) a Mandatory Purchase Date in connection with any Term Mode Unscheduled Mandatory Tender of such Series of 2012E Bonds if all 2012E Bonds of such Series are actually purchased, (c) the first date on which the 2012E Bonds of such Series bear interest in an Interest Mode other than the Term Mode, (d) a Fixed Rate Date for such Series of 2012E Bonds, and (e) the date on which all 2012E Bonds of such Series are redeemed in accordance with the terms of the Paying Agent Agreement and the Master Resolution or all principal and accrued interest on all 2012E Bonds of such Series are otherwise paid in full. During any Purchase Default Period for a Series of 2012E Bonds, there will be no Term Period in effect with respect to such Series of 2012E Bonds.

Tender and Purchase of 2012E Bonds

Term Mode Scheduled Mandatory Tender. While the 2012E Bonds of a Series bear interest in a Term Mode, the Owners of all of the 2012E Bonds of such Series must tender for purchase, and Metropolitan must purchase, all of the 2012E Bonds of such Series on the Scheduled Mandatory Tender Date of each Term Period for such Series. The initial Scheduled Mandatory Tender Date for each Series of 2012E Bonds is set forth under “SUMMARY OF CERTAIN OFFERING TERMS” on the inside cover page of this Official Statement.

Metropolitan is irrevocably committed to pay the Purchase Price of all of the 2012E Bonds of a Series subject to a Term Mode Scheduled Mandatory Tender as set forth in the Paying Agent Agreement.

Term Mode Unscheduled Mandatory Tender.

Metropolitan’s Right to Require Term Mode Unscheduled Mandatory Tender. While the 2012E Bonds of a Series bear interest in a Term Mode, at its option, Metropolitan may require, during each Term Period for such Series, the Owners of all (but not less than all) of the 2012E Bonds of such Series to tender the 2012E Bonds of such Series to Metropolitan for purchase, on any Business Day from and after the Call Protection Date of the applicable Term Period for such Series of 2012E Bonds. A mandatory tender as described in the immediately preceding sentence is referred to herein as a “Term Mode Unscheduled Mandatory Tender.” The initial Call Protection Date for each Series of 2012E Bonds is set forth under “SUMMARY OF CERTAIN OFFERING TERMS” on the inside cover page of this Official Statement. Metropolitan will exercise its option by delivering written notice of Term Mode Unscheduled Mandatory Tender to the Paying Agent at its Corporate Trust Office and the Remarketing Agent no later than seven (7) days before the Mandatory Purchase Date. The Paying Agent will pay to the Owners of the 2012E Bonds of a Series in connection with a Term Mode Unscheduled Mandatory Tender the Purchase Price, which is equal to the principal amount of the 2012E Bonds of such Series, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price will not include accrued interest, which will be paid in the normal course), on the related Mandatory Purchase Date from the sources of funds described herein, unless Metropolitan elects to rescind such Term Mode Unscheduled Mandatory Tender or any of the conditions of such Term Mode Unscheduled Mandatory Tender is not satisfied.

Rescission. Metropolitan will have the right to deliver to the Paying Agent at its Corporate Trust Office and the Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Mandatory Purchase Date, a notice to the effect that Metropolitan elects to rescind any Term Mode Unscheduled Mandatory Tender. If Metropolitan rescinds any Term Mode Unscheduled Mandatory Tender, then no purchase will occur, the 2012E Bonds of such Series will continue to bear interest at the Term Rate in effect during such Term Period, without change or modification, and the Term Period then in effect will continue until terminated.

Failure to Meet Conditions. Any Term Mode Unscheduled Mandatory Tender will be conditioned upon (i) amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date and (ii) in connection with any change in the Call Protection Date pursuant to the Paying Agent Agreement, the delivery by Metropolitan of a Favorable Opinion of Bond Counsel. Funds for the payment of the Purchase Price of such mandatory tender will be derived from the sources described below under the caption “– Remarketing of 2012E Bonds – Remarketing and Purchase of 2012E Bonds in Connection with a Term Mode Unscheduled Mandatory Tender.” If amounts sufficient to pay the Purchase Price of any 2012E Bonds subject to mandatory tender are not on deposit with the Paying Agent on the Mandatory Purchase Date, or if Metropolitan fails to deliver a Favorable Opinion of Bond Counsel in connection with any change in the Call Protection Date, then no purchase will occur and the 2012E Bonds of such Series will continue to

bear interest at the Term Rate in effect during such Term Period, without change or modification, and the Term Period then in effect will continue until terminated.

Failure by Metropolitan to pay or cause to be paid the Purchase Price of all of the 2012E Bonds of a Series pursuant to a Term Mode Unscheduled Mandatory Tender, for any reason, will not constitute an Event of Default by Metropolitan under the Paying Agent Agreement or the Resolutions. No such failure will affect Metropolitan's right to require the Owners of 2012E Bonds to tender their 2012E Bonds in connection with any other Term Mode Unscheduled Mandatory Tender during any Term Period and during any subsequent Term Period.

Mandatory Tender for Purchase upon Change of Interest Mode. The 2012E Bonds of a Series will be subject to mandatory tender for purchase on the effective date of a change in the Interest Mode of that Series, at the Purchase Price, payable in immediately available funds; provided however, that during any Purchase Default Period for a Series of 2012E Bonds, the 2012E Bonds of such Series will not be subject to mandatory tender for purchase. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any change from a Term Mode to a different Interest Mode will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2012E Bonds of such Series will continue to bear interest at the Term Rate in effect during the Term Period then in effect, without change or modification, and the Term Period then in effect will continue until terminated.

Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate. The 2012E Bonds of a Series will be subject to mandatory tender for purchase on the Fixed Rate Date for such Series, at the Purchase Price, payable in immediately available funds; provided, however, that, during any Purchase Default Period for a Series of 2012E Bonds, the 2012E Bonds of such Series will not be subject to mandatory tender for purchase. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any conversion to a Fixed Interest Rate will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2012E Bonds of such Series will continue to bear interest at the Term Rate in effect during the Term Period then in effect, without change or modification, and the Term Period then in effect will continue until terminated.

Notice of Term Mode Scheduled Mandatory Tender. The Paying Agent will give notice by first-class United States mail, postage prepaid, of each Term Mode Scheduled Mandatory Tender to the Owners of the 2012E Bonds of the affected Series not less than thirty (30) days prior to the Scheduled Mandatory Tender Date. Such notice will state (A) the date of such notice; (B) the distinguishing designation of the 2012E Bonds of such Series; (C) the date of issue of the 2012E Bonds of such Series; (D) the Scheduled Mandatory Tender Date; and (E) the CUSIP number of the 2012E Bonds of such Series. Each such notice will also state that the Owners of all of the 2012E Bonds of the applicable Series are required to tender, and Metropolitan is required to purchase, all of the 2012E Bonds of such Series on the Scheduled Mandatory Tender Date of that Term Period. All 2012E Bonds of such Series will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

Notice of Term Mode Unscheduled Mandatory Tender. The Paying Agent will give notice of any Term Mode Unscheduled Mandatory Tender by first-class United States mail, postage prepaid, to the Owners of the 2012E Bonds of a Series not less than seven (7) days prior to the date on which such 2012E Bonds will be purchased. Such notice will state (A) the Mandatory Purchase Date; (B) that the

Purchase Price of any 2012E Bond of such Series will be payable only upon surrender of such 2012E Bond to the Paying Agent at its Corporate Trust Office for delivery of 2012E Bonds of such Series, accompanied, when the 2012E Bonds are not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney in fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such 2012E Bonds of a Series by the applicable Remarketing Agent or from Metropolitan, all 2012E Bonds of such Series so subject to Term Mode Unscheduled Mandatory Tender will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2012E Bond of such Series subject to Term Mode Unscheduled Mandatory Tender does not surrender such 2012E Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2012E Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of such 2012E Bonds have not been provided to the Paying Agent either through the remarketing of such 2012E Bonds or from Metropolitan, that such 2012E Bonds will not be purchased or deemed purchased and will continue to bear interest as if no such Term Mode Unscheduled Mandatory Tender notice had been given; and (E) that the Term Mode Unscheduled Mandatory Tender is subject to rescission by Metropolitan, is subject to the condition that amounts sufficient to pay the Purchase Price of such Term Mode Unscheduled Mandatory Tender are on deposit with the Paying Agent on the Mandatory Purchase Date and, if applicable, is subject to the condition that Metropolitan delivers a Favorable Opinion of Bond Counsel in connection with a change of the Call Protection Date. All 2012E Bonds of such Series subject to Term Mode Unscheduled Mandatory Tender will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

If Metropolitan delivers a notice of a Term Mode Unscheduled Mandatory Tender and such Term Mode Unscheduled Mandatory Tender does not occur, then the Paying Agent will give notice by first-class United States mail, postage prepaid, to the Owners of the affected Series of 2012E Bonds, as soon as practicable, which states that such Term Mode Unscheduled Mandatory Tender for purchase has not occurred.

Notice of Mandatory Tender for Purchase upon Change in Interest Mode. In connection with any mandatory tender for purchase of a Series of 2012E Bonds upon a change in the Interest Mode for such Series of 2012E Bonds, the Paying Agent will give notice of a mandatory tender for purchase by first-class United States mail, postage prepaid, not less than seven (7) days prior to the date on which the 2012E Bonds will be subject to such mandatory tender. Such notice will state (A) the type of Interest Rate Period to commence on such Mandatory Purchase Date; (B) that the Purchase Price of any 2012E Bond so subject to mandatory tender for purchase will be payable only upon surrender of such 2012E Bond to the Paying Agent at its Corporate Trust Office for delivery of 2012E Bonds, accompanied, when the 2012E Bonds are not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney in fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series of 2012E Bonds by the applicable Remarketing Agent or from Metropolitan, all 2012E Bonds of such Series so subject to mandatory tender for purchase will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2012E Bond so subject to mandatory tender for purchase does not surrender such 2012E Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2012E Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental

Resolution, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of such 2012E Bonds of such Series have not been provided to the Paying Agent either through the remarketing of such 2012E Bonds or from other moneys received from Metropolitan, that such 2012E Bonds of such Series will not be purchased or deemed purchased and will continue to bear interest as if such failed purchase had not occurred; and (E) if applicable, that the mandatory tender for purchase is subject to the condition that amounts sufficient to pay the Purchase Price of such mandatory tender for purchase are on deposit with the Paying Agent on the Mandatory Purchase Date.

Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate. In connection with any mandatory tender for purchase of a Series of 2012E Bonds upon a conversion of such Series of 2012E Bonds to a Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, any Liquidity Provider, the Remarketing Agent and the Owners. Such notice will state (A) that the interest rate with respect to the 2012E Bonds of such Series so subject to mandatory tender for purchase will be converted to the Fixed Interest Rate, (B) the Fixed Rate Date for such Series of 2012E Bonds, (C) the date the Fixed Interest Rate is to be established, (D) that interest represented by the 2012E Bonds of such Series will be payable on each January 1 and July 1 after the Fixed Rate Date, (E) that subsequent to the Fixed Rate Date, the Owners of such Series of 2012E Bonds will no longer have the right to deliver their 2012E Bonds of such Series to the Paying Agent for purchase, (F) that all Outstanding 2012E Bonds of such Series will be purchased on the Fixed Rate Date, and (G) that on and after the Fixed Rate Date, the Owners of the 2012E Bonds of such Series immediately preceding the Fixed Rate Date will be deemed to have tendered their 2012E Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, said Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for such Series of 2012E Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, such Series of 2012E Bonds will no longer otherwise be entitled to the benefits of the Paying Agent Agreement.

Delivery of 2012E Bonds and Payment of the Purchase Price of 2012E Bonds.

Payment of Purchase Price Upon Delivery of 2012E Bonds. For payment of the Purchase Price of any 2012E Bond of a Series subject to a Term Mode Scheduled Mandatory Tender or a Term Mode Unscheduled Mandatory Tender, or of any 2012E Bond of a Series subject to mandatory tender for purchase upon a change in the Interest Mode or upon conversion to a Fixed Interest Rate, on the specified Mandatory Purchase Date, such 2012E Bond must be delivered, at or prior to 12:00 noon (New York City time), on the Mandatory Purchase Date, to the Paying Agent at its Corporate Trust Office for delivery of such 2012E Bonds accompanied, when such Series of 2012E Bonds are not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. In the event any such 2012E Bond is delivered after 12:00 noon (New York City time) on the Mandatory Purchase Date, payment of the Purchase Price of such 2012E Bond need not be made until the Business Day following the date of delivery of such 2012E Bond but such 2012E Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

Delivery of 2012E Bonds. If moneys sufficient to effect a purchase of a Series of 2012E Bonds pursuant to a Term Mode Scheduled Mandatory Tender or a Term Mode Unscheduled Mandatory Tender, or upon a change in the Interest Mode or upon a conversion to a Fixed Interest Rate, have been provided through the remarketing of such Series of 2012E Bonds by the applicable Remarketing Agent or otherwise, all 2012E Bonds of such Series will be purchased on the Mandatory Purchase Date. If any Owner of a 2012E Bond does not deliver such 2012E Bond to the Paying Agent for purchase on such

Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2012E Bond will be deemed to be an “Undelivered Bond,” and no interest will accrue thereon from and after such Mandatory Purchase Date and the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof calculated as of such Mandatory Purchase Date.

Undelivered Bonds. The Paying Agent may refuse to accept delivery of any 2012E Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such 2012E Bond as described in this Official Statement. If any Owner of a 2012E Bond subject to mandatory tender for purchase fails to deliver such 2012E Bond to the Paying Agent at the place and on the applicable date and at the time specified, or fails to deliver such 2012E Bond properly endorsed, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent for such purpose, such 2012E Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bonds (including any Undelivered Bonds in connection with a Term Mode Scheduled Mandatory Tender and a Term Mode Unscheduled Mandatory Tender) are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) each Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Paying Agent Agreement; (2) interest will no longer accrue thereon; and (3) funds in the amount of the Purchase Price of each such Undelivered Bond will be held by the Paying Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Paying Agent at its Corporate Trust Office for delivery of 2012E Bonds.

Remarketing of 2012E Bonds

Remarketing and Purchase of 2012E Bonds in Connection with a Term Mode Scheduled Mandatory Tender.

Remarketing of 2012E Bonds. While the 2012E Bonds of a Series bear interest in the Term Mode, commencing thirty (30) days before the Scheduled Mandatory Tender Date of each Term Period for the 2012E Bonds of such Series, the applicable Remarketing Agent will offer for sale and use its best efforts to sell all of the 2012E Bonds of such Series, in accordance with the applicable Remarketing Agreement, on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount of the 2012E Bonds of such Series, such that the Term Rate for the next Term Period for the 2012 E Bonds of such Series will be determined as described under the caption “– Interest Rate Provisions – *Determination of Term Rate for each Term Period*” to be the minimum fixed per annum interest rate available in the marketplace.

Determination of the Following Scheduled Mandatory Tender Date. Metropolitan, by written direction to the Fiscal Agent, the Remarketing Agent and the Paying Agent by telephone, teletype, or telex confirmed by written notice not later than thirty (30) days before a Scheduled Mandatory Tender Date of a Term Period for a Series of 2012E Bonds, will determine the Scheduled Mandatory Tender Date for the Term Period immediately following the purchase of 2012E Bonds of such Series in connection with a Term Mode Scheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date to be any Business Day during the next Term Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three (3) months after the commencement of the Term Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Term Period immediately following the purchase of 2012E Bonds of such Series pursuant to a Term Mode Scheduled Mandatory Tender will be the date that is one (1) year after the commencement of the Term Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Term Period for a Series of 2012E Bonds commencing on a Scheduled Mandatory Tender Date in connection with a Term Mode Scheduled Mandatory Tender, the Call Protection Date will be the Standard Call Protection Date. The Standard Call Protection Date will be (a) the Term Period Halfway Date, if the duration from the beginning of the applicable Term Period until the Scheduled Mandatory Tender Date is one year or less or (b) the date that is 180 days before the applicable Scheduled Mandatory Tender Date, if the duration from the beginning of the applicable Term Period until the applicable Scheduled Mandatory Tender Date is more than one year. The Term Period Halfway Date will be, with respect to any Term Period for a Series of 2012E Bonds, the date occurring halfway between the commencement of such Term Period and the Scheduled Mandatory Tender Date for such Term Period, which will be calculated by (a) dividing (i) the number of days from and including the date on which such Term Period commences to and not including the Scheduled Mandatory Tender Date by (ii) two (2) and, if necessary, rounding the result down to the nearest whole number and (b) adding the resulting number of days to the commencement date of such Term Period.

Purchase of 2012E Bonds. The 2012E Bonds of a Series to be purchased in connection with a Term Mode Scheduled Mandatory Tender will be purchased from the Owners thereof, on the Scheduled Mandatory Tender Date at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of 2012E Bonds of such Series remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
- (ii) moneys furnished by or on behalf of Metropolitan to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund.

Metropolitan is irrevocably committed to pay the Purchase Price of all 2012E Bonds of the applicable Series on the Scheduled Mandatory Tender Date as set forth in the Paying Agent Agreement.

The applicable Remarketing Agent will offer for sale and use its best efforts to sell all 2012E Bonds of a Series purchased by or on behalf of Metropolitan pursuant to a Term Mode Scheduled Mandatory Tender. The Remarketing Agent will offer for sale all of the 2012E Bonds of a Series to be purchased in connection with a Term Mode Scheduled Mandatory Tender and all 2012E Bonds of such Series purchased by or on behalf of Metropolitan (other than 2012E Bonds of such Series purchased by such Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on such Series of 2012E Bonds; provided, however, that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the Remarketing Agent to sell all 2012E Bonds of a Series subject to a Term Mode Scheduled Mandatory Tender or any such Series of 2012E Bonds purchased by or on behalf of Metropolitan at a discount or at a premium.

Limited Security for the Payment of the Purchase Price. Metropolitan's obligation to pay the Purchase Price of the 2012E Bonds of a Series in connection with a Term Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of the 2012E Bonds of such Series on any Scheduled Mandatory Tender Date; however, if available, Metropolitan does not have any obligation to use any funds other than Net Operating Revenues to pay the Purchase Price of any 2012E Bonds.

Consequences of a Term Mode Scheduled Mandatory Tender Failure. Upon the occurrence of a Term Mode Scheduled Mandatory Tender Failure with respect to any Series of 2012E Bonds on any Scheduled Mandatory Tender Date for such Series, the following will occur:

- (i) The Paying Agent will return all 2012E Bonds of such Series to the Owners thereof together with notice of such insufficiency and the Paying Agent and the Remarketing Agent will return all remarketing proceeds to the persons providing such moneys without interest;
- (ii) The Term Period then in effect for the 2012E Bonds of such Series will terminate on such Scheduled Mandatory Tender Date;
- (iii) A Purchase Default Period for the 2012E Bonds of such Series will commence on such Scheduled Mandatory Tender Date; and
- (iv) An Event of Default under the Paying Agent Agreement will occur.

Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of the 2012E Bonds of a Series will not constitute an Event of Default under the Resolutions. See “– Event of Default and Purchase Default Period” below.

Notification of Term Mode Scheduled Mandatory Tender Failure. Within two (2) Business Days after any Term Mode Scheduled Mandatory Tender Failure with respect to any Series of 2012E Bonds, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) Metropolitan, (ii) the respective Owners of the affected Series of 2012E Bonds at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services, which will state that (A) a Term Mode Scheduled Mandatory Tender Failure occurred for the 2012E Bonds of such Series, (B) the Paying Agent will return all 2012E Bonds of such Series tendered on the Scheduled Mandatory Tender Date to the Owners thereof, and (C) a Purchase Default Period for the 2012E Bonds of such Series has commenced on the Scheduled Mandatory Tender Date.

Effect of a Successful Remarketing. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of 2012E Bonds of a Series to be purchased on a Scheduled Mandatory Tender Date and all other conditions are satisfied, the following will occur:

- (i) The Term Period in effect for such 2012E Bonds of the applicable Series immediately before such purchase will terminate on the Scheduled Mandatory Tender Date and a new Term Period for the 2012E Bonds of such Series will commence on such date; and
- (ii) The Term Rate with respect to the 2012E Bonds of such Series for the new Term Period will be determined by the applicable Remarketing Agent as described above under the caption “– Interest Rate Provisions – *Determination of Term Rate for each Term Period.*”

Notification of New Term Period. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of all of the 2012E Bonds of the applicable Series to be purchased on a Scheduled Mandatory Tender Date and all other conditions are satisfied, then, within two (2) Business Days after such Scheduled Mandatory Tender Date, the Paying Agent will deliver, by first-class United States mail, postage prepaid, a notice to (i) Metropolitan, (ii) the respective Owners of all 2012E Bonds of such Series at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent and (v) one or more Information Services which will state (A) that the immediately preceding Term Period for the 2012E Bonds of such Series has terminated, (B) that a new Term Period for the 2012E Bonds of such Series has commenced, (C) the day on which the Scheduled Mandatory

Tender Date will occur with respect to the new Term Period, (D) the day on which the Call Protection Date will occur with respect to such Term Period for the 2012E Bonds of such Series, and (E) the Term Rate for the new Term Period for the 2012E Bonds of such Series determined by the Remarketing Agent as described above under the caption “– Interest Rate Provisions – *Determination of Term Rate for each Term Period.*” Absent manifest error, upon delivery of such notice, the Term Period in effect immediately preceding such Scheduled Mandatory Tender Date with respect to such Series of 2012E Bonds will be deemed to have terminated on such Scheduled Mandatory Tender Date of that Term Period and a new Term Period will be deemed to have commenced on such Scheduled Mandatory Tender Date.

Remarketing and Purchase of 2012E Bonds in Connection with a Term Mode Unscheduled Mandatory Tender.

Remarketing of 2012E Bonds. Upon receipt of notice by Metropolitan of a Term Mode Unscheduled Mandatory Tender for any Series of 2012E Bonds, the applicable Remarketing Agent will offer for sale and use its best efforts to sell, in accordance with the Remarketing Agreement, all 2012E Bonds of such Series at a Purchase Price equal to the principal amount of the 2012E Bonds of such Series, such that the Term Rate for the next Term Period for the 2012 E Bonds of such Series will be determined as described under the caption “– Interest Rate Provisions – *Determination of Term Rate for each Term Period*” above to be the minimum fixed per annum interest rate available in the marketplace.

Determination of the Scheduled Mandatory Tender Date. Metropolitan, by direction to the Fiscal Agent, the Remarketing Agent and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Term Mode Unscheduled Mandatory Tender for a Series of 2012E Bonds, will determine the Scheduled Mandatory Tender Date for the Term Period for the 2012E Bonds of such Series immediately following the purchase of such Series of 2012E Bonds in connection with such Term Mode Unscheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date to be any Business Day during the next Term Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three (3) months after the commencement of the Term Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Term Period immediately following the purchase of 2012E Bonds of such Series will be the date that is one (1) year after the commencement of the Term Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Term Period for a Series of 2012E Bonds commencing on a date on which such Series of 2012E Bonds are purchased in connection with a Term Mode Unscheduled Mandatory Tender, the Call Protection Date will be the Standard Call Protection Date. However, Metropolitan may, by direction to the Fiscal Agent, the Remarketing Agent, and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Term Mode Unscheduled Mandatory Tender, determine the Call Protection Date for such Term Period to be a date that is different than the Standard Call Protection Date. If Metropolitan delivers a written direction determining the Call Protection Date to be a date other than the Standard Call Protection Date, then, on the Mandatory Purchase Date on which such Term Period will commence, the related Term Mode Unscheduled Mandatory Tender will be conditioned upon the delivery by Metropolitan on and as of such Mandatory Purchase Date of a Favorable Opinion of Bond Counsel with respect to the change in the Call Protection Date. If Metropolitan determines the Call Protection Date to be a date that is different than the Standard Call Protection Date with respect to any Term Period, then that determination will not apply to any subsequent Term Period unless Metropolitan delivers written direction with respect to such subsequent Term Period.

Purchase of 2012E Bonds. Metropolitan will cause the 2012E Bonds of a Series required to be purchased in connection with a Term Mode Unscheduled Mandatory Tender to be purchased from the

Owners thereof, on the applicable Mandatory Purchase Date at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of such 2012E Bonds of the same Series remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
- (ii) moneys furnished by or at the direction of the Fiscal Agent to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund;

provided, however, that if Metropolitan rescinds any Term Mode Unscheduled Mandatory Tender, or if any of the conditions of any Term Mode Unscheduled Mandatory Tender is not satisfied, then Metropolitan will not have any obligation to purchase any 2012E Bonds of such Series, no purchase of the 2012E Bonds of such Series will occur, the 2012E Bonds of such Series will continue to bear interest at the Term Rate in effect during such Term Period, without change or modification, and the Term Period then in effect will continue until terminated.

The applicable Remarketing Agent will offer for sale and use its best efforts to sell any 2012E Bonds of a Series purchased by or on behalf of Metropolitan pursuant to a Term Mode Unscheduled Mandatory Tender. The Remarketing Agent will offer for sale all 2012E Bonds of a Series to be purchased in connection with a Term Mode Unscheduled Mandatory Tender and all 2012E Bonds of such Series purchased by or on behalf of Metropolitan (other than 2012E Bonds of such Series purchased by such Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on such Series of 2012E Bonds; *provided, however,* that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the Remarketing Agent to sell all 2012E Bonds of a Series subject to a Term Mode Unscheduled Mandatory Tender or any such Series of 2012E Bonds purchased by or on behalf of Metropolitan at a discount or at a premium.

Effect of a Successful Remarketing. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of 2012E Bonds of any Series to be purchased in connection with a Term Mode Unscheduled Mandatory Tender and all other conditions are satisfied, the following will occur:

- (i) The Term Period for the 2012E Bonds of such Series in effect immediately before such tender will terminate on such Mandatory Purchase Date and a new Term Period will commence on such date; and
- (ii) The Term Rate for the 2012E Bonds of such Series for the new Term Period will be the Term Rate determined by the applicable Remarketing Agent as described above under the caption “– Interest Rate Provisions – *Determination of Term Rate for each Term Period.*”

Notification of New Term Period. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of 2012E Bonds of a Series to be purchased in connection with a Term Mode Unscheduled Mandatory Tender on the Mandatory Purchase Date and all other conditions are satisfied, then within two (2) Business Days after such Mandatory Purchase Date, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) Metropolitan, (ii) the respective Owners of any 2012E Bonds of such Series at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services, which will state (A) that the immediately preceding Term Period for the 2012E Bonds of such Series has terminated, (B) that a new Term Period for the 2012E Bonds of such Series has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Term Period, (D) the day on which the Call Protection Date will occur with respect to the new Term Period, and (E) the Term

Rate for the 2012E Bonds of such Series for such Term Period determined by the Remarketing Agent as described above under the caption “– Interest Rate Provisions – *Determination of Term Rate for each Term Period.*” Absent manifest error, upon delivery of such notice, the Term Period in effect immediately preceding such Mandatory Purchase Date will be deemed to have terminated and a new Term Period will be deemed to have commenced.

Remarketing Agent[s]

Metropolitan has appointed _____ (“_____”) as the initial remarketing agent for the 2012 E-1 Bonds pursuant to the Remarketing Agreement relating to the 2012 E-1 Bonds (the “2012E-1 Remarketing Agreement”), _____ (“_____”) as the initial remarketing agent for the 2012 E-2 Bonds pursuant to the Remarketing Agreement relating to the 2012 E-2 Bonds (the “2012E-2 Remarketing Agreement”) and _____ (“_____”) as the initial remarketing agent for the 2012 E-3 Bonds pursuant to the Remarketing Agreement relating to the 2012 E-3 Bonds (the “2012E-3 Remarketing Agreement”), each dated as of June 1, 2012 and each by and between Metropolitan and the respective Remarketing Agent. Each of the 2012E-1 Remarketing Agreement, the 2012E-2 Remarketing Agreement and the 2012E-3 Remarketing Agreement is a “Remarketing Agreement” and are referred to collectively herein as the “Remarketing Agreements.” Each of _____, _____ and _____ in its capacity as remarketing agent is referred to herein as the “Remarketing Agent.” The principal office of _____, in its capacity as Remarketing Agent for the 2012 E-1 Bonds is _____. The principal office of _____, in its capacity as Remarketing Agent for the 2012 E-2 Bonds is _____. The principal office of _____, in its capacity as Remarketing Agent for the 2012 E-3 Bonds is _____.

The Remarketing Agent may resign or be removed as remarketing agent by Metropolitan upon thirty (30) days’ notice in accordance with the terms of the applicable Remarketing Agreement (provided, that the Remarketing Agent may not resign or be discharged of the duties and obligations created under the Paying Agent Agreement on any date that is less than sixty (60) days before a Scheduled Mandatory Tender Date of the affected Series).

Redemption of 2012E Bonds

Optional Redemption of 2012E Bonds. The 2012E Bonds of each Series in the Term Mode will be subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, during any Term Period for such Series of 2012E Bonds, on any Business Day on or after the applicable Call Protection Date, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium; *provided, however*, that, during a Purchase Default Period, the affected Series of 2012E Bonds will not be subject to optional redemption. For a description of the Call Protection Date see “SUMMARY STATEMENT – Call Protection Date.” The Call Protection Date for the initial Term Period for each Series of 2012E Bonds is set forth under “SUMMARY OF CERTAIN OFFERING TERMS” on the inside cover page of this Official Statement.

Mandatory Sinking Fund Redemption of 2012E Bonds.

2012 E-1 Bonds. The 2012 E-1 Bonds will be subject to mandatory sinking fund redemption prior to maturity, on July 1, 2027, July 1, 2031 and July 1, 2032, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments (as defined in the Master Resolution) which have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	Principal Amount*
2027	\$ 7,360,000
2031	10,475,000
2032 [†]	10,585,000*

[†] Final Maturity

2012 E-2 Bonds. The 2012 E-2 Bonds will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2032 and on each July 1 thereafter through and including July 1, 2035, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments (as defined in the Master Resolution) which have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	Principal Amount*
2032	\$ 240,000
2033	11,280,000
2034	11,705,000
2035 [†]	6,595,000

[†] Final Maturity

2012 E-3 Bonds. The 2012 E-3 Bonds will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2035 and on each July 1 thereafter through and including July 1, 2037, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments (as defined in the Master Resolution) which have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	Principal Amount*
2035	\$ 5,560,000
2036	12,380,000
2037 [†]	13,080,000

[†] Final Maturity

Mandatory Sinking Account Payments for the 2012E Bonds of a Series will be reduced to the extent Metropolitan has purchased 2012E Bonds of such Series and surrendered such 2012E Bonds to the Fiscal Agent for cancellation. If 2012E Bonds of a Series have been redeemed as described under this caption "DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds," then the amount of the 2012E Bonds of a Series so redeemed will be credited to such future Mandatory Sinking Account Payments of such Series as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments in any twelve month period ending July 1 will reduce the principal amount of 2012E Bonds of a Series subject to mandatory sinking fund redemption on that July 1. While the 2012E Bonds of a Series are in a Term Mode, the 2012E Bonds of such Series will remain subject to mandatory sinking fund redemption during any Purchase Default Period of such Series.

* Preliminary, subject to change.

Special Mandatory Redemption of 2012E Bonds. During any Purchase Default Period with respect to a Series of 2012E Bonds, the 2012E Bonds of such Series will be subject to special mandatory redemption prior to maturity, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Special Mandatory Redemption Payments which have been deposited in the Bond Service Fund, in the following principal amounts:

(i) on the first Business Day on or after the date that is 18 months following the commencement of such Purchase Default Period, a principal amount of the 2012E Bonds of such Series equal to 33 1/3% of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination);

(ii) on the first Business Day on or after the date that is 36 months following the commencement of such Purchase Default Period, a principal amount of such 2012E Bonds of such Series equal to 33 1/3% of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination); and

(iii) on the first Business Day on or after the date that is 54 months following the commencement of such Purchase Default Period, all of the principal amount of the 2012E Bonds of such Series Outstanding as of such Redemption Date.

If, during any Purchase Default Period for a Series of 2012E Bonds, Metropolitan purchases a portion of the 2012E Bonds of such Series or redeems 2012E Bonds of such Series from Mandatory Sinking Account Payments, then the amount of the 2012E Bonds of such Series so purchased or redeemed will be credited as may be specified by Metropolitan to such Special Mandatory Redemption Payments of that Purchase Default Period occurring after such purchase or redemption.

Upon the termination of a Purchase Default Period for a Series of 2012E Bonds, the 2012E Bonds of such Series will no longer be subject to special mandatory redemption.

The term “Special Mandatory Redemption Amount” means, with respect to special mandatory redemption during any Purchase Default Period for a Series of 2012E Bonds, the aggregate principal amount of 2012E Bonds of such Series Outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period for such Series of 2012E Bonds commenced.

Notice of Redemption. Notice of redemption will be given by the Paying Agent by first-class United States mail, postage prepaid, not less than twenty (20) nor more than forty five (45) days prior to the Redemption Date to (a) the respective Owners of any 2012E Bonds of a Series designated for redemption at their addresses appearing on the register maintained by the Paying Agent, (b) the applicable Remarketing Agent, (c) the Fiscal Agent, and (d) one or more Information Services. Notice of redemption will also be given by telecopy, certified, registered or overnight mail to DTC upon mailing of notice of redemption to the Owners and the Information Services. Each notice of redemption will state the date of such notice, the distinguishing designation of the 2012E Bonds of the applicable Series being redeemed, the date of issue of the 2012E Bonds of such Series, the Redemption Date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent), the CUSIP number, if any, of the maturity or maturities and, if less than all of such maturity, the distinctive certificate numbers of the 2012E Bonds of such Series and maturity to be redeemed and, in the case of 2012E Bonds of a Series to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable with respect to each of said 2012E Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2012E Bond to be redeemed in part only, and that from and after such Redemption Date, the related interest due with respect thereto will cease to accrue, and will require that such 2012E Bonds be then surrendered at the address or addresses of

the Paying Agent specified in the redemption notice. Notice of any redemption will either (i) state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the Redemption Date sufficient money to pay the full Redemption Price of the 2012E Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full Redemption Price of the 2012E Bonds to be redeemed is on deposit in the applicable fund or account. All such amounts will be held uninvested or will be invested in Federal Securities (as defined in the Resolutions) which mature on or prior to such Redemption Date.

Failure by the Paying Agent to give notice as described above to the Remarketing Agent, the Owners of the 2012E Bonds of a Series designated for redemption or any one or more of the Information Services or DTC or any defect in such notice will not affect the sufficiency of the proceedings for redemption.

Selection of 2012E Bonds for Redemption. Other than a redemption of 2012E Bonds of a Series pursuant to a special mandatory redemption, in the case of redemption in part, the Paying Agent will select the 2012E Bonds of such Series to be redeemed by lot. In the case of any redemption of 2012E Bonds of a Series pursuant to a special mandatory redemption, the Paying Agent will select the 2012E Bonds of such Series to be redeemed on a pro rata basis from all Owners, calculated based on the Outstanding principal amount of the 2012E Bonds of such Series held by each Owner compared to the total amount of 2012E Bonds of such Series Outstanding on the Record Date in respect of the applicable Redemption Date.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and funds for the payment of the Redemption Price of the 2012E Bonds to be redeemed are held by the Paying Agent on the designated Redemption Date, then on the Redemption Date designated in such notice, the Redemption Price of such 2012E Bonds so called for redemption will become due and payable as specified in such notice; and from and after the date so designated, interest due with respect to such 2012E Bonds or portions thereof so called for redemption will cease to accrue, such 2012E Bonds will cease to be entitled to any benefit, protection or security under the Paying Agent Agreement and the Owners of such 2012E Bonds will have no rights in respect thereof except to receive payment of the Redemption Price. The Paying Agent will, upon surrender for payment of any of the 2012E Bonds to be redeemed on their respective Redemption Dates, pay such 2012E Bonds at the Redemption Price. If said moneys will not be available on the Redemption Date, such 2012E Bonds will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

Event of Default and Purchase Default Period

Event of Default. If Metropolitan fails to pay the Purchase Price of all of the 2012E Bonds of a Series pursuant to a Term Mode Scheduled Mandatory Tender, then such failure will be an “Event of Default” for such Series under the Paying Agent Agreement and a Purchase Default Period will commence for such Series.

Purchase Default Period. During a Purchase Default Period for a Series of 2012E Bonds, the following will apply:

- (i) All of the 2012E Bonds of the affected Series will bear interest at the Purchase Default Rate, which will be a per annum rate equal to the lower of (i) twelve percent (12%) and (ii) the higher of (A) eight percent (8%) and (B) the Prime Rate plus three percent (3%);
- (ii) The 2012E Bonds of the affected Series will not be subject to optional redemption (but as provided in (vi) below, Metropolitan will remain obligated to purchase the 2012E Bonds of such Series);

(iii) The 2012E Bonds of the affected Series will remain subject to Mandatory Sinking Fund Redemption;

(iv) The 2012E Bonds of the affected Series will be subject to special mandatory redemption on the dates and in the principal amounts as set forth above under the caption “DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Special Mandatory Redemption of 2012E Bonds*;”

(v) Metropolitan will not require the Owners to tender their 2012E Bonds of the affected Series for purchase as set forth above under the caption “DESCRIPTION OF THE 2012E BONDS – Tender and Purchase of 2012E Bonds;”

(vi) Metropolitan will continue to be obligated to purchase all of the 2012E Bonds of the affected Series tendered on the Scheduled Mandatory Tender Date for such Series at the Purchase Price, notwithstanding, and in addition to, its obligation to redeem Outstanding 2012E Bonds of such Series from Special Mandatory Redemption Payments; and

(vii) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2012E Bonds of the affected Series, the Owners thereof will be obligated to sell and deliver their 2012E Bonds of such Series to Metropolitan.

Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2012E Bonds of such Series will not constitute an Event of Default under the Master Resolution or under any other provision of the Resolutions.

Determination of Prime Rate and Purchase Default Rate. During each Purchase Default Period for a Series of 2012E Bonds (but not during any Term Period for such Series of 2012E Bonds), no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Interest Payment Date for such Series of 2012E Bonds while such Series of 2012E Bonds bears interest in the Term Mode, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the Remarketing Agent specifying the Prime Rate and the Purchase Default Rate for, and the aggregate amount of interest on, the 2012E Bonds that is due and payable on such Interest Payment Date, together with a detailed calculation of the foregoing. All percentages resulting from the calculation of the Prime Rate will be rounded, if necessary, to the nearest ten-thousandth of a percentage point with five hundred thousandths of a percentage point rounded upward, and all dollar amounts used in or resulting from the calculation of the Purchase Default Rate will be rounded to the nearest cent (with one-half cent being rounded upward). This determination by the Fiscal Agent of the Prime Rate and the Purchase Default Rate will be conclusive and binding on the Owners of the 2012E Bonds of such Series, Metropolitan, the Fiscal Agent, the Remarketing Agent and the Paying Agent.

Purchase and Sale of 2012E Bonds During Purchase Default Period. During a Purchase Default Period for a Series of 2012E Bonds, Metropolitan will pay the Purchase Price of any 2012E Bonds of such Series by delivering the Purchase Price for the 2012E Bonds of such Series to be purchased to the Paying Agent at its Corporate Trust Office on any Business Day.

If on any Business Day Metropolitan pays the Purchase Price with respect to only a portion of the 2012E Bonds of such Series, then Metropolitan will purchase 2012E Bonds of such Series from each of the Owners thereof on a *pro rata* basis, calculated based on the outstanding principal amount of the 2012E Bonds of such Series held by each Owner compared to the total amount of 2012E Bonds of such Series Outstanding on such Business Day.

From and after the Business Day on which Metropolitan delivers the Purchase Price of all or any portion of the affected Series of 2012E Bonds to the Paying Agent, such Series of 2012E Bonds will be deemed purchased by Metropolitan, no interest will accrue on such Series of 2012E Bonds and the Owners thereof will have no rights under the Resolutions other than to receive payment of the Purchase Price thereof.

Termination of a Purchase Default Period. During any Purchase Default Period for a Series of 2012E Bonds, upon the purchase by Metropolitan of all 2012E Bonds of such Series, the Event of Default under the Paying Agent Agreement will be cured and the Purchase Default Period for such Series of 2012E Bonds attributable to such Event of Default will terminate on the date next preceding the date on which such purchase occurs.

Bondholders' Committee. In addition to any rights that the Owners of the 2012E Bonds may have under the Resolutions, if an Event of Default has occurred and is continuing under the Paying Agent Agreement with respect to a Series of 2012E Bonds, the Owners of twenty-five percent (25%) in aggregate principal amount of the 2012E Bonds of the affected Series then Outstanding may call a meeting of the Owners of the 2012E Bonds of such Series for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate principal amount of 2012E Bonds of the affected Series must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee will be deemed trustee for the Owners of all of the 2012E Bonds of the affected Series then Outstanding, and will be empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Paying Agent Agreement on any Owner, provided, however, that whenever the consent, approval or concurrence of the Owners of a specified percentage of principal of the then Outstanding 2012E Bonds of the affected Series is required, in order to exercise the right or power conferred in the Paying Agent Agreement on the Owners to which such percentage pertains, the Bondholders' Committee either must have been elected by or their election must have been approved by or concurred by, and such committee must then represent, the Owners of such specified percentage of the principal amount of the then Outstanding 2012E Bonds of the affected Series. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, must be filed with the Authorized Representative.

Any Bondholders' Committee elected under the Paying Agent Agreement is distinct from any similar committee elected under the Resolutions, with its own limited rights as specified in the Paying Agent Agreement.

Other Remedies, Rights of Owners of the 2012E Bonds. Upon the occurrence and continuation of an Event of Default under the Paying Agent Agreement, the Owners of the 2012E Bonds of the affected Series may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of the Paying Agent Agreement.

The rights of the Owners of the 2012E Bonds are in addition to any rights that the Owners of the 2012E Bonds may have under the Master Resolution and the Fourth Supplemental Resolution.

No Owner of 2012E Bonds has the right to declare the principal and accrued interest on the 2012E Bonds to be immediately due and payable except as provided in the Resolutions.

Change to a Different Interest Mode

Change of Interest Mode. At Metropolitan's discretion, each Series of 2012E Bonds may bear interest from time to time at (a) a Term Rate, (b) an Index Tender Rate, (c) a Daily Rate, (d) a Weekly Rate, (e) Bond Interest Term Rates, or (f) a Fixed Interest Rate, as such terms are defined and as more fully described in each Paying Agent Agreement. However, all of the 2012E Bonds of a Series will bear interest in the same Interest Mode or at a Fixed Interest Rate.

Notice of Different Interest Mode. The Paying Agent will give notice, together with the notice of mandatory tender for purchase, by first-class United States mail, postage prepaid, of a change to a different Interest Mode for a Series of the 2012E Bonds to the Owners of the affected Series of 2012E Bonds not less than seven (7) days prior to the effective date of such different Interest Mode. Such notice will state, among other matters, (i) that the interest rate on the 2012E Bonds of such Series will be changed to a different Interest Mode, (ii) the effective date of the new Interest Mode, and (iii) if applicable, that the 2012E Bonds of such Series are subject to mandatory tender for purchase on such effective date and the applicable Purchase Price.

Change of Interest Mode from a Term Mode. During any Term Period while 2012E Bonds of a Series bear interest in the Term Mode, Metropolitan may change the Interest Mode and may convert to a Fixed Interest Rate (as defined in the Paying Agent Agreement) only from and after the applicable Call Protection Date of such Term Period.

SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS

General

Metropolitan's obligation to pay principal of and interest on the 2012E Bonds is a limited obligation of Metropolitan payable solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues and the other funds, assets and security described under the Resolutions. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS." As defined in the Master Resolution, "Net Operating Revenues" are Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues. "Operating Revenues" are all revenues received by Metropolitan from charges for the sale and availability of water. "Operation and Maintenance Expenditures" are the necessary expenditures for operating and maintaining the properties, works and facilities of Metropolitan, including expenditures for the operation, maintenance, power and replacement charges payable by Metropolitan under the State Water Contract and the Devil Canyon-Castaic Contract and any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants; and such other expenditures of Metropolitan generally classified as operating and maintenance expenditures, excluding any charges for depreciation or amortization. The State Water Contract and the Devil Canyon-Castaic Contract are discussed in APPENDIX A under the caption "METROPOLITAN EXPENDITURES – State Water Contract Obligations." Payment of capital costs and some other payments under the State Water Contract and the Devil Canyon-Castaic Contract are subordinate to the obligation of Metropolitan for payment of Operation and Maintenance Expenditures and debt service on the 2012E Bonds, the Parity Bonds and the Parity Obligations. Accordingly, the debt service coverage on the 2012E Bonds, the Parity Bonds and the Parity Obligations does not take into account such expenses. See APPENDIX A – "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."

The 2012E Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2012E Bonds tendered for purchase is an unsecured obligation payable solely from the sources specified in this Official Statement. The 2012E Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012E Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on or the Purchase Price upon a tender for purchase of, the 2012E Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Official Statement.

Rate Covenant

Metropolitan covenants in the Master Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues (*i.e.*, interest, profits and other income received from the investment of any moneys of Metropolitan and other revenues of Metropolitan (other than Operating Revenues) to the extent available to pay debt service on the 2012E Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the order set forth:

1. Operation and Maintenance Expenditures;
2. Interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds and Parity Obligations as the same become due and payable;
3. All other payments required for compliance with the Master Resolution or any Supplemental Resolution; and
4. All other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

Metropolitan previously issued and designated three series of Bonds in the aggregate principal amount of \$578,385,000 as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Build America Bonds"). Metropolitan expects to receive cash subsidies from the United States Treasury equal to 35 percent of the interest payable on all such outstanding Build America Bonds (the "Interest Subsidy Payments"). The Interest Subsidy Payments in connection with the Build America Bonds do not constitute Operating Revenues under the Master Resolution. Such Interest Subsidy Payments will constitute Additional Revenues, which Metropolitan may take into consideration when establishing its rates and charges and will be available to Metropolitan to pay principal and interest on the 2012E Bonds.

Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2012E Bonds, including any Mandatory Sinking Fund Payments and, during any Purchase Default Period, Special Mandatory Redemption Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2012E Bonds in setting its rates and charges.

Water rates are established by a majority of the voting power of the Board. Metropolitan's water rates are not subject to regulation by the Public Utilities Commission of California or by any other state, local or Federal agency. Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996, imposes additional limitations on the manner in which local agencies may impose certain taxes, fees, charges and assessments. Some of Metropolitan's Operating Revenues are derived from standby and water availability charges. These revenues may be affected by the application of Proposition 218. Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIII C of the California Constitution to include levies, charges and exactions imposed by local governments. Metropolitan believes its water rates and charges are not taxes under Proposition 26. Nevertheless, Metropolitan is assessing whether Proposition 26 may affect future water rates and charges. These revenues may be affected by the application of Proposition 26. See APPENDIX A – "METROPOLITAN REVENUES – California Ballot Initiatives."

Parity Bonds and Parity Obligations

As of June 1, 2012, Metropolitan had \$4.61 billion aggregate principal amount of Bonds (including the Bonds to be redeemed with proceeds of the 2012 Refunding Bonds) outstanding. See "OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings" and APPENDIX A – "METROPOLITAN EXPENDITURES."

Interest Rate Swap Agreements. Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with the 2012E Bonds, the Parity Bonds and the Parity Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as set forth in, APPENDIX A under the caption "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

Index Tender Bonds. As of June 1, 2012, Metropolitan had outstanding \$535.8 million of Parity Bonds bearing interest in the index mode (the "Index Tender Bonds"). The Index Tender Bonds bear interest at a rate that fluctuates weekly based on the SIFMA Municipal Swap Index published weekly by Municipal Market Data; however, if the purchase price of a series of Index Tender Bonds is not paid from proceeds of remarketing or other funds following a scheduled mandatory tender, such Index Tender Bonds then will bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. The Index Tender Bonds are subject to mandatory tender under certain circumstances. Metropolitan anticipates that it will pay the purchase price of tendered Index Tender Bonds from the proceeds of remarketing such Index Tender Bonds or from other available funds. Metropolitan's obligation to pay the purchase price of such Index Tender Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Index Tender Bonds in connection with a scheduled mandatory tender. If the purchase price of the Index Tender Bonds of any Series is not paid on a scheduled mandatory tender date, such Index Tender Bonds will be subject to special mandatory redemption in part 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on a parity with the Bonds and Parity Obligations. See APPENDIX A – "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations" and "– Other Revenue Obligations."

Self-Liquidity Bonds. As of June 1, 2012, Metropolitan had outstanding \$127.0 million of Parity Bonds it has designated as self-liquidity bonds (the "Self-Liquidity Bonds"). The Self-Liquidity Bonds are variable rate demand bonds that bear interest at a weekly rate that the remarketing agent for the Self-

Liquidity Bonds determines. The Self-Liquidity Bonds are subject to optional tender upon seven days' notice by the Owners thereof and mandatory tender upon specified events. Metropolitan is irrevocably committed to purchase all Self-Liquidity Bonds tendered pursuant to any optional or mandatory tender to the extent that remarketing proceeds are insufficient therefor and no standby bond purchase agreement or other liquidity facility is in effect. Metropolitan's obligation to pay the purchase price of any tendered Self-Liquidity Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. In addition, Metropolitan's investment policy permits it to purchase tendered Self-Liquidity Bonds as an investment of its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds). Thus, while Metropolitan is only obligated to purchase tendered Self-Liquidity Bonds from Net Operating Revenues, Metropolitan may use the cash and investments in its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds) to purchase tendered Self-Liquidity Bonds. Metropolitan has not secured any liquidity facility or letter of credit to pay the purchase price of any tendered Self-Liquidity Bonds. See APPENDIX A – "METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts." For a discussion of Metropolitan's investment portfolio, see "OPERATING REVENUES AND DEBT SERVICE – Metropolitan's Investment Portfolio."

Approximately \$_____ million principal amount of the outstanding Self-Liquidity Bonds are expected to be refunded with a portion of the proceeds of the 2012 Refunding Bonds. See "PLAN OF REFUNDING."

Additional Indebtedness

Metropolitan covenants in the Master Resolution that no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012E Bonds, the Parity Bonds or the Parity Obligations.

In addition, Metropolitan covenants in the Master Resolution that, except for Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations will be created or incurred unless:

FIRST: Metropolitan is not in default under the terms of the Resolutions, including as supplemented, modified or amended by any Supplemental Resolution.

SECOND: Either (1) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan, or (2) the estimated Net Operating Revenues for the first complete Fiscal Year when improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations will be in operation as estimated by and set forth in a certificate of Metropolitan plus, at the option of Metropolitan, any or all of certain other items permitted by the Resolutions, will have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations. In making this calculation, Metropolitan may take into consideration any increases in water rates or charges which have become effective prior to the creation of such additional Bonds or Parity Obligations, any increase in Net Operating Revenues which may arise from additions or improvements to the Water System to be made or

*Preliminary, subject to change.

acquired with the proceeds of such additional Bonds or Parity Obligations or using the proceeds of Bonds previously issued, or from additions recently placed in service, Additional Revenues and certain other funds specified in the Resolutions.

THIRD: On the date of delivery of and payment for such additional Bonds or Parity Obligations, the amount in any reserve fund or account for any Bonds or Parity Obligations previously established will not be less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The Interest Subsidy Payments that Metropolitan expects to receive from the United States Treasury in connection with its previously issued and designated Build America Bonds do not constitute Operating Revenues under the Master Resolution and is not pledged for the payment of debt service on the Build America Bonds or the Parity Bonds and Parity Obligations. Such subsidy will, however, constitute Additional Revenues, which Metropolitan will use when determining whether it has satisfied the requirements set forth in the Master Resolution for the creation or incurrence of additional Bonds or Parity Obligations. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Covenants – Limits on Additional Debt.”

Metropolitan’s obligation to pay the Purchase Price of all of the 2012E Bonds of a Series in connection with a Term Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of any 2012E Bonds tendered pursuant to a Term Mode Scheduled Mandatory Tender, however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2012E Bonds.

Under the Act, the amount of outstanding Bonds and other evidences of indebtedness may not exceed 15 percent of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of June 1, 2012, Metropolitan’s outstanding Bonds and other indebtedness, in the aggregate amount of \$4.82 billion, constituted approximately 0.23 percent of the fiscal year 2011-12 taxable assessed valuation of approximately \$2,067.5 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan 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 outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2011 were \$6.26 billion. The aggregate amount of Bonds outstanding as of June 1, 2012 was \$4.61 billion.

Subordinate Obligations

Under the Resolutions, Metropolitan may issue obligations junior and subordinate to the Bonds, including the 2012E Bonds, and the Parity Obligations, subject to the provisions of the Act. Metropolitan currently is authorized to issue up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

In addition, Metropolitan obtained a \$20 million California Safe Drinking Water Revolving Fund Loan (the “California Safe Drinking Water Revolving Fund Loan”) in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Mills Filtration

Plant in Riverside County. The loan will be repaid over twenty years. Payments commenced January 1, 2005. The loan payment obligation is subordinate to the Bonds, including the 2012E Bonds, and the Parity Obligations. The outstanding principal balance on the California Safe Drinking Water Revolving Fund Loan as of June 1, 2012 was \$13.6 million.

Under some circumstances, some interest rate swap agreements are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Some of such termination payments are secured on a basis subordinate in payment priority to the Bonds, including the 2012E Bonds, and the Parity Obligations. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations,” “– Other Revenue Obligations” and “– Subordinate Revenue Obligations.”

No Reserve Fund

The Fourth Supplemental Resolution provides for the establishment of a Reserve Fund for Bonds issued thereunder to be funded in an amount equal to the Bond Reserve Requirement for such Bonds as set forth in the applicable bond purchase contract. Metropolitan has determined that the Bond Reserve Requirement for the 2012E Bonds will be established at \$0 pursuant to the Bond Purchase Contract (herein defined) and no Reserve Fund for the 2012E Bonds will be established or maintained. **Amounts held or to be held in a reserve fund or account established for any other series of Bonds or any Reserve Fund Credit Policy for any other series of Bonds will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on, or Purchase Price of, the 2012E Bonds.**

Flow of Funds

Metropolitan will allocate all Operating Revenues to the Water Revenue Fund and will effect transfers from the Water Revenue Fund to the following funds or accounts as soon as practicable in each calendar month in the following order of priority, and such amounts will be withdrawn from said funds or accounts only for the following:

First, to the Operation and Maintenance Fund, an amount sufficient, together with any other revenues lawfully available therefor, to provide for the estimated Operation and Maintenance Expenditures during the current calendar month and the next succeeding calendar month.

Second, to the Bond Service Fund, an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of the interest becoming due and payable on the next interest payment date for all such Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110 percent of the aggregate amount of interest, estimated by the Treasurer of Metropolitan in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided that such amount may be reduced and will be increased under certain circumstances, as set forth in the Resolutions), and (iii) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly *pro rata* basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus

(ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. Such amount is subject to adjustment as set forth in the Resolutions, in the event Term Bonds are purchased from the Bond Service Fund, redeemed by Metropolitan or deposited by Metropolitan with the Fiscal Agent. No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Master Resolution and then Outstanding but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates, and (ii) there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Master Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

Third, to the extent of any deficiency in any reserve fund or account for Bonds or Parity Obligations, to such reserve fund or account for such other Bonds or Parity Obligations (i) one-sixth of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and (ii) the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required to restore such reserve fund or account to the amount required to be maintained therein. If there is a deficiency of Operating Revenues to make the deposits required by this Third paragraph, such Operating Revenues will be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency.

Fourth, to any such excess earnings or rebate fund or account for Bonds or Parity Obligations, the amount (if any) required in accordance with a Supplemental Resolution or Metropolitan's tax and nonarbitrage certificate delivered in connection with the issuance of the Bonds or Parity Obligations.

Fifth, for any required transfer or deposit for the payment of any obligation of Metropolitan with a lien on, or payable from, Net Operating Revenues junior to the lien thereon of the Bonds and any Parity Obligations.

Sixth, except as otherwise provided in a Supplemental Resolution, to the Revenue Remainder Fund, any amounts remaining in the Water Revenue Fund after the above transfers. Provided Metropolitan is in compliance with all covenants contained in the Resolutions, the Revenue Remainder Fund may be used for any lawful purpose of Metropolitan.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Water Revenue Fund.”

PLAN OF REFUNDING

Metropolitan is restructuring a portion of its outstanding variable rate Bonds to achieve an improved debt service structure and debt service savings in light of current market conditions. The restructuring plan includes the refunding of portions of certain Series of its outstanding variable rate Bonds and the termination of all or a portion of the interest rate swap agreements currently associated with such outstanding variable rate Bonds. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Concurrently with the issuance of the 2012E Bonds, Metropolitan expects to issue up to \$277,080,000* principal amount of its fixed rate 2012C Bonds and \$56,335,000* principal amount of its fixed rate taxable 2012D Bonds. Each Series of the 2012 Refunding Bonds will be delivered concurrently.

The proceeds of the 2012 Refunding Bonds will be applied to: (i) refund all or portions of certain maturities of Metropolitan’s outstanding Bonds; (ii) fund the costs of termination of all or portions of certain interest rate swap agreements; and (iii) fund costs of issuance of the 2012 Refunding Bonds.

The following table details the currently estimated Series, maturity date and principal amount of the Bonds currently expected to be refunded. Metropolitan may also refund all or a portion of any other Bonds or refunding Bonds selected by Metropolitan. The specific Bonds and refunding Bonds to be refunded (the “Refunded Bonds”) with the proceeds of the 2012E Bonds will be determined by Metropolitan at the time that Metropolitan and the respective underwriters for each Series execute the related bond purchase contract for each such Series. **All refunded Bonds, dates and amounts are subject to change by Metropolitan in its sole discretion.**

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*Preliminary, subject to change.

Refunded Bonds

Water Revenue Refunding Bonds	Issue Date	Maturity Date	CUSIP (Base No. 59266)	Principal Amount Outstanding	Principal Amount to be Redeemed*
2004 Series A-1	02/19/04	July 1, 2023 ⁽¹⁾	3K23	\$ 77,965,000	\$
2004 Series A-2	02/19/04	July 1, 2023 ⁽²⁾	3K31	77,965,000	
2006 Series A-1	05/25/06	July 1, 2021 ⁽³⁾	32G2	36,910,000	
2006 Series A-2	05/25/06	July 1, 2021 ⁽⁴⁾	32F4	36,915,000	
2008 Series A-1	03/25/08	July 1, 2037 ⁽⁵⁾	35E4		
2008 Series A-2	03/25/08	July 1, 2037 ⁽⁶⁾	35F1		
2010 Series A	06/24/10	October 1, 2029 ⁽⁷⁾	TCZ2	127,035,000	

⁽¹⁾ Portion of the Series 2004A-1 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2019*.

⁽²⁾ Portion of the Series 2004A-2 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2019*.

⁽³⁾ Portion of the Series 2006A-1 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2021*.

⁽⁴⁾ Portion of the Series 2006A-2 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2013 to 2021*.

⁽⁵⁾ Portion of the Series 2008A-1 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2014 to 2021*.

⁽⁶⁾ Portion of the Series 2008A-2 Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on July 1 in each of the years 2014 to 2021*.

⁽⁷⁾ Portion of the Series 2010A Term Bond being redeemed is expected to be credited to the payment of the mandatory sinking fund payments due on October 1 in each of the years 2013 to 2019*.

The Refunded Bonds identified in the table above are expected to be redeemed on or about July 20, 2012 (the "Redemption Date") at a redemption price of 100% of the principal amount thereof, without premium.

Pursuant to the terms of the Resolutions and the respective paying agent agreements for the Refunded Bonds, the refunding of the Refunded Bonds will be effected by depositing a portion of the proceeds of the 2012E Bonds, together with other available monies, in the respective escrow funds (the "Escrow Funds") created and established under the respective Escrow Instructions, each dated as of June 1, 2012, each by and between Metropolitan and Wells Fargo Bank, National Association, as escrow agent, for the applicable Series of Refunded Bonds. Such proceeds and other available monies deposited by Metropolitan in the Escrow Funds will be held by the Escrow Agent in cash and will be sufficient to pay interest coming due on the Refunded Bonds prior to the date of redemption thereof and to pay the redemption price of the Refunded Bonds (*i.e.*, 100% of the principal amount thereof) on the Redemption Date therefor, plus any interest accrued and unpaid thereon. See "ESTIMATED SOURCES AND USES OF FUNDS" and "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

*Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2012 Refunding Bonds, including the 2012E Bonds, and other available monies are shown below:

	<u>2012C Bonds</u>	<u>2012D Bonds</u>	<u>2012E Bonds</u>
<i>Estimated Sources of Funds:</i>			
Principal Amount of 2012C Bonds	\$		
Original Issue Premium of 2012C Bonds			
Principal Amount of 2012D Bonds			
Principal Amount of 2012E Bonds			
Original Issue Premium of 2012E Bonds			
Release from Bond Service Fund			
Release from Reserve Funds			
Equity Contribution			
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>
<i>Estimated Uses of Funds:</i>			
Deposit to Escrow Funds	\$		
Swap Termination Payments ⁽¹⁾			
Costs of Issuance ⁽²⁾			
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Includes accrued amounts payable to the swap termination date.

⁽²⁾ Includes Underwriters' discounts, rating agency fees, financial advisory fees, verification agent fees, escrow agent fees, legal fees, printing costs and other costs of issuance.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by a vote of the electorates of eleven southern California cities under authority of the Act to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and information on Metropolitan's service area, see APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA." For a discussion of selected demographic and economic information on Metropolitan's service area, see APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

For information on the finances and operation of Metropolitan, see APPENDIX A and APPENDIX B.

OPERATING REVENUES AND DEBT SERVICE

Operating Revenues

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge, and capacity charge. See APPENDIX A – "METROPOLITAN REVENUES – Water Sales Revenues," "– Rate Structure" and "– Additional Revenue Components." In meeting the requirements of the Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent

available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and interest subsidy payments that may be received by Metropolitan in connection with any existing and future "Build America Bonds." No assurances are provided that Metropolitan will receive the interest subsidy payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2012E Bonds. For a description of "Operating Revenues" and the effect of Operation and Maintenance Expenditures on the amount of revenues available for payment of the 2012E Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Security for the 2012E Bonds." See also APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS." For information on Metropolitan's revenues and expenses, including historical and projected revenues and expenditures, see APPENDIX A – "METROPOLITAN REVENUES," "– METROPOLITAN EXPENDITURES" and "– HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES." See also Metropolitan's financial statements contained in APPENDIX B.

Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2012E Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Additional Indebtedness."

Metropolitan has issued Parity Bonds pursuant to the applicable Resolutions, which are outstanding in the amounts listed in APPENDIX A under the subcaption "METROPOLITAN EXPENDITURES." All of the 2012E Bonds will be payable from Net Operating Revenues on a parity with the Parity Bonds and the Parity Obligations.

Anticipated Financings

Metropolitan anticipates that it will issue bonds, notes or other evidences of indebtedness under the Master Resolution in addition to the 2012E Bonds, the Parity Bonds and the Parity Obligations to finance improvements to its Water System and to refund outstanding revenue bonds or general obligation bonds from time to time depending on market conditions and other factors. Metropolitan currently assumes the issuance of additional Parity Bonds as follows: \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, \$180 million in fiscal year 2015-16 and \$190 million in fiscal year 2016-17. The current Capital Investment Plan is described in APPENDIX A. See APPENDIX A – "CAPITAL INVESTMENT PLAN." The Master Resolution establishes limitations on the issuance of additional obligations payable from Net Operating Revenues on a parity with the Outstanding Bonds.

The Master Resolution permits subsequent authorizations of additional Bonds as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Additional Indebtedness." The Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues on a parity with the Outstanding Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Additional Indebtedness." Metropolitan may also issue obligations junior and subordinate to the 2012E Bonds, subject to the limitations in the Act.

From time to time Metropolitan may enter into synthetic interest rate swaps, pursuant to which, for example, fixed rate obligations are converted to variable rate obligations or vice versa. See APPENDIX A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan’s outstanding Bonds and the 2012 Refunding Bonds.

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**The Metropolitan Water District of Southern California
Debt Service Requirements for Water Revenue Bonds**

Fiscal Year Ending June 30	Outstanding Bonds Debt Service⁽¹⁾⁽²⁾⁽³⁾	2012C Bonds Principal	2012C Bonds Interest	2012D Bonds Principal	2012D Bonds Interest	2012E Bonds Principal	2012E Bonds Interest⁽⁴⁾	Total⁽⁵⁾
2012								
2013								
2014								
2015								
2016								
2017								
2018								
2019								
2020								
2021								
2022								
2023								
2024								
2025								
2026								
2027								
2028								
2029								
2030								
2031								
2032								
2033								
2034								
2035								
2036								
2037								
2038								
2039								
2040								
2041								
Total⁽⁴⁾								

(Footnotes on next page.)

- (1) Indicated amounts include scheduled payments of principal of and interest on the Refunded Bonds.
- (2) For the \$1.15 billion of variable rate bonds associated with particular interest rate swap agreements, interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements. For the remaining \$514 million of variable rate debt, interest is calculated at an assumed interest rate of 1.80 percent per annum. Actual rates may differ from those set forth in this footnote.
- (3) Indicated amounts reflect the stated interest rate on Metropolitan's Water Revenue Bonds 2008 Authorization, Series C (Taxable Build America Bonds), Metropolitan's Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) and the 2010 Authorization, Series A Bonds, and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Bonds.
- (4) Assumes each Series of the 2012E Bonds are changed to a weekly mode after the initial Scheduled Mandatory Tender Date for such Series. Interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements.
- (5) Totals are rounded.

Summary of Net Operating Revenues

The following table shows a summary of actual and projected Net Operating Revenues available for debt service on the outstanding Parity Bonds and Parity Obligations of Metropolitan, including the 2012E Bonds and additional Bonds that Metropolitan projects it will issue.

In establishing water rates and charges, Metropolitan makes estimates relating to water supply and demand that assume no mandatory retail water use restrictions or allocations and normalized conditions for weather and the regional economy. As a result of unusually cool and wet weather conditions in Metropolitan's service area from summer 2010 through summer 2011, combined with mandatory water use restrictions and recessionary economic impacts, Metropolitan's water sales for the fiscal year 2010-11 were below the level that it projected for normal conditions at the time it established its rates and charges for this period. As a consequence, during fiscal year 2010-11, Metropolitan drew down \$61 million from the Water Rate Stabilization Fund and the Water Revenue Remainder Fund. See APPENDIX A – "METROPOLITAN REVENUES – Financial Reserve Policy."

Metropolitan is currently projecting that, on June 30, 2012, the aggregate balance in the Water Rate Stabilization Fund and the Water Revenue Remainder Fund will be \$271 million, which includes \$50 million held in financial reserves in Metropolitan's General Fund pursuant to the exchange contract between Metropolitan and San Diego County Water Authority due to the litigation challenging Metropolitan's rate structure, see APPENDIX A – "METROPOLITAN REVENUES – Litigation Challenging Rate Structure". Metropolitan is also projecting that it will meet its cost of service during fiscal year 2012-13, and thus will not draw any amount from the Rate Stabilization Fund and the Water Revenue Remainder Fund during fiscal year 2012-13. Such projections reflect Board adopted rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, which will become effective on January 1, 2013 and 5.0 percent, which will become effective on effective January 1, 2014. Rates and charges are projected to increase 3.0 percent per fiscal year thereafter, subject to adoption by the Board. Metropolitan's projections of water sales for fiscal year 2011-12 include the sale of 225,000 acre-feet of discounted replenishment service deliveries to member agencies delivered in calendar year 2011, resuming the sale of discounted water for groundwater replenishment that was discontinued on May 1, 2007, see APPENDIX A – "METROPOLITAN REVENUES – Classes of Water Service – Replenishment". The level of water sales estimated in Metropolitan's projections for fiscal year 2011-12 water revenues and expenditures and adopted budget and revenue requirements for fiscal years 2012-13 and 2013-14 reflect higher than normal levels of local supplies from the Los Angeles Aqueduct system and other systems based on hydrologic conditions that occurred in 2010 and in early 2011.

As shown in the tables below, the summary of projected financial operations for fiscal years 2012-13 through 2015-16 are based on the assumptions and estimates used in developing the adopted biennial budget for fiscal years 2012-13 and 2013-14. See APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES – Water Sales Receipts.” The Board must approve any rate increases effective in 2015 and thereafter. The summary of historical and projected financial operations is prepared on a cash basis for fiscal year ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016. For a description of the modified accrual basis of accounting, see “ACCOUNTING AND BUDGET MATTERS – Change in Budgetary Accounting Method.” By using the modified accrual basis of accounting rather than cash basis, projected revenues are \$11 million greater in fiscal year 2012-13 and \$17 million greater in fiscal year 2013-14 than under the cash basis of accounting previously used. The primary reason for these greater amounts is that, under the modified accrual basis, the projections recognize two additional months of increased revenues during those fiscal years arising from adopted rate increases to be effective on January 1, 2013 and January 1, 2014. Under the cash basis of accounting, these additional two months of increased revenues would have been recognized in the fiscal year following the rate increase reflecting receipt of payments. Invoices for water sold are payable at the end of the second month after the month in which water is delivered.

For more detailed information, including information pertaining to Net Operating Revenues, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A. For a table summarizing actual and projected debt service coverage, see the information under caption “Debt Service Coverage” below. Actual results during the projection period may vary from those set forth in the following table. Under certain circumstances, such variances may be material.

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	Actual			Projected					
	Years Ending June 30 ⁽¹⁾								
	(Dollars in Millions)								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Operating Revenues ⁽²⁾	\$290	\$326	\$321	\$296	\$408	\$441	\$520	\$557	\$588
Other Revenues ⁽³⁾	94	75	71	113	88	56	53	55	60
Adjusted Net Operating Revenues ⁽⁴⁾	385	401	392	409	496	497	573	612	648
Parity Obligations and Revenue Bonds Debt Service ⁽⁵⁾	(219)	(223)	(244)	(277)	(291)	(305)	(308)	(316)	(325)
Subordinate Revenue Obligations ⁽⁶⁾	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Funds Available From Operations	\$165	\$177	\$147	\$131	\$204	\$191	\$264	\$295	\$322

Source: Metropolitan.

⁽¹⁾ Unaudited. Prepared on a cash basis for fiscal year ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016. See "ACCOUNTING AND BUDGET MATTERS—Change in Budgetary Accounting Method."

⁽²⁾ During the four fiscal years ended June 30, 2008 through June 30, 2011, annual water sales (in acre-feet) were 2.31 million, 2.17 million, 1.86 million and 1.63 million, respectively. See table entitled "SUMMARY OF WATER SOLD AND WATER SALES RECEIPTS" under the caption "METROPOLITAN REVENUES – Water Sales Revenues" in APPENDIX A. The water receipts projections are based upon estimated annual water sales (in acre-feet) of 1.67 million in fiscal year 2011-12 (including 225,000 acre-feet of replenishment sales), 1.7 million in fiscal year 2012-13, 1.7 million in fiscal year 2013-14, 1.75 million in fiscal year 2014-15 and 1.75 million in fiscal year 2015-16. Projections reflect Board adopted rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, which will become effective on effective January 1, 2013 and 5.0 percent, which will become effective on January 1, 2014. Rates and charges are projected to increase 3.0 percent per fiscal year thereafter, subject to adoption by the Board. See APPENDIX A – "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."

⁽³⁾ "Other Revenues" include sales of hydroelectric power, interest on investments (not including interest applicable to bond construction funds) and the Interest Subsidy Payments that may be received in connection with Metropolitan's Build America Bonds. See "OPERATING REVENUES AND DEBT SERVICE – Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues."

⁽⁴⁾ "Adjusted Net Operating Revenues" includes additional available revenues, which the Master Resolution specifies may be considered by Metropolitan in setting rates and issuing additional Bonds and Parity Obligations. Additional items may be taken into account in satisfying the provisions with respect to the issuance of additional Bonds and Parity Obligations. See "OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings."

⁽⁵⁾ Net of investment income with respect to any reserve funds. Includes debt service on the sum of outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011) and additional Bonds (projected). Assumes the issuance of additional Parity Bonds as follows: \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, and \$180 million in fiscal year 2015-16. See "OPERATING REVENUES AND DEBT SERVICE—Anticipated Financings."

⁽⁶⁾ Represents California Safe Drinking Water Revolving Loan debt service.

Debt Service Coverage

The following table shows a summary of actual and projected debt service coverage on the outstanding Bonds and Parity Obligations (as projected by Metropolitan based on assumptions and estimates used in developing the adopted biennial budget for fiscal years 2012-13 and 2013-14). For more detailed information, including information pertaining to Net Operating Revenues, see the table included under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in APPENDIX A. Actual results during the projection period may vary from those set forth in the following table. Under certain circumstances, such variances may be material.

	Actual			Projected ⁽²⁾					
	2008	2009	2010	Years Ending June 30 ⁽¹⁾					
				2011	2012	2013	2014	2015	2016
Parity Bonds Debt Service Coverage ⁽³⁾	1.76	1.80	1.61	1.48	1.71	1.63	1.86	1.94	1.99
Debt Service Coverage on All Obligations ⁽⁴⁾	1.75	1.79	1.60	1.47	1.70	1.62	1.85	1.93	1.99
Fixed Charge Coverage ⁽⁵⁾	1.24	1.30	1.09	1.03	1.23	1.15	1.33	1.33	1.34

Source: Metropolitan.

- (1) Unaudited. Prepared on a cash basis method for fiscal year ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016. See "ACCOUNTING AND BUDGET MATTERS – Change in Budgetary Accounting Method."
- (2) Projections for fiscal years ending June 30, 2012 through 2016 reflect Board adopted water rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, which will become effective on effective January 1, 2013 and 5.0 percent, which will become effective on effective January 1, 2014. Rates and charges are projected to increase 3.0 percent for each fiscal year thereafter, subject to adoption by the Board. See APPENDIX A – "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."
- (3) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011) and additional Bonds (projected). Assumes the issuance of additional Parity Bonds as follows: \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, and \$180 million in fiscal year 2015-16. See "OPERATING REVENUES AND DEBT SERVICE – Anticipated Financings."
- (4) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011), the subordinate lien California Safe Drinking Water Revolving Fund Loan and additional Bonds (projected).
- (5) Adjusted Net Operating Revenues divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Bonds, the parity lien State Revolving Fund Loan (which was repaid on July 1, 2011), the subordinate lien California Safe Drinking Water Revolving Fund Loan, and additional Bonds (projected). See APPENDIX A – "METROPOLITAN EXPENDITURES – State Water Contract Obligations."

Metropolitan's Investment Portfolio

As of April 30, 2012, Metropolitan's investment portfolio had a market value of approximately \$1.034 billion. Metropolitan's investment portfolio consists of the total cash and investments from all of its funds. The market value of Metropolitan's investment portfolio is subject to market fluctuation and volatility and general economic conditions. Metropolitan's investment portfolio includes funds derived from various sources, including Net Operating Revenues, property tax collections, hydroelectric power sales, investment earnings and invested construction funds. See APPENDIX A – "METROPOLITAN REVENUES – Summary of Receipts by Source." Over the three years ended March 31, 2012, the market value of the month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) has averaged approximately \$916.3 million. The minimum month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) during such period was approximately \$737.7 million on October 31, 2010. See APPENDIX A – "METROPOLITAN REVENUES – Investment of

Moneys in Funds and Accounts” and “– Financial Reserve Policy” and APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED).”

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s accrual basis financial statements for the fiscal years ended June 30, 2011 and June 30, 2010. See APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED).”

Metropolitan’s budgeting and financial reporting will change from a cash basis to a modified accrual basis beginning with fiscal year 2012-13, to provide a better match of revenues and expenses. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses are recognized when incurred. See “OPERATING REVENUES AND DEBT SERVICE – Summary of Net Operating Revenues” and APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” The change to modified accrual accounting for budgeting and reporting purposes will not affect Metropolitan’s audited financial statements or continuing compliance with its rate covenant, limitations on additional bonds and other financial covenants with bondholders.

Change in Budgetary Accounting Method

Metropolitan’s accounting method for budgetary reporting will change from cash basis to a modified accrual basis beginning with fiscal year 2012-13, to provide a better match of revenues and expenses. The modified accrual basis of accounting that Metropolitan uses for these purposes varies from the accrual basis of accounting in the following respects: depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. Under this modified accrual basis of accounting, revenues will be recognized in the fiscal year in which they are earned and expenses will be recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods and services have been received. Under the cash basis of accounting, water sales revenues are recorded when received (two months later) and expenses when paid (approximately one month later). See “OPERATING REVENUES AND DEBT SERVICE – Summary of Net Operating Revenues” and APPENDIX A – “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” Metropolitan is changing to modified accrual accounting for budgeting purposes and it will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Resolutions in accordance with their terms.

Financial Statements

Metropolitan's financial statements for the fiscal years ended June 30, 2011 and June 30, 2010, included in APPENDIX B hereto, have been audited by KPMG LLP, independent auditors (the "Independent Auditor"). The Independent Auditor was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Independent Auditor with respect to any event subsequent to the date of its report.

Metropolitan's Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets for nine months ended March 31, 2012 and March 31, 2011 (unaudited) are included in APPENDIX B – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)."

The financial and statistical information contained in this Official Statement is included herein for informational purposes only and a complete review of the financial statements and the footnotes thereto set forth in APPENDIX B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Official Statement, other than the audited financial statements for the fiscal years ended June 30, 2011 and June 30, 2010 included in APPENDIX B.

Budget System

Metropolitan's budget system incorporates features of program budgeting, management by objectives, and performance reporting which provides for funding, analysis, review, and control. Operating budgets are prepared by each department and division annually. Each program and its required resources are reviewed by management and, upon acceptance, are incorporated into the overall budget for approval by the Board. Costs are maintained by project and activity, and expenditures are controlled by Board-approved appropriations. Each month, variances between budget estimates and actual receipts and expenditures are identified and evaluated. This review is performed as one of several control measures to assure progress in meeting Metropolitan's goals and program objectives.

RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2012E Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. The ability of Metropolitan to pay the Purchase Price of any 2012E Bonds depends primarily upon Metropolitan's receipt of the proceeds of remarketing of the 2012E Bonds and other available sources. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2012E Bonds or from receiving a sufficient amount of remarketing proceeds and other available sources to enable it to pay the Purchase Price of the 2012E Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2012E Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Risks Relating to the Term Mode

Metropolitan's Ability to Pay the Purchase Price on the Scheduled Mandatory Tender Date May Be Limited. As described in this Official Statement, the Owners of all of a Series of 2012E Bonds must tender for purchase, and Metropolitan must purchase, all of such 2012E Bonds on the Scheduled Mandatory Tender Date for the Term Period for such Series of 2012E Bonds. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the Purchase Price on the Scheduled Mandatory Tender Date. The ability of Metropolitan to pay the Purchase Price will depend on its ability to successfully remarket the 2012E Bonds of a Series and otherwise to provide funds to pay the Purchase Price. Metropolitan's primary source of funds to pay the Purchase Price, other than remarketing proceeds, will be Net Operating Revenues. Metropolitan may not have sufficient funds to pay the Purchase Price of all of the 2012E Bonds of a Series on any Scheduled Mandatory Tender Date.

Metropolitan's obligation to pay the Purchase Price of all of the 2012E Bonds of a Series in connection with a Term Mode Scheduled Mandatory Tender related thereto is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of such Series of 2012E Bonds on any Scheduled Mandatory Tender Date. However, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any such 2012E Bonds.

During each Term Period, Metropolitan will review its financing alternatives before each Scheduled Mandatory Tender Date. After the Call Protection Date of any Term Period, Metropolitan may (a) remarket the 2012E Bonds of the applicable Series in a Term Mode through a Term Mode Unscheduled Mandatory Tender, (b) change the Interest Mode of a Series of 2012E Bonds or convert a Series of 2012E Bonds to a Fixed Interest Rate or (c) issue Water Revenue Refunding Bonds to refund all or any portion of the 2012E Bonds. In order to manage the 2012E Bonds in a Term Mode so as to avoid a failed remarketing on a Scheduled Mandatory Tender Date, Metropolitan currently plans to use one of these three financing alternatives before a Scheduled Mandatory Tender Date.

Limited Remedies and Consequences Upon Failure to Pay Purchase Price. If Metropolitan does not pay the Purchase Price of any 2012E Bonds of a Series on a Scheduled Mandatory Tender Date, then an Event of Default with respect to such Series of 2012E Bonds will occur under the Paying Agent Agreement and a Purchase Default Period for such Series of 2012E Bonds will commence. During the occurrence and continuance of a Purchase Default Period for a Series of 2012E Bonds, among other consequences: (a) all of the 2012E Bonds of such Series will bear interest at the Purchase Default Rate; (b) the 2012E Bonds of such Series will be subject to special mandatory redemption on the dates and in the principal amounts as set forth above under the caption "DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Special Mandatory Redemption of 2012E Bonds*;" and (c) Metropolitan will be obligated to purchase all of the 2012E Bonds of such Series at the Purchase Price and, upon payment of the Purchase Price, the Owners of any purchased 2012E Bonds will be obligated to sell and deliver such 2012E Bonds to Metropolitan. The Paying Agent Agreement also provides for other consequences of an Event of Default thereunder. See "DESCRIPTION OF THE 2012E BONDS – Event of Default and Purchase Default Period."

Under the Master Resolution, an Event of Default occurs if Metropolitan fails to pay principal of or interest on any Bonds, including the 2012E Bonds, or if certain other events occur. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Defaults and Remedies under the Master Resolution." However, Metropolitan's failure to pay the Purchase Price is not an event that gives rise to an Event of Default under the Master

Resolution. Furthermore, except in limited circumstances, the Owners of the Bonds (including the 2012E Bonds) do not, even upon the occurrence of an Event of Default under the Master Resolution, have the right to accelerate the payment of principal of any Bonds.

Secondary Market May Not Develop. There is not an established secondary market for bonds issued in a Term Mode and one may not develop. Therefore, an Owner may be unable to sell its 2012E Bonds in the secondary market.

Limited Obligations

The 2012E Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2012E Bonds tendered for purchase is an unsecured obligation of Metropolitan payable solely from the sources specified in this Official Statement. The 2012E Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2012E Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on or the Purchase Price upon a tender for purchase for the 2012E Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Official Statement.

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, redemption premium, if any, and interest on the 2012E Bonds and all other Outstanding Bonds. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. See APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA." Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its member agencies and establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Expenditures and debt service.

Risks Relating to Water Sales

Metropolitan's primary purpose is to provide a supplemental supply of imported water to its member public agencies. Metropolitan describes its water supply in more detail in APPENDIX A under the caption "METROPOLITAN'S WATER SUPPLY." The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of locally supplied water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. In recent years supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described below. Future water sales will be subject to variability due to these and other factors.

Water Supply Shortages. Metropolitan's principal sources of water are the State Water Project and the Colorado River, both of which are subject to drought conditions that in recent years have contributed to lower overall water deliveries to Metropolitan. While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, the recent drought conditions and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the "ESAs"), have placed additional limitations on Metropolitan's ability to obtain and deliver water supplies to its member agencies. See APPENDIX A – "METROPOLITAN'S WATER SUPPLY – State Water Project – *Endangered Species Act Considerations.*" Metropolitan may address water supply shortages by, among

other things, suspending groundwater replenishment deliveries, reducing agricultural deliveries, drawing on its stored water supplies and pursuing additional water transfers. From July 1, 2009 to April 13, 2011, Metropolitan allocated available supplies among its member agencies pursuant to its Water Supply Allocation Plan. See APPENDIX A – “METROPOLITAN’S WATER SUPPLY – Water Supply Allocation Plan.” This allocation led to the enactment of water use restrictions at the retail consumer level, such as limited days of outdoor watering and the imposition of penalty rates.

Economic Conditions. Retail level water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and Metropolitan’s water sales. If economic conditions return to pre-recession levels, Metropolitan anticipates that demands for water will increase accordingly. See APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

Weather Conditions. Metropolitan provides a supplemental supply of water to its member agencies, most of whom have other sources of water. Regional water supplies are described in APPENDIX A under the caption “REGIONAL WATER RESOURCES.” Climatic conditions in Metropolitan’s service area and availability of local supplies affect demands for imported water purchased from Metropolitan. Metropolitan uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. Metropolitan’s reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan’s water sales. See APPENDIX A – “METROPOLITAN REVENUES – Financial Reserve Policy.”

Environmental Considerations. Current and proposed environmental laws, regulations and judicial decisions, including court-ordered restrictions and Federal and State administrative determinations relating to species on the “endangered” or “threatened” lists under the Federal or California ESAs, have materially affected the operations of the State Water Project and the water deliveries therefrom. Metropolitan cannot predict when and how additional laws, regulations, judicial decisions and other determinations (including listings of additional species under the Federal or California ESAs) will affect State Water Project and Colorado River operations, the water deliveries therefrom and Metropolitan’s operations in the future by requiring, among other things, additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Any of these laws, regulations and judicial decisions and other official determinations relating to Metropolitan’s water supply could have a materially adverse impact on the operation of the State Water Project and Colorado River operations and Metropolitan’s water reserves. See APPENDIX A – “METROPOLITAN’S WATER SUPPLY – State Water Project” and “– Colorado River Aqueduct.”

Actions to Manage Risks Relating to Water Sales. The drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. A reduction in water deliveries to Metropolitan’s member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Rate Covenant.” To address supply shortages due to prolonged drought conditions and environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2012E BONDS – Rate Covenant.” See also APPENDIX A – “METROPOLITAN’S WATER SUPPLY” and “– CAPITAL INVESTMENT PLAN.”

Earthquakes, Wildfires and Other Natural Disasters

Southern California is characterized by geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires and areas of potential liquefaction and landslide. Earthquakes, wildfires or other natural disasters could interrupt operation of the Water System and thereby interrupt the ability of Metropolitan to generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See APPENDIX A – “METROPOLITAN’S WATER DELIVERY SYSTEM – Seismic Considerations.”

Limitations on Remedies

Upon the occurrence and continuance of an Event of Default under the Resolutions, the Owners of the 2012E Bonds have limited remedies and, except for limited circumstances, the Owners of the 2012E Bonds do not have the right to accelerate the payment of principal of or interest on the 2012E Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Defaults and Remedies under the Master Resolution.”

In addition, the rights of the Owners of the 2012E Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, (b) the validity of the 2012E Bonds or the power and authority of Metropolitan to issue the 2012E Bonds, or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Resolutions.

For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see APPENDIX A, including information under the captions “METROPOLITAN EXPENDITURES – State Water Contract Obligations,” “METROPOLITAN’S WATER SUPPLY – State Water Project – *Endangered Species Act Considerations*” and “– Colorado River Aqueduct – *QSA Related Litigation*.” For a discussion of litigation challenging the allocation of costs to certain rates adopted on April 13, 2010, which could require changes in such rates, see APPENDIX A, including information under the caption “METROPOLITAN REVENUES – Rate Structure.”

Metropolitan is a party to various other legal proceedings affecting the Water System and is regularly involved in litigation regarding the condemnation of property in accordance with its authorization under the Act to exercise the powers of eminent domain. Metropolitan does not believe that an adverse ruling in any of these other proceedings could have a material adverse effect upon Operating Revenues of Metropolitan.

TAX MATTERS

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the 2012E Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2012E Bonds to be included in the gross income of the owners thereof for federal income tax purposes

retroactive to the date of issue of the 2012E Bonds. Metropolitan has covenanted in the Resolutions to comply with each applicable requirement of the Code necessary to maintain the excludability of the interest on the 2012E Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P. and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan, under existing law interest on the 2012E Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2012E Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Co-Bond Counsel is of the further opinion that under existing law, the 2012E Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, interest on the 2012E Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on 2012E Bonds owned by a corporation may affect the computation of its alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. In rendering the foregoing opinions, Co-Bond Counsel will rely upon representations and certifications of Metropolitan made in a Tax Certificate dated the date of delivery of the 2012E Bonds pertaining to the use, expenditure, and investment of the proceeds of the 2012E Bonds.

To the extent that a purchaser of a 2012E Bond acquires that 2012E Bond at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its 2012E Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2012E Bond to the owner. Purchasers of 2012E Bonds at a price that includes bond premium should consult their own tax advisors with respect to the computation and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption, if applicable, or other disposition of the 2012E Bond.

The excess, if any, of the stated redemption price at maturity of 2012E Bonds of a maturity over the initial offering price to the public of the 2012E Bonds of that maturity is “original issue discount.” Original issue discount accruing on a 2012E Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that 2012E Bond. Original issue discount on any 2012E Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2012E Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2012E Bond accruing during each period is added to the adjusted basis of such 2012E Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2012E Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2012E Bonds who purchase such 2012E Bonds other than at the initial offering price and pursuant to the initial offering. Purchasers of 2012E Bonds of a maturity having original issue

discount should consult their own tax advisors with respect to the tax consequences of ownership of 2012E Bonds with original issue discount.

Co-Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2012E Bonds may affect the tax status of interest on the 2012E Bonds or the tax consequences of the ownership of the 2012E Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2012E Bonds from personal income taxation by the State or of the exclusion of the interest on the 2012E Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Co-Bond Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the 2012E Bonds, or the interest thereon, if any action is taken with respect to the 2012E Bonds or the proceeds thereof upon the advice or approval of other counsel.

Although Co-Bond Counsel is of the opinion that interest on the 2012E Bonds is exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2012E Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2012E Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2012E Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2012E Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2012E Bonds, (iii) interest on the 2012E Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2012E Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2012E Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2012E Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Co-Bond Counsel has expressed no opinion regarding any such other tax consequences.

Co-Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of Metropolitan described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2012E Bonds is commenced, under current procedures the Service is likely to treat Metropolitan as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2012E Bonds, Metropolitan may have different or conflicting interests from the owners. Public awareness of any future audit of the 2012E Bonds could adversely affect the value and liquidity of the 2012E Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change so as to reduce or eliminate the benefit to holders of the 2012E Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. Proposed

legislative or administrative action, whether or not taken, could also affect the value and marketability of the 2012E Bonds. Prospective purchasers of the 2012E Bonds should consult with their own tax advisors with respect to any proposed changes in tax law.

A copy of the form of opinion of Co-Bond Counsel relating to the 2012E Bonds is included in APPENDIX F.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, certified public accountants (the “Verification Agent”), will deliver a report stating that the firm has verified (i) the accuracy of mathematical computations concerning the adequacy of the cash initially deposited in the respective Escrow Funds to pay the interest due with respect to the Refunded Bonds to and including the redemption date(s), and to pay on the redemption date(s) the redemption price(s) thereof and (ii) certain mathematical computations supporting the conclusion that the 2012E Bonds are not “arbitrage bonds” under the Code, which will be used in part by Co-Bond Counsel in concluding that interest on the 2012E Bonds is excluded from gross income for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of the Verification Agent will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligations to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

UNDERWRITING

Purchase of the 2012E Bonds

The 2012E Bonds are being purchased by Goldman Sachs & Co., as representative of itself, and the other underwriters for the 2012E Bonds listed on the cover hereof (collectively, the “Underwriters”), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the Underwriters relating to the 2012E Bonds (the “Bond Purchase Contract”). Subject to the terms of the Bond Purchase Contract, the Underwriters will purchase the 2012E Bonds at an aggregate purchase price of \$_____, which represents the principal amount of the 2012E Bonds of \$_____, plus original issue premium of \$_____ and less an underwriters’ discount of \$_____.

The Bond Purchase Contract requires that all of the 2012E Bonds must be purchased by the Underwriters if any 2012E Bonds are purchased. The obligation to make such a purchase is subject to the terms and conditions set forth in the Bond Purchase Contract, the approval of legal matters by counsel and other conditions.

The Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2012E Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Metropolitan, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of Metropolitan.

Retail Brokerage Arrangements

Goldman, Sachs & Co. (“Goldman Sachs”), one of the Underwriters of the 2012E Bonds, has entered into a master dealer agreement (the “Master Dealer Agreement”) with Incapital LLC (“Incapital”) for the distribution of certain municipal securities offerings, including the Series 2012E Bonds, to Incapital’s retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase the Series 2012E Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Series 2012E Bonds that Incapital sells.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the 2012E Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of 2012E Bonds.

[De La Rosa & Co., one of the Underwriters of the 2012E Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreements, if applicable to the 2012E Bonds, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the 2012E Bonds, with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.]

[any others?]

FINANCIAL ADVISOR

Metropolitan has retained Public Resources Advisory Group as financial advisor to Metropolitan (the “Financial Advisor”) in connection with the issuance of the 2012E Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

LEGAL MATTERS

Fulbright & Jaworski L.L.P., Los Angeles, California, and Alexis S. M. Chiu, Esq., San Francisco, California, Co-Bond Counsel to Metropolitan, will render their opinion with respect to the 2012E Bonds, each substantially in the form set forth in APPENDIX F – “FORM OF OPINION OF CO-BOND COUNSEL.” Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its

General Counsel and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

RATINGS

Moody's Investors Service Inc. ("Moody's"), Standard & Poor's Financial Services LLC ("S&P"), and Fitch Ratings ("Fitch") have assigned the 2012E Bonds their ratings of "___," "___" and "___," respectively. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2012E Bonds.

CONTINUING DISCLOSURE

Metropolitan has agreed to execute a continuing disclosure undertaking (the "Continuing Disclosure Undertaking"), which provides for disclosure obligations on the part of Metropolitan for so long as the 2012E Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2012E Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notice Events") in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriters of the 2012E Bonds in complying with the Rule. [Metropolitan has not failed in the previous five years to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of certain events; provided, that the annual report for 2008 was timely filed on December 12, 2008, and was supplemented on February 4, 2009.] [confirming the inclusion of service area AV tables with respect to GO annual reports] See APPENDIX G – "FORM OF CONTINUING DISCLOSURE UNDERTAKING."

MISCELLANEOUS

The terms of the 2012E Bonds are set forth in the Resolutions, the Paying Agent Agreement and the Bond Purchase Contract. Copies of such documents may be obtained from the office of the Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012, telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Chief Financial Officer.

The attached appendices are integral parts of this Official Statement and should be read in their entirety. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Board of Directors of Metropolitan has duly authorized the delivery of this Official Statement.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By: _____
General Manager

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Master Resolution, the Fourth Supplemental Resolution and certain definitions contained in the Paying Agent Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

DEFINITIONS

The following are definitions of terms used in this Summary. Such definitions also apply to terms used in the Official Statement, to the extent such terms are not otherwise defined in the Official Statement. Terms used in this summary but not defined herein have the meanings specified in the Resolutions.

“Accreted Value” means, with respect to any Capital Appreciation Bond or Capital Appreciation Parity Obligation, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified therein. With respect to any Capital Appreciation Bonds, the Accreted Value at any date to which reference is made shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

“Accreted Value Table” means the table denominated as such, and to which reference is made in, a Supplemental Resolution for any Capital Appreciation Bonds issued pursuant to such Supplemental Resolution.

“Act” means the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and as supplemented by Article 11 of Chapter 3 (Section 53580 et seq.) and Chapter 6, of Part 1, Division 2, Title 5 (Section 54300 et seq.) of the Government Code of the State of California, as further amended from time to time.

“Additional Revenues” means, for any period of calculation, all interest, profits and other income received from the investment of any moneys of Metropolitan and any other revenues (other than Operating Revenues) of Metropolitan, in each case to the extent available to pay principal and Accreted Value of and interest on the Bonds during such period.

“Assumed Debt Service” means, with respect to any Excluded Principal Payment for any Fiscal Year (or other designated 12 month period) on or after the Excluded Principal Payment date the sum of the amount of principal and interest which would be payable in each such Fiscal Year (or other designated 12 month period) if that Excluded Principal Payment were amortized for a period specified by Metropolitan at the time of issuance of such Bonds or Parity Obligations (no greater than thirty (30) years from the date of such Excluded Principal Payment) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which Metropolitan could borrow (as of the time of calculation) for such period, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan at the time of issuance of such Bonds or Parity Obligations, which may rely conclusively on such certificate, within thirty (30) days of the date of calculation.

“Authorized Denominations” means, with respect to any 2012E Bonds bearing interest at a Term Rate, \$5,000 and any integral multiple thereof.

“Board” or **“Board of Directors”** means the Board of Directors of Metropolitan.

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

“Bond Reserve Requirement” means, subject to the provisions of the Fourth Supplemental Resolution permitting deposit of a Reserve Fund Credit Policy, the amount to be deposited in a Reserve Fund established for a Series of Refunding Bonds, which shall be set forth in the terms of the Bond Purchase Contract pursuant to the terms of the Fourth Supplemental Resolution.

“Bond Service Fund” means the Water Revenue Bonds, Bond Service Fund established pursuant to the Master Resolution.

“Bonds” means The Metropolitan Water District of Southern California Water Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution.

“Business Day” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State of California or the State of New York are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized or obligated by law or executive order to be closed, and, (3) if specified in a Supplemental Resolution, a day upon which the principal office of Metropolitan is authorized to be closed.

“Call Protection Date” means, (i) with respect to 2012E Bonds bearing interest at a Term Rate, the Standard Call Protection Date, unless Metropolitan determines a different date as described in the Official Statement under the caption “DESCRIPTION OF THE 2012E BONDS – Remarketing of 2012E Bonds – *Remarketing and Purchase of 2012E Bonds in Connection with a Term Mode Unscheduled Mandatory Tender.*” The Call Protection Date for the initial Term Period for the 2012 E-1 Bonds is _____, 20____. The Call Protection Date for the initial Term Period for the 2012 E-2 Bonds is _____, 20____. The Call Protection Date for the initial Term Period for the 2012 E-3 Bonds is _____, 20____.

“Capital Appreciation Bonds” means any Bonds the interest on which is compounded and not scheduled to be paid until maturity, prior redemption or conversion thereof.

“Capital Appreciation Parity Obligations” means any Parity Obligations the interest with respect to which is compounded and not scheduled to be paid until maturity, prior redemption or conversion thereof.

“Code” means the Internal Revenue Code of 1986, as amended.

“Controller” means the Controller of Metropolitan, who may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

“Credit Facility” means a letter of credit, line of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to,

municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal or Accreted Value, premium and/or interest of such Series or portion of such Series of Bonds and/or the purchase price of such Series of Bonds or portion thereof. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

“Current Interest Bonds” means the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

“Excess Earnings Fund” means, with respect to a Series of Refunding Bonds, the Water Revenue Refunding Bonds Excess Earnings Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

“Excluded Principal Payment” means each payment of principal of Bonds or Parity Obligations which Metropolitan designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Obligations) to be an Excluded Principal Payment. No such determination shall affect the security for such Bonds or Parity Obligations or the obligation of Metropolitan to pay such payments from Net Operating Revenues or from the applicable reserve fund or account, if any.

“Expenditures” means cash disbursements of Metropolitan.

“Favorable Opinion of Bond Counsel” means, with respect to any action, an unqualified opinion of Bond Counsel to the effect that such action is authorized and permitted under the Act, the Resolutions and the Paying Agent Agreement, complies with the Resolutions and the Paying Agent Agreement and will not impair the exclusion of interest on the 2012E Bonds from gross income for purposes of Federal income taxation or the exemption of interest on such 2012E Bonds from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the 2012E Bonds).

“Federal Securities” means direct obligations of or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or the Treasury Department of the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are held in safekeeping by a custodian on behalf of the owners of such receipts.

“Fiscal Agent” means, with respect to any Series of Bonds issued pursuant to the Fourth Supplemental Resolution, the Treasurer. With respect to any other Series of Bonds, “Fiscal Agent” means the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series (which may be the Treasurer or the Controller of Metropolitan).

“Fiscal Year” means the period beginning on July 1st of each year and ending on the next succeeding June 30th, or any other twelve-month period hereafter selected by Metropolitan as the official fiscal year of Metropolitan.

“Fourth Supplemental Resolution” means Resolution 8387 adopted by Metropolitan on January 12, 1993, and any amendments, modifications or supplements thereto.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information

Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and such other services providing information with respect to called bonds as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

"Interest Payment Date" means for any 2012E Bonds of a Series during such time as such 2012E Bonds are in a Term Mode (including during any Purchase Default Period for such 2012E Bonds in such Term Mode), each January 1 and July 1, each Mandatory Purchase Date in connection with a Term Mode Unscheduled Mandatory Tender for such 2012 E Bonds of such Series, and each Scheduled Mandatory Tender Date for such 2012 E Bonds of such Series (without duplication).

"Mandatory Purchase Date" means any date upon which any 2012E Bonds have been called for mandatory tender for purchase as described in the Official Statement under the caption "DESCRIPTION OF 2012E BONDS – Tender and Purchase of 2012E Bonds."

"Mandatory Sinking Account Payment" means, with respect to Bonds of any Series and maturity, the amount required by the Resolution to be deposited by the Treasurer in the Bond Service Fund for the payment of Term Bonds of such Series and maturity.

"Master Resolution" means Resolution 8329 adopted by Metropolitan on July 9, 1991, as amended and supplemented.

"Maximum Annual Debt Service" means, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Obligations in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year, provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(b) if the Parity Obligations or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Obligations or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Obligations or Bonds on the date of calculation or, if such Parity Obligations or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Obligations or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan;

(c) if the Parity Obligations or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on parity with the lien of the Parity Obligations or Bonds, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the lesser of (i) the then current "prime rate" of the provider of the Credit Facility and (ii) the maximum rate permitted on the Parity Obligations or Bonds;

(d) principal and interest payments on Parity Obligations and Bonds shall be excluded to the extent such payments are to be paid from amounts on deposit (and investment earnings thereon) as of the

date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Obligations or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

(e) if the Bonds or Parity Obligations are Paired Obligations, the interest rate on such Bonds or Parity Obligations shall be the collective fixed interest rate to be paid by Metropolitan with respect to such Paired Obligations;

(f) in determining the principal amount due in each Fiscal Year, payment (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) shall be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds or Parity Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed an interest payment due on the scheduled redemption or payment date; and

(g) with respect to each interest rate swap agreement constituting a Parity Obligation then in effect, if any, there shall be added into the calculation of Maximum Annual Debt Service an amount equal to the greater of:

(i) 0, and

(ii) (a) if the swap rate applicable to Metropolitan under such interest rate swap agreement is fixed, an amount equal to (1) (x) such fixed swap rate less (y) the variable swap rate applicable to the counterparty to such interest rate swap agreement at such date of determination, times (2) the notional amount of such interest rate swap agreement, or

(b) if the swap rate applicable to Metropolitan under such interest rate swap agreement is variable, an amount equal to (1) (x) 1.20 times the variable swap rate at such date of determination less (y) the fixed swap rate applicable to the counterparty to such interest rate swap agreement, times (2) the notional amount of such interest rate swap agreement,

in each case the notional amount of, and swap rates applicable to each party on such date of determination under, such interest rate swap agreement shall be as set forth in a certificate of a financial advisor or investment banker delivered to Metropolitan.

Notwithstanding any other subsection of this definition of Maximum Annual Debt Service, except as set forth in subsection (g) above, no amounts payable under any interest rate swap agreement constituting a Parity Obligation shall be included in the calculation of Maximum Annual Debt Service.

“Maximum Interest Rate” means the lesser of (i) twelve percent (12%) per annum, or (ii) the maximum interest rate allowed by federal law and the laws of the State of California.

“Municipal Obligations” means municipal obligations, rated in the highest Rating Category by any Rating Agencies, meeting the following conditions:

(a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Operating Revenues” means Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues.

“Operating Revenues” means all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan’s water rates, readiness-to-serve charge, standby charge, new demand charge, connection maintenance charge, and treated water peaking charge.

“Operation and Maintenance Expenditures” means the necessary Expenditures for operating and maintaining the properties, works, and facilities of Metropolitan and shall include (i) Expenditures for such charges as may be payable by Metropolitan under the State Water Contract and under that certain contract entitled “The Devil Canyon-Castaic Contract” between Metropolitan and certain other Southern California public agencies, dated June 23, 1972, as amended from time to time, which charges constitute operation, maintenance, power and replacement charges, (ii) any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants and (iii) such other Expenditures of Metropolitan generally classified as operating and maintenance Expenditures, excluding any charges for depreciation or amortization. Notwithstanding the preceding sentence, for purposes of payment of Operation and Maintenance Expenditures only (see “THE MASTER RESOLUTION – Water Revenue Fund – Operation and Maintenance Expenditures”), Operation and Maintenance Expenditures shall not include a portion of any payment calculated pursuant to Section 25(d) of the first aforementioned contract which Metropolitan determines is attributable to the capital costs of off-aqueduct power facilities, as such facilities are defined in Article (1)(i)(2) of such contract.

“Operation and Maintenance Fund” means the fund of that name established and continued pursuant to the Master Resolution.

“Outstanding” means (1) when used as of any particular time with reference to Bonds (excluding, solely for the purpose of determining whether the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, or waiver, those Bonds which are owned by or held by or for the account of Metropolitan), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (A) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of Metropolitan shall have been discharged in accordance with the Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (D) Bonds no longer deemed to be outstanding under the Resolutions as provided in the Supplemental Resolution pursuant to which such Bonds were issued; and (2) when used as of any particular time with reference to Parity Obligations, all Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Parity Obligations.

“Owner” or **“Bondholder”** whenever used with respect to a Bond, means the person in whose name such Bond is registered.

“Paired Obligations” means any one or more Series (or portion thereof) of Bonds or Parity Obligations, designated as Paired Obligations in the Supplemental Resolution or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts, and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of Metropolitan for the term of such Bonds or Parity Obligations.

“Parity Obligations” means (1) any indebtedness or other obligation of Metropolitan for borrowed money, (2) any obligations of Metropolitan for deferred purchase price, (3) any lease obligation of Metropolitan, or (4) any other obligation of Metropolitan, in each case having a lien and charge upon, or being payable from, the Net Operating Revenues on parity with the Bonds.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prime Rate” means the rate per annum equal to the “prime rate” listed daily in the “Money Rate” section of The Wall Street Journal. If The Wall Street Journal is not published on any Business Day or if The Wall Street Journal does not publish a “prime rate” for any Business Day, then the “Prime Rate” for that Business Day shall be the “prime rate” published on the display designated as page “PRIMBB” on the Bloomberg Financial Markets News Service until the next Business Day on which The Wall Street Journal publishes the “prime rate.” If neither The Wall Street Journal nor the Bloomberg Financial Markets News Service publish a “prime rate” for a Business Day, then the “Prime Rate” shall mean the “prime rate” most recently published in The Wall Street Journal or the Bloomberg Financial Markets News Service.

“Purchase Default Period” means, for any 2012E Bonds of a Series in the Term Mode, the period from and after the Scheduled Mandatory Tender Date on which a Term Mode Scheduled Mandatory Tender Failure occurs, until the date next preceding the date on which the earlier of the following occurs (a) the purchase by Metropolitan of all of such then-Outstanding 2012 E Bonds of such Series and (b) the redemption of all of such then-Outstanding 2012 E Bonds of such Series in connection with a mandatory sinking fund redemption or a special mandatory redemption.

“Purchase Price” means, with respect to any 2012E Bonds of a Series purchased in connection with a Term Mode Scheduled Mandatory Tender, a Term Mode Unscheduled Mandatory Tender, a mandatory tender upon a change in the Interest Mode or a mandatory tender upon conversion to a Fixed Interest Rate, an amount equal to the principal amount of such 2012E Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course). With respect to any 2012E Bonds of a Series purchased during any Purchase Default Period, the “Purchase Price” shall mean an amount equal to the principal amount of such 2012E Bonds, plus accrued and unpaid interest to the Purchase Default Period Purchase Date (unless such Purchase Default Period Purchase Date is an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

“Rating Agencies” means either or both of Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and such other securities rating agencies providing a rating with respect to a Series of Bonds.

“Rating Category” means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Redemption Fund” means the Water Revenue Bonds, Redemption Fund established and maintained by the Master Resolution with respect to the Bonds.

“Redemption Price” means, with respect to any Bond (or portion thereof) the principal amount or Accreted Value of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Resolution.

“Refunding Bonds” means Bonds authorized by the Fourth Supplemental Resolution to be issued pursuant to the Act and the Master Resolution, which Bonds are designated as “The Metropolitan Water District of Southern California Water Revenue Refunding Bonds.”

“Request” of Metropolitan means a written request signed by an authorized representative of Metropolitan.

“Reserve Fund” means, with respect to a Series of Refunding Bonds, a Water Revenue Refunding Bonds Reserve Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

“Reserve Fund Credit Policy” means an insurance policy, surety bond, letter of credit or other credit facility deposited with the Fiscal Agent pursuant to the terms of the Fourth Supplemental Resolution.

“Resolution” means the Master Resolution as supplemented, modified or amended by each Supplemental Resolution, including without limitation, the Fourth Supplemental Resolution.

“Revenue Remainder Fund” means the fund of that name established and continued pursuant to the Master Resolution.

“Scheduled Mandatory Tender Date” means, with respect to each Term Period for 2012E Bonds of a Series bearing interest at a Term Rate, the date determined by Metropolitan as described in the Official Statement under the caption “DESCRIPTION OF 2012E BONDS – Remarketing of 2012E Bonds – *Remarketing and Purchase of 2012E Bonds in Connection with a Term Mode Scheduled Mandatory Tender – Determination of the Following Scheduled Mandatory Tender Date*” and “ – *Remarketing and Purchase of 2012E Bonds in Connection with a Term Mode Unscheduled Mandatory Tender – Determination of the Scheduled Mandatory Tender Date.*” The initial Scheduled Mandatory Tender Date for the for the 2012 E-1 Bonds is July 1, 2014. The initial Scheduled Mandatory Tender Date for the for the 2012 E-2 Bonds is July 1, 2015. The initial Scheduled Mandatory Tender Date for the for the 2012 E-3 Bonds is July 1, 2016.

“Securities Depositories” means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and such other securities depositories as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

“Serial Bonds” means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

“Series” whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Resolution.

“Special Mandatory Redemption Amount” means, with respect to special mandatory redemption during any Purchase Default Period for a Series of 2012 E Bonds, the aggregate principal amount of 2012 E Bonds of such Series Outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period for such Series of 2012 E Bonds commenced.

“Special Mandatory Redemption Payments” means, with respect to 2012 E Bonds of a Series bearing interest in a Term Mode, the amount required to be deposited by the Treasurer in the Bond Service Fund for the payment of such Series of 2012E Bonds, as described in the Official Statement under the caption “DESCRIPTION OF THE 2012E BONDS – Redemption of 2012E Bonds – *Special Mandatory Redemption of 2012E Bonds.*”

“Standard Call Protection Date” means (a) if the duration from the beginning of the applicable Term Period until the Scheduled Mandatory Tender Date is one year [or less]{**conform based on minimum length of term period decided upon**}, the Term Period Halfway Date, and (b) if the duration from the beginning of the applicable Term Period until the applicable Scheduled Mandatory Tender Date is more than one year, the date that is 180 days before the applicable Scheduled Mandatory Tender Date.

“State Water Contract” means that certain contract entitled “A contract between the State of California Department of Water Resources and The Metropolitan Water District of Southern California for a Supply of Water,” dated November 4, 1960, as amended from time to time.

“Supplemental Resolution” means any resolution duly adopted by the Board, supplementing, modifying or amending the Master Resolution in accordance with the Master Resolution.

“Tax and Nonarbitrage Certificate” means, with respect to a Series of Refunding Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of Refunding Bonds.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Term Mode Scheduled Mandatory Tender” means the mandatory tender for purchase of 2012E Bonds of a Series in the Term Mode on the Scheduled Mandatory Tender Date of each Term Period for such Series, as described in the Official Statement under the caption “DESCRIPTION OF THE 2012E BONDS – Tender and Purchase of 2012E Bonds – *Term Mode Scheduled Mandatory Tender.*”

“Term Mode Scheduled Mandatory Tender Failure” means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all 2012E Bonds of a Series tendered pursuant to a Term Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date for such Series of 2012E Bonds.

“Term Mode Unscheduled Mandatory Tender” means any mandatory tender for purchase of 2012E Bonds of a Series in the Term Mode on any Business Day from and after the Call Protection Date of the applicable Term Period, as described in the Official Statement under the caption “DESCRIPTION OF THE 2012E BONDS – Tender and Purchase of 2012E Bonds – *Term Mode Unscheduled Mandatory Tender.*”

“Term Period” means for any 2012 E Bonds, each period during which a particular Term Rate for such 2012E Bonds is in effect.

“Term Period Halfway Date” means, with respect to any Term Period for a Series of 2012E Bonds, the date occurring halfway between the commencement of such Term Period and the Scheduled Mandatory Tender Date for such Term Period, which shall be calculated by (a) dividing (i) the number of days from and including the date on which such Term Period commences to and not including the Scheduled Mandatory Tender Date by (ii) two (2) and, if necessary, rounding the result down to the nearest whole number and (b) adding the resulting number of days to the commencement date of such Term Period.

“Term Rate” means a rate of interest payable with respect to the 2012E Bonds in a Term Mode, established by the applicable Remarketing Agent as described in the Official Statement under the caption “DESCRIPTION OF THE 2012E BONDS. – Interest Rate Provisions – *Determination of Term Rate for each Term Period.*”

“Treasurer” means the Treasurer of Metropolitan, who may also be the Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

“Variable Rate Indebtedness” means any indebtedness or obligation, other than Paired Obligations, the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

“Water Revenue Fund” means the fund of that name established and continued pursuant to the Master Resolution.

“Water System” means the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water.

THE MASTER RESOLUTION

General

The Master Resolution authorizes the creation of “The Metropolitan Water District of Southern California Water Revenue Bonds,” which Bonds may be issued in the aggregate principal amount set forth under the Act and the Resolutions as described in the Official Statement, and shall be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Master Resolution. Metropolitan will not fund a reserve fund for the Series 2012E Bonds.

Supplemental Resolutions; Additional Bonds

The Bonds of each Series shall bear interest, if any, at such rate or rates or determined in such manner (not to exceed the maximum rate of interest permitted by law) and payable at such intervals as may be determined by Metropolitan at the time of issuance thereof (pursuant to the Supplemental

Resolution under which such Series are issued), and shall mature and become payable on such date or dates and in such year or years as Metropolitan may determine (pursuant to the Supplemental Resolution creating such Series). The Bonds of each Series may be subject to mandatory or optional purchase or redemption upon such terms and conditions and upon such notice and with such effect as provided in the Supplemental Resolution creating such Series.

The Bonds of any Series may be issued in such denominations as may be authorized by the Supplemental Resolution creating such Series in fully registered or bearer form, with or without coupons or in fully registered book-entry form.

Redemption of Bonds

Terms of Redemption. Each Series of Bonds may be made subject to redemption prior to its respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Resolution creating such Series of Bonds. The 2012E Bonds are subject to redemption prior to maturity as described in this Official Statement.

Selection of Bonds to be Redeemed. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all Bonds of that Series are to be redeemed, the maturities of Bonds to be redeemed may be selected by Metropolitan. Metropolitan shall give written notice of its selection not later than 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent for that Series may give notice of redemption to the Owners of the Bonds of that Series. If Metropolitan does not give notice of its selection, such Fiscal Agent shall, unless otherwise provided in the Supplemental Resolution creating such Series of Bonds, select the Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all of the Bonds of like maturity of that Series are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Fiscal Agent for such Series in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. Unless otherwise specified in a Supplemental Resolution creating a Series of Bonds, each notice of redemption of Bonds of any Series shall be mailed by first-class mail by the Fiscal Agent for that Series, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner whose Bonds are called for redemption, the Securities Depositories and one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered or overnight mail. Each notice of redemption shall state the date of such notice, the distinguishing designation of the Series of Bonds to which such notice relates, the date of issue of such Series of Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent for that Series), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither Metropolitan nor the Fiscal Agent for such Series shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have

been assigned by an independent service for convenience of reference and that neither Metropolitan nor the Fiscal Agent for such Series shall be liable for any inaccuracy in such numbers.

Failure by the Fiscal Agent for a Series of Bonds being redeemed to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice of any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Master Resolution, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a Bond, Metropolitan shall execute and the Fiscal Agent for that Bond shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption dates, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portion thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Pledge of Net Operating Revenues

The Bonds of each Series are special limited obligations of Metropolitan and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal and Accreted Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) the Net Operating Revenues and (ii) the other funds, assets and security described in the Master Resolution and under the Supplemental Resolution creating that Series. Under the Master Resolution, Metropolitan pledges and places a charge upon all Net Operating Revenues to secure the payment of the principal and Accreted Value of, premium, if any, and interest on the Bonds and Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Master Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein, and the Net Operating Revenues constitute a trust for the security and payment of the interest and any premium on and principal and Accreted Value of the Bonds and Parity Obligations. There are thereby pledged to secure the payment of the principal and Accreted Value of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Fund, subject only to the provisions of the Master Resolution permitting the application thereof for the purpose and on the terms and conditions set forth therein. The pledge of Net Operating Revenues therein made shall be irrevocable until there are no Bonds Outstanding.

Equality of Security

The Master Resolution constitutes a contract between Metropolitan and the Owners from time to time of the Bonds. The covenants and agreements set forth in the Master Resolution to be performed by or on behalf of Metropolitan or the Fiscal Agent shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation

thereof or for any cause whatsoever, except as expressly provided therein or in the Master Resolution. Nothing in the Master Resolution prevents additional security being provided to particular Series of Bonds under any Supplemental Resolution.

Water Revenue Fund

Metropolitan shall allocate all Operating Revenues to the Water Revenue Fund, and shall effect transfers from the Water Revenue Fund to the other funds held by it or by the Fiscal Agent in the amounts and in the following order of priority:

Operation and Maintenance Expenditures. As soon as practicable in each calendar month, Metropolitan shall transfer to the Operation and Maintenance Fund from the Water Revenue Fund an amount sufficient, together with any other revenues lawfully available therefor, to provide for the estimated Operation and Maintenance Expenditures during the current calendar month and the next succeeding calendar month. The Operation and Maintenance Fund shall be used for no other purpose than the payment of Operation and Maintenance Expenditures.

Bond Service Fund. As soon as practicable in each calendar month, there shall be set aside and transferred to the Bond Service Fund an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110 percent of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Bond Service Fund for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Bond Service Fund for any month shall be increased by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness, and (iii) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of a Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the

Bond Service Fund, or, during said period and prior to giving said notice of redemption, Metropolitan has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Fund, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Bond Service Fund. All Term Bonds purchased from the Bond Service Fund or deposited by Metropolitan with the Fiscal Agent for such Series shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a request of Metropolitan. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a request of Metropolitan.

In no event will the amounts set aside as provided above in connection with the Outstanding Bonds of each Series remain unspent for more than twelve months after the date on which such amounts are deposited in the Bond Service Fund, with the exception of a reasonable carry-over amount not to exceed the greater of twelve-months' earnings on such amounts or one-twelfth of the annual debt service on the Outstanding Bonds of such Series. At least once each year, on a date to be set forth in the Tax and Nonarbitrage Certificate prepared in connection with each Series of Bonds, any amount remaining in the Bond Service Fund in connection with each Series of Bonds that exceeds the reasonable carry-over amount described above will be transferred to the Water Revenue Fund.

Reserve Funds. Metropolitan shall deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there shall be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues shall be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency. **The Series 2012E Bonds are not secured by a reserve fund or account.**

Excess Earnings Funds. Metropolitan shall deposit in any excess earnings or rebate fund or account established in the Excess Earnings Fund pursuant to a Supplemental Resolution for a Series of Bonds such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

Payment of Other Obligations. In each calendar month Metropolitan shall make any required transfer or deposit for the payments of any obligations of Metropolitan with a lien on, or payable from, Net Operating Revenues junior to the lien thereon of the Bonds and any Parity Obligations.

Revenue Remainder Fund. Any amounts remaining in the Water Revenue Fund after the foregoing transfers, except as otherwise provided in a Supplemental Resolution, shall be transferred to the Revenue Remainder Fund. Provided Metropolitan is in compliance with all covenants contained in the Master Resolution, moneys in the Revenue Remainder Fund may be used for any lawful purpose of Metropolitan.

Establishment, Funding and Application of Redemption Fund

Metropolitan shall establish and the Treasurer shall maintain and hold in trust a special fund designated as the "Water Revenue Bonds, Redemption Fund." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds shall, unless otherwise directed by Metropolitan, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which the Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Bond Service Fund) as is directed by Metropolitan except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a request of Metropolitan.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be invested solely in any securities in which Metropolitan may legally invest funds subject to its control; provided that such securities must mature or be available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or any Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be credited to such fund or account.

Covenants

Under the Master Resolution, Metropolitan makes the following covenants with the Owners; provided, however, that said covenants do not require or obligate Metropolitan to use any of its moneys other than the Operating Revenues. The following covenants will be in effect so long as any of the Bonds issued under the Master Resolution are Outstanding and unpaid, or so long as provision for the full payment and discharge thereof at maturity or upon redemption thereof prior to maturity through the setting apart in the Bond Service Fund or in the Redemption Fund or in a special trust fund to insure the payment or redemption thereof (as the case may be) of money sufficient for that purpose has not been made.

Punctual Payment. Metropolitan covenants that it will duly and punctually pay or cause to be paid the principal and Accreted Value of and interest on every Bond issued under the Master Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Master Resolution, and that the payments into the Bond Service Fund and any reserve fund or account will be made, all in strict conformity with the terms of said Bonds and of the Master Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Master Resolution and any Supplemental Resolutions and of the Bonds issued thereunder, and that time of such payment and performance is of the essence of Metropolitan's contract with the Owners of the Bonds.

Discharge Claims. Metropolitan covenants that in order to fully preserve and protect the priority and security of the Bonds Metropolitan shall pay and discharge all lawful claims for labor, materials and

supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Operating Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. Metropolitan shall also pay all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the Operating Revenues therefrom.

Against Sale; Eminent Domain. Metropolitan covenants that the Water System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Water Revenue Fund sufficient in amount to permit payment therefrom of the principal and Accreted Value of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Obligations, and also to provide for such payments into any reserve fund or account as are required under the terms of the Master Resolution or any Supplemental Resolutions or any Parity Obligations documents. The Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Master Resolution or any Supplemental Resolutions. Metropolitan further covenants that it will not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal and Accreted Value of and interest on the Bonds or any Parity Obligations or which otherwise would impair the rights of the Owners with respect to the Operating Revenues or the operation of the Water System. If any part of the Water System is sold and such sale shall adversely affect the adequacy of Net Operating Revenues to pay principal and Accreted Value of and interest on the Bonds or any Parity Obligations, the payment therefor shall, at the option of the Board, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Water System or shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Master Resolution or any Supplemental Resolutions.

Metropolitan covenants that any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain or sale under threat thereof which shall adversely affect the adequacy of Net Operating Revenues to pay principal and Accreted Value of and interest on the Bonds or any Parity Obligations shall either be used for the acquisition and/or construction of improvements and extensions of the Water System or shall be placed in the Bond Service Fund or the Redemption Fund and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Master Resolution.

Insurance. Metropolitan covenants that it shall at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the Water System shall be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, shall be applied to the retirement of any Outstanding Bonds.

Metropolitan shall also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for workers' compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect Metropolitan and the Owners.

Records and Accounts. Metropolitan shall keep proper books of records and accounts of the Water System separate from all other records and accounts in which complete and correct entries shall be

made of all transactions relating to the Water System. Such books shall at all times be subject to the inspection of the Owners of not less than 10 percent of the Outstanding Bonds and any Parity Obligations, or their representatives authorized in writing.

Metropolitan shall cause the books and accounts of the Water System to be audited annually by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the Owners at the principal office of Metropolitan and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

Rates and Charges. Metropolitan shall prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay the following amounts in the order set forth: (a) Operation and Maintenance Expenditures; (b) the interest on and Bond Obligation (including Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) and Parity Obligations as they become due and payable; (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolutions; and (d) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

No Priority for Additional Bonds. No additional bonds, notes or other evidences of indebtedness payable out of the Operating Revenues shall be issued having any priority in payment of principal, premium, if any, or interest over the Outstanding Bonds or Parity Obligations.

Limits on Additional Debt. Except Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations shall be created or incurred unless:

First: Metropolitan is not in default under the terms of the Master Resolution; and

Second: Either (i) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations shall be in operation as estimated by and set forth in a certificate of Metropolitan, plus, at the option of Metropolitan, any or all of the items hereinafter in this covenant designated (a), (b), (c) and (d), shall have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations.

The items any or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in this covenant are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operation and Maintenance Expenditures) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive

month period within the last completed 24-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate of Metropolitan.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Water System which has become effective prior to the incurring of such additional Bonds or Parity Obligations but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, as shown by the certificate of Metropolitan.

(c) Any Additional Revenues.

(d) Any other moneys of Metropolitan reasonably expected to be available to pay principal and Accreted Value of and interest on the Bonds or Parity Obligations, as evidenced by a certificate of Metropolitan.

Third: On the date of delivery of and payment for such additional Bonds or Parity Obligations, the amount in any reserve fund or account for any Bonds or Parity Obligations heretofore established shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

Nothing in the Master Resolution shall limit the ability of Metropolitan to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Master Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Master Resolution or any Parity Obligations documents.

Operation in an Efficient and Economical Manner. Metropolitan covenants and agrees to conduct the operations of the Water System in an efficient and economical manner and to maintain and preserve the Water System in good repair and working order.

Amendments to Master Resolution

The Master Resolution and the rights and obligations of Metropolitan, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the Board with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding in connection with amendments to the Master Resolution.

No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Master Resolution prior to or on parity with the lien created by the Master Resolution, or deprive the Owners of the Bonds of the lien created by the Master Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Master Resolution), without the consent of the Owners of all of the Bonds then Outstanding or (3) modify any rights or duties of the Fiscal Agent without its consent.

The Master Resolution and the rights and obligations of Metropolitan of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the Board may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of Metropolitan to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), to surrender any right or power reserved to or conferred upon Metropolitan, each of which shall not materially and adversely affect the interests of the Owners of the Bonds, (2) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Master Resolution, and which shall not materially and adversely affect the interests of the Owners of the Bonds, (3) to modify, amend or supplement the Master Resolution to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds, (4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as Metropolitan may deem desirable, subject to certain limitations under the Master Resolution with respect to the issuance of Bonds, (5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds, (6) if Metropolitan has covenanted in a Supplemental Resolution to maintain the exclusion of interest on any Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion, and (7) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Defeasance

Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways:

- (a) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or
- (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer, the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the

necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), then, after irrevocable notice or provision therefor to the Owners in the case of a redemption prior to maturity, all liability of Metropolitan in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment.

The money or securities referenced above must be one or more of the following:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bond Obligation and all unpaid interest thereon to maturity or the Redemption Price and unpaid interest thereon to the redemption date, as the case may be; or

(b) direct non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent (upon which opinion the Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed.

Payment of Bonds After Discharge of the Master Resolution

Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Master Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, shall, upon Request of Metropolitan, be released from the trusts created by the Master Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys shall thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary shall not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds shall be promptly released to Metropolitan and shall be promptly deposited into the Water Revenue Fund.

Defaults and Remedies under the Master Resolution

Events of Default. Each of the following events shall be an “Event of Default”:

(a) Default by Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value of any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by Metropolitan in the due and punctual payment of the interest on any Bond;

(c) Failure of Metropolitan to observe and perform any of its other covenants, conditions or agreements under the Master Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) (1) Failure of Metropolitan generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or to the taking possession by any such official of the Water System or any substantial part of Metropolitan’s property, (4) making by Metropolitan of any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of any of the foregoing;

(e) The entry of any (1) decree or order for relief by a court having jurisdiction over Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or (3) order for the termination or liquidation of Metropolitan or its affairs; or

(f) Failure of Metropolitan within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of subsection (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Master Resolution, Metropolitan shall not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Master Resolution shall include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Metropolitan, and Metropolitan shall not be required to make settlement

of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Master Resolution of any Owner, provided, however, that whenever any provision thereof requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Master Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation.

Acceleration. Upon the occurrence and continuation of an Event of Default specified in subsection (d), (e) or (f) of "Events of Default" above, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to Metropolitan, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration Metropolitan shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged in the Master Resolution for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Master Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to Metropolitan, rescind or annul such declaration and its consequence. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do.

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Master Resolution. No remedy conferred by the Master Resolution upon or reserved to the Owners

is intended to be exclusive of any other remedy, but each such remedy shall be cumulative and shall be in addition to any other remedy given to the Bondholders thereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Unconditional Rights to Receive Principal, Accreted Value, Premium and Interest. Nothing in the Master Resolution shall affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Master Resolution, or the obligation of Metropolitan to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued thereunder to the respective holders thereof at the time and place, from the source and in the manner therein and in the Bonds expressed.

FOURTH SUPPLEMENTAL RESOLUTION

The Fourth Supplemental Resolution authorizes the issuance of Refunding Bonds issued pursuant to the Master Resolution. The provisions of the Fourth Supplemental Resolution include, but are not limited to, the following provisions. Metropolitan will not fund a reserve fund for the Series 2012E Bonds.

General

The Treasurer has been appointed as Fiscal Agent to act as the agent of Metropolitan for the Refunding Bonds. The Fiscal Agent shall perform such duties and only such duties as are specifically set forth in the Resolutions.

Redemption

Optional Redemption. The Refunding Bonds of any Series shall be subject to call and redemption prior to maturity, at the option of Metropolitan, in the amounts, at the redemption prices and on the dates as set forth in the Bond Purchase Contract with respect to that Series.

Mandatory Sinking Account Payments. The Outstanding Refunding Bonds of any Series which are Term Bonds shall be called before maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments which have been deposited in the Bond Service Fund, in the amounts and upon the dates established for each such maturity, as set forth in the Bond Purchase Contract with respect to that Series.

Reserve Fund

In connection with the issuance of a Series of Refunding Bonds, Metropolitan shall establish and the Treasurer shall maintain and hold in trust a fund separate from any other fund established or maintained under the Master Resolution and designated as the "Water Revenue Refunding Bonds Reserve Fund" and shall bear such additional designation as shall be determined by Metropolitan. Each Reserve Fund shall be funded as set forth in the Fourth Supplemental Resolution. All amounts held by the Treasurer in the Reserve Fund established with respect to such Series of Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such Series of Refunding Bonds in accordance with their terms.

Metropolitan shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the Reserve Fund established with respect to a Series of Refunding Bonds until such Series is discharged in accordance with the provisions of the Master Resolution. The amount of the Bond Reserve Requirement applicable to a designated Series of Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. In the event of any deficiency in a Reserve Fund, the Treasurer shall replenish such deficiency in accordance with the provisions of the Master Resolution.

All amounts in the Reserve Fund established with respect to a Series of Refunding Bonds shall be used and withdrawn by the Treasurer, as provided in the Resolutions, solely for the purpose of (i) paying principal of and interest on such Series of Refunding Bonds in the event moneys in the Bond Service Fund established for such Series are insufficient, or (ii) for the payment of the final principal and interest payment on such Series of Refunding Bonds. Any amounts in the Reserve Fund established with respect to a Series of Refunding Bonds in excess of the Bond Reserve Requirement for such Series shall be transferred to the Bond Service Fund established for such Series unless otherwise specified in a certificate of a Metropolitan.

Metropolitan has determined that the Bond Reserve Requirement for the Series 2012E Bonds will be established at \$0 and no Reserve Fund for the Series 2012E Bonds will be established or maintained.

Reserve Fund Credit Policy

At the option of Metropolitan, amounts required to be held in a Reserve Fund may be substituted, in whole or in part, by the deposit with the Fiscal Agent of a Reserve Fund Credit Policy in a stated amount equal to the amounts so substituted, provided that prior to the substitution of such Reserve Fund Credit Policy the Rating Agencies shall have been notified of such proposed substitution and the substitution shall not result in a downgrading or withdrawal of any rating of the applicable Refunding Bonds then in effect by the Rating Agencies. Any such substituted moneys shall be applied as provided in a certificate of Metropolitan. So long as a Reserve Fund Credit Policy shall be in force and effect, any deposits required to be made with respect to the applicable Reserve Fund pursuant to the Master Resolution shall include any amounts due to the provider of such Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy (which amounts shall constitute a “deficiency” or “withdrawal” from the applicable Reserve Fund within the meaning of the Master Resolution). Any such amounts shall be paid to the provider of such Reserve Fund Credit Policy as provided in such Reserve Fund Credit Policy or any related agreement.

Excess Earnings Funds

To ensure proper compliance with the tax covenants contained in the Fourth Supplemental Resolution, Metropolitan shall establish and the Treasurer shall maintain a fund for each Series of Refunding Bonds issued under the Fourth Supplemental Resolution, which fund shall be separate from any other fund or account established and maintained thereunder or under the Master Resolution and shall be designated as the “Water Revenue Refunding Bonds Excess Earnings Fund” and shall bear such additional designation as shall be ascribed thereto by Metropolitan. All money at any time deposited in the Excess Earnings Fund with respect to a Series of Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series shall be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any Bonds of such Series of Refunding Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund shall be governed by the Fourth Supplemental Resolution and by the applicable Tax and Nonarbitrage Certificate. The Treasurer shall invest all amounts held in any such Excess Earnings Fund in

accordance with the applicable Tax and Nonarbitrage Certificate. Money shall not be transferred from the Excess Earnings Fund established for a Series of Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

Tax Covenants

In order to maintain the exclusion from gross income of the interest on the Refunding Bonds for federal income tax purposes, Metropolitan covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and Metropolitan agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate, as a source of guidance for compliance with such provisions. Notwithstanding any other provisions of the Master Resolution or the Fourth Supplemental Resolution to the contrary, upon Metropolitan's failure to observe, or refusal to comply with, these tax covenants, no Person other than the Owners of the Refunding Bonds shall be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Fourth Supplemental Resolution on the basis of Metropolitan's failure to observe, or refusal to comply with, such covenants.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites as described under the caption “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The beneficial owners of the 2012E Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2012E BONDS UNDER THE RESOLUTIONS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2012E BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2012E BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2012E BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2012E Bonds. The 2012E Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2012E Bond certificate will be issued for each Series of the 2012E Bonds and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC

system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). Standard & Poor’s has rated DTC “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2012E Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012E Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2012E Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012E Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2012E Bonds, except in the event that use of the book-entry system for the 2012E Bonds is discontinued.

To facilitate subsequent transfers, all 2012E Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2012E Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012E Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2012E Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2012E Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012E Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2012E Bonds documents. For example, Beneficial Owners of the 2012E Bonds may wish to ascertain that the nominee holding the 2012E Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2012E Bonds of like maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012E Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2012E Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2012E Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s

practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2012E Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect (if applicable) to have its 2012E Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Paying Agent. The requirement for physical delivery of the 2012E Bonds in connection with an optional tender (if applicable) or a mandatory purchase will be deemed satisfied when the ownership rights in the 2012E Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Paying Agent's DTC account.

NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Metropolitan, the Fiscal Agent and the Underwriters cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2012E Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Metropolitan, the Fiscal Agent and the Underwriters are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2012E Bonds or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2012E Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2012E Bonds certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2012E Bonds certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Metropolitan believes to be reliable, but Metropolitan takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2012E BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

If the book-entry only system is discontinued, payments of principal and purchase price of and interest on the 2012E Bonds will be payable as described in this Official Statement under the caption "DESCRIPTION OF THE 2012E BONDS – General."

APPENDIX F**FORM OF OPINION OF CO-BOND COUNSEL**

[Closing Date]

The Metropolitan Water District
of Southern California
700 North Alameda Street
Los Angeles, California 90012

\$ _____
The Metropolitan Water District of Southern California
Water Revenue Refunding Bonds

\$ _____
2012 Series E-1

\$ _____
2012 Series E-2

\$ _____
2012 Series E-3

Ladies and Gentlemen:

We have examined certified copies of the record of proceedings of the issuance of The Metropolitan Water District of Southern California Water Revenue Refunding Bonds, 2012 Series E-1 in the aggregate principal amount of \$ _____, Water Revenue Refunding Bonds, 2012 Series E-2 in the aggregate principal amount of \$ _____ and Water Revenue Refunding Bonds, 2012 Series E-3 in the aggregate principal amount of \$ _____ (collectively, the "2012E Bonds"). The 2012E Bonds are being issued by The Metropolitan Water District of Southern California ("Metropolitan") pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 8329 adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 8387 adopted by the Board on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. The 2012E Bonds are further described in that certain Paying Agent Agreement, dated as of June 1, 2012 (the "Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent. The 2012E Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and the Paying Agent Agreement. The 2012E Bonds are subject to tender for purchase and redemption prior to maturity on the dates, at the prices and upon the notice authorized by the Resolutions and the Paying Agent Agreement. Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Resolutions.

In our role as Co-Bond Counsel to Metropolitan, we have examined the record of proceedings referred to above, and such other matters of fact or law as we deemed necessary for the purposes of these opinions.

On the basis of the foregoing examination, we are of the opinion that:

1. The 2012E Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly authorized form and executed by the proper officials and delivered to and paid for by the

purchasers thereof, constitute the legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. Metropolitan is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds (including principal of and interest on the 2012E Bonds) and Parity Obligations as the same shall become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms.

4. Under existing law, interest on the 2012E Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenant described below, interest on the 2012E Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes. The 2012E Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2012E Bonds is not treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, the receipt or accrual of interest on the 2012E Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the 2012E Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2012E Bonds to be included in gross income retroactive to the date of issue of the 2012E Bonds. Metropolitan has covenanted in the Resolutions to maintain the exclusion of interest on the 2012E Bonds from the gross income of the owners thereof for federal income tax purposes.

The opinions expressed in paragraphs 1, 2 and 3 above are qualified to the extent the enforceability of the 2012E Bonds and the Resolutions may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. Further, the enforceability of the 2012E Bonds and the Resolutions are subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in the State of California.

Our opinions expressed in paragraph 4 above are rendered in reliance on representations and certifications of Metropolitan made in a Tax Certificate dated the date hereof pertaining to the use, expenditure, and investment of the proceeds of the 2012E Bonds. Except as stated in paragraph 4 above,

we express no opinion as to any federal or state tax consequences of the ownership or disposition of the 2012E Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2012E Bonds, or the interest thereon, if any action is taken with respect to the 2012E Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2012E Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of June 1, 2012 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$_____ aggregate principal amount of its Water Revenue Refunding Bonds, 2012 Series E-1 (the “2012 E-1 Bonds”), \$_____ aggregate principal amount of its Water Revenue Refunding Bonds, 2012 Series E-2 (the “2012 E-2 Bonds”) and \$_____ aggregate principal amount of its Water Revenue Refunding Bonds, 2012 Series E-3 (the “2012 B-3 Bonds” and, collectively with the 2012 E-1 Bonds and the 2012 E-2 Bonds, the “2012E Bonds”). The 2012E Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented by Article 11 of Chapter 3, and Chapter 6, of Part 1, Division 2, Title 5 of the California Government Code, as amended, Resolution 8329, adopted by the Board of Directors of Metropolitan (the “Board”) on July 9, 1991, as amended and supplemented (the “Master Resolution”), and Resolution 8387, adopted by the Board on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES AND DEBT SERVICE – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in APPENDIX A to the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage”; (iii) under the caption “METROPOLITAN REVENUES” in APPENDIX A to the Official Statement, the tables “Summary of Receipts by Source”, “Summary of Water Sold and Water Sales Receipts”, “Summary of Water Rates”, and “Ten Largest Water Customers”; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption “METROPOLITAN EXPENDITURES” in APPENDIX A to the Official Statement, the table “Summary of Expenditures”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan”; (v) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A to the Official Statement, historical revenues and expenditures for the then immediately past fiscal year, as presented in the table “Historical and Projected Revenues and Expenditures”; (vi) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in APPENDIX A to the Official Statement, the percentage of operation and maintenance expenditures to total costs; (vii) under the caption “POWER SOURCES AND COSTS” in APPENDIX A to the Official Statement, the expenditures for electric power, for so

long as such information shall be deemed to be material by Metropolitan; and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (1) above of financial information and operating data constituting Annual Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, or due to changes in accounting practices, or legislative or organizational changes, a statement to that effect shall be provided in lieu of such information. Comparable information shall be provided if available.

(2) “Audited Financial Statements” means the annual financial statements, if any, of Metropolitan, audited by such auditor as shall then be required or permitted by State law or the Resolutions. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that Metropolitan may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 4.2(d) hereof shall include a reference to the specific federal or State law or regulation describing such accounting principles.

(3) “Counsel” means Fulbright & Jaworski L.L.P., Los Angeles, California and/or Alexis S. M. Chiu, Esq., San Francisco, California or another nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

(4) “EMMA System” means the MSRB’s Electronic Municipal Market Access system or any successor nationally recognized municipal securities information repositories recognized by the SEC for the purposes referred to in the Rule.

(5) “Event Notice” means written or electronic notice of a Notice Event.

(6) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(8) “Notice Event” means any of the following events with respect to the 2012E Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or

final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notice of determinations with respect to the tax status of the 2012E Bonds, or other material events affecting the tax status of any 2012E Bonds;

- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(9) “Official Statement” means the Official Statement dated _____, 2012, of Metropolitan relating to the 2012E Bonds.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “State” means State of California.

(13) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE II The Undertaking

Section 2.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the 2012E Bonds and is being executed and delivered solely to assist the underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2011-12, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

(b) Metropolitan shall provide, in a timely manner, notice of any failure of Metropolitan to provide the Annual Financial Information by the dates specified in subsection (a) above to the EMMA System.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

Section 2.4. Event Notices. If a Notice Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, an Event Notice to the EMMA System.

Section 2.5. Additional Disclosure Obligations. Metropolitan acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to Metropolitan, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of Metropolitan under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

Section 2.7. No Previous Non-Compliance. Metropolitan represents that in the previous five years it has not failed to comply, in any material respects, with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Metropolitan provides Annual Financial Information by specific reference to documents (i) either (1) provided to the EMMA System, or (2) filed with the SEC, or (ii) if such document is a “final official statement,” as defined in paragraph (f)(3) of the Rule, available from the MSRB or the EMMA System.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the 2012E Bonds.

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) the MSRB through the EMMA System or (ii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan’s sole determination, subject to technical and economic feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of Metropolitan’s information and notices.

Section 3.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Metropolitan’s current fiscal year is July 1 to June 30, and Metropolitan shall promptly notify the EMMA System of each change in its fiscal year.

ARTICLE IV Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination.

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the 2012E Bonds.

(b) Metropolitan’s obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Resolution, prior redemption or payment in full of all of the 2012E Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Metropolitan (1) receives an opinion of Counsel, addressed to Metropolitan, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the 2012E Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the EMMA System.

Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the 2012E Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in

circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the 2012E Bonds or (ii) the holders of the 2012E Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Resolutions with consent of holders of 2012E Bonds, pursuant to the Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the 2012E Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such amendment shall be provided by Metropolitan to the EMMA System.

Section 4.3. Contract: Benefit: Third-Party Beneficiaries: Enforcement.

(a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the 2012E Bonds, except that beneficial owners of 2012E Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding 2012E Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of 25 percent in aggregate amount of Outstanding 2012E Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right,

by action in mandamus or for specific performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of 2012E Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of 2012E Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolutions and shall not result in any acceleration of payment of the 2012E Bonds, and the rights and remedies provided by the Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By: _____
Gary Breaux
Assistant General Manager and
Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By: _____
Assistant General Counsel

APPENDIX A

The Metropolitan Water District of Southern California



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INTRODUCTION

This Appendix A provides general information regarding The Metropolitan Water District of Southern California (“Metropolitan”), including information regarding Metropolitan’s operations and finances. Statements included or incorporated by reference in this Appendix A constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “estimate,” “budget” or other similar words. The achievement of results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results may differ from Metropolitan’s forecasts. Metropolitan is not obligated to issue any updates or revisions to the forward-looking statements in any event. Metropolitan maintains a website that may include information on programs or projects described in this Appendix A; however, none of the information on Metropolitan’s website is incorporated by reference and none of such information is intended to assist investors in making an investment decision or to provide any additional information with respect to the information included in this Appendix A.

Formation and Purpose

Metropolitan is a metropolitan water district created in 1928 under authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended (herein referred to as the “Act”). The Act authorizes Metropolitan to: levy property taxes within its service area; establish water rates; impose charges for water standby and service availability; incur general obligation bonded indebtedness and issue revenue bonds, notes and short-term revenue certificates; execute contracts; and exercise the power of eminent domain for the purpose of acquiring property. In addition, Metropolitan’s Board of Directors (the “Board”) is authorized to establish terms and conditions under which additional areas may be annexed to Metropolitan’s service area.

Metropolitan’s primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member public agencies. If additional water is available, such water may be sold for other beneficial uses. Metropolitan serves its member agencies as a water wholesaler and has no retail customers.

The mission of Metropolitan, as promulgated by the 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 are fixed by its Board, and are not subject to regulation or approval by the California Public Utilities Commission or any other state or federal agency. Metropolitan imports water from two principal sources: northern California via the Edmund G. Brown California Aqueduct (the “California Aqueduct”) of the State Water Project owned by the State of California (the “State”) and the Colorado River via the Colorado River Aqueduct owned by Metropolitan.

Member Agencies

Metropolitan is comprised of 26 member public agencies, including 14 cities, 11 municipal water districts, and one county water authority, which collectively serve the residents and businesses of more than 300 cities and numerous unincorporated communities. Member agencies request water from Metropolitan at various delivery points within Metropolitan’s system and pay for such water at uniform rates established by the Board for each class of service. Metropolitan’s water is a supplemental supply for its member agencies, most of whom have other sources of water. See “METROPOLITAN REVENUES—Principal Customers” for a listing of the ten member agencies with the highest water purchases from Metropolitan during the fiscal year

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ended June 30, 2011. Metropolitan's member agencies may, from time to time, develop additional sources of water. No member is required to purchase water from Metropolitan, but all member agencies are required to pay readiness-to-serve charges whether or not they purchase water from Metropolitan. See "METROPOLITAN REVENUES—Rate Structure", "—Member Agency Purchase Orders" and "—Additional Revenue Components" in this Appendix A.

The following table lists the current 26 member agencies of Metropolitan.

<u>Municipal Water Districts</u>		<u>Cities</u>		<u>County</u> <u>Water Authority</u>
Calleguas	Las Virgenes	Anaheim	Los Angeles	San Diego
Central Basin	Orange County	Beverly Hills	Pasadena	
Eastern	Three Valleys	Burbank	San Fernando	
Foothill	West Basin	Compton	San Marino	
Inland Empire Utilities Agency		Fullerton	Santa Ana	
Upper San Gabriel Valley		Glendale	Santa Monica	
Western of Riverside County		Long Beach	Torrance	

Service Area

Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. When Metropolitan began delivering water in 1941, its service area consisted of approximately 625 square miles. Its service area has increased by 4,500 square miles since that time. The expansion is primarily the result of annexation of the service areas of additional member agencies.

Metropolitan estimates that approximately 18 million people lived in Metropolitan's service area in 2010, based on official estimates from the California Department of Finance and on population distribution estimates from the Southern California Association of Governments ("SCAG") and San Diego Association of Governments ("SANDAG"). Population projections prepared by SCAG and SANDAG in 2012 and 2010, as part of their planning process to update regional transportation and land use plans, show expected population growth of about 18 percent in Metropolitan's service area between 2010 and 2035. SANDAG's regional agency projections do not incorporate the 2010 Census population estimates and may be revised. The economy of Metropolitan's service area is exceptionally diverse. As measured in 2010, the economy of Metropolitan's service area had a gross domestic product larger than all but twelve nations of the world. Metropolitan provides between 40 and 60 percent of the water used within its service area in any year. For additional economic and demographic information concerning Metropolitan's service area, see Appendix E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

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 in an average year is 13 to 15 inches along the coastal area, up to 20 inches in foothill areas and less than 10 inches inland.

METROPOLITAN'S WATER SUPPLY

Metropolitan faces a number of challenges in providing a reliable and high quality water supply for southern California. These include, among others: (1) population growth within the service area; (2) increased competition for low-cost water supplies; (3) variable weather conditions; and (4) increased environmental regulations. Metropolitan's resources and strategies for meeting these long-term challenges are set forth in its Integrated Water Resources Plan, as updated from time to time. See "—Integrated Water Resources Plan" below.

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Metropolitan's principal sources of water are the State Water Project and the Colorado River. Recent court decisions have restricted deliveries from the State Water Project as described below under “—State Water Project—*Endangered Species Act Considerations*.” In addition, weather conditions have varied significantly, affecting water supplies. Dry conditions persisted in the northern Sierra Nevada watershed for the State Water Project from 2007 through 2009, followed by above-normal precipitation from January 2010 through March 2011. On March 31, 2011, California Governor Jerry Brown proclaimed an end to the statewide drought emergency proclaimed on February 27, 2009, by then-Governor of California Arnold Schwarzenegger. By April 26, 2011, snowpack in the Sierra Nevada had reached 185 percent of normal. Drier conditions returned in late 2011 and early 2012, with California statewide snowpack peaking in mid-April 2012 at 64 percent of normal.

Supply conditions for the Colorado River have also been impacted by weather conditions. Precipitation in the Upper Colorado River Basin from October 2011 through May 29, 2012 was 73% of normal. Upper Colorado River Basin snowpack measured peak levels early in the season on March 22, 2012 at 75 percent of normal. The forecasted April through July 2012 runoff into Lake Powell is 2.3 million acre-feet, or 32 percent of average. In December 2011, Lake Mead's elevation reached 1,133 feet above sea level, or 56 percent full, which is approximately 51 feet higher than observed in November 2010, the lowest elevation recorded since the reservoir was first filled. The reservoir peaked in January 2012 at 1,135 feet and is forecasted to drop to elevation 1,114 feet by September 2012. Each ten-foot change in Lake Mead's elevation represents approximately 1 million acre-feet of change in storage.

Integrated Water Resources Plan

Metropolitan, its member agencies, sub-agencies and groundwater basin managers developed their first Integrated Water Resources Plan (“IRP”), which was adopted by the Board in January 1996 and updated in 2004, as a long-term planning guideline for resources and capital investments. The purpose of the IRP was the development of a portfolio of preferred resources (see “—The Integrated Resources Plan Strategy” below) to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner.

On October 12, 2010, Metropolitan's Board adopted an IRP update (the “2010 IRP Update”) as a strategy to set goals and a framework for water resources development. This strategy enables Metropolitan and its member agencies to manage future challenges and changes in California's water conditions and to balance investments with water reliability benefits. The 2010 IRP Update was formulated with input from member agencies, retail water agencies, and other stakeholders including water and wastewater managers, environmental and business interests and the community. The framework places an emphasis on regional collaboration.

The 2010 IRP Update seeks to provide regional reliability through 2035 by stabilizing Metropolitan's traditional imported water supplies and continuing to develop additional local resources, with an increased emphasis on regional collaboration. It also advances long-term planning for potential future contingency resources, such as storm water capture and large-scale seawater desalination, in close coordination with Metropolitan's 26 member agencies and other utilities. The 2010 IRP Update is available on Metropolitan's web site at <http://www.mwdh2o.com/mwdh2o/pages/yourwater/irp/>. Specific projects that may be developed by Metropolitan in connection with the implementation of the IRP will be subject to future Board consideration and approval, as well as environmental and regulatory documentation and compliance. The information set forth on Metropolitan's web site is not incorporated by reference.

The Integrated Resources Plan Strategy

The IRP Strategy identifies a balance of local and imported water resources within Metropolitan's service area. Metropolitan expects that the core resource strategy, uncertainty buffers and foundational

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actions in the IRP Strategy will be continually reviewed and updated at least every five years to reflect changing demand and supply conditions.

The following paragraphs describe several elements of the IRP Strategy.

State Water Project. State Water Project supplies are important for maximizing local groundwater potential and the use of recycled water since State Water Project water has lower salinity content than Colorado River Aqueduct water and can be used to increase groundwater conjunctive use applications. See “METROPOLITAN’S WATER SUPPLY—State Water Project” and “REGIONAL WATER RESOURCES—Local Water Supplies” in this Appendix A.

Colorado River Aqueduct. The Colorado River Aqueduct delivers water from the Colorado River, Metropolitan’s original source of supply. Metropolitan has helped to fund and implement farm and irrigation district conservation programs, improvements to river operation facilities, land management programs and water transfers and exchanges through agreements with agricultural water districts in southern California and entities in Arizona and Nevada that use Colorado River water. See “METROPOLITAN’S WATER SUPPLY—Colorado River Aqueduct” in this Appendix A.

Water Conservation. Conservation and other water use efficiencies are integral components of Metropolitan’s IRP. Metropolitan has invested in conservation programs since the 1980s. Historically, most of the investments have been in water efficient fixtures in the residential sector. Current efforts also focus on outdoor and commercial water use. See “METROPOLITAN’S WATER SUPPLY—Water Conservation” in this Appendix A.

Recycled Water. Reclaimed or recycled municipal and industrial water is not potable, but can be used for landscape irrigation, agriculture, protecting groundwater basins from saltwater intrusion, industrial processes, and recharging local aquifers. Metropolitan offers financial incentives to member agencies for developing economically viable reclamation projects. See “REGIONAL WATER RESOURCES—Local Water Supplies” in this Appendix A.

Conjunctive Use. Conjunctive use is the coordinated use of surface water supplies and groundwater storage. It entails storing surplus imported water during the winter months or wet years in local surface reservoirs and recharging local groundwater basins, then using the stored supplies during dry months and droughts, thus increasing the supply reliability of the region. See “REGIONAL WATER RESOURCES—Local Water Supplies” in this Appendix A.

Water Transfers and Exchanges. Under voluntary water transfer or exchange agreements, agricultural communities using irrigation water may periodically sell some of their water allotments to urban areas. The water may be delivered through existing State Water Project or Colorado River Aqueduct facilities, or may be exchanged for water that is delivered through such facilities. Metropolitan’s policy toward potential transfers states that the transfers will be designed to protect and, where feasible, enhance environmental resources and avoid the mining of local groundwater supplies. See “METROPOLITAN’S WATER SUPPLY—Water Transfer, Storage and Exchange Programs” in this Appendix A.

Groundwater Recovery. Natural groundwater reservoirs serve an important function as storage facilities for local and imported water. When groundwater storage becomes contaminated, water agencies have to rely more heavily on imported water supplies. Treatment for polluted groundwater is quite costly and poses environmental challenges. Metropolitan offers financial incentives to help fund member agency groundwater recovery projects. See “REGIONAL WATER RESOURCES—Local Water Supplies” in this Appendix A.

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Seawater Desalination. Seawater desalination is the process of removing salts from ocean water to produce potable supplies. It is a potential new local supply that could help increase supply reliability in Metropolitan's service area. Metropolitan offers financial incentives to member agencies for seawater desalination projects through its Seawater Desalination Program. Currently, a number of seawater desalination projects are under development within Metropolitan's service area. See "REGIONAL WATER RESOURCES—Local Water Supplies" and "METROPOLITAN REVENUES—Rate Structure" in this Appendix A.

State Water Project

General. One of Metropolitan's two major sources of water is the State Water Project, which is owned by the State and operated by the California Department of Water Resources ("DWR"). This project transports Feather River water stored in and released from Oroville Dam and unregulated flows diverted directly from the San Francisco Bay/Sacramento-San Joaquin River Delta ("Bay-Delta") south via the California Aqueduct to four delivery points near the northern and eastern boundaries of Metropolitan's service area. The total length of the California Aqueduct is approximately 444 miles.

In 1960, Metropolitan signed a contract (as amended, the "State Water Contract") with DWR. Metropolitan is one of 29 agencies that have long-term contracts for water service from DWR, and is the largest agency in terms of the number of people it serves (almost 19 million), the share of State Water Project water that it has contracted to receive (approximately 46 percent), and the percentage of total annual payments made to DWR by agencies with State water contracts (approximately 58 percent for 2011). For information regarding Metropolitan's obligations under the State Water Contract, see "METROPOLITAN EXPENDITURES—State Water Contract Obligations" in this Appendix A. Upon expiration of the State Water Contract term (currently in 2035), Metropolitan has the option to continue service under substantially the same terms and conditions.

The State Water Contract, under a 100 percent allocation, provides Metropolitan 1,911,500 acre-feet of water. (An acre-foot is the amount of water that will cover one acre to a depth of one foot and equals approximately 326,000 gallons, which represents the needs of two average families in and around the home for one year.) Water received from the State Water Project by Metropolitan over the ten years from 2002 through 2011, including water from water transfer, groundwater banking and exchange programs delivered through the California Aqueduct, described below under "—Water Transfer, Storage and Exchange Programs," varied from a low of 908,000 acre-feet in calendar year 2009 to a high of 1,800,000 acre-feet in 2004.

For calendar year 2011, DWR's allocation to State Water Project contractors was 80 percent of contracted amounts, reflecting significantly above-normal precipitation over the entire Sierra Nevada range and accumulating snowpack to levels of 185 percent of normal and greater. The 80 percent allocation enabled Metropolitan to take up to 1,529,200 acre-feet of its 1,911,500 acre-foot contractual amount. The 80 percent allocation for 2011 was the highest water supply allocation in five years. In 2011, Metropolitan took delivery of approximately 1.4 million acre-feet to its service area, including supplies from water transfers, exchanges and other deliveries through the California Aqueduct. Additional amounts were stored and exchanged with Metropolitan's out of service area storage and exchange partners. See "—Water Transfer, Storage and Exchange Programs" and "—Storage Capacity and Water in Storage" below.

For calendar year 2012, DWR's initial allocation estimate to State Water Project contractors was 60 percent of contracted amounts. This estimate was reduced to 50 percent of contracted amounts on February 21, 2012 and adjusted upward to 60 percent of contracted amounts as of April 16, 2012. The allocation was increased again on May 23, 2012, to 65 percent of contracted amounts due to April's wetter-than-usual weather. For Metropolitan, the increased 2012 allocation will provide 1,242,475 acre-feet, or 65 percent of its

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1,911,500-acre-foot contractual amount. In addition, Metropolitan began 2012 with 200,000 acre-feet of carryover supplies in San Luis Reservoir, a joint use facility of the State Water Project and federal Central Valley Project, all of which can be drawn in 2012.

Endangered Species Act Considerations

General. The listing of several fish species as threatened or endangered under the federal or California Endangered Species Acts (respectively, the “Federal ESA” and the “California ESA” and, collectively, the “ESAs”) have adversely impacted State Water Project operations and limited the flexibility of the State Water Project. Currently, five species (the winter-run and spring-run Chinook salmon, Delta smelt, North American green sturgeon and Central Valley steelhead) are listed under the ESAs. In addition, on June 25, 2009, the California Fish and Game Commission declared the longfin smelt a threatened species under the California ESA.

The Federal ESA requires that before any federal agency authorizes funds or carries out an action it must consult with the appropriate federal fishery agency to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to the species’ needs. The result of the consultation is known as a “biological opinion.” In the biological opinion the federal fishery agency determines whether the action would cause jeopardy to a threatened or endangered species or adverse modification to critical habitat and recommends reasonable and prudent alternatives or measures that would allow the action to proceed without causing jeopardy or adverse modification. The biological opinion also includes an “incidental take statement.” The incidental take statement allows the action to go forward even though it will result in some level of “take,” including harming or killing some members of the species, incidental to the agency action, provided that the agency action does not jeopardize the continued existence of any threatened or endangered species and complies with reasonable mitigation and minimization measures recommended by the federal fishery agency.

In 2004 and 2005, the United States Fish and Wildlife Service (“USFWS”) and National Marine Fisheries Service issued biological opinions and incidental take statements governing the coordinated operations of the State Water Project and the federal Central Valley Project with respect to the Delta smelt, the winter-run and spring-run Chinook salmon and the Central Valley steelhead. In July 2006, the Bureau of Reclamation reinitiated consultation with the USFWS and National Marine Fisheries Service with respect to the 2004 and 2005 biological opinions (with the addition of the North American green sturgeon, which was listed in April 2006) following the filing of legal challenges to those biological opinions and incidental take statements described under “*Federal ESA Litigation*” below. Under the Federal ESA, critical habitat must also be designated for each listed species. Critical habitat has been designated for each of the currently listed species.

Federal ESA Litigation. Litigation filed by several environmental interest groups (*NRDC v. Kempthorne*; and *Pacific Coast Federation of Fishermen’s Associations v. Gutierrez*) in the United States District Court for the Eastern District of California alleged that the 2004 and 2005 biological opinions and incidental take statements inadequately analyzed impacts on listed species under the Federal ESA.

On May 25, 2007, Federal District Judge Wanger issued a decision on summary judgment in *NRDC v. Kempthorne*, finding the USFWS biological opinion for Delta smelt to be invalid. The USFWS released a new biological opinion on the impacts of the State Water Project and Central Valley Project on Delta smelt on December 15, 2008. Metropolitan, the San Luis & Delta Mendota Water Authority, Westlands Water District, Kern County Water Agency, Coalition for a Sustainable Delta and State Water Contractors, a California nonprofit corporation formed by agencies contracting with DWR for water from the State Water Project (the “State Water Contractors”), the Family Farm Alliance and the Pacific Legal Foundation on behalf of several owners of small farms in California’s Central Valley filed separate lawsuits in federal district court

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challenging the biological opinion, which the federal court consolidated under the caption *Delta Smelt Consolidated Cases*.

On December 14, 2010, Judge Wanger issued a decision on summary judgment finding that there were major scientific and legal flaws in the Delta smelt biological opinion. The court found that some but not all of the restrictions on project operations contained in the 2008 Delta smelt biological opinion were arbitrary, capricious and unlawful. On May 18, 2011, Judge Wanger issued a final amended judgment directing the USFWS to complete a new draft biological opinion by October 1, 2011, and a final biological opinion with environmental documentation by December 1, 2013. Later stipulations and orders changed the October 1, 2011 due date for a draft biological opinion to December 14, 2011. A draft biological opinion was issued on December 14, 2011. The draft biological opinion deferred specification of a reasonable and prudent alternative and an incidental take statement pending completion of environmental impact review under the National Environmental Policy Act (“NEPA”). The federal defendants and environmental intervenors appealed the final judgment invalidating the 2008 Delta smelt biological opinion to the U.S. Court of Appeals for the Ninth Circuit. State Water Project and Central Valley Project contractor plaintiffs, including Metropolitan, have cross-appealed from the final judgment. Those appeals and cross-appeals are currently pending in the Ninth Circuit.

On February 25, 2011, the federal court approved a settlement agreement modifying biological opinion restrictions on Old and Middle River flows that would have otherwise applied in spring 2011. The settlement agreement expired on June 30, 2011. State Water Project and Central Valley Project contractors also moved to enjoin certain fall salinity requirements in the biological opinion that were set to become operable in September and October 2011. After an evidentiary hearing on the water contractors’ motion in July 2011, Judge Wanger issued a decision on August 31, 2011, modifying the fall salinity related requirements in the biological opinion. The effect of the injunction was to reduce water supply impacts from the biological opinion’s fall salinity requirements. The federal defendants and the environmental intervenors appealed the injunction on fall salinity requirements but the federal defendants subsequently dismissed their appeal in October 2011. The environmental intervenors’ appeal to the Ninth Circuit on the fall salinity requirement injunction is pending. The State Water Project and Central Valley Project contractors have moved to dismiss the environmental intervenors’ appeal of the fall salinity requirement on the ground that the salinity requirement for 2011 has expired, and is therefore moot.

On April 16, 2008, in *Pacific Coast Federation of Fishermen’s Associations v. Gutierrez*, the court invalidated the 2004 National Marine Fisheries Service’s biological opinion for the salmon and other fish species that spawn in rivers flowing into the Bay-Delta. Among other things, the court found that the no-jeopardy conclusions in the biological opinion were inconsistent with some of the factual findings in the biological opinion; that the biological opinion failed to adequately address the impacts of State Water Project and Central Valley Project operations on critical habitat and that there was a failure to consider how climate change and global warming might affect the impacts of the projects on salmonid species.

The National Marine Fisheries Service released a new biological opinion for salmonid species to replace the 2004 biological opinion on June 4, 2009. The 2009 salmonid species biological opinion contains additional restrictions on State Water Project and Central Valley Project operations. The National Marine Fisheries Service calculated that these restrictions will reduce the amount of water the State Water Project and Central Valley Project combined will be able to export from the Bay-Delta by 5 to 7 percent. DWR had estimated a 10 percent average water loss under this biological opinion. See “—*State Water Project Operational Constraints*” below for the estimated impact to Metropolitan’s water supply. Six lawsuits were filed challenging the 2009 salmon biological opinion. These various lawsuits have been brought by the San Luis & Delta Mendota Water Authority, Westlands Water District, Stockton East Water District, Oakdale Irrigation District, Kern County Water Agency, the State Water Contractors and Metropolitan. The court consolidated the cases under the caption *Consolidated Salmon Cases*.

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On May 25, 2010, the court granted the plaintiffs' request for preliminary injunction in the *Consolidated Salmon Cases*, restraining enforcement of two requirements under the salmon biological opinion that limit exported water during the spring months based on San Joaquin River flows into the Bay-Delta and reverse flows on the Old and Middle Rivers. Hearings on motions for summary judgment in the *Consolidated Salmon Cases* were held on December 16, 2010. On September 20, 2011, Judge Wanger issued a decision on summary judgment, finding that the salmon biological opinion was flawed, and that some but not all of the project restrictions in the biological opinion were arbitrary and capricious. On December 12, 2011, Judge O'Neill (who was assigned to this case following Judge Wanger's retirement) issued a final judgment in the *Consolidated Salmon Cases*. The final judgment remands the 2009 salmon biological opinion to the National Marine Fisheries Service, and directs that a new draft salmon biological opinion be issued by October 1, 2014, and that a final biological opinion be issued by February 1, 2016, after completion of environmental impact review under NEPA. On January 19, 2012, Judge O'Neill approved a joint stipulation of the parties that specifies how to comply with one of the salmon biological opinion restrictions that applies to water project operations in April and May of 2012. In January and February 2012, the federal defendants and environmental intervenors filed appeals of the final judgment in the *Consolidated Salmon Cases*, and the State Water Project and Central Valley Project contractors filed cross-appeals. Those appeals and cross-appeals are now pending in the Ninth Circuit.

On November 13, 2009, the Center for Biological Diversity filed separate lawsuits challenging the USFWS' failure to respond to a petition to change the Delta smelt's federal status from threatened to endangered and the USFWS' denial of federal listing for the longfin smelt. On April 2, 2010, the USFWS issued a finding that uplisting the Delta smelt was warranted but precluded by the need to devote resources to higher-priority matters. This "warranted but precluded" finding did not change the regulatory restrictions applicable to Delta smelt. For the longfin smelt litigation, a settlement agreement was approved on February 2, 2011. Under the agreement, the USFWS agreed to complete a range-wide status review of the longfin smelt and consider whether the Bay-Delta longfin smelt population, or any other longfin smelt population from California to Alaska, qualifies as a "distinct population" that warrants federal protection. On April 2, 2012, the USFWS issued its finding that the Bay-Delta longfin smelt population warrants protection under the ESA but is precluded from listing as a threatened or endangered species by the need to address other higher priority listing actions. The review identified several threats facing longfin smelt in the Bay-Delta, including reduced freshwater Bay-Delta outflows. The finding includes the determination that the Bay-Delta longfin smelt will be added to the list of candidates for ESA protection, where its status will be reviewed annually.

California ESA Litigation. In addition to the litigation under the Federal ESA, other environmental groups sued DWR on October 4, 2006 in the Superior Court of the State of California for Alameda County alleging that DWR was "taking" listed species without authorization under the California ESA. This litigation (*Watershed Enforcers, a project of the California Sportfishing Protection Alliance v. California Department of Water Resources*) requested that DWR be mandated to either cease operation of the State Water Project pumps, which deliver water to the California Aqueduct, in a manner that results in such "taking" of listed species or obtain authorization for such "taking" under the California ESA. On April 18, 2007, the Alameda County Superior Court issued its Statement of Decision finding that DWR was illegally "taking" listed fish through operation of the State Water Project export facilities. The Superior Court ordered DWR to "cease and desist from further operation" of those facilities within 60 days unless it obtained take authorization from the California Department of Fish and Game.

DWR appealed the Alameda County Superior Court's order on May 7, 2007. This appeal stayed the order pending the outcome of the appeal. The Court of Appeal stayed processing of the appeal in 2009 to allow time for DWR to obtain incidental take authorization for the Delta smelt and salmon under the California ESA, based on the consistency of the federal biological opinions with California ESA requirements ("Consistency Determinations"). After the California Department of Fish & Game issued the Consistency Determinations under the California ESA, authorizing the incidental take of both Delta smelt and salmon,

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appellants DWR and State Water Contractors dismissed their appeals of the *Watershed Enforcers* decision. The Court of Appeal subsequently issued a decision finding that DWR was a “person” under the California ESA and subject to its take prohibitions, which was the only issue left in the case. The State Water Contractors and Kern County Water Agency have filed suit in state court challenging the Consistency Determinations under the California ESA that have been issued for both Delta smelt and salmon. Those lawsuits challenging the Consistency Determinations are pending. The parties are continuing discussions of adjustments to the incidental take authorizations in light of the summary judgment ruling in the *Delta Smelt Consolidated Cases* and the *Consolidated Salmon Cases*, discussed under the heading “—Federal ESA Litigation” above.

The California Fish and Game Commission listed the longfin smelt as a threatened species under the California ESA on June 25, 2009. On February 23, 2009, in anticipation of the listing action, the California Department of Fish and Game issued a California ESA section 2081 incidental take permit to DWR authorizing the incidental take of longfin smelt by the State Water Project. This permit authorizes continued operation of the State Water Project under the conditions specified in the section 2081 permit. The State Water Contractors filed suit against the California Department of Fish and Game on March 25, 2009, alleging that the export restrictions imposed by the section 2081 permit have no reasonable relationship to any harm to longfin smelt caused by State Water Project operations, are arbitrary and capricious and are not supported by the best available science. The lawsuit is pending and the administrative record for the cases has been completed.

State Water Project Operational Constraints. DWR has altered the operations of the State Water Project to accommodate species of fish listed under the ESAs. These changes in project operations have adversely affected State Water Project deliveries. The impact on total State Water Project deliveries attributable to the Delta smelt and salmonid species biological opinions combined is estimated to be one million acre-feet in an average year, reducing State Water Project deliveries from approximately 3.3 million acre-feet to approximately 2.3 million acre-feet for the year under average hydrology, and are estimated to range from 0.3 million acre-feet during critically dry years to 1.3 million acre-feet in above normal water years. State Water Project deliveries to contractors were reduced by approximately 285,000 acre-feet of water in calendar year 2011 as a result of pumping restrictions, with 135,000 acre-feet of export reductions in January and February, and 150,000 acre-feet in the fall. Despite operational restrictions in 2011, high flows from above-normal precipitation in late 2010 and early 2011 reaching the Bay-Delta have provided increased storage in State Water Project reservoirs.

Operational constraints likely will continue until long-term solutions to the problems in the Bay-Delta are identified and implemented. The Delta Vision process, established by then-Governor Schwarzenegger, was aimed at identifying long-term solutions to the conflicts in the Bay-Delta, including natural resource, infrastructure, land use and governance issues. In addition, State and federal resource agencies and various environmental and water user entities are currently engaged in the development of the Bay-Delta Conservation Plan, which is aimed at addressing ecosystem needs and securing long-term operating permits for the State Water Project, and includes the Delta Habitat Conservation and Conveyance Program (DHCCP) (together, the “BDCP”). The DHCCP’s current efforts consist of the preparation of the environmental documentation and preliminary engineering design for Bay-Delta water conveyance and related habitat conservation measures under the BDCP. The Delta Vision process and the BDCP are discussed further under “—Bay-Delta Regulatory and Planning Activities” below.

Other issues, such as the decline of some fish populations in the Bay-Delta and surrounding regions and certain operational actions in the Bay-Delta, may significantly reduce Metropolitan’s water supply from the Bay-Delta. State Water Project operational requirements may be further modified under new biological opinions for listed species under the Federal ESA or by the California Department of Fish and Game’s issuance of incidental take authorizations under the California ESA. Biological opinions or incidental take

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authorizations under the Federal ESA and California ESA might further adversely affect State Water Project and Central Valley Project operations. Additionally, new litigation, listings of additional species or new regulatory requirements could further adversely affect State Water Project operations in the future by requiring additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Metropolitan cannot predict the ultimate outcome of any of the litigation or regulatory processes described above but believes they could have a materially adverse impact on the operation of the State Water Project pumps, Metropolitan's State Water Project supplies and Metropolitan's water reserves.

"Area of Origin" Litigation. Four State Water Project contractors located north of the State Water Project's Bay-Delta pumping plant filed litigation against DWR on July 17, 2008, asserting that since they are located in the "area of origin" of State Water Project water they are entitled to receive their entire contract amount before any water is delivered to contractors south of the Bay-Delta. If the plaintiffs are successful in this litigation, State Water Project water available to Metropolitan in a drought period could be reduced by approximately 25,000 acre-feet each year of a multi-year drought or by as much as 40,000 acre-feet in an exceedingly dry year. Metropolitan and twelve other State Water Project contractors located south of the Bay-Delta filed motions to intervene in this litigation, which were granted on February 25, 2009. The parties are discussing settlement. If settlement is not reached, a full trial is expected later in 2012.

Bay-Delta Regulatory and Planning Activities. The State Water Resources Control Board ("SWRCB") is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the SWRCB can affect the availability of water to Metropolitan and other users of State Water Project water. The SWRCB exercises its regulatory authority over the Bay-Delta by means of public proceedings leading to regulations and decisions. These include the Bay-Delta Water Quality Control Plan ("WQCP"), which establishes the water quality objectives and proposed flow regime of the estuary, and water rights decisions, which assign responsibility for implementing the objectives of the WQCP to users throughout the system by adjusting their respective water rights. The SWRCB is required by law to periodically review its WQCP to ensure that it meets the changing needs of this complex system.

Since 2000, SWRCB's Water Rights Decision 1641 ("D-1641") has governed the State Water Project's ability to export water from the Bay-Delta for delivery to Metropolitan and other agencies receiving water from the State Water Project. D-1641 allocated responsibility for meeting flow requirements and salinity and other water quality objectives established earlier by the WQCP. The SWRCB also identified additional issues to review, which could result in future changes in water quality objectives and flows that could affect exports of water from the State Water Project. Currently, the SWRCB is reviewing salinity objectives in the Bay-Delta intended to protect Bay-Delta farming and inflow requirements upstream of the Delta to protect aquatic species.

The CALFED Bay-Delta Program was a collaborative effort among 25 State and federal agencies to improve water supplies in California and the health of the Bay-Delta watershed. On August 28, 2000, the federal government and the State issued a Record of Decision ("ROD") and related documents approving the final programmatic environmental documentation for the CALFED Bay-Delta Program. The Environmental Impact Report (EIR) under the California Environmental Quality Act (CEQA) was challenged in three separate cases, but ultimately upheld by the California Supreme Court in June 2008.

The CALFED Bay-Delta Program resulted in an investment of \$3 billion on a variety of projects and programs to begin addressing the Bay-Delta's water supply, water quality, ecosystem, and levee stability problems. To guide future development of and governance for the CALFED Bay-Delta Program and identify a strategy for managing the Bay-Delta as a sustainable resource, in September 2006, then-Governor Schwarzenegger established by Executive Order a Delta Vision process. The Delta Vision process resulted in creation of a Delta Vision Blue Ribbon Task Force that issued its Delta Vision Strategic Plan (the "Strategic

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Plan”) on October 17, 2008, providing its recommendations for long-term sustainable management of the Bay-Delta. These recommendations included completing the BDCP and associated environmental assessments to permit ecosystem revitalization and water conveyance improvements, identifying and reducing stressors to the Bay-Delta ecosystem, strengthening levees, increasing emergency preparedness, continuing funding for the CALFED ecosystem restoration program, updating Bay-Delta regulatory flow and water quality standards to protect beneficial uses of water and working with the State Legislature on a comprehensive water bond package to fund Bay-Delta infrastructure projects.

On November 4, 2009, the State Legislature authorized an \$11.1 billion water bond measure that includes over \$2 billion for Bay-Delta ecosystem restoration as well as \$3 billion for new water storage and additional funds for water recycling, drought relief, conservation and watershed protection projects. The bond measure is subject to voter authorization and was scheduled to be included on the November 2010 ballot; however, in August 2010 the Legislature postponed the bond election to 2012. In January 2012, Governor Jerry Brown issued a statement which supported removing the bond measure from the 2012 ballot to place it on the 2014 ballot. Delaying the bond election did not impact other parts of the 2009 water legislation. Related legislation created a new oversight council for the Bay-Delta, the Delta Stewardship Council, and directs that the Bay-Delta be managed with dual goals of water supply reliability and ecosystem protection, sets a statewide conservation target for urban per capita water use of 20 percent reductions by 2020 (with credits for existing conservation), provides funding for increased enforcement of illegal water diversions and establishes a statewide groundwater monitoring program. The Council, formed on February 3, 2010, is CALFED’s successor agency and was directed to adopt and oversee implementation of a comprehensive management plan for the Bay-Delta. Following public review in mid 2012, the plan is scheduled to be finalized by late 2012.

The working draft BDCP was completed in November 2010 and a full draft BDCP and the associated environmental impact statement and report are anticipated in 2012. On December 15, 2010, California and federal agencies affirmed their support for the BDCP process to restore the Bay-Delta ecosystem and regain water supply reliability for Californians. Separate reports from the California Natural Resources Agency and from President Obama’s Administration were concurrently released in support of the BDCP process and water conveyance improvements. Based on the Delta Habitat Conservation and Conveyance Program Memorandum of Agreement (MOA) to prepare the planning, environmental documentation and preliminary engineering design for the BDCP, the final planning and environmental documents are scheduled to be completed in December 2012. The parties to the MOA are DWR, the Bureau of Reclamation, the State and Federal Contractors Water Agency, Metropolitan, Kern County Water Agency, State Water Contractors, San Luis & Delta Mendota Water Authority, Westlands Water District and Santa Clara Valley Water District.

Metropolitan, along with other State and federal water contractors, has urged action to address water quality concerns with respect to both the aquatic health of the Bay-Delta and drinking water quality. On December 9, 2010, the Central Valley Regional Water Quality Control Board (“Regional Board”) approved a National Pollutant Discharge Elimination System (“NPDES”) permit for the Sacramento Regional County Sanitation District (“Sanitation District”) setting water-quality based requirements for the Sanitation District’s wastewater treatment plant that will require advanced treatment upgrades for the Sanitation District’s wastewater facility. The Sanitation District’s treatment plant is the largest wastewater discharger into the Bay-Delta. The treatment plant provides only a secondary level of treatment and discharges nutrients, pathogens, and total organic carbon into the Bay-Delta water supply. The treatment plant’s discharge of nitrogen, particularly ammonia, has been shown to be altering the food chain in the estuary to the detriment of Delta smelt and other native species. The NPDES permit calls for a significant reduction of the nitrogen and particularly ammonia discharge which will require full nitrification and denitrification treatment by 2020, as well as tertiary filtration treatment to meet pathogen removal requirements. The NPDES permit also includes additional permit limits and monitoring requirements for other water quality constituents, including toxic contaminants.

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The Sanitation District petitioned the SWRCB for review of the NPDES permit. The SWRCB issued a draft order on May 14, 2012, largely upholding the Regional Board's determinations and scheduling a workshop on the proposed order for July 18, 2012. Although the appeal before the SWRCB remains pending, on December 30, 2011, the Sanitation District filed a lawsuit in Sacramento Superior Court against the Regional Board and SWRCB seeking to overturn and relax the NPDES permit. Metropolitan and other water agencies that participated in the NPDES permitting process have intervened in the superior court case. In a stipulation between the Sanitation District and the Regional Board, the superior court stayed all further proceedings in the case until after the SWRCB issues its final decision on the permit.

Metropolitan, other urban State Water Contractor agencies, and the Contra Costa Water District earlier brought a successful CEQA challenge in response to significant, unmitigated water quality impacts that would occur from a planned expansion of the Sanitation District's treatment plant. The Sanitation District appealed the trial court ruling and the case remains pending in the Third District Court of Appeal awaiting oral argument.

California Water Impact Network Litigation. On September 3, 2010, the California Water Impact Network and two other non-profit organizations filed a petition for writ of mandate and for declaratory and injunctive relief in Sacramento Superior Court against the SWRCB and DWR. The petition alleges that by permitting and carrying out the export of large volumes of water from the Delta through the State Water Project, the SWRCB and DWR have failed to protect public trust fishery resources in the Delta; have been diverting water from the Bay-Delta wastefully and unreasonably in violation of the prohibition against waste and unreasonable use in the California Constitution; and have failed to enforce and comply with water quality and beneficial use standards in D-1641, the 1995 SWRCB Water Quality Control Plan, and the Porter-Cologne Act. Among the relief sought in the petition is an injunction against Bay-Delta exports by the State Water Project pending compliance with the various laws and administrative orders that are alleged to have been violated. The State Water Contractors filed a motion to intervene in this action, which was granted on March 25, 2011. No schedule has since been issued by the court.

Monterey Agreement Litigation. On September 15, 2000, the Third District Court of Appeal for the State of California issued its decision in *Planning and Conservation League; Citizens Planning Association of Santa Barbara County and Plumas County Flood Control District v. California Department of Water Resources and Central Coast Water Authority*. This case was an appeal of a challenge to the adequacy of the environmental documentation prepared with respect to certain amendments to the State Water Contract (the "Monterey Agreement") which reflects the settlement of certain disputes regarding the allocation of State Water Project water. The Court of Appeal held that the environmental documentation was defective in failing to analyze the environmental effects of the Monterey Agreement's elimination of the permanent shortage provisions of the State Water Contract. The parties negotiated a settlement agreement in the fall of 2002, which allows continued operation of the State Water Project under the Monterey Agreement principles while a new EIR was prepared. DWR completed the final EIR and concluded the remedial CEQA review for the project on May 4, 2010. Following DWR's completion of the EIR, three new lawsuits were filed challenging the project. Central Delta Water Agency, South Delta Water Agency, California Water Impact Network, California Sportfishing Protection Alliance, and the Center For Biological Diversity filed a lawsuit against DWR in Sacramento County Superior Court challenging the validity of the EIR under CEQA and the validity of underlying agreements under a reverse validation action (the "*Central Delta I*" case). These same plaintiffs filed a reverse validation lawsuit against the Kern County Water Agency in Kern County Superior Court ("*Central Delta II*"). This lawsuit targets a transfer of land from Kern County Water Agency to the Kern Water Bank, which was completed as part of the original Monterey Amendments. The third lawsuit is an EIR challenge brought by Rosedale-Rio Bravo Water Storage District and Buena Vista Water Storage District ("*Rosedale-Rio Bravo*") against DWR in Kern County Superior Court. The two Kern County cases have been transferred to Sacramento Superior Court. Any adverse impact of this litigation on Metropolitan's State Water Project supplies cannot be determined at this time.

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Colorado River Aqueduct

General. The Colorado River was Metropolitan's original source of water after Metropolitan's establishment in 1928. Metropolitan has a legal entitlement to receive water from the Colorado River under a permanent service contract with the Secretary of the Interior. Water from the Colorado River and its tributaries is also available to other users in California, as well as users in the states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming (the "Colorado River Basin States"), resulting in both competition and the need for cooperation among these holders of Colorado River entitlements. In addition, under a 1944 treaty, Mexico has an allotment of 1.5 million acre-feet of Colorado River water annually except in the event of extraordinary drought, or serious accident to the delivery system in the United States, when the water allotted to Mexico would be curtailed. Mexico also can schedule delivery of an additional 200,000 acre-feet of Colorado River water per year if water is available in excess of the requirements in the United States and the 1.5 million acre-feet allotted to Mexico.

The Colorado River Aqueduct, which is owned and operated by Metropolitan, transports water from the Colorado River approximately 242 miles to its terminus at Lake Mathews in Riverside County. After deducting for conveyance losses and considering maintenance requirements, up to 1.25 million acre-feet of water a year may be conveyed through the Colorado River Aqueduct to Metropolitan's member agencies, subject to availability of Colorado River water for delivery to Metropolitan as described below.

California is apportioned the use of 4.4 million acre-feet of water from the Colorado River each year plus one-half of any surplus that may be available for use collectively in Arizona, California and Nevada. In addition, California has historically been allowed to use Colorado River water apportioned to but not used by Arizona or Nevada when such supplies have been requested for use in California. Under the 1931 priority system that has formed the basis for the distribution of Colorado River water made available to California, Metropolitan holds the fourth priority right to 550,000 acre-feet per year. This is the last priority within California's basic apportionment. In addition, Metropolitan holds the fifth priority right to 662,000 acre-feet of water, which is in excess of California's basic apportionment. See the table "PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT" below. Until 2003, Metropolitan had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and apportioned but unused water. However, during the 1990s Arizona and Nevada increased their use of water from the Colorado River, utilizing their respective basic apportionments by 2002 and significantly reducing unused apportionment available for California. In addition, a severe drought in the Colorado River Basin reduced storage in system reservoirs, such that Metropolitan stopped taking surplus deliveries in 2003 in an effort to mitigate the effects of the drought. Prior to 2003, Metropolitan could divert over 1.2 million acre-feet in any year, but since that time, Metropolitan's net diversions of Colorado River water have been limited to a low of nearly 633,000 acre-feet in 2006 and a high of approximately 1,105,232 acre-feet in 2009. Average annual net deliveries for 2003 through 2011 were approximately 830,300 acre-feet, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture. As Nevada's use of Colorado River water in 2008 was below its basic apportionment, Metropolitan diverted and stored 45,000 acre-feet for the benefit of the Southern Nevada Water Authority ("SNWA") under a storage and interstate release agreement. Metropolitan's Colorado River supply was about 885,000 acre-feet in 2011, of which approximately 699,000 acre-feet was delivered through the Colorado River Aqueduct and about 186,000 acre-feet of intentionally-created surplus water was stored in Lake Mead. In addition, another 7,647 acre-feet of water was stored by the Bureau of Reclamation for Metropolitan as a result of the Yuma Desalting Plant pilot run. See "*Quantification Settlement Agreement*" and "*Interim Surplus Guidelines*" below.

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PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT⁽¹⁾

Priority	Description	Acre-Feet Annually
1	Palo Verde Irrigation District gross area of 104,500 acres of land in the Palo Verde Valley	3,850,000
2	Yuma Project in California not exceeding a gross area of 25,000 acres in California	
3(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys ⁽²⁾ to be served by All-American Canal	
3(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
4	Metropolitan Water District of Southern California for use on the coastal plain	550,000
	SUBTOTAL	4,400,000
5(a)	Metropolitan Water District of Southern California for use on the coastal plain	550,000
5(b)	Metropolitan Water District of Southern California for use on the coastal plain ⁽³⁾	112,000
6(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys to be served by the All-American Canal	300,000
6(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
	TOTAL	5,362,000
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

Source: Metropolitan.

- (1) Agreement dated August 18, 1931, among Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley County Water District, Metropolitan, the City of Los Angeles, the City of San Diego and the County of San Diego. These priorities were memorialized in the agencies' respective water delivery contracts with the Secretary of the Interior.
- (2) The Coachella Valley Water District serves Coachella Valley.
- (3) In 1946, the City of San Diego, the San Diego County Water Authority, Metropolitan and the Secretary of the Interior entered into a contract that merged and added the City and County of San Diego's rights to storage and delivery of Colorado River water to the rights of Metropolitan.

Metropolitan has taken steps to augment its share of Colorado River water through agreements with other agencies that have rights to use such water. Under a 1988 water conservation agreement (the "1988 Conservation Agreement") between Metropolitan and the Imperial Irrigation District ("IID"), Metropolitan provided funding for IID to construct and operate a number of conservation projects that are currently conserving up to 105,000 acre-feet of water per year that is provided to Metropolitan. Under the October 2003 Quantification Settlement Agreement and related agreements, Metropolitan, at the request of Coachella Valley Water District ("CVWD"), forgoes up to 20,000 acre-feet of this water each year for diversion by CVWD. See "*Quantification Settlement Agreement*" below. In 2008, 2009 and 2010 CVWD's requests were for 16,000, 12,000 and 8,000 acre-feet respectively, leaving 89,000 acre-feet in 2008, 93,000 acre-feet in

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2009 and 97,000 acre-feet in 2010 for Metropolitan. In 2011, 103,940 acre-feet were conserved under the 1988 Conservation Agreement, of which 4,000 acre-feet was requested by CVWD.

In 1992, Metropolitan entered into an agreement with the Central Arizona Water Conservation District (“CAWCD”) to demonstrate the feasibility of CAWCD storing Colorado River water in central Arizona for the benefit of an entity outside of the State of Arizona. Pursuant to this agreement, CAWCD created 80,909 acre-feet of long-term storage credits that may be recovered by CAWCD for Metropolitan. Metropolitan, the Arizona Water Banking Authority, and CAWCD executed an amended agreement for recovery of these storage credits in December 2007. All 80,909 acre-feet were recovered and delivered to Metropolitan between 2007 and 2010.

Metropolitan and the Palo Verde Irrigation District (“PVID”) signed the program agreement for a Land Management, Crop Rotation and Water Supply Program in August 2004. This program provides up to 133,000 acre-feet of water to be available to Metropolitan in certain years. The term of the program is 35 years. Fallowing of approximately 20,000 acres of land began on January 1, 2005. In March 2009, Metropolitan and PVID entered into a supplemental fallowing program within PVID that provided for the fallowing of additional acreage in 2009 and 2010. In calendar years 2009 and 2010, respectively, 24,100 acre-feet and 32,300 acre-feet of water were saved and made available to Metropolitan under the supplemental program. The following table shows annual volumes of water saved and made available to Metropolitan:

WATER AVAILABLE FROM PVID LAND MANAGEMENT, CROP ROTATION, AND WATER SUPPLY PROGRAM

<u>Calendar Year</u>	<u>Volume (acre-feet)</u>
2005	108,700
2006	105,000
2007	72,300
2008	94,300
2009*	144,300
2010*	148,600
2011	122,200

Source: Metropolitan.

* Includes water from the supplemental fallowing program that provided for fallowing of additional acreage in 2009 and 2010.

In May 2008, Metropolitan provided \$28.7 million to join the CAWCD and the SNWA in funding the Bureau of Reclamation’s construction of an 8,000 acre-foot off-stream regulating reservoir near Drop 2 of the All-American Canal in Imperial County (officially renamed the Warren H. Brock Reservoir). Construction was completed in October 2010. The Warren H. Brock Reservoir is expected to conserve about 70,000 acre-feet of water per year by capturing and storing otherwise non-storable water flow. The Bureau of Reclamation has refunded to Metropolitan \$2.43 million in unused contingency funds. In return for its funding, Metropolitan received 100,000 acre-feet of water that is stored in Lake Mead, with the ability to deliver up to 40,000 acre-feet of water in any one year. Besides the additional water supply, the new reservoir adds to the flexibility of Colorado River operations.

In September 2009, Metropolitan authorized participation with SNWA, the Colorado River Commission of Nevada, the CAWCD and the Bureau of Reclamation in the pilot operation of the Yuma Desalting Plant. The Bureau of Reclamation concluded the pilot operation of the Yuma Desalting Plant in March 2011. Metropolitan’s contribution for the funding agreement was \$8,395,313. Metropolitan’s yield from the pilot run of the project was 24,397 acre-feet.

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Quantification Settlement Agreement. The Quantification Settlement Agreement (“QSA”), executed by CVWD, IID and Metropolitan in October 2003, establishes Colorado River water use limits for IID and CVWD, provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years, and restored the opportunity for Metropolitan to receive any “special surplus water” under the Interim Surplus Guidelines. See “*Interim Surplus Guidelines*” below. The QSA also allows Metropolitan to enter into other cooperative Colorado River supply programs. Related agreements modify existing conservation and cooperative water supply agreements consistent with the QSA, and set aside several disputes among California’s Colorado River water agencies.

Specific programs under the QSA include lining portions of the All-American and Coachella Canals, which conserve approximately 96,000 acre-feet annually. As a result, about 80,000 acre-feet of conserved water is delivered to SDCWA by exchange with Metropolitan. Metropolitan also takes delivery of 16,000 acre-feet annually that will be made available for the benefit of the La Jolla, Pala, Pauma, Rincon and San Pasqual Bands of Mission Indians, the San Luis Rey River Indian Water Authority, the City of Escondido and the Vista Irrigation District, upon completion of a water rights settlement, expected in 2012. An amendment to the 1988 Conservation Agreement between Metropolitan and IID and an associated 1989 Approval Agreement among Metropolitan, IID, CVWD and PVID, extended the term of the 1988 Conservation Agreement and limited the single year amount of water used by CVWD to 20,000 acre-feet. In 2021, the transfer of water conserved annually by IID to SDCWA is expected to reach 205,000 acre-feet. See description below under the caption “*—Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*”; see also “METROPOLITAN REVENUES—Principal Customers” in this Appendix A. With full implementation of the programs identified in the QSA, at times when California is limited to its basic apportionment of 4.4 million acre-feet per year, Metropolitan expects to be able to annually divert to its service area approximately 850,000 acre-feet of Colorado River water plus water from other water augmentation programs it develops, including the PVID program, which provides up to approximately 130,000 acre-feet of water per year. (Amounts of Colorado River water received by Metropolitan in 2003 through 2011 are discussed under the heading “*—Colorado River Aqueduct—General*” above.)

A complicating factor in completing the QSA was the fate of the Salton Sea, an important habitat for a wide variety of fish-eating birds as a stopover spot along the Pacific flyway. Some of these birds are listed as threatened or endangered species under the State and Federal ESAs. Located at the lowest elevations of an inland basin and fed primarily by agricultural drainage with no outflows other than evaporation, the Salton Sea is trending towards hyper-salinity, which has already impacted the Salton Sea’s fishery. Without mitigation, the transfer of water from IID to SDCWA, one of the core programs implemented under the QSA, would reduce the volume of agricultural run-off from IID into the Salton Sea, which in turn would accelerate this natural trend of the Salton Sea to hyper-salinity. See “*—Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*” below. In passing legislation to implement the QSA, the State Legislature committed the State to undertake restoration of the Salton Sea ecosystem. Restoration of the Salton Sea is subject to selection and approval of an alternative by the Legislature and funding of the associated capital improvements and operating costs. The Secretary for the California Natural Resources Agency submitted an \$8.9-billion preferred alternative for restoration of the Salton Sea to the Legislature in May 2007. While withholding authorization of the preferred alternative, the Legislature has appropriated funds from Proposition 84 to undertake demonstration projects and investigations called for in the Secretary’s recommendation. On September 25, 2010, then-Governor Schwarzenegger signed Senate Bill 51, establishing the “Salton Sea Restoration Council” as a state agency in the Natural Resources Agency to oversee restoration of the Salton Sea. The council was directed to evaluate alternative Salton Sea restoration plans and to report to the Governor and the Legislature by June 30, 2013 with a recommended plan. However, as of June 1, 2012, Governor Brown’s 2012-13 Budget Summary proposes elimination of the Salton Sea Restoration Council.

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The QSA implementing legislation also established the Salton Sea Restoration Fund, to be funded in part by payments made by the parties to the QSA and fees on certain water transfers among the parties to the QSA. Under the QSA agreements Metropolitan agreed to pay \$20 per acre-foot into the Salton Sea Restoration Fund for any special surplus Colorado River water that Metropolitan elects to take under the Interim Surplus Guidelines, if available. Metropolitan also agreed to acquire up to 1.6 million acre-feet of water conserved by IID, excluding water transferred from IID to SDCWA (see “—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*” below), if such water can be transferred consistent with plans for Salton Sea restoration, at an acquisition price of \$250 per acre-foot (in 2003 dollars), with net proceeds to be deposited into the Salton Sea Restoration Fund. No conserved water has been made available to Metropolitan under this program. Metropolitan elected not to take delivery of special surplus water at times when it was available from October 2003 to 2007. No special surplus water has been available since 2007. Metropolitan may receive credit for the special surplus water payments against future contributions for the Lower Colorado River Multi-Species Conservation Program (see “—*Environmental Considerations*” below). In consideration of these agreements, Metropolitan will not have or incur any liability for restoration of the Salton Sea. As part of an effort to mitigate the effects of the drought in the Colorado River Basin that began in 2000, Metropolitan elected not to take delivery of special surplus Colorado River water that was available from October 2003 through 2004 and from 2006 through 2007.

Sale of Water by the Imperial Irrigation District to San Diego County Water Authority. On April 29, 1998, SDCWA and IID executed an agreement (the “Transfer Agreement”) for SDCWA’s purchase from IID of Colorado River water delivered to IID. An amended Transfer Agreement, executed as one of the QSA agreements, set the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to deliver water directly from IID to SDCWA. Accordingly, Metropolitan and SDCWA entered into an exchange contract, pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA deemed conserved as a result of the lining of the All-American and Coachella Canals. See “*Quantification Settlement Agreement*” above. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. Metropolitan makes no payment to SDCWA for the water made available by SDCWA, but SDCWA makes a payment to Metropolitan for the exchange water. The price payable by SDCWA is calculated using the charges set by Metropolitan’s Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan’s facilities. See “METROPOLITAN REVENUES—Wheeling and Exchange Charges” in this Appendix A. In 2009, 140,188 acre-feet were delivered by SDCWA for exchange, consisting of 60,000 acre-feet of IID conservation plus 25,759 acre-feet and 54,429 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects, respectively. In 2010, 151,507 acre-feet were delivered by SDCWA for exchange, consisting of 70,000 acre-feet of IID conservation plus 81,507 acre-feet of conserved water from the combined Coachella Canal and All-American Canal lining projects. In 2011, 143,243 acre-feet were delivered by SDCWA for exchange, consisting of 63,278 acre-feet of IID conservation plus 79,965 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects. IID informed the Bureau of Reclamation that: in 2011, IID entered into following contracts for 80,000 acre-feet, to be conserved partly in 2011 and partly in 2012, to support the transfer of 80,000 acre-feet from IID to SDCWA in 2011; in 2011 IID conserved 63,278 acre-feet under the following contracts to support the IID-SDCWA transfer. The appropriate accounting for the 2011 IID-SDCWA transfer is under review by the Bureau of Reclamation and will be reflected in a future Colorado River Accounting and Water Use Report.

QSA Related Litigation. On November 5, 2003, IID filed a validation action in Imperial County Superior Court, seeking a judicial determination that thirteen agreements associated with the IID/SDCWA

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water transfer and the QSA are valid, legal and binding. Other lawsuits also were filed contemporaneously challenging the execution, approval and implementation of the QSA on various grounds. All of the QSA cases were coordinated in Sacramento Superior Court. Between early 2004 and late 2009, a number of pre-trial challenges and dispositive motions were filed by the parties and ruled on by the court, which reduced the number of active cases and narrowed the issues for trial, the first phase of which began on November 9, 2009 and concluded on December 2, 2009. One of the key issues in this first phase was the constitutionality of the QSA Joint Powers Agreement, pursuant to which IID, CVWD and SDCWA agreed to commit \$163 million toward certain mitigation and restoration costs associated with implementation of the QSA and related agreements, and the State agreed to be responsible for any costs exceeding this amount. A final judgment was issued on February 11, 2010, in which the trial court held that the State's commitment was unconditional in nature and, as such, violated the appropriation requirement and debt limitation under the California Constitution. The trial court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA Joint Powers Agreement. Lastly, the trial court ruled that all other claims raised by the parties, including CEQA claims related to the QSA Programmatic EIR and the IID Transfer Project EIR, are moot.

In March 2010, Metropolitan, IID, CVWD, SDCWA, the State and others filed notices of appeal challenging various aspects of the trial court's ruling. On December 7, 2011, the court of appeal issued its ruling reversing, in part, the trial court's ruling. In particular, the court of appeal held that while the State's commitment to fund mitigation costs in excess of \$163 million was unconditional, actual payment of such costs was subject to a valid appropriation by the Legislature, as required under the California Constitution. Moreover, the State's commitment did not create a present debt in excess of the State Constitution's \$300,000 debt limit. Thus, the QSA Joint Powers Agreement was held to be constitutional. The court of appeal also rejected other challenges to this agreement, including that it was beyond the State's authority, there was no "meeting of the minds," and there was a conflict of interest. Finally, in light of its ruling, the court of appeal remanded the matter back to the trial court for further proceedings on the claims that had been dismissed as moot. The impact, if any, that this litigation might have on Metropolitan's water supplies cannot be adequately determined at this time.

On January 28, 2010, Metropolitan was served with a federal complaint filed by the County of Imperial and the Imperial County Air Pollution Control District alleging that execution and implementation of three QSA-related agreements violate NEPA and the federal Clean Air Act. The complaint named the Department of the Interior, Secretary of the Interior, Bureau of Reclamation and Commissioner of Reclamation as defendants, and Metropolitan, CVWD, IID and SDCWA as real parties in interest. With respect to NEPA, the complaint alleged that the environmental impact statement prepared by the Bureau of Reclamation; failed to adequately analyze potential impacts on the Salton Sea and on land use, growth and socioeconomics; improperly segmented various project components; failed to address cumulative impacts; and failed to address mitigation of potential impacts. With respect to the Clean Air Act, the complaint alleged that the Bureau of Reclamation failed to conduct a conformity analysis as required under the Act and Imperial County Air Pollution Control District's own rules. On April 6, 2012, the court ruled against the plaintiffs and in favor of the defendants on all claims. The court held that the plaintiffs lacked standing to pursue NEPA and Clean Air Act claims and that the NEPA claims lacked merit. On May 4, 2012, the plaintiffs filed a notice of appeal. On May 22, the non-federal defendants filed a notice of cross-appeal. Briefing on all appeals is expected to be completed by the end of 2012.

The Navajo Nation has filed litigation against the Department of the Interior, specifically the Bureau of Reclamation and the Bureau of Indian Affairs, alleging that the Bureau of Reclamation has failed to determine the extent and quantity of the water rights of the Navajo Nation in the Colorado River and that the Bureau of Indian Affairs has failed to otherwise protect the interests of the Navajo Nation. The complaint challenges the adequacy of the environmental review for the Interim Surplus Guidelines (as defined under "*Interim Surplus Guidelines*" below) and seeks to prohibit the Department of the Interior from allocating any

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“surplus” water until such time as a determination of the rights of the Navajo Nation is completed. Metropolitan has filed a motion to intervene in this action. In October 2004 the court granted the motions to intervene and stayed the litigation to allow negotiations among the Navajo Nation, federal defendants, CAWCD, State of Arizona and Arizona Department of Water Resources. The Navajo Nation approved the terms of a proposed settlement in 2010. Under its terms the Navajo would have specified rights to water from the Colorado River, the Little Colorado River and groundwater basins under the reservation. All Colorado River water would come from Arizona’s apportionment. There would be no financial or water resource impact on Metropolitan. The proposed agreement requires approval of all the affected bodies and federal implementing legislation. The litigation stay has been extended until February 15, 2013, to permit the parties to finalize the settlement. If the settlement is not finalized, the impact on Metropolitan, if any, cannot be adequately determined at this time.

Interim Surplus Guidelines. In January 2001, the Secretary of the Interior adopted guidelines (the “Interim Surplus Guidelines”) for use through 2016 in determining if there is surplus Colorado River water available for use in California, Arizona and Nevada. The purpose of the Interim Surplus Guidelines is to provide a greater degree of predictability with respect to the availability and quantity of surplus water through 2016. The Interim Surplus Guidelines were amended in 2007, with the new Guidelines extending through 2026 (see “—*Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead*” below). The Interim Surplus Guidelines contain a series of benchmarks for reductions in agricultural use of Colorado River water within California by set dates.

Under the Interim Surplus Guidelines, Metropolitan initially expected to divert up to 1.25 million acre-feet of Colorado River water annually under foreseeable runoff and reservoir storage scenarios from 2004 through 2016. However, an extended drought in the Colorado River Basin reduced these initial expectations. From 2000 to 2004, snow pack and runoff in the Colorado River Basin were well below average. Although runoff was slightly above average in 2005 and 2008, average annual runoff from 2000 through 2010 was 69 percent of normal, representing the driest eleven-year period on record. In November 2010, Lake Mead’s elevation had dropped below 1,081 feet above sea level, the lowest elevation since 1937. Precipitation over the Colorado River Basin from October 2010 through April 2011 was significantly above normal. Upper Colorado River Basin snowpack measured on May 1, 2011 was 150 percent of normal with accumulations at the highest level on record and the April-July runoff measuring 163 percent of normal. The above-normal precipitation triggered more than 4 million acre-feet of additional releases from Lake Powell to Lake Mead, the most since 1997. Lake Mead’s elevation reached 1,133 feet in December 2011, approximately 51 feet higher than observed in November 2010. Each ten-foot increase in Lake Mead’s elevation represents approximately 1 million acre-feet of increased storage. Metropolitan’s 2011 Colorado River supply was 884,694 acre-feet. Metropolitan diverted over 698,990 acre-feet from the Colorado River during calendar year 2011, and left approximately 185,704 acre-feet for storage in Lake Mead as intentionally-created surplus water. In addition, another 7,647 acre-feet of water was stored by the Bureau of Reclamation as a result of the Yuma Desalting Plant pilot run.

SNWA and Metropolitan entered into an Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines on May 16, 2002, in which SNWA and Metropolitan agreed to the allocation of unused apportionment as provided in the Interim Surplus Guidelines and on the priority of SNWA for interstate banking of water in Arizona. SNWA and Metropolitan entered into a storage and interstate release agreement on October 21, 2004. Under this program, Nevada can request that Metropolitan store unused Nevada apportionment in California. The amount of water stored through 2011 under this agreement was 70,000 acre-feet. In subsequent years, Nevada may request recovery of this stored water. As part of a recently executed amendment, it is expected that Nevada will not request return of this water before 2022. The stored water provides flexibility to Metropolitan for blending Colorado River water with State Water Project water and improves near-term water supply reliability.

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Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead. In November 2007, the Bureau of Reclamation issued a Final Environmental Impact Statement (“EIS”) regarding new federal guidelines concerning the operation of the Colorado River system reservoirs. These new guidelines provide water release criteria from Lake Powell and water storage and water release criteria from Lake Mead during shortage and surplus conditions in the Lower Basin, provide a mechanism for the storage and delivery of conserved system and non-system water in Lake Mead and extend the Interim Surplus Guidelines through 2026. The Secretary of the Interior issued the final guidelines through a Record of Decision signed in December 2007. The Record of Decision and accompanying agreement among the Colorado River Basin States protect reservoir levels by reducing deliveries during drought periods, encourage agencies to develop conservation programs and allow the states to develop and store new water supplies. The Colorado River Basin Project Act of 1968 insulates California from shortages in all but the most extreme hydrologic conditions.

Intentionally-Created Surplus Program. Metropolitan and the Bureau of Reclamation executed an agreement on May 26, 2006 for a demonstration program that allowed Metropolitan to leave conserved water in Lake Mead that Metropolitan would otherwise have used in 2006 and 2007. Only “intentionally-created surplus” water (water that has been conserved through an extraordinary conservation measure, such as land fallowing) was eligible for storage in Lake Mead under this program. See the table “Metropolitan’s Water Storage Capacity and Water in Storage” under the heading “—Storage Capacity and Water in Storage” below. Metropolitan may store additional intentionally-created surplus water in Lake Mead under the federal guidelines for operation of the Colorado River system reservoirs described above under the heading “*Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead.*” The Secretary of the Interior will deliver intentionally-created surplus water to Metropolitan in accordance with the terms of a December 13, 2007 Delivery Agreement between the United States and Metropolitan. As of January 2012, Metropolitan had approximately 434,840 acre-feet in its intentionally-created surplus accounts, made up of water conserved by fallowing in the Palo Verde Valley and from the yield allocated to Metropolitan from the Drop 2 Reservoir Project and the Yuma Desalting Plant pilot run. Metropolitan stored 193,351 acre-feet of intentionally-created surplus water in 2011, including 7,647 acre-feet as a result of the Yuma Desalting Plant pilot run.

Environmental Considerations. Federal and state environmental laws protecting fish species and other wildlife species have the potential to affect Colorado River operations. A number of species that are on either “endangered” or “threatened” lists under the ESAs are present in the area of the Lower Colorado River, including among others, the bonytail chub, razorback sucker, southwestern willow flycatcher and Yuma clapper rail. To address this issue, a broad-based state/federal/tribal/private regional partnership that includes water, hydroelectric power and wildlife management agencies in Arizona, California and Nevada have developed a multi-species conservation program for the main stem of the Lower Colorado River (the Lower Colorado River Multi-Species Conservation Program or “MSCP”). The MSCP allows Metropolitan to obtain federal and state permits for any incidental take of protected species resulting from current and future water and power operations of its Colorado River facilities and to minimize any uncertainty from additional listings of endangered species. The MSCP also covers operations of federal dams and power plants on the river that deliver water and hydroelectric power for use by Metropolitan and other agencies. The MSCP covers 27 species and habitat in the Lower Colorado River from Lake Mead to the Mexican border for a term of 50 years. The total cost of the MSCP to Metropolitan will be about \$88 million (in 2003 dollars), and will range between \$0.8 million and \$4.6 million annually.

The non-profit conservation organization Grand Canyon Trust filed litigation in December 2007 against the Bureau of Reclamation in the United States District Court for the District of Arizona, alleging that the Bureau of Reclamation’s planning for, and operation of, the Glen Canyon Dam (which impounds Lake Powell) does not comply with requirements of NEPA and the Federal ESA. Grand Canyon Trust later named the USFWS as a defendant. Metropolitan, IID and CAWCD have intervened in this case. On May 27, 2009,

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the court ordered the Bureau of Reclamation to reconsider how the dam flows may harm the endangered fish and develop a new operating plan. Grand Canyon Trust filed its third supplemental complaint challenging the Bureau of Reclamation's latest schedule of releases from Lake Powell on September 23, 2010. On March 29, 2011, the court issued a final ruling upholding the Bureau of Reclamations' prior decisions for Glen Canyon Dam operations.

Quagga Mussel Control Program. In January 2007 quagga mussels were discovered for the first time in Lake Mead. Quagga mussels can reproduce quickly and, if left unmanaged, can clog intakes and raw water conveyance systems, alter or destroy fish habitats and affect lakes and beaches. Quagga mussels were introduced in the Great Lakes in the late 1980s. These organisms infest much of the Great Lakes basin, the St. Lawrence Seaway, and much of the Mississippi River drainage system. The most likely source of the quagga mussel infestation is recreational boats from water bodies around the Great Lakes, which were transported over 1,000 miles west to Lake Mead. In response to the Lake Mead finding, the California Department of Fish and Game created a multi-agency task force with Metropolitan as one of its members. The initial survey of the Colorado River to ascertain the extent of the quagga mussel colonization detected low densities in Lake Mead, Lake Mohave and Lake Havasu and in the intake of the Central Arizona Project. Quagga mussels were also detected at the Colorado River Aqueduct intake pumping plant, Gene Wash and Copper Basin reservoirs, in portions of the Colorado River Aqueduct and in Lake Skinner. A three-week shutdown of the Colorado River Aqueduct for rehabilitation and repairs in March 2007 also permitted inspection for quagga mussels. Desiccation of mussels from emptying the aqueduct during the shutdown, followed by a week of chlorination to kill or limit spread of any remaining mussels after the aqueduct was placed back in service, helped control mussels found there. Shutdowns of the Colorado River Aqueduct in July 2007, October 2007 and March 2008 permitted additional quagga mussel inspection and facilitated control measures.

Metropolitan is working to enhance its ability to detect the mussels, studying mussel transport and settling in Metropolitan conveyance systems, assessing additional, more cost-effective methods to control mussels and developing and implementing control strategies for mussels in Metropolitan's lakes and reservoirs. The California Department of Fish and Game has approved Metropolitan's recreational facilities and boating plan for Diamond Valley Lake and Lake Skinner, which requires inspection of boats and quarantine of those that are potential carriers of mussels, and Metropolitan's water releases management plan, which should minimize the potential for mussels to be introduced into new water bodies while allowing for water releases associated with dewatering of aqueducts and pipelines for maintenance, repair, or upgrades. In addition, the California Department of Fish and Game provided Metropolitan with a permit approving laboratory research on quagga mussels to advance the understanding of mussel biology in California and benefit future efforts to manage the invasive species. Future quagga mussel control efforts are expected to include infrastructure upgrades and recommendations on boating practices or additional facilities to control the spread of mussels in the Colorado River Aqueduct system and additional long-term measures. In September 2007, the Board appropriated \$5.91 million for design and construction of interim chlorination facilities at Copper Basin and Lake Mathews, design of permanent chlorination facilities at Copper Basin, Lake Mathews and Diamond Valley Lake and related quagga mussel control measures. In February 2008, the Board appropriated \$1.77 million for a new chlorine injection point at the Lake Skinner Outlet Conduit and for the procurement of liquid chlorine trailers and mobile chlorination units. In August 2008, the Board appropriated an additional \$1.87 million to complete the chlorination facilities at Copper Basin and Lake Mathews and in June 2009, the Board appropriated \$1.13 million for design and construction of a chlorination system to control quagga mussel growth at the Skinner oxidation retrofit facilities. Metropolitan estimates that its costs for controlling quagga mussels could exceed \$10 million per year.

Water Transfer, Storage and Exchange Programs

General. California's agricultural activities consume approximately 34 million acre-feet of water annually, which is approximately 80 percent of the total water used for agricultural and urban uses and 40

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percent of the water used for all consumptive uses, including environmental demands. Voluntary water transfers and exchanges can make a portion of this agricultural water supply available to support the State's urban areas. Such existing and potential water transfers and exchanges are an important element for improving the water supply reliability within Metropolitan's service area and accomplishing the reliability goal set by Metropolitan's Board. Metropolitan is currently pursuing voluntary water transfer and exchange programs with State, federal, public and private water districts and individuals. The following are summary descriptions of some of these programs.

Arvin-Edison/Metropolitan Water Management Program. In December 1997, Metropolitan entered into an agreement with the Arvin-Edison Water Storage District ("Arvin-Edison"), an irrigation agency located southeast of Bakersfield, California. Under the program, Arvin-Edison stores water on behalf of Metropolitan. In January 2008, Metropolitan and Arvin-Edison amended the agreement to enhance the program's capabilities and to increase the delivery of water to the California Aqueduct. Up to 350,000 acre-feet of Metropolitan's water may be stored and Arvin-Edison is obligated to return up to 75,000 acre-feet of stored water in any year to Metropolitan, upon request. The agreement will terminate in 2035 unless extended. To facilitate the program, new wells, spreading basins and a return conveyance facility connecting Arvin-Edison's existing facilities to the California Aqueduct have been constructed. The agreement also provides Metropolitan priority use of Arvin-Edison's facilities to convey high quality water available on the east side of the San Joaquin Valley to the California Aqueduct. Metropolitan's current storage account under the Arvin-Edison/Metropolitan Water Management Program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading, "—Storage Capacity and Water in Storage" below.

Semitropic/Metropolitan Groundwater Storage and Exchange Program. In 1994 Metropolitan entered into an agreement with the Semitropic Water Storage District ("Semitropic"), located adjacent to the California Aqueduct north of Bakersfield, to store water in the groundwater basin underlying land within Semitropic. The minimum annual yield available to Metropolitan from the program is 31,500 acre-feet of water and the maximum annual yield is 223,000 acre-feet of water depending on the available unused capacity and the State Water Project allocation. Metropolitan's current storage account under the Semitropic program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading, "—Storage Capacity and Water in Storage" below.

California Aqueduct Dry-Year Transfer Program. Metropolitan has entered into agreements with the Kern Delta Water District, the Mojave Water Agency (Demonstration Water Exchange Program) and the San Bernardino Valley Municipal Water District ("SBVMWD") to insure against regulatory and operational uncertainties in the State Water Project system that could impact the reliability of existing supplies. The total potential yield for the three agreements is approximately 80,000 acre-feet of water per year when sufficient water is available.

Metropolitan entered into an agreement with SBVMWD in April 2001 to coordinate the use of facilities and State Water Project water supplies. The agreement allows Metropolitan a minimum purchase of 20,000 acre-feet on an annual basis with the option to purchase additional water when available. Also, the program includes 50,000 acre-feet of carryover storage. In addition to water being supplied using the State Water Project, the previously stored water can be returned using an interconnection between the San Bernardino Central Feeder and Metropolitan's Inland Feeder. Metropolitan took delivery of approximately 30,000 acre-feet from SBVMWD under the agreement in calendar year 2007 with no deliveries in 2008 and 2009. In March 2009, SBVMWD agreed to return \$7.5 million paid by Metropolitan for 50,000 acre-feet of previously stored water that could not be delivered. This program terminates on December 31, 2014. Metropolitan entered into an agreement with Kern Delta Water District on May 27, 2003, for a groundwater banking and exchange transfer program to allow Metropolitan to store up to 250,000 acre-feet of State Water Contract water in wet years and permit Metropolitan, at Metropolitan's option, a return of up to 50,000 acre-

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feet of water annually during hydrologic and regulatory droughts. Additionally, Metropolitan entered into a groundwater banking and exchange transfer agreement with Mojave Water Agency on October 29, 2003. This agreement was amended in 2011 to allow for the cumulative storage of up to 390,000 acre-feet. The agreement allows for Metropolitan to store water in an exchange account for later return. Metropolitan's current storage account under these programs is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading, "—Storage Capacity and Water in Storage" below.

Other Water Purchase, Storage and Exchange Programs in the San Joaquin and Sacramento Valleys. Metropolitan has been negotiating, and will continue to pursue, water purchase, storage and exchange programs with other agencies in the Sacramento and San Joaquin Valleys. These programs involve the storage of both State Water Project supplies and water purchased from other sources to enhance Metropolitan's dry-year supplies and the exchange of normal year supplies to enhance Metropolitan's water reliability and water quality, in view of dry conditions and potential impacts from the ESA cases discussed above under the heading "—State Water Project—*Endangered Species Act Considerations.*" In addition, in the fall of 2008 DWR convened the State Drought Water Bank (the "Drought Water Bank") as a one-year program to help mitigate water shortages in 2009. During 2009, Metropolitan purchased 36,900 acre-feet of Central Valley Water supplies through the Drought Water Bank, resulting in approximately 29,000 acre-feet of water deliveries after accounting for carriage and conveyance losses. In calendar year 2010, Metropolitan participated with other State Water Contractors as a group to purchase 88,137 acre-feet of water, resulting in approximately 68,000 acre-feet of deliveries to Metropolitan after carriage and conveyance losses. Additionally during 2010, Metropolitan entered into two transactions with the Westlands Water District and the San Luis Water District, neither of which is subject to carriage losses. Under the first transaction, Metropolitan purchased 18,453 acre-feet of water. In the second, Metropolitan accepted delivery of 110,692 acre-feet of water stored in the San Luis Reservoir and returned two-thirds of that amount from Metropolitan's State Water Project supply in 2011 for a net yield of approximately 37,000 acre-feet.

Metropolitan entered into an agreement with DWR in December 2007 to purchase a portion of the water released by the Yuba County Water Agency ("YCWA"). YCWA was involved in a SWRCB proceeding in which it was required to increase Yuba River fishery flows. Within the framework of agreements known as the Yuba River Accord, DWR and the Bureau of Reclamation entered into agreements for the long-term purchase of water from YCWA. Metropolitan and other State Water Project contractors entered into separate agreements with DWR for purchase of portions of the water made available. Metropolitan's agreement allows Metropolitan to purchase at least 13,750 acre-feet to 35,000 acre-feet per year of water supplies in dry years through 2025. The agreement permits YCWA to transfer additional supplies at its discretion. For calendar years 2008, 2009 and 2010, Metropolitan purchased 26,430 acre-feet, 42,915 acre-feet and 67,068 acre-feet of water, respectively, from YCWA under this program. YCWA did not offer transfer supplies in calendar year 2011.

Metropolitan/CVWD/Desert Water Agency Exchange and Advance Delivery Agreement. Metropolitan has agreements with the CVWD and the Desert Water Agency ("Desert") that require Metropolitan to exchange its Colorado River water for those agencies' State Water Project entitlement water on an annual basis. Because Desert and CVWD do not have a physical connection to the State Water Project, Metropolitan takes delivery of Desert's and CVWD's State Water Project supplies and delivers a like amount of Colorado River water to the agencies. In accordance with an advance delivery agreement executed by Metropolitan, CVWD and Desert, Metropolitan has delivered Colorado River water in advance to these agencies for storage in the Upper Coachella Valley groundwater basin. In years when it is necessary to augment available supplies to meet local demands, Metropolitan has the option to meet the exchange delivery obligation through drawdowns of the advance delivery account, rather than deliver its Colorado River supply. Metropolitan's current storage account under the CVWD/Desert program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading, "—Storage Capacity and Water in Storage" below. In addition to the CVWD/Desert exchange agreements, Metropolitan has entered

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into separate agreements with CVWD and Desert for delivery of non-State Water Project supplies acquired by CVWD or Desert. Similarly, Metropolitan takes delivery of these supplies from State Water Project facilities and incurs an exchange obligation to CVWD or Desert. Since 2008, Metropolitan has received a net additional supply of 28,058 acre-feet of water acquired by CVWD and Desert.

Other Agreements. Metropolitan is entitled to storage and access to stored water in connection with various storage programs and facilities. See “METROPOLITAN’S WATER SUPPLY—Colorado River Aqueduct” and “REGIONAL WATER RESOURCES—Local Water Supplies—*Conjunctive Use*” in this Appendix A, as well as the table “Metropolitan’s Water Storage Capacity and Water in Storage” under the heading, “—Storage Capacity and Water in Storage” below.

Storage Capacity and Water in Storage

Metropolitan’s storage capacity, which includes reservoirs, conjunctive use and other groundwater storage programs within Metropolitan’s service area and groundwater and surface storage accounts delivered through the State Water Project or Colorado River Aqueduct, is approximately 5.54 million acre-feet. In 2011, approximately 626,000 acre-feet of stored water was emergency storage that was reserved for use in the event of supply interruptions from earthquakes or similar emergencies (see “METROPOLITAN’S WATER DELIVERY SYSTEM—Seismic Considerations” in this Appendix A), as well as extended drought. Metropolitan’s emergency storage requirement is established periodically to provide a six-month water supply at 75 percent of member agencies retail demand under normal hydrologic conditions. Metropolitan’s ability to replenish water storage, both in the local groundwater basins and in surface storage and banking programs, has been limited by Bay-Delta pumping restrictions under the Interim Remedial Order in *NRDC v. Kempthorne* and the biological opinions issued for listed species. See “—State Water Project—*Endangered Species Act Considerations*” above. Metropolitan replenishes its storage accounts when imported supplies exceed demands. Effective storage management is dependent on having sufficient years of excess supplies to store water so that it can be used during times of shortage. Historically, excess supplies have been available in about seven of every ten years. Metropolitan forecasts that, with anticipated supply reductions from the State Water Project due to pumping restrictions, it will need to draw down on storage in about seven of ten years and will be able to replenish storage in about three years out of ten. This reduction in available supplies extends the time required for storage to recover from drawdowns and could require Metropolitan to implement its Water Supply Allocation Plan during extended dry periods.

As a result of increased State Water Project supplies and reduced demands in 2010 and 2011, Metropolitan has rebuilt its storage after several years of withdrawals. From 2007 to 2009 Metropolitan drew down approximately one million acre-feet of its stored water to meet regional demands. During calendar year 2011, Metropolitan increased storage of State Water Project supplies in Central Valley groundwater storage programs by about 297,000 acre-feet. In addition, storage in Diamond Valley Lake on January 1, 2012 was approximately 786,000 acre-feet, an increase of about 148,000 acre-feet from Diamond Valley Lake’s level on January 1, 2011. Metropolitan increased aggregate storage by approximately 698,000 acre-feet in 2011. This brought total storage at the end of 2011 to approximately 3.03 million acre-feet, including emergency storage, which was the highest end-of-year total reserves in Metropolitan’s history. At its previous highest level in July 2006, Metropolitan’s storage was 2.74 million acre-feet, including emergency storage. The following table shows Metropolitan’s storage, including emergency storage, as of January 1, 2012.

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METROPOLITAN'S WATER STORAGE CAPACITY AND WATER IN STORAGE⁽¹⁾
(in Acre-Feet)

<u>Water Storage Resource</u>	<u>Storage Capacity</u>	<u>Water in Storage January 1, 2012</u>	<u>Water in Storage January 1, 2011</u>	<u>Water in Storage January 1, 2010</u>
<u>Colorado River Aqueduct</u>				
Desert / CVWD Advance				
Delivery Account	800,000	209,000	178,000	45,000
Lake Mead ICS	1,500,000	435,000	256,000	146,000
CAWCD	n/a ⁽²⁾	-0-	-0-	8,000
Subtotal	2,300,000	644,000	434,000	199,000
<u>State Water Project</u>				
Arvin-Edison Storage Program				
	350,000	166,000	109,000	95,000
Semitropic Storage Program				
	350,000	245,000	111,000	44,000
Kern Delta Storage Program				
	250,000	135,000	82,000	10,000
San Bernardino Valley MWD				
Coordinated Operating Agreement				
	50,000	-0-	-0-	-0-
Mojave Storage Program				
	390,000 ⁽⁵⁾	45,000	-0-	3,000
Castaic Lake and Lake Perris ⁽³⁾				
	219,000	219,000	219,000	175,000
Metropolitan Article 56 Carryover ⁽⁴⁾				
	200,000 ⁽⁶⁾	200,000	-0-	68,000
Other State Water Project Carryover				
	n/a ⁽⁷⁾	42,000	162,000	64,000
Emergency Storage				
	334,000 ⁽⁸⁾	334,000	334,000	334,000
Subtotal	2,143,000	1,386,000	1,017,000	793,000
<u>Within Metropolitan's Service Area⁽⁹⁾</u>				
Diamond Valley Lake				
	810,000	786,000	638,000	384,000
Lake Mathews				
	182,000	142,000	139,000	125,000
Lake Skinner				
	44,000	37,000	40,000	36,000
Subtotal	1,036,000	965,000	817,000	545,000
<u>Member Agency Storage Programs</u>				
Cyclic Storage, Conjunctive Use, and Supplemental Storage				
	452,000	31,000	60,000	80,000
Total	5,931,000	3,026,000	2,328,000	1,617,000

Source: Metropolitan.

(1) Water storage capacity and water in storage are based on accounting estimates and are subject to change.

(2) Metropolitan has recovered the remaining balance and the storage agreement with Central Arizona Water Conservation District has been closed.

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- (3) Flexible storage allocated to Metropolitan under its State Water Contract. (*Footnotes continued on next page*)
- (4) Article 56 Carryover storage capacity is dependent on the annual State Water Project allocation, which varies from year to year. Article 56 water is unused water that is allocated to a state water contractor in a given year pursuant to the State Water Contract. Metropolitan's carryover water is stored in the San Luis Reservoir.
- (5) Following a period during which Metropolitan was not permitted to increase storage, the Mojave Storage Program agreement was amended in 2011 to allow for cumulative storage of up to 390,000 acre-feet.
- (6) Metropolitan's State Water Project carryover capacity ranges from 100,000 to 200,000 acre-feet, on a sliding scale that depends on the final State Water Project allocation. At allocations of 50 percent or less, Metropolitan may store 100,000 acre-feet, and at allocations of 75 percent or greater, Metropolitan may store up to 200,000 acre-feet. For the purposes of this table, the highest possible carryover capacity is displayed.
- (7) At Metropolitan's request Desert Water Agency and the Coachella Valley Water District exercise their State Water Contract carryover rights. In 2009, Metropolitan, Desert and Coachella carried water over and Metropolitan stored non-State Water Project water in the San Luis Reservoir under terms of its State Water Contract. It is listed as "n/a" due to the unpredictable nature of the actual storage capacity available.
- (8) In 2010, the portion of State Water Project reservoir storage classified as emergency storage was reduced from 351,000 acre-feet to 334,000 acre-feet.
- (9) Includes emergency storage in Metropolitan's reservoirs: 319,000 acre-feet in 2009 and 292,000 acre-feet in 2010 and 2011, respectively.

Water Conservation

The central objective of Metropolitan's water conservation program is to help ensure adequate, reliable and affordable water supplies for Southern California by actively promoting efficient water use. The importance of conservation to the region has increased in recent years because of drought conditions in the State Water Project watershed and court-ordered restrictions on Bay-Delta pumping, as described under "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A. Water conservation is an integral component of Metropolitan's IRP Strategy, Water Surplus and Drought Management Plan and Water Supply Allocation Plan, each described in this Appendix A under "METROPOLITAN'S WATER SUPPLY."

Metropolitan's conservation program has largely been developed to assist its member agencies in meeting the "best management practices" ("BMP") of the California Urban Water Conservation Council's Memorandum of Understanding Regarding Urban Water Conservation in California ("CUWCC MOU") and to meet the conservation goals of the 2010 IRP Update. See "—Integrated Water Resources Plan" above. Under the terms of the CUWCC MOU and Metropolitan's Conservation Credits Program, Metropolitan assists and co-funds member agency conservation programs designed to achieve greater water use efficiency in residential, commercial, industrial, institutional and landscape uses. Metropolitan uses its Water Stewardship Rate, which is charged for every acre-foot of water conveyed by Metropolitan, together with available grant funds, to fund conservation incentives and other water management programs. All users of Metropolitan's system benefit from the system capacity made available by investments in demand management programs like the Conservation Credits Program. See "METROPOLITAN REVENUES—Rate Structure—*Water Stewardship Rate*" in this Appendix A. Direct spending by Metropolitan on active conservation incentives, including rebates for water-saving plumbing fixtures, appliances and equipment, from fiscal year 1989-90 through fiscal year 2010-11 was \$309 million. The 2010 Integrated Water Resources Plan Update estimates that 1,037,000 acre-feet of water will be conserved annually in southern California by 2025. See "METROPOLITAN'S WATER SUPPLY—Integrated Water Resources Plan."

The Water Surplus and Drought Management Plan ("WSDM Plan"), which was adopted by Metropolitan's Board in April 1999, evolved from Metropolitan's experiences during the droughts of 1976-77 and 1987-92. The WSDM Plan splits resource actions into two major categories: Surplus Actions and Shortage Actions. The Surplus Actions store surplus water, first inside then outside the region. The Shortage Actions of the WSDM Plan are split into three sub-categories: Shortage, Severe Shortage, and Extreme Shortage. Each category has associated actions that could be taken as a part of the response to prevailing shortage conditions. Conservation and water efficiency programs are part of Metropolitan's resource management strategy through all categories.

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Metropolitan's plan for allocation of water supplies in the event of shortage (the "Water Supply Allocation Plan"; see "—Water Supply Allocation Plan" below) allocates Metropolitan's water supplies among its member agencies, based on the principles contained in the WSDM Plan, to reduce water use and drawdowns from water storage reserves. Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also have the ability to implement water conservation and allocation programs, and some of the retail suppliers in Metropolitan's service area have initiated conservation measures. The success of conservation measures in conjunction with the Water Supply Allocation Plan is evidenced as a contributing factor in the lower than budgeted water sales during fiscal years 2009-10 and 2010-11.

Legislation approved in November 2009 sets a statewide conservation target for urban per capita water use of 20 percent reductions by 2020 (with credits for existing conservation) at the retail level, providing an additional catalyst for conservation by member agencies and retail suppliers. (See "—State Water Project—*Bay-Delta Regulatory and Planning Activities*" above.) Metropolitan's water sales projections incorporate an accounting of conservation savings that will reduce retail demands. Current projections include an estimate of additional water use efficiency savings that would result from local agencies reducing their per capita water use in response to the 20 percent by 2020 conservation savings goals required by recent legislation as well as an estimate of additional conservation that would have to occur to reach Metropolitan's IRP goal of reducing overall regional per capita water use by 20 percent by 2020.

Water Supply Allocation Plan

The Water Supply Allocation Plan provides a formula for equitable distribution of available water supplies in case of extreme water shortages within Metropolitan's service area. Delivery within a member agency of more than its allocated amount of Metropolitan supplies will subject the member agency to a penalty of one to four times Metropolitan's full service rate for untreated Tier 2 water, depending on how much the member agency's water use for the twelve-month period beginning on July 1 exceeds its allocated amount. See "METROPOLITAN REVENUES—Water Rates by Water Category" in this Appendix A. Any penalties collected may be rebated to the member agency that paid them to fund water management projects.

The Water Supply Allocation Plan was approved by the Board in February 2008. On April 14, 2009, Metropolitan's Board adopted a resolution declaring a regional water shortage and implementing the Water Supply Allocation Plan, effective July 1, 2009. The Board set the "Regional Shortage Level" at Water Supply Allocation Plan Level 2, which required reduction of regional water use by approximately ten percent and resulted in a total allocation of about 2.09 million acre-feet of Metropolitan water in fiscal year 2009-10. On April 13, 2010, the Board adopted a resolution recognizing the continuing regional water shortage and again setting the Regional Shortage Level at Water Supply Allocation Plan Level 2, which sustained the regional water use reduction of approximately 10 percent. Due to improved hydrologic and storage conditions, on April 12, 2011, the Board terminated implementation of the 2010-11 Water Supply Allocation Plan, restoring imported water deliveries to member agencies without risk of allocation penalties. Although the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan (see "METROPOLITAN REVENUES—Preferential Rights"), historically, these rights have not been used in allocating Metropolitan's water.

Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also may implement water conservation and allocation programs within their respective service territories in times of shortage.

REGIONAL WATER RESOURCES

The water supply for Metropolitan's service area is provided in part by Metropolitan and in part by non-Metropolitan sources available to members. Approximately 60 percent of the water supply for Metropolitan's service area is imported water received by Metropolitan from its Colorado River Aqueduct

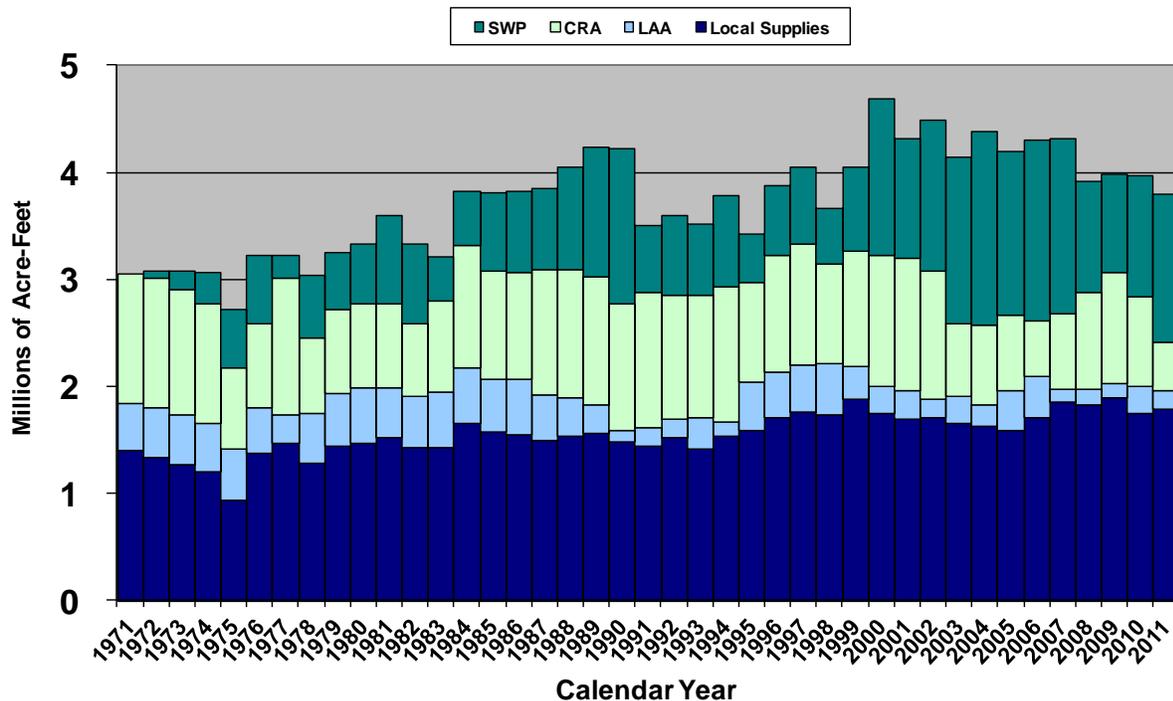
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and the State Water Project and by the City of Los Angeles (the “City”) from the Los Angeles Aqueduct. While the City is one of the largest water customers of Metropolitan, it receives a substantial portion of its water from the Los Angeles Aqueduct and local groundwater supply. The balance of water within the region is produced locally, primarily from groundwater supplies and runoff.

Metropolitan’s member agencies are not required to purchase or use any of the water available from Metropolitan. Some agencies depend on Metropolitan to supply 100 percent of their water needs, regardless of the weather. Other agencies, with local surface reservoirs or aqueducts that capture rain or snowfall, rely on Metropolitan more in dry years than in years with heavy rainfall, while others, with ample groundwater supplies, purchase Metropolitan water only to supplement local supplies or to recharge groundwater basins. The demand for supplemental supplies provided by Metropolitan is dependent on water use at the retail consumer level and the amount of locally supplied water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. In recent years, supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described above under “METROPOLITAN’S WATER SUPPLY.” For information on Metropolitan's water sales revenues, see “METROPOLITAN REVENUES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in this Appendix A.

The following graph shows a summary of the regional sources of water supply for the years 1971 to 2011. Local supplies available within Metropolitan’s service area are augmented by water imported by the City through the Los Angeles Aqueduct (“LAA”) and Metropolitan supplies provided through the Colorado River Aqueduct (“CRA”) and the State Water Project (“SWP”).

Sources of Water Supply in the Metropolitan Service Area (1971-2011)



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Source: Metropolitan.

The major sources of water for Metropolitan's member agencies in addition to supplies provided by Metropolitan are described below.

Los Angeles Aqueduct

The City, through its Department of Water and Power, operates its Los Angeles Aqueduct system to import water from the Owens Valley and the Mono Basin on the eastern slopes of the Sierra Nevada in eastern California. Prior to the 1990-1991 drought, the City had imported an average of 460,000 acre-feet of water annually from the combined Owens Valley/Mono Basin system, of which about 90,000 acre-feet came from the Mono Basin. Under the Mono Lake Basin Water Right Decision (Decision 1631) issued in September 1994, which revised the Department of Water and Power's water rights licenses in the Mono Basin, the City is limited to export 16,000 acre-feet annually from the Mono Basin until it reaches its target elevation of 6,391 feet above mean sea level.

Pursuant to the City's turnout agreement with DWR, Antelope Valley-East Kern Water Agency ("AVEK") and Metropolitan, the Department of Water and Power commenced construction in 2010 of the turnout facilities along the California Aqueduct within AVEK's service area. Upon completion, expected in approximately September 2014, the turnout will enable delivery of water from the California Aqueduct to the Los Angeles Aqueduct. Conditions precedent to such delivery of water include obtaining agreements for the transfer of non-State Water Project water directly from farmers, water districts or others in Northern and Central California, available capacity in the California Aqueduct and compliance with State Water Project water quality requirements. The agreement limits use of the turnout to delivery of non-State Water Project water annually to the City in amounts not to exceed the supplies lost to the City as a result of its Eastern Sierra environmental obligations, including water for the Lower Owens River Project and the Owens Lake Dust Mitigation Project which could use up to 95,000 acre-feet of Los Angeles Aqueduct water. Historically, the Los Angeles Aqueduct and local groundwater supplies have been nearly sufficient to meet the City's water requirements during normal water supply years. As a result, prior to the 1990-1991 drought only about 13 percent of the City's water needs (approximately 85,000 acre-feet) were supplied by Metropolitan. From fiscal year 2000-01 to fiscal year 2010-11, approximately 32 to 71 percent of the City's total water requirements were met by Metropolitan. For the five fiscal years ended June 30, 2011, the City's water deliveries from Metropolitan averaged approximately 318,400 acre-feet per year, which constituted approximately 52 percent of the City's total water supply. Deliveries from Metropolitan to the City during this period varied between approximately 171,000 acre-feet per year and approximately 439,000 acre-feet per year. See "METROPOLITAN REVENUES—Principal Customers" in this Appendix A. According to the Los Angeles Department of Water and Power's Year 2010 Urban Water Management Plan, the City is planning to increase locally-developed supplies including recycled water, new conservation, stormwater recapture and groundwater cleanup from the average for the five-year period ending June 30, 2010 of 12 percent to 43 percent of its normal year supplies by fiscal year 2034-35. Accordingly, the City's reliance on Metropolitan supplies will decrease from the five year average ending June 30, 2011 of 52 percent to 24 percent of its normal year supplies by fiscal year 2034-35. However, the City may still purchase up to 511,000 acre-feet per year or 82 percent of its dry year supplies from Metropolitan over the next 25 years. This corresponds to an increase from normal to dry years of approximately 255,000 acre-feet in potential demand for supplies from Metropolitan. The level of water sales estimated in Metropolitan's projections for fiscal year 2011-12 water revenues and expenditures and adopted biennial budget and revenue requirements for fiscal years 2012-13 and 2013-14 reflect local supplies from the Los Angeles Aqueduct system and other systems at higher than normal levels based on hydrologic conditions that occurred in 2010 and 2011.

The City's Department of Water and Power has indicated that it is currently analyzing additional impacts to the Los Angeles Aqueduct's water supply deliveries of various environmental projects aimed at

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improving air quality and fish and riparian habitat in the Owens Valley. The City's future reliance on Metropolitan supplies will be dependent on these projects and the amount of water, if any, that may be derived from sources other than Metropolitan.

Local Water Supplies

Local water resources include groundwater production, recycled water production and diversion of surface flows. While local water resources are non-Metropolitan sources of water supply, Metropolitan has executed agreements for storage of Metropolitan supplies in local groundwater basins and provided incentives for local supply development as described below. Member agencies and other local agencies have also independently funded and developed additional local supplies, including groundwater storage and clean-up, recycled water and desalination of brackish or high salt content water.

Metropolitan's water sales projections are based in part on projections of locally-supplied water. Projections of future local supplies are based on estimated yields from sources and projects that are currently producing water or are under construction at the time a water sales projection is made. Additional reductions in Metropolitan's water sales projections are made to account for future local supply augmentation projects, based on the 2010 IRP Update goals. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES—Water Sales Projections" and "METROPOLITAN'S WATER SUPPLY—Integrated Water Resources Plan."

Groundwater. Demands for about 1.5 million acre-feet per year, about one-third of the annual water demands for almost 19 million residents of Metropolitan's service area, are met from groundwater production. Local groundwater supplies are supported by recycled water, which is blended with imported water and recharged into groundwater basins, and also used for creating seawater barriers that protect coastal aquifers from seawater intrusion.

Groundwater Storage Programs. Metropolitan has executed agreements with a number of agencies to develop groundwater storage projects in its service area. These projects are designed to help meet the water delivery reliability goals of storing surplus imported supplies when available so that local agencies can withdraw stored groundwater during droughts or other periods of water supply shortage. In 2000, Metropolitan was allocated \$45 million in State Proposition 13 bond proceeds to develop groundwater storage projects in Metropolitan's service area. The nine projects in this program, under agreements with Long Beach, Chino Basin, Orange County Basin, Three Valleys Municipal Water District/City of La Verne, Foothill Municipal Water District, Compton and Western Municipal Water District/Elsinore Valley Municipal Water District, provide over 210,000 acre-feet of groundwater storage. The groundwater storage program with Calleguas Municipal Water District ("Calleguas") in the North Las Posas Groundwater Basin in Ventura County, with a storage capacity of 210,000 acre-feet, was transferred to Calleguas in June 2011 under a termination agreement pursuant to which Calleguas purchased Metropolitan's stored water, approximately 34,500 acre-feet, and reimbursed Metropolitan's \$28.2 million capital investment. The remaining nine programs have a combined extraction capacity of over 68,000 acre-feet per year. During fiscal year 2008-09, over 75,000 acre-feet of stored water was produced and sold from these storage accounts. Fiscal year 2009-10 sales from the ten accounts totaled nearly 59,000 acre-feet, leaving a balance of approximately 57,000 acre-feet in the storage accounts. As of May 1, 2012, the balance in the remaining nine accounts was approximately 36,000 acre-feet. See table "Metropolitan's Water Storage Capacity and Water in Storage" under "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A.

Recovered Groundwater. Contamination of groundwater supplies is a growing threat to local groundwater production. Metropolitan has been supporting increased groundwater production and improved regional supply reliability by offering financial incentives to agencies for production and treatment of degraded groundwater since 1991. Metropolitan has executed agreements with local agencies to provide

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financial incentives to 23 projects that recover contaminated groundwater with total contract yields of about 113,000 acre-feet per year. During fiscal year 2010-11 Metropolitan provided incentives for approximately 43,000 acre-feet of recovered water under these agreements. Total groundwater recovery use under executed agreements is expected to grow to 67,000 acre-feet by 2015.

Surface Runoff. Local agencies divert about 117,000 acre-feet per year of water from flows in local streams. Local surface water supplies are heavily influenced by year to year local weather conditions, varying from a high of 192,000 acre-feet in fiscal year 1998-99 to a low of 52,000 acre-feet in fiscal year 2003-04.

Conjunctive Use. Conjunctive use is accomplished when groundwater basins are used to store imported supplies during water abundant periods. The stored water is used during shortages and emergencies with a corresponding reduction in surface deliveries to the participating agencies. Regional benefits include enhancing Metropolitan's ability to capture excess surface flows during wet years from both the State Water Project and Colorado River. Groundwater storage is accomplished using spreading basins, injection wells, and in-lieu deliveries where imported water is substituted for groundwater, and the groundwater not pumped is considered stored water.

Metropolitan promotes conjunctive use at the local agency level under its Replenishment Service Program by discounting rates for imported water placed into groundwater or reservoir storage during wet months. The discounted rate and program rules encourage construction of additional groundwater production facilities allowing local agencies to be more self-sufficient during shortages. (See "*Groundwater Storage Programs*" above.) In calendar year 2006, Metropolitan delivered approximately 228,000 acre-feet of water as replenishment water. In calendar year 2007, Metropolitan delivered approximately 52,000 acre-feet of water as replenishment up to May 1, then discontinued storage deliveries. During fiscal year 2009-10, some member agencies began to request full service deliveries for groundwater recharge to support continued groundwater production. As of April 2011, full service deliveries for groundwater recharge totaled more than 162,000 acre-feet. On May 10, 2011, Metropolitan's Board authorized sale of up to 225,000 acre-feet of discounted replenishment service deliveries to member agencies for the remainder of calendar year 2011. Discounted replenishment deliveries are offered with the expectation of increased sales revenue; however, depending on customer demand, these increased revenues may or may not be realized. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES—Water Sales Projections." Metropolitan staff and the member agencies are currently engaged in a process to develop a revised Replenishment Program for consideration by Metropolitan's Board in 2012. See "METROPOLITAN REVENUES—Classes of Water Service—*Replenishment*" in this Appendix A.

Recycled Water. Metropolitan has supported recycled water use to offset potable water demands and improve regional supply reliability by offering financial incentives to agencies for production and sales of recycled water since 1982. Metropolitan has executed agreements with local agencies to provide financial incentives to 66 recycled water projects with total contract yields of about 314,000 acre-feet per year. During fiscal year 2010-11, Metropolitan provided incentives for approximately 165,000 acre-feet of reclaimed water under these agreements. Total recycled water use under executed agreements is expected to grow to about 186,000 acre-feet by 2015.

Seawater Desalination. Metropolitan's IRP includes seawater desalination as a core local supply and as a potential buffer supply against long-term uncertainties. To encourage local development, Metropolitan has signed Seawater Desalination Program ("SDP") incentive agreements with three of its member agencies: Long Beach, Municipal Water District of Orange County and West Basin Municipal Water District. The SDP agreements provide sliding-scale incentives of up to \$250 for each acre-foot produced after the projects are operational for 25 years or until 2040, whichever comes first. The incentives are designed to phase out if Metropolitan's rates surpass the cost of producing desalinated seawater. These agreements are subject to final approval by Metropolitan's Board after review of complete project description and environmental

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documentation. The three projects are in the pilot study and planning stages and are collectively anticipated to produce up to 46,000 acre-feet annually.

On November 10, 2009, Metropolitan authorized a similar SDP incentive agreement with SDCWA and nine of its local retail agencies for a proposed desalination project in Carlsbad, anticipated to produce 56,000 acre-feet per year. The Carlsbad Seawater Desalination Project (the “Carlsbad Project”) is being developed by Poseidon Resources LLC. In August 2011, the SDCWA board of directors approved investigating an alternative two-party agreement under which SDCWA would purchase water directly from the Carlsbad Project. Neither SDCWA nor Metropolitan has executed the original multi-party incentive agreement authorized by Metropolitan, as a result of SDCWA’s negotiation of the alternative two-party agreement and litigation initiated by SDCWA challenging Metropolitan’s rate structure that, under the agreement’s terms, could have triggered proceedings for termination of the SDP incentive agreement. See “METROPOLITAN REVENUES—Litigation Challenging Rate Structure” in this Appendix A. The Carlsbad Project has obtained permits from the California Coastal Commission, State Lands Commission and San Diego Regional Water Quality Control Board for construction of the project. In June 2011, a state trial court upheld the Regional Water Quality Control Board’s project approval. That decision is now before the 4th District Court of Appeal. In October 2011, Poseidon Resources LLC received initial approval from the California Pollution Control Financing Authority to sell up to \$780 million in tax-exempt private activity bonds, conditioned upon final approval of a water purchase agreement with SDCWA.

In addition to the projects in Metropolitan’s incentive program, three other seawater desalination projects are under consideration in Metropolitan’s service area. Poseidon Resources is developing the first of these projects, a 56,000 acre-feet per year project in Huntington Beach which is currently in the permitting phase. For the second project, SDCWA is studying the potential for a seawater desalination project in Camp Pendleton which would initially produce up to 56,000 acre-feet per year and up to 168,000 acre-feet per year with a phased in build out. In a third project, SDCWA completed an initial feasibility study in 2010 of a desalination project in Rosarito Beach, Mexico that could yield 28,000 to 56,000 acre-feet per year. If developed, SDCWA and potentially Metropolitan could receive a portion of the desalinated supplies either through delivery to SDCWA or through Colorado River supply exchanges with Mexico. Otay Water District, located in San Diego County along the Mexico border, is separately considering the feasibility of purchasing water from an alternative seawater desalination project at the same site in Rosarito Beach. Approvals from a number of U.S. and Mexican federal agencies, along with local approvals, would be needed for either cross-border project to proceed.

METROPOLITAN’S WATER DELIVERY SYSTEM

Method of Delivery

Metropolitan’s water delivery system is made up of three basic components: the Colorado River Aqueduct, the California Aqueduct of the State Water Project and Metropolitan’s internal water distribution system. Metropolitan’s delivery system is integrated and designed to meet the differing needs of its member agencies. Metropolitan seeks redundancy in its delivery system to assure reliability in the event of an outage. Current system expansion and other improvements will be designed to increase the flexibility of the system. Since local sources of water are generally used to their maximum each year, growth in the demand for water is partially met by Metropolitan. Accordingly, the operation of Metropolitan’s water system is being made more reliable through the rehabilitation of key facilities as needed, improved preventive maintenance programs and the upgrading of Metropolitan’s operational control systems. See “CAPITAL INVESTMENT PLAN” in this Appendix A.

Colorado River Aqueduct. Work on the Colorado River Aqueduct commenced in 1933 and water deliveries started in 1941. Additional facilities were completed by 1961 to meet additional requirements of

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Metropolitan's member agencies. The Colorado River Aqueduct is 242 miles long, starting at the Lake Havasu intake and ending at the Lake Mathews terminal reservoir. Metropolitan owns all of the components of the Colorado River Aqueduct, which include five pump plants, 64 miles of canal, 92 miles of tunnels, 55 miles of concrete conduits and 144 underground siphons totaling 29 miles in length. The pumping plants lift the water approximately 1,617 feet over several mountain ranges to Metropolitan's service area. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct" in this Appendix A.

State Water Project. The initial portions of the State Water Project serving Metropolitan were completed in 1973. State Water Project facilities are owned and operated by DWR. Twenty-nine agencies have entered into contracts with DWR to receive water from the State Water Project. See "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A.

Internal Distribution System. Metropolitan's internal water distribution system includes components that were built beginning in the 1930s and through the present. Metropolitan owns all of these components, including 14 dams and reservoirs, five regional treatment plants, over 800 miles of transmission pipelines, feeders and canals, and 16 hydroelectric plants with an aggregate capacity of 131 megawatts.

Diamond Valley Lake. Diamond Valley Lake, a man-made reservoir located southwest of the city of Hemet, California, covers approximately 4,410 acres and has capacity to hold approximately 810,000 acre-feet or 265 billion gallons of water. Diamond Valley Lake was constructed to serve approximately 90 percent of Metropolitan's service area by gravity flow. Associated hydraulic structures consist of an inlet-outlet tower, pumps and generating facilities, a pressure control facility, connecting tunnels and a forebay. Imported water is delivered to Diamond Valley Lake during surplus periods. The reservoir provides more reliable delivery of imported water from the State Water Project and the Colorado River Aqueduct during summer months, droughts and emergencies. In addition, Diamond Valley Lake is capable of providing more than one-third of Southern California's water needs from storage for approximately six months after a major earthquake (assuming that there has been no impairment of Metropolitan's internal distribution network). See the table "Metropolitan's Water Storage Capacity and Water in Storage" under "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A for the amount of water in storage at Diamond Valley Lake. Excavation at the project site began in May 1995. Diamond Valley Lake was completed in March 2000, at a total cost of \$2 billion, and was in full operation in December 2001.

Inland Feeder. The Inland Feeder is a 44-mile-long conveyance system that connects the State Water Project to Diamond Valley Lake and the Colorado River Aqueduct. The Inland Feeder provides greater flexibility in managing Metropolitan's major water supplies and allows greater amounts of State Water Project water to be accepted during wet seasons for storage in Diamond Valley Lake. In addition, the Inland Feeder increases the conveyance capacity from the East Branch of the State Water Project by 1,000 cubic-feet per second ("cfs"), allowing the East Branch to operate up to its full capacity. The Inland Feeder was completed in September 2009. Costs through fiscal year 2009-10 were \$1.14 billion.

Operations Control Center. Metropolitan's water conveyance and distribution system operations are coordinated from the Operations Control Center ("OCC") located in the Eagle Rock area of Los Angeles. The OCC plans, balances and schedules daily water and power operations to meet member agencies' demands, taking into consideration the operational limits of the entire system.

Water Treatment

Metropolitan filters and disinfects water at five water treatment plants: the F.E. Weymouth Treatment Plant, the Joseph Jensen Treatment Plant, the Henry J. Mills Treatment Plant, the Robert B. Diemer Treatment Plant and the Robert A. Skinner Treatment Plant. The plants treat an average of between 1.7 billion and 2.0 billion gallons of water per day, and have a maximum capacity of approximately 2.6 billion gallons per day. Approximately 70 percent of Metropolitan's water deliveries are treated water.

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Federal and state regulatory agencies continually monitor and establish new water quality standards. New water quality standards could affect availability of water and impose significant compliance costs on Metropolitan. The Safe Drinking Water Act (“SDWA”) was amended in 1986 and again in 1996. The SDWA establishes drinking water quality standards, monitoring, public notification and enforcement requirements for public water systems. To achieve these objectives, the U.S. Environmental Protection Agency (“USEPA”), as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for individual states to assume primary enforcement responsibilities. The California Department of Public Health (“CDPH”), formerly known as the Department of Health Services, has lead authority over California water agencies. Metropolitan continually monitors new water quality laws and regulations and frequently comments on new legislative proposals and regulatory rules.

In October 2007, Metropolitan began adding fluoride to treated water at all five of its treatment plants for regional compliance with Assembly Bill 733, enacted in 1995, which requires fluoridation of any public water supply with over 10,000 service connections in order to prevent tooth decay, subject to availability of sufficient funding. Design and construction of the fluoridation facilities at Metropolitan’s five treatment plants were funded primarily by a \$5.5 million grant from the California Dental Association Foundation, in conjunction with the California Fluoridation 2010 Work Group. On August 9, 2011, four individuals filed litigation (*Foli, et al. v. Metropolitan Water District of Southern California, et al.*) in federal district court alleging deprivation of civil rights, impairment of civil rights and unfair competition based on fluoridation of Metropolitan’s treated water deliveries. On April 10, 2012 the court granted Metropolitan’s motion to dismiss the case without prejudice. It is unknown at this time whether plaintiffs will attempt to amend the complaint.

Disinfection By-products. As part of the requirements of the SDWA, USEPA is required to establish regulations to strengthen protection against microbial contaminants and reduce potential health risks from disinfection by-products. Disinfectants and disinfection by-products (“D/DBPs”) were addressed by the USEPA in two stages. In the Stage 1 Disinfectants and Disinfection Byproducts Rule (“Stage 1 DBPR”), the maximum contaminant level (“MCL”) for one of the classes of D/DBPs, total trihalomethanes (“TTHM”), was lowered from 100 parts per billion (“ppb”) to 80 ppb. MCLs were also set for haloacetic acids (“HAA”) and bromate (an ozone D/DBP). In addition, the Stage 1 DBPR includes a treatment requirement to remove disinfection by-product precursors. Compliance with these requirements started in January 2002. Metropolitan already satisfied these requirements for its Colorado River Water, which has lower levels of disinfection by-product precursors than State Water Project water. State Water Project water has a greater amount of disinfection by-product precursors and modifications to the treatment process have been made to meet the requirements of the Stage 1 DBPR. Longer-term D/DBP control has been achieved by switching to ozone as the primary disinfectant at the Mills and Jensen treatment plants, which only receive water from the State Water Project. Ozone facilities at the Mills plant began operating in October 2003. Ozone facilities became operational at the Jensen plant on July 1, 2005. Ozone facilities at the Skinner plant became operational in 2010. Metropolitan’s Board has also approved installing ozonation processes at the Weymouth and Diemer treatment plants, which receive a blend of water from the State Water Project and the Colorado River. See “CAPITAL INVESTMENT PLAN—Major Projects of Metropolitan’s Capital Investment Plan” in this Appendix A. Ozone will enable these plants to reliably treat water containing higher blends of State Project water and still meet the new microbial and D/DBP standards.

The second stage of the D/DBP Rule (“Stage 2 DBPR”) was finalized in January 2006. The Stage 2 DBPR requires water systems to meet the TTHM and HAA standards at individual monitoring locations in the distribution system as opposed to a distribution system-wide average under the Stage 1 DBPR. Metropolitan does not anticipate any further capital improvements in order to meet the Stage 2 DBPR requirements.

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The Interim Enhanced Surface Water Treatment Rule and the Long Term 2 Enhanced Surface Water Treatment Rule (“LT2ESWTR”) have been implemented to simultaneously provide protection against microbial pathogens while the D/DBP rules provide reduced risk from disinfection by-products. Metropolitan does not anticipate any further capital improvements in order to meet the LT2ESWTR requirements.

Perchlorate. Perchlorate, used in solid rocket propellants, munitions and fireworks, has contaminated some drinking water wells and surface water sources throughout California. Perchlorate also has been detected in Metropolitan’s Colorado River water supplies. A chemical manufacturing facility near Lake Mead in Nevada is a primary source of the contamination. Remediation efforts began in 1998 and have been successful at meeting the cleanup objectives, significantly reducing the levels of perchlorate entering into the Colorado River. CDPH has established a primary drinking water standard (i.e., an MCL) of 6 ppb for perchlorate. Current perchlorate levels in Metropolitan’s Colorado River supplies are below 2 ppb.

Chromium 6. Hexavalent chromium or chromium 6 is the relatively more harmful form of chromium. The public health standard for “total” chromium, which includes chromium 6, is a MCL of 50 ppb. There is currently no specific MCL for chromium 6. Chromium 6 in Metropolitan’s source waters has ranged from non-detect (less than 0.03 ppb) to under 0.5 ppb. On July 27, 2011 the California Office of Environmental Health Hazard Assessment (“OEHHA”) released a public health goal (“PHG”) of 0.02 ppb for chromium 6. Following public comment periods and workshops, the CDPH can proceed with final development of a MCL for chromium 6 and must set the state MCL as close to the PHG as is technologically and economically feasible. It is expected that the adoption of a chromium 6 regulation will not materially affect the water supply to Metropolitan or result in significant compliance costs.

Arsenic. The federal and state MCL for arsenic in drinking water is 10 ppb. Arsenic levels in Metropolitan’s treated water supplies ranged from not detected (less than 2 ppb) to 2.3 ppb in 2011.

Seismic Considerations

General. Although the magnitude of damages resulting from a significant seismic event are impossible to predict, Metropolitan’s water conveyance and distribution facilities are designed to either withstand a maximum probable seismic event or to minimize the potential repair time in the event of damage. The five pumping plants on the Colorado River Aqueduct have been buttressed to better withstand seismic events. Other components of the Colorado River Aqueduct are monitored for any necessary rehabilitation and repair. Metropolitan personnel and independent consultants periodically reevaluate the internal water distribution system’s vulnerability to earthquakes. As facilities are evaluated and identified for seismic retrofitting, they are prioritized, with those facilities necessary for delivering or treating water scheduled for upgrade before non-critical facilities. However, major portions of the California Aqueduct and the Colorado River Aqueduct are located near major earthquake faults, including the San Andreas Fault. A significant earthquake could damage structures and interrupt the supply of water, adversely affecting Metropolitan’s revenues and its ability to pay its obligations. Therefore, emergency supplies are stored for use throughout Metropolitan’s service area, and a six-month reserve supply of water normally held in local storage (including emergency storage in Diamond Valley Lake) provides reasonable assurance of continuing water supplies during and after such events.

Metropolitan has an ongoing surveillance program that monitors the safety and structural performance of its 14 dams and reservoirs. Operating personnel perform regular inspections that include monitoring and analyzing seepage flows and pressures. Engineers responsible for dam safety review the inspection data and monitor the horizontal and vertical movements for each dam. Major on-site inspections are performed at least twice each year. Instruments to transmit seismic acceleration time histories for analysis any time a dam is subjected to strong motion during an earthquake are located at a number of selected sites.

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In addition, Metropolitan has developed an emergency plan that calls for specific levels of response appropriate to an earthquake's magnitude and location. Included in this plan are various communication tools as well as a structured plan of management that varies with the severity of the event. Pre-designated personnel follow detailed steps for field facility inspection and distribution system patrol. Approximately 40 employees are designated to respond immediately under certain identifiable seismic events. An emergency operations center is maintained at the OCC. The OCC, which is specifically designed to be earthquake resistant, contains communication equipment, including a radio transmitter, microwave capability and a response line linking Metropolitan with its member agencies, DWR, other utilities and the State's Office of Emergency Services. Metropolitan also maintains machine, fabrication and coating shops at its facility in La Verne, California. Materials to fabricate pipe and other appurtenant fittings are kept in inventory at the La Verne site. In the event of earthquake damage, Metropolitan has taken measures to provide the design and fabrication capacity to fabricate pipe and related fittings. Metropolitan is also staffed to perform emergency repairs and has pre-qualified contractors for emergency repair needs at various locations throughout Metropolitan's service area.

State Water Project Facilities. The California Aqueduct crosses all major faults either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. State Water Project facilities are designed to withstand major earthquakes along a local fault or magnitude 8.1 earthquakes along the San Andreas Fault without major damage. Dams, for example, are designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project structures such as pumping and power plants. The location of check structures on the canal allows for hydraulic isolation of the fault-crossing repair.

While the dams, canals, pump stations and other constructed State Water Project facilities have been designed to withstand earthquake forces, the critical supply of water from Northern California must traverse the Bay-Delta through hundreds of miles of varying levels of engineered levees that are susceptible to major failures due to flood and seismic risk. In the event of a failure of the Bay-Delta levees, the quality of the Bay-Delta's water could be severely compromised as salt water comes in from the San Francisco Bay. Metropolitan's supply of State Water Project water would be adversely impacted if pumps that move Bay-Delta water southward to the Central Valley and Southern California are shut down to contain the salt water intrusion. Metropolitan estimates that stored water supplies, Colorado River Aqueduct supplies and local water resources that would be available in case of a levee breach or other interruption in State Water Project supplies would meet demands in Metropolitan's service area for approximately twelve months. See "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A. Since the State and Federal governments control the Bay-Delta levees, repair of any levee failures would be the responsibility of and controlled by the State and Federal governments.

Metropolitan, in cooperation with the State Water Contractors, developed recommendations to DWR for emergency preparedness measures to maintain continuity in export water supplies and water quality during emergency events. These measures include improvements to emergency construction materials stockpiles in the Bay-Delta, improved emergency contracting capabilities, strategic levee improvements and other structural measures of importance to Bay-Delta water export interests. DWR utilized \$12 million in fiscal year 2007-08 for initial stockpiling of rock for emergency levee repairs and development of Bay-Delta land and marine loading facilities.

Perris Dam. DWR reported in July 2005 that seismic studies indicate that DWR's Perris Dam facility could sustain damage from moderate earthquakes along the San Jacinto or San Andreas faults due to potential weaknesses in the dam's foundation. The studies used technology not available when the dam was completed in 1974. Perris Dam forms Lake Perris, the terminal reservoir for the State Water Project in Riverside County, with maximum capacity of approximately 130,000 acre-feet of water. In late 2005, DWR

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lowered the water level in the reservoir by about 25 feet and reduced the amount of water stored in the reservoir to about 75,000 acre-feet as DWR evaluates alternatives for repair of the dam. The lower lake level elevation was intended to prevent over-topping of the dam crest in the event of a major earthquake and to prevent uncontrolled releases. In December 2006, DWR completed a study identifying various repair options, began additional geologic exploration along the base of Perris Dam and started preliminary design. DWR's preferred alternative is to repair the dam to restore the reservoir to its historical level. DWR estimates that such repairs will cost between \$340 million and \$460 million and take four to eight years to complete, once commenced. DWR released its draft EIR in January 2010 and final EIR in September 2011. On November 11, 2011, DWR certified the final EIR and filed a Notice of Determination stating its intent to proceed with the preferred alternative. Water stored in Lake Perris is used primarily by Metropolitan. Accordingly, DWR is likely to look to Metropolitan to be a major contributor toward the cost of repair of Perris Dam under Metropolitan's State Water Contract. However, Metropolitan believes that the preferred alternative primarily benefits recreation and, as such, that the bulk of any repair costs must be borne by the state. See "METROPOLITAN EXPENDITURES—State Water Contract Obligations" in this Appendix A.

Security Measures

Metropolitan conducts ground and air patrols of the Colorado River Aqueduct and monitoring and testing at all treatment plants and along the Colorado River Aqueduct. Similarly, DWR has in place security measures to protect critical facilities of the State Water Project, including both ground and air patrols of the State Water Project.

Although Metropolitan has constructed redundant systems and other safeguards to ensure its ability to continually deliver water to its customers, and DWR has made similar efforts, a terrorist attack or other security breach against water facilities could materially impair Metropolitan's ability to deliver water to its customers, its operations and revenues and its ability to pay its obligations.

CAPITAL INVESTMENT PLAN

General Description

Metropolitan's current Capital Investment Plan (the "Capital Investment Plan" or "CIP") involves expansion and rehabilitation of existing facilities and construction of new facilities to provide for resource development, meet future water demands, ensure system reliability as well as enhance operational efficiency, and comply with water quality regulations. Metropolitan's CIP is regularly reviewed and updated. Implementation and construction of specific elements of the program are subject to Board approval, and the amount and timing of borrowings will depend upon, among other factors, status of construction activity and water demands within Metropolitan's service area. From time to time projects that have been undertaken are delayed, redesigned or deferred by Metropolitan for various reasons and no assurance can be given that a project in the CIP will be completed in accordance with its original schedule or that any project will be completed as currently planned.

Projection of Capital Investment Plan Expenditures

The table below sets forth projected CIP expenditures, including replacement and refurbishment expenditures, by project type for the fiscal years ending June 30, 2013 through 2017. The requirements of the CIP from fiscal year 2012-13 through fiscal year 2016-17 are estimated to be approximately \$1.45 billion in escalated dollars. This estimate is updated annually as a result of the periodic review and revision of the CIP. See "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in this Appendix A.

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**CAPITAL INVESTMENT PLAN
PROJECTION OF EXPENDITURES⁽¹⁾
(Fiscal Years Ended June 30 - Dollars in Thousands)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<u>Cost of Service</u>						
Source of Supply	\$ 347	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 347
Conveyance & Aqueduct	49,323	37,454	27,124	9,710	2,000	125,611
Storage	8,268	8,001	5,752	8,239	9,599	39,859
Distribution	35,201	42,734	54,827	70,509	82,548	285,819
Treatment	131,722	163,269	208,627	193,812	171,820	869,250
Administrative & General	24,999	21,158	22,171	14,992	5,493	88,813
Hydroelectric	<u>7,429</u>	<u>21,989</u>	<u>3,533</u>	<u>1,216</u>	<u>5,715</u>	<u>39,882</u>
Total⁽²⁾	\$257,289	\$294,605	\$322,034	\$298,478	\$277,175	\$1,449,581

Source: Metropolitan.

- (1) Current estimate for fiscal year 2011-12 is \$158 million. Fiscal year 2012-13 through 2016-17 based on the adopted biennial budget for fiscal years 2012-13 and 2013-14. Totals are rounded.
- (2) Annual totals include replacement and refurbishment expenditures for fiscal years 2012-13 through 2016-17 of \$132 million, \$154 million, \$127 million, \$184 million, and \$200 million, respectively, for a total of \$797 million for fiscal years 2012-13 through 2016-17.

The above projections do not include amounts for contingencies, but include escalation at 2.77 percent per year for projects for which formal construction contracts have not been awarded. Additional capital costs may arise in the future as a result of, among other things, federal and State water quality regulations, project changes and mitigation measures necessary to satisfy environmental and regulatory requirements, and for additional facilities. See “METROPOLITAN’S WATER DELIVERY SYSTEM—Water Treatment” above.

Capital Investment Plan Financing

The CIP will require significant funding from debt financing (see “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in this Appendix A) as well as from pay-as-you-go funding. The Board has adopted an internal funding objective to fund all capital program expenditures required for replacements and refurbishments of Metropolitan facilities from current revenues. However, in order to reduce drawdowns of reserve balances and to mitigate financial risks that could occur in upcoming years, actual and projected pay-as-you-go funding has been and is anticipated to be less than budgeted amounts during fiscal years 2007-08 through 2012-13. During this period, pay-as-you-go funding is now expected to be \$256 million, rather than the \$521 million originally budgeted for this period. As in prior years, these amounts may be reduced or increased by the Board during the fiscal year. To limit the accumulation of cash and investments in the Replacement and Refurbishment Fund, the maximum balance in this fund at the end of each fiscal year will be \$95 million. Amounts above the \$95 million limit will be transferred to the Revenue Remainder Fund and may be used for any lawful purpose. The remainder of capital program expenditures will be funded through the issuance from time to time of water revenue bonds, which are payable from Net Operating Revenues. Metropolitan expects to issue additional water revenue bonds to fund the CIP in the amount of \$180 million in fiscal year 2012-13, \$180 million in fiscal year 2013-14, \$200 million in fiscal year 2014-15, \$180 million in fiscal year 2015-16 and \$190 million in fiscal year 2016-17. See “METROPOLITAN EXPENDITURES—Revenue Bond Indebtedness” in this Appendix A.

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Major Projects of Metropolitan's Capital Investment Plan

Oxidation Retrofit Facilities. The oxidation retrofit facilities program includes the design and construction of oxidation facilities and appurtenances at all of Metropolitan's treatment plants. This program is intended to allow Metropolitan to meet drinking water standards for disinfection by-products and reduce taste and odor incidents. The first phase of the oxidation retrofit program, at Metropolitan's Henry J. Mills Treatment Plant in Riverside County, was completed in 2003. Oxidation retrofit at the Joseph Jensen Treatment Plant was completed July 1, 2005. The cost for these two projects was approximately \$236.4 million. Oxidation retrofit at the Robert A. Skinner plant was completed in December 2009. Several associated projects are still under way, including improvements to roadways and chemical systems. Expenditures at the Skinner plant through December 2011 were \$241.3 million. Total oxidation program costs at the Skinner plant are estimated to be \$244.3 million. The oxidation retrofit programs at the Robert B. Diemer and F.E. Weymouth plants are estimated to cost \$357.5 million and \$334.2 million respectively. Expenditures at the Diemer plant through December 2011 were \$321.3 million. Construction completion is expected in fiscal year 2012-13. Expenditures at the Weymouth plant through December 2011 were \$67.0 million. Construction completion is expected in fiscal year 2016-17.

F.E. Weymouth Treatment Plant Improvements. The F.E. Weymouth Treatment Plant was built in 1938 and subsequently expanded several times over the following 25 years. It is Metropolitan's oldest water treatment facility. Metropolitan has completed several upgrades and refurbishment/replacement projects to maintain the plant's reliability and improve its efficiency. These include power systems upgrades, a residual solids dewatering facility, refurbishment/replacement of the mechanical equipment in two of the eight flocculation and settling basins, a new plant maintenance facility, new chemical feed systems and storage tanks, replacement of the plant domestic/fire water system, seismic upgrades to the plant inlet structure, and a new chlorine handling and containment facility. Planned projects over the next several years include refurbishment of the plant's filters and settling basins, seismic retrofits to the filter buildings and administration building, and replacement of the valves used to control filter operation. The current cost estimate for all prior and projected improvements at the Weymouth plant, not including the ozone facilities, is approximately \$453 million, with \$171.9 million spent through December 2011. Budgeted aggregate capital expenditures for improvements at the Weymouth plant for fiscal years 2011-12 and 2012-13 are \$40.7 million.

Robert B. Diemer Treatment Plant Improvements. The Robert B. Diemer Treatment Plant was built in 1963 and subsequently expanded in 1968. It is Metropolitan's second oldest water treatment facility and has a capacity to treat 520 million gallons of water a day. Several upgrades and refurbishment/replacement projects have been completed at the Diemer plant, including power system upgrades, a new residual solids dewatering facility, new vehicle and plant maintenance facilities, new chemical feed systems and storage tanks, a new chlorine handling and containment facility, construction of a roller-compacted concrete slope stabilization system and a new secondary access road. The current cost estimate for all prior and projected improvements at the Diemer Treatment Plant, not including the ozone facilities, is approximately \$428 million, with \$144.8 million spent through December 2011. Budgeted aggregate capital expenditures for improvements at the Diemer plant for fiscal years 2012-13 and 2013-14 are \$34.4 million.

Colorado River Aqueduct Facilities. The Colorado River Aqueduct was originally completed in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the Colorado River Aqueduct are regularly evaluated. A major overhaul of the pump units at the five pumping plants was completed in 1988. Refurbishment or replacement of many of the electrical system components, including the transformers, circuit breakers and motor control centers, is currently under way. Projects completed over the past 10 years include replacement of high voltage circuit breakers and transformers at the five pumping plant switchyards, refurbishment of operators and power centers on the head gates downstream of the pumping plants, refurbishment/replacement of 15 isolation/control gates, replacement of cast iron pipe and other components at over 200 outlet structures with stainless steel

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components, replacement of pumping plant inlet trash racks, and replacement of several miles of deteriorated concrete canal liner. Additionally, many of the mechanical components at the pumping plants as well as the Copper Basin and Gene Wash Reservoirs will be replaced over the next few years. The cost estimate for the prior and planned refurbishment or replacement projects is currently \$286.2 million. Costs through December 2011 were \$123.3 million. Budgeted aggregate capital expenditures for improvements on the Colorado River Aqueduct for fiscal years 2012-13 and 2013-14 are \$74.6 million.

GOVERNANCE AND MANAGEMENT

Board of Directors

Metropolitan is governed by a 37-member Board of Directors. 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 the total assessed valuation of property in Metropolitan's service area that is within the member public agency. 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. Following is a biographical summary of Metropolitan's principal executive officers.

Jeffrey Kightlinger, General Manager – Mr. Kightlinger was appointed as General Manager in February 2006, leaving the position of General Counsel, which he had held since February 2002. Before becoming General Counsel, Mr. Kightlinger was a Deputy General Counsel and then Assistant General Counsel, representing Metropolitan primarily on Colorado River matters, environmental issues, water rights and a number of Metropolitan's water transfer and storage programs. Prior to joining Metropolitan in 1995, Mr. Kightlinger worked in private practice representing numerous public agencies including municipalities, redevelopment agencies and special districts. Mr. Kightlinger earned his bachelor's degree in history from the University of California, Berkeley, and his law degree from Santa Clara University.

Marcia Scully, General Counsel – Ms. Scully assumed the position of General Counsel in March 2012. She previously served as Metropolitan's Interim General Counsel from March 2011 to March 2012. Ms. Scully joined Metropolitan in 1995, after a decade of private law practice, providing legal representation to Metropolitan on construction, employment, Colorado River and significant litigation matters. From 1981 to 1985 she was assistant city attorney for the City of Inglewood. Ms. Scully served as president of University of Michigan's Alumnae Club of Los Angeles and is a recipient of the 1996 State Bar of California, District 7 President's Pro Bono Service Award and the Southern California Association of Non-Profit Housing Advocate of the Year Award. She is also a member of the League of Women Voters for Whittier and was appointed for two terms on the City of Whittier's Planning Commission, three years of which were served as chair. Ms. Scully earned a bachelor's degree in liberal arts from the University of Michigan, a master's degree in urban planning from Wayne State University and law degree from Loyola Law School.

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Gerald C. Riss, General Auditor – Mr. Riss was appointed as Metropolitan's General Auditor in July 2002 and is responsible for the independent evaluation of the policies, procedures and systems of control throughout Metropolitan. Mr. Riss is a certified fraud examiner, certified financial services auditor and certified risk professional with more than 25 years of experience in accounting, audit and risk management. Prior to joining Metropolitan, Mr. Riss was Vice President and Assistant Division Head of Risk Management Administration at United California Bank/Bank of the West. He also served as Senior Vice President, director of Risk Management and General Auditor of Tokai Bank of California from 1988 until its reorganization as United California Bank in 2001. He earned a bachelor's degree in accounting and master's degree in business administration from Wayne State University in Detroit, Michigan.

Jeffrey L. Cable, Interim Ethics Officer – Mr. Cable was appointed as Interim Ethics Officer in March 2012. He has served as an ethics educator at Metropolitan since 2005. Prior to joining Metropolitan, Mr. Cable was a senior trainer for United Resources International Business Consultants in Taipei, Taiwan from 2002 to 2005 and taught an applied ethics course at the University of Montana in 2001. A certified ethics officer from the Society of Corporate Compliance and Ethics, Mr. Cable has also completed meditation training at the Loyola Law School Center for Conflict Resolution. He is a member of the Association for Practical and Professional Ethics, Ethics and Compliance Office Association, Southern California Business Ethics Roundtable and the Society of Corporate Compliance and Ethics. Mr. Cable earned a master's degree in philosophy and bachelor's degree in human resources management and interpersonal communications from the University of Montana.

Gary Breaux, Assistant General Manager/Chief Financial Officer – Mr. Breaux has had extensive experience working for local governments since 1983. From 1994 until joining Metropolitan, he served as Director of Finance for East Bay Municipal Utility District (EBMUD). At EBMUD, he was responsible for all financial areas, including treasury operations, debt management, rates, internal audit, accounting and reporting, risk management and customer and community services. Prior to joining EBMUD, he was Director of Finance for the City of Oakland, California. A native of Colorado, Mr. Breaux received a Bachelor of Science degree in Business from the University of Colorado in 1977 and a Masters degree in Public Administration in 1987 from Virginia Commonwealth University. Mr. Breaux has also completed certification in Finance from University of California, Berkeley. He is a Certified Public Accountant. Mr. Breaux is a member of the American Water Works Association and the American Institute of Certified Public Accountants.

Debra Man, Assistant General Manager/Chief Operating Officer – Ms. Man was appointed to this position on December 15, 2003. Ms. Man has worked at Metropolitan since 1986, beginning as an engineer and advancing to Chief of the Planning and Resources Division. As Chief of Planning and Resources she was responsible for major initiatives adopted by Metropolitan's Board, such as the Integrated Water Resources Plan, rate structure, and facility plans for expansion of Metropolitan's distribution system. In 1999, she was appointed as Vice President of Water Transfers and Exchanges, responsible for securing water supplies through agreements and partnerships with other water and agricultural interests in San Joaquin Valley and Southern California and demonstrating Metropolitan's water supply reliability in compliance with current laws. Ms. Man is a registered professional civil engineer in California and Hawaii. She has a master's degree in civil/environmental engineering from Stanford University and a bachelor's degree in civil engineering from the University of Hawaii.

Roger Patterson, Assistant General Manager/Strategic Initiatives – Mr. Patterson was appointed Assistant General Manager in March 2006. He is responsible for overseeing water supply and planning issues, including the Colorado River and State Water Project. He previously served as a consultant to Metropolitan on Colorado River issues. Mr. Patterson was the director of the Nebraska Department of Natural Resources from 1999 to 2005, where he was responsible for water administration, water planning, flood-plain delineation, dam safety and the state databank. Prior to his work in Nebraska, Mr. Patterson spent

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25 years with the Bureau of Reclamation, retiring from the Bureau as the Regional Director for the Mid-Pacific Region. He is a registered professional engineer in Nebraska and Colorado, and earned bachelor's and master's degrees in engineering from the University of Nebraska.

Gilbert F. Ivey, Assistant General Manager/Chief Administrative Officer – Mr. Ivey is the Chief Administrative Officer and is responsible for human resources, real property management, strategic land development and Metropolitan's small business program. Mr. Ivey has been with Metropolitan for 40 years, starting as a summer trainee in the Engineering Division. He has held various positions in Finance, Right-of-Way and Land, Operation, Human Resources and Executive Offices. He earned a bachelor's degree in business administration from California State University, Dominguez Hills and holds various professional designations and certifications in management from Pepperdine University and the University of Southern California.

Linda Waade, Deputy General Manager/External Affairs – Ms. Waade is responsible for Metropolitan's communications, outreach, education and legislative matters. Prior to joining Metropolitan in August 2006, she coordinated government and community affairs for the Los Angeles office of CH2M Hill, Inc., where she provided counsel on policy development and outreach strategies for environmental and public works projects. She also maintained her own consulting firm, Waade Partners Consulting. Ms. Waade was deputy chief of staff and policy director for then Los Angeles City Councilmember Antonio R. Villaraigosa from July 2003 to January 2004. She served as transportation policy advisor for Los Angeles Mayor Tom Bradley from 1991-93, as chief of staff for U.S. Congressman Mel Levine in his Los Angeles district office from 1988-89 and as the congressman's special assistant for environmental affairs from 1987-88, and was executive director of the Coalition for Clean Air, a statewide advocacy organization dedicated to air quality issues, from 1994-98. Ms. Waade earned a bachelor's degree in political science from California State University at Los Angeles. She is a past recipient of the "Environmental Leadership Award" from the California League of Conservation Voters.

Employee Relations

The total number of regular full-time Metropolitan employees on May 29, 2012 was 1,766, of whom 1,224 were represented by AFSCME Local 1902, 101 by the Supervisors Association, 283 by the Management and Professional Employees Association and 104 by the Association of Confidential Employees. The remaining 54 employees are unrepresented. The four bargaining units represent 97 percent of Metropolitan's employees. The Memorandum of Understanding ("MOU") with the Association of Confidential Employees covers the period January 1, 2011 through December 31, 2015. The MOUs with the Management and Professional Employees Association and with AFSCME Local 1902 cover the period January 1, 2011 to December 31, 2016. The MOU with the Supervisors Association covers the period September 13, 2011 to December 31, 2016.

Risk Management

Metropolitan is exposed to various risks of loss related to the design, construction, treatment and delivery of water. With the assistance of third party claims administrators, Metropolitan is self-insured for liability, property and workers' compensation. Metropolitan self-insures the first \$25 million per liability occurrence, with commercial liability coverage of \$75 million in excess of the self-insured retention. The \$25 million self-insured retention is maintained as a separate restricted reserve. Metropolitan is also self-insured for loss or damage to its property, with the \$25 million self-insured retention also being accessible for emergency repairs and Metropolitan property losses. In addition, Metropolitan obtains other excess and specialty insurance coverages such as directors' and officers' liability, fiduciary liability and aircraft hull and liability coverage.

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Metropolitan self-insures the first \$5 million for workers' compensation with excess coverage of \$50 million. Metropolitan separately funds remaining workers' compensation and general liability claims arising from the Diamond Valley Lake and early portions of the Inland Feeder construction projects, which were insured through Owner Controlled Insurance Programs ("OCIPs"). The OCIPs for those projects have been concluded. The costs to settle and close the remaining claims for the Diamond Valley Lake and Inland Feeder construction projects are estimated to be \$1 million and \$300,000, respectively.

The self-insurance retentions and reserve levels currently maintained by Metropolitan may be modified by Metropolitan's Board at its sole discretion.

METROPOLITAN REVENUES

General

Until water deliveries began in 1941, Metropolitan's activities were, by necessity, supported entirely through the collection of *ad valorem* property taxes. Since the mid-1980s, water sales revenues have provided approximately 75 to 80 percent of total revenues and *ad valorem* property taxes have accounted for about 10 percent of revenues, while the remaining revenues have been derived principally from the sale of hydroelectric power, interest on investments and additional revenue sources (water standby charges and availability of service charges) beginning in 1993. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the water revenue bonds issued by Metropolitan. *Ad valorem* taxes are applied solely to the payment of principal and interest on Metropolitan's outstanding general obligation bonds and a portion of State Water Contract payments.

The basic rate for untreated water for domestic and municipal uses increased from \$8 per acre-foot in fiscal year 1941-42 to the rate of \$527 per acre-foot for Tier 1 water, effective January 1, 2011. The *ad valorem* tax rate for Metropolitan purposes has gradually been reduced from a peak equivalent rate of 0.1250 percent of full assessed valuation in fiscal year 1945-46 to 0.0037 percent of full assessed valuation for fiscal year 2011-12. See "—Rate Structure" below. The rates charged by Metropolitan represent the wholesale cost of Metropolitan water to its member agencies, and not the cost of water to the ultimate consumer. Metropolitan does not exercise control over the rates charged by its member agencies or their subagencies to their customers.

Summary of Receipts by Source

The following table sets forth Metropolitan's sources of receipts for the five fiscal years ended June 30, 2011. The table provides cash basis information, which is unaudited. Audited financial statements for the fiscal years ended June 30, 2011 and June 30, 2010 are provided in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)."

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SUMMARY OF RECEIPTS BY SOURCE⁽¹⁾
Fiscal Years Ended June 30
(Dollars in Millions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water Sales ⁽²⁾	\$ 891.5	\$ 967.8	\$988.1	\$1,011.1	\$ 995.6
Net Tax Collections ⁽³⁾	101.1	100.4	105.2	97.3	88.0
Additional Revenue Sources ⁽⁴⁾	113.1	114.0	119.7	135.3	153.5
Interest on Investments	41.2	60.3	33.7	26.7	18.9
Hydroelectric Power Sales	44.9	41.1	22.5	18.8	22.1
Other Collections & Trust Funds	<u>8.8</u>	<u>8.1</u>	<u>3.1</u>	<u>9.1</u>	<u>61.0⁽⁵⁾</u>
Total Receipts	\$1,200.6	\$1,291.7	\$1,272.3	\$1,298.3	\$1,339.1

Source: Metropolitan.

- (1) Does not include any proceeds from the sale of bonded indebtedness.
- (2) Gross receipts in each year are for sales in the twelve months ended April 30 of such year. Water sales revenues include revenues from water wheeling and exchanges. See "METROPOLITAN REVENUES—Wheeling and Exchange Charges".
- (3) *Ad valorem* taxes levied by Metropolitan are applied solely to the payment of outstanding general obligation bonds of Metropolitan and a portion of State Water Contract payments.
- (4) Includes receipts derived from water standby charges, readiness-to-serve, and connection maintenance or capacity charges. See "—Rate Structure" and "—Additional Revenue Components" below.
- (5) Includes \$10.8 million reimbursement from State Proposition 13 bond funds and \$28.3 million from the termination of the Las Posas water storage program.

Revenue Allocation Policy and Tax Revenues

The Board determines the water revenue requirement for each fiscal year after first projecting the *ad valorem* tax levy for that year. The tax levy for any year is subject to limits imposed by the Act and Board policy. Currently the tax levy is set to not exceed the amount needed to pay debt service on Metropolitan's general obligation bonds and a portion of Metropolitan's share of the debt service on the general obligation bonds issued by the State to finance the State Water Project. Any deficiency between tax levy receipts and Metropolitan's share of debt service obligations on general obligation bonded debt issued by the State is expected to be paid from Operating Revenues, as defined in the Master Resolution. See "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in this Appendix A. The State Water Contract requires that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract.

Water Sales Revenues

Authority. Water rates are established by the Board and are not subject to regulation or approval by the Public Utilities Commission of California or by any other local, State or federal agency. In accordance with the Act, water rates must be uniform for like classes of service. Metropolitan has three classes of water service: (1) full service; (2) replenishment (formerly seasonal storage); and (3) interim agricultural. See "—Classes of Water Service" below.

No member agency of Metropolitan is obligated to purchase water from Metropolitan. However, twenty-four of Metropolitan's 26 member agencies have entered into voluntary 10-year water supply purchase orders for water purchases through December 31, 2012. See "—Member Agency Purchase Orders" below. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales revenues. Metropolitan uses its financial reserves and budgetary tools to manage the financial impact of the

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variability in revenues due to fluctuations in annual water sales. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in this Appendix A.

Payment Procedure. Water is delivered to the member agencies on demand and is metered at the point of delivery. Member agencies are billed monthly and a late charge of one percent of the delinquent payment is assessed for delinquent payments not exceeding five business days. A late charge of two percent of the amount of the delinquent payment is charged for a payment that is delinquent for more than five business days for each month or portion of a month that the payment remains delinquent. Metropolitan has the authority to suspend service to any member agency delinquent for more than 30 days. Delinquencies have been rare; in such instances late charges have been collected. No service has been suspended because of delinquencies.

Water Sales. The following table sets forth the acre-feet of water sold and water sales receipts (including receipts from water wheeling and exchanges) for the five fiscal years ended June 30, 2011. The table provides cash basis information. Water sales revenues of Metropolitan for the two fiscal years ended June 30, 2011 and June 30, 2010, respectively, on an accrual basis, are shown in Appendix B - “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)” attached to this Official Statement.

SUMMARY OF WATER SOLD AND WATER SALES RECEIPTS
Fiscal Years Ended June 30

<u>Year</u>	<u>Acre-Feet⁽¹⁾</u> <u>Sold</u>	<u>Gross Receipts⁽³⁾</u> <u>(in millions)</u>	<u>Average Receipts</u> <u>Per Acre Foot⁽⁴⁾</u>	<u>Average Rate</u> <u>Per 1000</u> <u>Gallons</u>
2007	2,247,214	\$ 891.5	\$397	\$1.22
2008	2,305,364	967.8	420	1.29
2009	2,166,936	988.1	456	1.40
2010	1,857,564	1,011.1	544	1.67
2011 ⁽²⁾	1,632,277	995.6	610	1.87

Source: Metropolitan.

- (1) Year ended April 30.
- (2) Includes the sale of 34,519 acre-feet and the receipt of \$25.7 million from the Calleguas Municipal Water District related to termination of the Las Posas water storage program.
- (3) Gross receipts in each year are for sales in the twelve months ended April 30 of such year, with rates and charges invoiced in May and payable by the last business day of June of each year. Includes revenues from water wheeling and exchanges. See “METROPOLITAN REVENUES—Wheeling and Exchange Charges”.
- (4) Gross receipts divided by acre-feet sold. An acre-foot is approximately 326,000 gallons. See table entitled “SUMMARY OF WATER RATES” in this Appendix A for a description of water rates and classes of service.

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Rate Structure

The following rates and charges are elements of Metropolitan's rate structure for full service water deliveries:

Tier 1 and Tier 2 Water Supply Rates. The Tier 1 and Tier 2 Water Supply Rates are designed to recover Metropolitan's water supply costs. The Tier 2 Supply Rate is designed to reflect Metropolitan's costs of acquiring new supplies. Member agencies are charged the Tier 1 or Tier 2 Water Supply Rate for water purchases, as described under "—Member Agency Purchase Orders" below.

System Access Rate. The System Access Rate is intended to recover a portion of the costs associated with the conveyance and distribution system, including capital, operating and maintenance costs. All users (including member agencies and third-party entities wheeling or exchanging water; see "—Wheeling and Exchange Charges" below) of the Metropolitan system pay the System Access Rate.

Water Stewardship Rate. The Water Stewardship Rate is charged on a dollar per acre-foot basis to collect revenues to support Metropolitan's financial commitment to conservation, water recycling, groundwater recovery and other water management programs approved by the Board. The Water Stewardship Rate is charged for every acre-foot of water conveyed by Metropolitan because all users of Metropolitan's system benefit from the system capacity made available by investments in demand management programs.

System Power Rate. The System Power Rate is charged on a dollar per acre-foot basis to recover the cost of power necessary to pump water from the State Water Project and Colorado River through the conveyance and distribution system for Metropolitan's member agencies. The System Power Rate is charged for all Metropolitan supplies. Entities wheeling non-Metropolitan water supplies will pay the actual cost of power to convey water on the State Water Project, the Colorado River Aqueduct or the Metropolitan distribution system, whichever is applicable.

Treatment Surcharge. Metropolitan charges a treatment surcharge on a dollar per acre-foot basis for treated deliveries. The treatment surcharge is set to recover the cost of providing treated water service, including capital and operating cost.

Water Supply Surcharge. Effective January 1, 2009, Metropolitan adopted a Water Supply Surcharge of \$25 per acre-foot, applicable to Full Service Tier 1 untreated and treated water rates and to the Interim Agricultural Water Program untreated and treated water rates. The Water Supply Surcharge was intended to recover the costs of additional water transfers purchased to augment supplies from the State Water Project. These costs were anticipated to be about \$50 million in fiscal year 2008-09. However, on April 14, 2009 Metropolitan's Board adopted a Delta Supply Surcharge, which, effective September 1, 2009, eliminated and replaced the Water Supply Surcharge. See "—Delta Supply Surcharge" below.

Delta Supply Surcharge. On April 13, 2010, Metropolitan's Board adopted a Delta Supply Surcharge of \$51 and \$58 per acre-foot, effective January 1, 2011 and January 1, 2012, respectively, and applicable to all Tier 1, Interim Agricultural Water Program and Replenishment water rates. The Delta Supply Surcharge is designed to recover the additional supply costs Metropolitan faces as a result of pumping restrictions associated with the USFWS biological opinion on Delta smelt and other actions to protect endangered fish species. The Delta Surcharge is intended to remain in effect until a long-term solution for the Bay-Delta is achieved. Metropolitan had anticipated that the Delta Supply Surcharge would be reduced or suspended as interim Delta improvements ease pumping restrictions, resulting in lower costs for additional supplies. On April 10, 2012, the Board suspended the Delta Supply Surcharge, effective July 1, 2012.

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The amount of each of these rates since January 1, 2007, is shown in the table entitled “SUMMARY OF WATER RATES” under “—Water Rates by Water Category” below.

Litigation Challenging Rate Structure

SDCWA filed *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011, misallocate State Water Contract costs to the System Access Rate and the System Power Rate, and thus to charges for transportation of water, and that this results in an overcharge to SDCWA by at least \$24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan’s Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another \$5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates and charges adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with State Water Project supplies and the Water Stewardship Rate to water supply charges and not to transportation charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful. Nevertheless, to the extent that a court invalidates Metropolitan’s adopted rates and charges, Metropolitan will be obligated to adopt rates and charges that comply with any mandates imposed by the court. Metropolitan expects that such rates and charges would still recover Metropolitan’s cost of service. As such, revenues would not be affected. Metropolitan held \$13 million in its financial reserves pursuant to the exchange contract between Metropolitan and SDCWA due to SDCWA’s litigation challenging Metropolitan’s rate structure as of June 30, 2011. This amount is projected to increase to \$50 million by the end of fiscal year 2011-12. See “—Financial Reserve Policy” below. Amounts held pursuant to the exchange agreement will continue to accumulate based on the quantities of exchange water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. These amounts are transferable to SDCWA if it prevails in the litigation.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the water exchange agreement between Metropolitan and SDCWA (described herein under “METROPOLITAN’S WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*”) based on improper calculation of rates; improper exclusion of SDCWA’s payments under this exchange agreement from calculation of SDCWA’s preferential rights to purchase Metropolitan supplies (see “—Preferential Rights” below); and illegality of “rate structure integrity” provisions in conservation and local resources incentive agreements between Metropolitan and SDCWA. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains additional allegations but no new causes of action. While believing that the three surviving claims added to the rate challenge lack merit, Metropolitan is unable to assess at this time the likelihood of success of these or any future claims or the potential impact on Metropolitan’s revenues or operations.

On April 26, 2012, SDCWA submitted its claim for refund or damages arising from Metropolitan’s rates and charges adopted on April 10, 2012, to become effective January 1, 2013 and January 1, 2014, and notice that it may bring suit for breach of contract against Metropolitan. See “—Rate Structure” above and “—Water Rates by Water Category” below for a description of Metropolitan’s water rate structure and the rates and charges adopted on April 10, 2012. Submitting such a claim is required, pursuant to California law and Metropolitan’s regulations, before litigation for refund or damages can be filed against Metropolitan. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among

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its member agencies and lawful and will defend litigation challenging such rates, if filed. Metropolitan is unable to assess at this time the likelihood of success of this or any future claims.

Member Agency Purchase Orders

The current rate structure provides for a member agency's agreement to purchase water from Metropolitan by means of a voluntary purchase order. In consideration of executing its purchase order, the member agency is entitled to purchase a greater amount of water at the lower Tier 1 Water Supply Rate, as described in the following paragraph. Under each purchase order, a member agency agrees to purchase, over the ten-year term of the contract, an amount of water equal to at least 60 percent of its highest firm demand for Metropolitan water in any fiscal year from 1989-90 through 2001-02 multiplied by ten. Member agencies are allowed to vary their purchases from year to year, but a member agency will be obligated to pay for the full amount committed under the purchase order, even if it does not take its full purchase order commitment by the end of the ten-year period.

Each member agency that executed a purchase order will be allowed to purchase up to 90 percent of its base amount at the Tier 1 Water Supply Rate in any fiscal year during the term of the purchase order, and its base amount will be the greater of (1) its highest firm demand for Metropolitan water in any fiscal year from 1989-90 through 2001-02 or (2) its ten-year rolling average of firm demand for Metropolitan water. Amounts purchased by such agencies over the applicable base amount will be priced at the Tier 2 Water Supply Rate. Member agencies that did not enter into purchase orders will be permitted in any fiscal year to purchase 60 percent of their base amount (equal to the member agency's highest fiscal year demand between 1989-90 and 2001-02) at the Tier 1 Water Supply Rate. Twenty-four of Metropolitan's 26 member agencies executed purchase orders for an aggregate of 12.5 million acre-feet of water over the ten years ending December 31, 2012. As of December 31, 2010, 21 of the 24 member agencies with purchase orders had met their purchase order commitments and two other member agencies were expected to meet their commitments within the ten-year purchase order period. One agency, the City of Compton, was not on track to meet its commitment to purchase 33,720.6 acre-feet over the ten-year period. On November 8, 2011, Metropolitan's Board authorized the General Manager to execute a withdrawal of Compton's Purchase Order, effective January 1, 2003. This will lower Compton's Tier 1 limit as if its Purchase Order had not been executed and Compton will pay the Tier 2 Supply Rate on any future water purchases over the lower limit.

Metropolitan and its member agencies have begun discussing terms for potential renewals or replacements of purchase orders after the existing purchase orders expire on December 31, 2012. Any renewals or replacements would be subject to approval by Metropolitan's Board and the governing bodies of the respective member agencies.

Classes of Water Service

Full Service Water. Full service water service, formerly known as non-interruptible water service, includes water sold for domestic and municipal uses. Full service treated water rates are the sum of the applicable supply rate, system access rate, water stewardship rate, system power rate and treatment surcharge. Full service untreated water rates are the sum of the applicable supply rate, system access rate, water stewardship rate and system power rate. Full service water sales are the major component of Metropolitan water sales.

Interim Agricultural Water Program. This program provides a discounted rate for agricultural water users that, pursuant to the Act, are permitted to receive only surplus water not needed for domestic or municipal purposes. Metropolitan delivered approximately 34,000 acre-feet of agricultural water under this program in fiscal year 2009-10. The terms of the program provide that, should a water shortage occur, Metropolitan may reduce deliveries of agricultural water under the program by 24 percent in 2010 and 18 percent in 2011 before imposing conservation measures on Full Service deliveries. However, an allocation of

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Full Service deliveries in response to a water supply shortage could result in additional reductions of agricultural water deliveries. Metropolitan imposed a 30 percent reduction in agricultural water deliveries beginning January 1, 2008, to make this water (approximately 45,000 acre-feet) available to meet other demands.

On October 14, 2008, the Board approved annual reductions of the Interim Agricultural Water Program discount beginning January 1, 2010 and discontinuance of the program when the discount reaches zero on January 1, 2013. Customers participating in the program may irrevocably opt out of the program at the beginning of each calendar year during the phase-out period and may purchase water at Metropolitan's full service rates.

Replenishment. Replenishment water is sold at a discounted rate to member agencies that store water and subsequently use the water to offset demands on Metropolitan in times of shortage. Replenishment deliveries are subject to availability. Metropolitan ceased deliveries under the Replenishment Service Program on May 1, 2007. On May 10, 2011, Metropolitan's Board authorized the sale of up to 225,000 acre-feet of discounted Replenishment Service Program deliveries to member agencies between May 10, 2011 and December 31, 2011. Metropolitan staff and the member agencies are currently engaged in a process to review and refine the Replenishment Program. Changes to the Replenishment Program are anticipated to be considered by Metropolitan's Board in 2012.

Replenishment supplies sold at a discount in a given year may offset full service water sales. Metropolitan's water sales projections estimate the level of future production from groundwater, supported by an assumption of replenishment sales. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES—Water Sales Projections" in this Appendix A. To the extent that replenishment supplies are not available, estimated levels of future production from groundwater could be lower than estimated, resulting in a higher demand for Metropolitan supplies at full service water rates in the future.

Water Rates by Water Category

The following table sets forth Metropolitan's water rates by category beginning January 1, 2008. See also "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES—Water Sales Receipts" in this Appendix A. In addition to the base rates for untreated water sold in the different classes of service, the columns labeled "Treated" include the surcharge that Metropolitan charges for water treated at its water treatment plants. See "—Rate Structure" and "—Classes of Water Service" above for a description of current rates.

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**SUMMARY OF WATER RATES
(Dollars per Acre-Foot)**

	<u>SUPPLY RATE</u>		<u>SYSTEM ACCESS RATE</u>	<u>WATER STEWARDSHIP RATE</u>	<u>SYSTEM POWER RATE</u>	<u>TREATMENT SURCHARGE</u>
	<u>Tier 1</u>	<u>Tier 2</u>				
January 1, 2008	\$ 73	\$171	\$143	\$25	\$110	\$157
January 1, 2009	\$134†	\$250	\$143	\$25	\$110	\$167
September 1, 2009	\$170††	\$250	\$154	\$41	\$119	\$217
January 1, 2010	\$170††	\$280	\$154	\$41	\$119	\$217
January 1, 2011	\$155†††	\$280	\$204	\$41	\$127	\$217
January 1, 2012	\$164†††	\$290	\$217	\$43	\$136	\$234
January 1, 2013*	\$140††††	\$290	\$223	\$41	\$189	\$254
January 1, 2014*	\$148††††	\$290	\$243	\$41	\$161	\$297

	<u>FULL SERVICE TREATED⁽¹⁾</u>		<u>FULL SERVICE UNTREATED⁽²⁾</u>		<u>INTERIM AGRICULTURAL PROGRAM</u>		<u>REPLENISHMENT RATE</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>Treated</u>	<u>Untreated</u>	<u>Treated</u>	<u>Untreated</u>
January 1, 2008	\$508	\$606	\$351	\$449	\$394	\$261	\$390	\$258
January 1, 2009	\$579	\$695	\$412	\$528	\$465†	\$322†	\$436	\$294
September 1, 2009	\$701	\$781	\$484	\$564	\$587	\$394	\$558	\$366
January 1, 2010	\$701	\$811	\$484	\$594	\$615	\$416	\$558	\$366
January 1, 2011	\$744	\$869	\$527	\$652	\$687	\$482	\$601	\$409
January 1, 2012	\$794	\$920	\$560	\$686	\$765	\$537	\$651	\$442
January 1, 2013*	\$847	\$997	\$593	\$743	**	**	**	**
January 1, 2014*	\$890	\$1,032	\$593	\$735	**	**	**	**

Source: Metropolitan.

* Rates effective January 1, 2013 and January 1, 2014 were adopted by Metropolitan's Board on April 10, 2012.

** The Interim Agricultural Water Program will be discontinued after 2012. Discussions on the replenishment program are continuing with Metropolitan's member agencies. No Replenishment Rates have been adopted for 2013 or 2014.

† Includes \$25 per acre-foot Water Supply Surcharge.

†† Includes \$69 per acre-foot Delta Supply Surcharge, which replaced Water Supply Surcharge.

††† Includes \$51 and \$58 per acre-foot Delta Supply Surcharge for January 1, 2011 and January 1, 2012, respectively.

†††† Excludes Delta Supply Surcharge, which will be suspended for 2013 and 2014.

(1) Full service treated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate, System Power Rate and Treatment Surcharge.

(2) Full service untreated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate and System Power Rate.

Additional Revenue Components

Additional charges for the availability of Metropolitan's water are:

Readiness-to-Serve Charge. This charge is designed to recover a portion of the principal and interest payments on water revenue bonds issued to fund capital improvements necessary to meet continuing reliability and water quality needs. The Readiness-to-Serve Charge ("RTS") is allocated to each member

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agency in proportion to the rolling ten-year share of deliveries through Metropolitan's system. The RTS generated \$87 million in fiscal year 2008-09, \$101.9 million in fiscal year 2009-10 and \$119.2 million in fiscal year 2010-11.

Water Standby Charges. The Board is authorized to impose water standby or availability of service charges. In May 1993, the Board imposed a water standby charge for fiscal year 1993-94 ranging from \$6.94 to \$15 for each acre or parcel less than an acre within Metropolitan's service area, subject to specified exempt categories. Water standby charges have been imposed at the same rate in each year since 1993-94. Standby charges are assessments under the terms of Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996. See "—California Ballot Initiatives" below.

Member agencies have the option to utilize Metropolitan's existing standby charge authority as a means to collect all or a portion of their RTS charge. Standby charge collections are credited against the member agencies' RTS charges. See "—*Readiness-to-Serve Charge*" above. Twenty-two member agencies collect their RTS charges through standby charges. For fiscal years 2008-09, 2009-10 and 2010-11, RTS charges collected by means of such standby charges were \$43.5 million, \$42.8 million and \$43.2 million, respectively.

Capacity Charge. The Capacity Charge is a fixed charge levied on the maximum summer day demand placed on Metropolitan's system between May 1 and December 30 for the three-calendar-year period ended December 31, 2008 and December 31, 2009 for charges effective 2010 and 2011 respectively. The Capacity Charge is intended to recover the cost of providing peak capacity within the distribution system. Effective January 1, 2010, the Capacity Charge was \$7,200 per cfs of maximum daily flow, which will remain at \$7,200 per cfs during 2011 and increase to \$7,400 per cfs effective January 1, 2012.

Financial Reserve Policy

Metropolitan's reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan's water sales. The policy establishes a minimum targeted unrestricted reserve level based on an 18-month revenue shortfall estimate and a maximum level based on an additional two years revenue shortfall estimate. The Water Rate Stabilization and Revenue Remainder funds increased by \$35.7 million in fiscal year 2008-09 and decreased by \$29 million in fiscal year 2009-10 and \$61 million during fiscal year 2010-11, which includes \$13 million held in financial reserves pursuant to the exchange contract between Metropolitan and SDCWA (see "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*") due to the SDCWA litigation challenging Metropolitan's rate structure. See "METROPOLITAN REVENUES—Litigation Challenging Rate Structure". Additional transfers related to the SDCWA litigation will be made during FY 2011-12, such that this reserve is projected to increase to \$50 million by the end of fiscal year 2011-12. As of June 30, 2011, the minimum reserve requirement was \$191 million. The maximum reserve limit at June 30, 2011 was \$483 million. Funds representing the minimum reserve level are held in the Revenue Remainder Fund, and any funds in excess of the minimum reserve level (up to the maximum reserve level) are held in the Water Rate Stabilization Fund. Reserves at June 30, 2011 totaled \$248 million, consisting of Water Rate Stabilization Fund and Revenue Remainder Fund balances and the \$13 million held in Metropolitan's financial reserves pursuant to the exchange contract between Metropolitan and SDCWA due to SDCWA's litigation challenging Metropolitan's rate structure. See "METROPOLITAN REVENUES—Rate Structure", "—Litigation Challenging Rate Structure" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES—Water Sales Receipts" in this Appendix A and "THE MASTER RESOLUTION—Water Revenue Fund—*Revenue Remainder Fund*" in Appendix C—SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS. Unrestricted reserves in excess of the maximum reserve level may be used for any lawful purpose of Metropolitan, as directed by the Board. Consistent with State legislation, Metropolitan will ensure that any funds in excess of maximum reserve levels that are

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distributed to member agencies will be distributed in proportion to water sales revenues received from each member agency. Since actual reserve balances were less than the maximum reserve limit at June 30, 2011, no action was taken by the Board. In addition, Metropolitan maintains various restricted reserves, including reserves for risk retention, operations and maintenance expenses, State Water Contract payments, and other obligations and purposes.

Wheeling and Exchange Charges

The process for the delivery of water not owned or controlled by Metropolitan is referred to as “wheeling.” Under the current rate structure, wheeling parties pay the System Access Rate and Water Stewardship Rate, Treatment Surcharge (if applicable) and power costs for wheeling transactions. See “—Rate Structure” above. These payments are included in Net Operating Revenues. Wheeling and exchange revenues totaled \$26.8 million during fiscal year 2008-09, \$53.7 million during fiscal year 2009-10, and \$51.8 million during fiscal year 2010-11. See “—Rate Structure” above for a description of litigation filed by the SDCWA challenging Metropolitan’s System Access Rate and Water Stewardship Rate.

Hydroelectric Power Recovery Revenues

Metropolitan has constructed 16 small hydroelectric plants on its distribution system. The plants are located in Los Angeles, Orange, Riverside and San Diego Counties at existing pressure control structures and other locations. The combined generating capacity of these plants is approximately 122 megawatts. The total capital cost of these 16 facilities is approximately \$176.1 million. Since 2000, annual energy generation sales revenues have ranged between \$16 million and \$27 million. Energy generation sales revenues were \$18.9 million for fiscal year 2009-10 and \$22.1 million for fiscal year 2010-11.

Power from five of the plants is sold to DWR under an existing contract at a price based on a contractual unit rate methodology to supply power to the State Water Project. This price is renegotiated every six years. For 2007 through 2012, the unit rate is determined by fixed and variable components. One variable component represents an incremental fuel price based on a five-year rolling average gas price.

Power from nine of the plants was sold to the Southern California Edison Company, a subsidiary of Edison International (“Edison”) through October 31, 2008. Three new contracts effective November 1, 2008, split power sales from the nine plants among Edison, Los Angeles Department of Water and Power and the Southern California Public Power Authority. All three contracts are for the sale of renewable power and are based on a fixed energy rate for the term of the contracts. The minimum contract term is five years and maximum term is fifteen years.

Energy generation from a fifteenth plant, the Etiwanda Power Plant, is sold to the Pacific Gas and Electric Company (“PG&E”) under a contract that was amended in November 2004 to accommodate terminating transmission and scheduling arrangements. The contract energy price is based on a formula that includes a monthly gas rate, a capital related cost and a performance factor. The contract is subject to renegotiation upon the occurrence of specified events and can be terminated by either party under various conditions and circumstances, beginning in 2014.

The sixteenth plant, the Diamond Valley Lake Hydroelectric Power Plant, began generating on May 23, 2001, and its current maximum dependable output is 21 megawatts. Actual generation is determined by water delivery requirements and is sold at market rates to various buyers.

Principal Customers

All of Metropolitan’s regular customers are member agencies. Total water sales to the member agencies accrued for the fiscal year ended June 30, 2011 were 1.62 million acre-feet, generating \$1.00 billion in water sales revenues for such period. Metropolitan’s ten largest water customers in the year ended June 30,

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2011 are shown in the following table. On June 11, 2010, the SDCWA filed litigation challenging Metropolitan's rates. See "—Litigation Challenging Rate Structure" above.

TEN LARGEST WATER CUSTOMERS
Year Ended June 30, 2011
Accrual Basis (Unaudited)

<u>Agency</u>	<u>Water Sales Revenues</u>	<u>Percent of Total</u>	<u>Water Sales in Acre-Feet</u>	<u>Percent of Total</u>
San Diego County Water Authority	\$200,721,749	20.1%	407,372	25.1%
MWD of Orange County	145,657,762	14.6	208,023	12.8
City of Los Angeles	99,222,561	9.9	166,352	10.2
Calleguas MWD	94,624,298	9.5	130,281	8.0
West Basin MWD	83,804,847	8.4	116,245	7.2
Eastern MWD	56,508,518	5.6	84,777	5.2
Western MWD of Riverside	47,095,262	4.7	72,408	4.5
Central Basin MWD	39,330,461	3.9	62,614	3.9
Three Valleys MWD	39,181,062	3.9	63,493	3.9
Inland Empire Utilities Agency	<u>32,853,032</u>	<u>3.3</u>	<u>67,591</u>	<u>4.2</u>
Total	\$838,999,552	83.8%	1,379,156	85.0%
Total Water Sales Revenues	\$ 1,001,045,635	Total Acre-Feet	1,623,575	

Source: Metropolitan.

Preferential Rights

Section 135 of the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan, based upon a ratio of all payments on tax assessments and otherwise, except purchases of water, made to Metropolitan by the member agency compared to total payments made by all member agencies on tax assessments and otherwise since Metropolitan was formed, except purchases of water. Historically, these rights have not been used in allocating Metropolitan's water. The California Court of Appeal has upheld Metropolitan's methodology for calculation of the respective member agencies' preferential rights under Section 135 of the Act.

California Ballot Initiatives

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996 adding Articles XIII C and XIII D to the California Constitution. Article XIII D provides substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" levied by a local government upon a parcel of real property or upon a person as an incident of property ownership. As a wholesaler, Metropolitan serves water to its member agencies, not to persons or properties as an incident of property ownership. Thus, water rates charged by Metropolitan to its member agencies are not property related fees and charges and therefore are exempt from the requirements of Article XIII D. Fees for water service by Metropolitan's member agencies or their agencies providing retail water service are subject to the requirements of Article XIII D.

Article XIII D also imposes certain procedures with respect to assessments. Under Article XIII D, "standby charges" are considered "assessments" and must follow the procedures required for "assessments." Metropolitan has imposed water standby charges since 1992. Any change to Metropolitan's current standby

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charges could require notice to property owners and approval by a majority of such owners returning mail-in ballots approving or rejecting any imposition or increase of such standby charge. Twenty-two member agencies have elected to collect all or a portion of their readiness-to-serve charges through standby charges. See “—Additional Revenue Components—*Readiness-to-Serve Charge*” and “—*Water Standby Charges*” above. Even if Article XIID is construed to limit the ability of Metropolitan and its member agencies to impose or collect standby charges, the member agencies will continue to be obligated to pay the readiness-to-serve charges.

Article XIIC extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996 or to property-related fees and charges and absent other authority could result in retroactive reduction in existing taxes, assessments or fees and charges.

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of “tax” in Article XIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIID of the California Constitution. California local taxes are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. Metropolitan believes its water rates and charges are not taxes under Proposition 26. Nevertheless, Metropolitan is assessing whether Proposition 26 may affect future water rates and charges.

Propositions 218 and 26 were adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of Metropolitan or its member agencies to increase revenues or to increase appropriations. Such measures may further affect Metropolitan’s ability to collect taxes, assessments or fees and charges, which could have an effect on Metropolitan’s revenues.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to Metropolitan’s water revenue or general obligation revenue bond resolutions are invested by the Treasurer in accordance with Metropolitan’s Statement of Investment Policy. All Metropolitan funds available for investment are currently invested in United States Treasury and agency securities, commercial paper, negotiable certificates of deposit, banker’s acceptances, corporate notes, municipal bonds, asset-backed, mortgage-backed securities and the California Local Agency Investment Fund (“LAIF”). The LAIF is a voluntary program created by statute as an investment alternative for California’s local governments and special districts. LAIF permits such local agencies to participate in an investment portfolio, which invests billions of dollars, using the investment expertise of the State Treasurer’s Office.

The Statement of Investment Policy provides that in managing Metropolitan’s investments, the primary objective shall be to safeguard the principal of the invested funds. The secondary objective shall be to meet all liquidity requirements and the third objective shall be to achieve a return on the invested funds. Although the Statement of Investment Policy permits investments in some asset-backed securities, the portfolio does not include any of the special investment vehicles related to sub-prime mortgages. Revisions to the Statement of Investment Policy were adopted by Metropolitan’s Board on June 7, 2011 which allow

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Metropolitan to exceed the portfolio and single issuer limits for purchases of California local agency securities when purchasing Metropolitan tendered bonds in conjunction with its self-liquidity program. See “METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations” in this Appendix A. Metropolitan’s current investments comply with the Statement of Investment Policy.

As of April 30, 2012, the total market value of all Metropolitan funds was \$1.034 billion. In fiscal year 2010-11, Metropolitan’s earnings on investments, including adjustments for gains and losses and premiums and discounts, on a cash basis (unaudited) were \$20.0 million. In fiscal year 2009-10, Metropolitan’s earnings on investments, including adjustments for gains and losses and premiums and discounts, on a cash basis (unaudited), including construction account and trust fund earnings, were \$29.5 million. In fiscal year 2008-09, Metropolitan’s earnings on investments, including adjustments for gains and losses and premiums and discounts, on a cash basis (unaudited) were \$36.4 million, including construction account and trust fund earnings. See Footnote 3 to Metropolitan’s audited financial statements in Appendix B for additional information on the investment portfolio.

Metropolitan’s regulations require that (1) the Treasurer provide an annual Statement of Investment Policy for approval by Metropolitan’s Board, (2) the Treasurer provide a monthly investment report to the Board and the General Manager showing by fund the description, maturity date, yield, par, cost and current market value of each security, and (3) the General Counsel review as to eligibility the securities invested in by the Treasurer for that month and report his or her determinations to the Board. The Board approved the Statement of Investment Policy for fiscal year 2011-12 on June 7, 2011.

Subject to the provisions of Metropolitan’s water revenue or general obligation bond resolutions, obligations purchased by the investment of bond proceeds in the various funds and accounts established pursuant to a bond resolution are deemed at all times to be a part of such funds and accounts and any income realized from investment of amounts on deposit in any fund or account therein will be credited to such fund or account. The Treasurer is required to sell or present for redemption any investments whenever it may be necessary to do so in order to provide moneys to meet required payments or transfers from such funds and accounts. For the purpose of determining at any given time the balance in any such funds, any such investments constituting a part of such funds and accounts will be valued at the then estimated or appraised market value of such investments.

All investments, including those authorized by law from time to time for investments by public agencies, contain certain risks. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under Metropolitan’s water revenue or general obligation revenue bond resolutions, or other amounts held by Metropolitan, could have a material adverse effect on Metropolitan’s finances. These risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by Metropolitan’s Statement of Investment Policy.

The Statement of Investment Policy requires that investments have a minimum credit rating of A1/P1/F1 for short-term securities and A for longer-term securities at the time of purchase. If immediate liquidation of a security downgraded below these levels is not in the best interests of Metropolitan, the Treasurer or investment manager, in consultation with an ad hoc committee made up of the Chairman of the Board, the Chairman of the Finance and Insurance Committee and the General Manager, and with the concurrence of the General Counsel, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by a majority of the members of such ad hoc committee. The Treasurer is required to include a description of any securities that have been downgraded below investment grade and the status of their disposition in the Treasurer’s monthly report.

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The Statement of Investment Policy also limits the amount of securities that can be purchased by category, as well as by issuer, and prohibits investments that can result in zero interest income. Metropolitan's securities are settled on a delivery versus payment basis and are held by an independent third-party custodian. See Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)" for a description of Metropolitan's investments at June 30, 2011.

Metropolitan retains two outside investment firms to manage the long-term portion of Metropolitan's portfolio. The outside managers are required to adhere to Metropolitan's Statement of Investment Policy. As of April 30, 2012, such managers are managing approximately \$322 million in investments on behalf of Metropolitan. Metropolitan's Statement of Investment Policy may be changed at any time by the Board (subject to State law provisions relating to authorized investments). There can be no assurance that the State law and/or the Statement of Investment Policy will not be amended in the future to allow for investments that are currently not permitted under State law or the Statement of Investment Policy, or that the objectives of Metropolitan with respect to investments or its investment holdings at any point in time will not change.

METROPOLITAN EXPENDITURES

General

The following table sets forth a summary of Metropolitan's expenditures, by major function, for the five years ended June 30, 2011. The table provides cash basis information, which is unaudited. Expenses of Metropolitan for the fiscal years ended June 30, 2011 and June 30, 2010, on an accrual basis, are shown in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)."

SUMMARY OF EXPENDITURES Fiscal Years Ended June 30 (Dollars in Millions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operation and Maintenance Costs ⁽¹⁾	\$ 367.2	\$ 416.9	\$ 455.6	\$ 441.6	\$ 430.8
Total State Water Project and Water Transfers ⁽²⁾	408.5	564.9	478.8	560.1	593.4
Total Debt Service	249.9	268.5	281.6	287.0	306.7
Construction Disbursements from Revenues ⁽³⁾	129.7	45.4	30.6	35.1	45.0
Other ⁽⁴⁾	6.1	6.4	8.3	5.3	2.4
Total Disbursements (net of reimbursements) ⁽⁵⁾	<u>\$1,161.4</u>	<u>\$1,302.1</u>	<u>\$1,254.9</u>	<u>\$1,329.1</u>	<u>\$1,378.3</u>

Source: Metropolitan.

- (1) Includes inventories, undistributed payroll, local resource programs, conservation programs and Colorado River Aqueduct (CRA) power. See the table headed "Summary of Receipts by Source" under "METROPOLITAN REVENUES" in this Appendix A.
- (2) Includes both operating and capital expense portions. See "METROPOLITAN'S WATER SUPPLY—Water Transfer, Storage and Exchange Programs" and "POWER SOURCES AND COSTS" in this Appendix A.
- (3) At the discretion of the Board, in any given year, Metropolitan may increase or decrease funding available for construction disbursements to be paid from revenues. Disbursements paid from revenues decreased in fiscal years 2007-08 and 2008-09, primarily due to the Board's policy to maintain adequate reserve levels in the rate stabilization funds to mitigate future increases

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in water rates and charges. See “METROPOLITAN REVENUES—Financial Reserve Policy” in this Appendix A. Does not include expenditures of bond proceeds.

- (4) Includes operating equipment and arbitrage rebate.
- (5) Disbursements exceeded revenues in the fiscal years ended June 30, 2008, 2010 and 2011. See “METROPOLITAN REVENUES—Financial Reserve Policy” in this Appendix A.

Revenue Bond Indebtedness

Metropolitan has issued the following water revenue bonds, which as of June 1, 2012, were outstanding in the amounts set forth below:

<u>Name of Issue</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>
Water Revenue Bonds, Issue of 1991	\$ 300,000,000	\$ -0-
Water Revenue Bonds, Issue of 1992	550,000,000	-0-
Water Revenue Refunding Bonds, 1993 Series A	168,759,889	105,185,000
Water Revenue Refunding Bonds, 1993 Series B	89,595,000	-0-
Water Revenue Bonds, 1995 Series A	175,000,000	-0-
Water Revenue Refunding Bonds, 1996 Series A	108,375,000	-0-
Water Revenue Refunding Bonds, 1996 Series B	258,875,000	-0-
Water Revenue Bonds, 1996 Series C	377,500,000	-0-
Water Revenue Bonds, 1997 Authorization, Series A	650,000,000	-0-
Water Revenue Bonds, 1997 Authorization, Series B and Series C ⁽¹⁾	100,000,000	100,000,000
Water Revenue Refunding Bonds, 1998 Series A	148,705,000	-0-
Water Revenue Bonds, 1999 Authorization, Series A	100,000,000	-0-
Water Revenue Bonds, 1999 Authorization, Series B and Series C	100,000,000	-0-
Water Revenue Bonds, 2000 Series B1-B4 ⁽¹⁾	355,200,000	266,400,000
Water Revenue Refunding Bonds, 2001 Series A	195,670,000	-0-
Water Revenue Refunding Bonds, 2001 Series B1 and B-2	224,800,000	-0-
Water Revenue Bonds, 2001 Series C-1 and C-2	200,000,000	-0-
Water Revenue Refunding Bonds, 2002 Series A	96,640,000	-0-
Water Revenue Refunding Bonds, 2002 Series B	35,600,000	-0-
Water Revenue Refunding Bonds, 2003 Series A	36,215,000	27,110,000
Water Revenue Bonds, 2003 Authorization, Series B-1	105,580,000	-0-
Water Revenue Bonds, 2003 Authorization, Series B-2	94,420,000	-0-
Water Revenue Refunding Bonds, 2003 Series C-1, C-2 and C-3	338,230,000	-0-
Water Revenue Refunding Bonds, 2004 Series A-1 and A-2 ^{(1)*}	162,455,000	155,930,000
Water Revenue Refunding Bonds, 2004 Series B	274,415,000	157,315,000
Water Revenue Bonds, 2003 Authorization, Series B-3 and B-4	300,000,000	92,430,000
Water Revenue Refunding Bonds, 2004 Series C	136,090,000	-0-
Water Revenue Bonds, 2005 Authorization, Series A	100,000,000	85,890,000
Water Revenue Bonds, 2005 Authorization, Series B-1 and B-2	100,000,000	-0-
Water Revenue Refunding Bonds, 2006 Series A-1 and A-2 ^{(1)*}	74,140,000	73,825,000
Water Revenue Bonds, 2005 Authorization, Series C	200,000,000	175,000,000
Water Revenue Bonds, 2005 Authorization, Series D-1 and D-2	100,000,000	-0-
Water Revenue Refunding Bonds, 2006 Series B	45,875,000	24,055,000
Water Revenue Bonds, 2006 Authorization, Series A	400,000,000	395,970,000
Water Revenue Bonds, 2006 Authorization, Series B	100,000,000	-0-
Water Revenue Refunding Bonds, 2007 Series A-1 and A-2	218,425,000	-0-
Water Revenue Refunding Bonds, 2007 Series B	81,900,000	-0-
Water Revenue Refunding Bonds, 2008 Series A-1 ^{(1)*}	250,940,000	195,960,000
Water Revenue Refunding Bonds, 2008 Series A-2 ^{(1)*}	250,635,000	202,540,000
Water Revenue Refunding Bonds, 2008 Series B	133,430,000	127,885,000
Water Revenue Refunding Bonds, 2008 Series C	79,045,000	61,395,000
Water Revenue Bonds, 2008 Authorization, Series A	200,000,000	196,025,000
Water Revenue Refunding Bonds, 2009 Series A-1 and A-2 ⁽¹⁾	208,365,000	208,365,000
Water Revenue Refunding Bonds, 2009 Series B	106,690,000	106,690,000
Water Revenue Refunding Bonds, 2009 Series C	91,165,000	91,165,000
Water Revenue Bonds, 2008 Authorization, Series B	21,615,000	21,615,000
Water Revenue Bonds, 2008 Authorization, Series C ⁽²⁾	78,385,000	78,385,000
Water Revenue Bonds, 2008 Authorization, Series D ⁽²⁾	250,000,000	250,000,000
Water Revenue Refunding Bonds, 2009 Series D	81,065,000	81,065,000
Water Revenue Refunding Bonds, 2009 Series E	26,050,000	26,050,000
Water Revenue Refunding Bonds, Special Variable Rate, 2010 Series A ^{(1)*}	128,005,000	127,035,000
Water Revenue Refunding Bonds, 2010 Series B	88,845,000	88,845,000
Water Revenue Bonds, 2010 Authorization, Series A ⁽²⁾	250,000,000	250,000,000
Water Revenue Refunding Bonds, 2011 Series A1-A4 ⁽¹⁾	228,875,000	228,875,000
Water Revenue Refunding Bonds, 2011 Series B	167,885,000	167,885,000
Water Revenue Refunding Bonds, 2011 Series C	157,100,000	157,100,000
Water Revenue Refunding Bonds, 2012 Series A	181,180,000	181,180,000
Water Revenue Refunding Bonds, 2012 Series B-1 and B-2 ⁽¹⁾	98,585,000	98,585,000
Total	\$10,180,324,889	\$4,605,725,000

Source: Metropolitan. (Footnotes on next page)

- (1) Outstanding variable rate obligation.
 - (2) Designated as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009.
- * Metropolitan expects to issue its Water Revenue Refunding Bonds, 2012 Series C and 2012 Series E to refund all or a portion of these bonds.

Limitations on Additional Revenue Bonds

Resolution 8329, adopted by Metropolitan's Board on July 9, 1991, as amended and supplemented (collectively with all such supplemental resolutions, the "Revenue Bond Resolutions") provide for the issuance of Metropolitan's water revenue bonds. The Revenue Bond Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues. Under the Revenue Bond Resolutions, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues may be issued having any priority in payment of principal, redemption premium, if any, or interest over any water revenue bonds or Parity Obligations. No additional Parity Bonds or Parity Obligations may be issued or incurred unless the conditions of the Revenue Bond Resolutions have been satisfied.

The laws governing Metropolitan's ability to issue water revenue bonds currently provide two additional limitations on indebtedness that may be incurred by Metropolitan. The Act provides for a limit on general obligation bonds, water revenue bonds and other evidences of indebtedness at 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of June 1, 2012, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.82 billion represented approximately 0.23 percent of the fiscal year 2011-12 taxable assessed valuation of \$2,067.5 billion. The second limitation under the Act specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan 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 outstanding following the issuance of such bonds. The net assets of Metropolitan at June 30, 2011 were \$6.26 billion. The aggregate amount of revenue bonds outstanding as of June 1, 2012 was \$4.61 billion. The limitation does not apply to other forms of financing available to Metropolitan. Audited financial statements including the net assets of Metropolitan as of June 30, 2011 and June 30, 2010, respectively, are shown in Appendix B – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)." Metropolitan provides no assurance that the Act's limitations on indebtedness will not be revised or removed by future legislation. Limitations under the Revenue Bond Resolutions respecting the issuance of additional obligations payable from Net Operating Revenues on a parity with water revenue bonds of Metropolitan will remain in effect so long as any water revenue bonds authorized pursuant to the Revenue Bond Resolutions are outstanding, provided however, that the Revenue Bond Resolutions are subject to amendment and supplement in accordance with their terms.

Variable Rate and Swap Obligations

As of June 1, 2012, Metropolitan had outstanding \$1.66 billion of variable rate obligations, including \$535.8 million of bonds bearing interest in the Index Mode (the "Index Tender Bonds") and \$127.0 million of special variable rate bonds initially designated as self-liquidity bonds (the "Self-Liquidity Bonds"). The Index Tender Bonds bear interest at a rate that fluctuates weekly based on the SIFMA Municipal Swap Index published weekly by Municipal Market Data; however, if the purchase price of a series of Index Tender Bonds is not paid from proceeds of a remarketing or other funds following a scheduled mandatory tender, such Index Tender Bonds will bear interest at a default rate of up to twelve percent per annum until purchased by Metropolitan or redeemed. The Self-Liquidity Bonds are variable rate demand bonds that bear interest at a weekly rate determined by the remarketing agent for the Self-Liquidity Bonds. The Self-Liquidity Bonds are subject to optional tender upon seven days notice by the owners thereof and mandatory tender upon specified events. Metropolitan is irrevocably committed to purchase all Self-Liquidity Bonds tendered pursuant to any optional or mandatory tender to the extent that remarketing proceeds are insufficient therefor. Metropolitan's

obligation to pay the purchase price of any tendered Self-Liquidity Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues and other available funds. Metropolitan has not secured any liquidity facility or letter of credit to pay the purchase price of any tendered Self-Liquidity Bonds. See “—Other Revenue Obligations” below.

The interest rates for Metropolitan’s other variable rate obligations are reset on a daily or weekly basis. Such variable rate demand obligations are supported by Standby Bond Purchase Agreements between Metropolitan and various liquidity providers. As of June 1, 2012, the following table sets forth a listing of the liquidity providers, the expiration date of each facility and the principal amount of outstanding bonds covered under each facility.

<u>Liquidity Provider</u>	<u>Bond Issue</u>	<u>Principal Outstanding</u>	<u>Facility Expiration</u>
Barclays Bank PLC	2008 Series A-2 ⁽¹⁾	<u>\$202,540,000</u>	September 2013
	Total	\$202,540,000	
Bank of America, N.A.	2008 Series A-1 ⁽¹⁾	<u>195,960,000</u>	September 2014
	Total	\$195,960,000	
JP Morgan Chase Bank	2004 Series A-1 ⁽¹⁾	77,965,000	September 2012
	2004 Series A-2 ⁽¹⁾	<u>77,965,000</u>	September 2012
	Total	\$155,930,000	
Wells Fargo Bank, N.A.	2000 Series B-3	\$ 88,800,000	February 2014
	2000 Series B-4	<u>88,800,000</u>	February 2014
	Total	\$177,600,000	
Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)	2000 Series B-2	\$ 88,800,000	July 2013
	2006 Series A-1 ⁽¹⁾	36,910,000	May 2013
	2006 Series A-2 ⁽¹⁾	<u>36,915,000</u>	May 2013
	Total	\$162,625,000	
Landesbank Hessen-Thuringen Girozentrale (Helaba)	1997 Series B	\$ 50,000,000	December 2015 ⁽²⁾
	1997 Series C	<u>50,000,000</u>	December 2015 ⁽²⁾
	Total	\$100,000,000	
Total		<u>\$994,655,000</u>	

Source: Metropolitan.

- (1) Metropolitan expects to issue its Water Revenue Refunding Bonds, 2012 Series C and E to refund all or a portion of these bonds.
(2) Subject to earlier termination on September 6, 2012 and each September 6 thereafter until the expiration date, upon 120 days prior notice from the liquidity provider.

Included in Metropolitan's \$1.66 billion of variable rate obligations are \$1.15 billion of variable rate demand obligations which, by virtue of interest rate swap agreements, are treated by Metropolitan as fixed rate debt for the purpose of calculating debt service requirements, although the variable payments that Metropolitan receives from swap counterparties do not usually equal the payments that Metropolitan makes on associated variable rate debt. The remaining \$514 million of variable rate obligations represent approximately 11 percent of total outstanding water revenue bonds.

Metropolitan's variable rate exposure policy requires that variable rate debt be managed to limit net interest cost increases within a fiscal year as a result of interest rate changes to no more than \$5 million. In addition, the maximum amount of variable interest rate exposure (excluding variable rate bonds associated with interest rate swap agreements) is limited to 40 percent of total outstanding water revenue bond debt. Variable rate debt capacity will be reevaluated as interest rates change and managed within these parameters.

By resolution adopted on September 11, 2001, Metropolitan's Board authorized the execution of interest rate swap transactions and related agreements in accordance with a master swap policy, which was subsequently amended by resolutions adopted on July 14, 2009 and May 11, 2010. Metropolitan may execute interest rate swaps if the transaction can be expected to reduce exposure to changes in interest rates on a particular financial transaction or in the management of interest rate risk derived from Metropolitan's overall asset/liability balance, result in a lower net cost of borrowing or achieve a higher net rate of return on investments made in connection with or incidental to the issuance, incurring or carrying of Metropolitan's obligations or investments, or manage variable interest rate exposure consistent with prudent debt practices and Board-approved guidelines. The Chief Financial Officer reports to the Finance and Insurance Committee of Metropolitan's Board each month on outstanding swap transactions, including notional amounts outstanding, counterparty exposures and termination values based on then-existing market conditions.

Metropolitan currently has two types of interest rate swaps. Under the first type, Metropolitan receives payments that are calculated by reference to a floating interest rate and makes payments that are calculated by reference to a fixed interest rate. These swaps are referred to in the table below as "Fixed Payor Swaps." Under the second type, referred to in the table below as "Basis Swaps," Metropolitan receives payments calculated by reference to a percentage of the taxable index, LIBOR. In return, Metropolitan makes payments that are calculated based on either SIFMA or the taxable short-term index, one-month LIBOR.

Net payments under the terms of the interest rate swap agreements are payable on a parity with the Parity Obligations. Termination payments under the 2001, 2002 A and 2002 B interest rate swap agreements would be payable on a parity with the Parity Obligations. All other termination payments related to interest rate swap agreements would be subordinate to the Parity Obligations.

The following swap transactions were outstanding as of June 1, 2012:

FIXED PAYOR SWAPS:

<u>Designation</u>	<u>Notional Amount Outstanding</u>	<u>Swap Counterparty</u>	<u>Fixed Payor Rate</u>	<u>MWD Receives</u>	<u>Maturity Date</u>
2001 ⁽²⁾	\$107,500,000	JPMorgan Chase Bank	4.219%	SIFMA-35 bps	7/1/2020
2001 ⁽¹⁾⁽²⁾	107,500,000	Deutsche Bank AG	4.219	SIFMA-35 bps	7/1/2020
2002 A	89,069,300	Morgan Stanley Capital Services, Inc.	3.300	57.74% of one-month LIBOR	7/1/2025
2002 B	33,320,700	JPMorgan Chase Bank	3.300	57.74% of one-month LIBOR	7/1/2025
2003 ⁽¹⁾	164,637,500	Deutsche Bank AG	3.257	61.20% of one-month LIBOR	7/1/2030
2003	164,637,500	JPMorgan Chase Bank	3.257	61.20% of one-month LIBOR	7/1/2030
2004 A ⁽²⁾	155,930,000	Morgan Stanley Capital Services, Inc.	2.917	61.20% of one-month LIB OR	7/1/2023
2004 C ⁽²⁾	72,226,000	Morgan Stanley Capital Services, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2004 C ⁽²⁾	59,094,000	Citigroup Financial Products, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2005	58,547,500	JPMorgan Chase Bank	3.360	70% of 3-month LIBOR	7/1/2030
2005	58,547,500	Citigroup Financial Products, Inc.	3.360	70% of 3-month LIBOR	7/1/2030
2006 ⁽¹⁾⁽²⁾	30,990,000	Deutsche Bank AG	3.210	63% of 3-month LIBOR	7/1/2021
2006 ⁽²⁾	30,990,000	JPMorgan Chase Bank	3.210	63% of 3-month LIBOR	7/1/2021
2006 ⁽¹⁾	6,027,500	Deutsche Bank AG	2.911	63% of 3-month LIBOR	7/1/2012
2006	<u>6,027,500</u>	JPMorgan Chase Bank	2.911	63% of 3-month LIBOR	7/1/2012
Total	\$1,145,045,000				

Source: Metropolitan.

- (1) The obligations under these interest rate swap agreements were assigned by UBS AG to Deutsche Bank AG, New York Branch, pursuant to novation transactions dated July 22, 2010.
- (2) Metropolitan expects to issue its Water Revenue Refunding Bonds, 2012 Series C and D to fund payments associated with the termination of all or a portion of these fixed payor swaps.

BASIS SWAPS:

<u>Swap</u>	<u>Notional Amount Outstanding</u>	<u>Swap Counterparty</u>	<u>Met Receives</u>	<u>Met Pays</u>	<u>Maturity Date</u>
2004	\$125,000,000	JPMorgan Chase Bank	70% of one-month LIBOR + 31.5 bp	SIFMA	7/1/2014
2004	<u>125,000,000</u>	JPMorgan Chase Bank	70% of one-month LIBOR + 31.5 bp	SIFMA	7/1/2014
Total	\$250,000,000				

Source: Metropolitan.

These interest rate swap agreements entail risk to Metropolitan. The counterparty may fail or be unable to perform, interest rates may vary from assumptions, Metropolitan may be required to post collateral in favor of its counterparties and Metropolitan may be required to make significant payments in the event of an early termination of an interest rate swap. Metropolitan believes that if such an event were to occur, it would not have a material adverse impact on its financial position. Metropolitan seeks to manage counterparty risk by diversifying its swap counterparties, limiting exposure to any one counterparty, requiring collateralization or other credit enhancement to secure swap payment obligations, and by requiring minimum credit rating levels. Initially swap counterparties must be rated at least "Aa3" or "AA-", or equivalent by any two of the nationally recognized credit rating agencies; or use a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. Should the credit rating of an existing swap counterparty drop below the required levels, Metropolitan may enter into additional swaps if those swaps are "offsetting" and risk-reducing swaps. Each counterparty is initially required to have minimum capitalization of at least \$150 million. See Note 5(f) in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)."

Early termination of an interest rate swap agreement could occur due to a default by either party or the occurrence of a termination event. As of April 30, 2012, Metropolitan would have been required to pay to its counterparties termination payments if some of its swaps were terminated on that date and would have been entitled to receive from its counterparties termination payments if other swaps were terminated on that date. Metropolitan estimated its net exposure to its counterparties for all such termination payments at April 30, 2012, to be approximately \$207 million. Metropolitan does not presently anticipate early termination of any of its interest rate swap agreements due to default by either party or the occurrence of a termination event. Metropolitan anticipates exercising optional early termination provisions to terminate all or a portion of certain interest rate swap agreements identified in the table above.

Metropolitan is required to post collateral in favor of a counterparty to the extent that Metropolitan's total exposure for termination payments to that counterparty exceeds the threshold specified in the applicable swap agreement. Conversely, the counterparties are required to release collateral to Metropolitan or post collateral for the benefit of Metropolitan as market conditions become favorable to Metropolitan. As of April 30, 2012, Metropolitan had a total of \$26.3 million of collateral posted with two counterparties. The highest amount of collateral Metropolitan has been required to post on any date was approximately \$33.3 million, as of December 22, 2008. The amount of required collateral varies from time to time due primarily to interest rate movements and can change significantly over a short period of time. In the future, Metropolitan may be required to post additional collateral, or may be entitled to a reduction or return of the required collateral amount. Collateral deposited by Metropolitan is held by the counterparties; a bankruptcy of any counterparty holding collateral posted by Metropolitan could adversely affect the return of the collateral to Metropolitan.

Moreover, posting collateral limits Metropolitan's liquidity. If collateral requirements increase significantly, Metropolitan's liquidity may be materially adversely affected.

Other Revenue Obligations

Metropolitan's \$535.8 million of Index Tender Bonds, outstanding as of June 1, 2012, are subject to mandatory tender under certain circumstances. Metropolitan anticipates that it will pay the purchase price of tendered Index Tender Bonds from proceeds of remarketing such Index Tender Bonds or from other available funds. Metropolitan's obligation to pay the purchase price of such Index Tender Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of tendered Index Tender Bonds of any series. If the purchase price of the Index Tender Bonds of any series is not paid, such Index Tender Bonds will be subject to special mandatory redemption, in part, 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on a parity with the Parity Bonds and Parity Obligations.

Metropolitan's \$127.0 million of Self-Liquidity Bonds, outstanding as of June 1, 2012, are subject to mandatory tender under certain circumstances and, while interest thereon is reset on a weekly basis, to optional tender. Metropolitan is irrevocably committed to purchase all tendered Self-Liquidity Bonds to the extent that remarketing proceeds are insufficient therefor and no standby bond purchase agreement or other liquidity facility with a liquidity provider is in effect. Metropolitan's obligation to purchase tendered Self-Liquidity Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. In addition, Metropolitan's investment policy permits it to purchase tendered Self-Liquidity Bonds as an investment of its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds). Thus, while Metropolitan is only obligated to purchase tendered Self-Liquidity Bonds from Net Operating Revenues, Metropolitan may use the cash and investments in its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds) to purchase tendered Self-Liquidity Bonds. See "METROPOLITAN REVENUES—Investment of Moneys in Funds and Accounts" in this Appendix A.

Subordinate Revenue Obligations

Metropolitan currently is authorized to issue subordinate debt of up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Parity Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time. In addition, Metropolitan obtained a \$20 million California Safe Drinking Water Revolving Fund Loan in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Henry J. Mills Treatment Plant in Riverside County. The loan will be repaid over 20 years, with semiannual payments of \$632,000 through January 1, 2024. The loan payment obligation is subordinate to the Parity Bonds and Parity Obligations. As of June 1, 2012, the principal balance outstanding was \$13.6 million.

General Obligation Bonds

As of June 1, 2012, \$196,545,000 aggregate principal amount of general obligation bonds payable from ad valorem property taxes were outstanding. *Ad valorem* taxes levied by Metropolitan must be applied solely to the payment of general obligation bonds and other voter-approved indebtedness. Metropolitan's revenue bonds are not payable from the levy of *ad valorem* property taxes.

<u>General Obligation Bonds</u>	<u>Amount Issued</u> ⁽¹⁾	<u>Principal Outstanding</u>
Waterworks General Obligation Refunding Bonds, 2004 Series A	\$ 68,345,000	\$ 49,910,000
Waterworks General Obligation Refunding Bonds, 2005 Series A	64,705,000	63,640,000
Waterworks General Obligation Refunding Bonds, 2009 Series A	45,515,000	43,510,000
Waterworks General Obligation Refunding Bonds, 2010 Series A	<u>39,485,000</u>	<u>39,485,000</u>
Total	<u>\$397,100,000</u>	<u>\$196,545,000</u>

Source: Metropolitan.

- (1) Voters authorized Metropolitan to issue \$850,000,000 of Waterworks General Obligation Bonds, Election 1966, in multiple series, in a special election held on June 7, 1966. This authorization has been fully utilized. This table lists bonds that refunded such Waterworks General Obligation Bonds, Election 1966.

State Water Contract Obligations

General. On November 4, 1960, Metropolitan entered into its State Water Contract with DWR, under which Metropolitan receives an entitlement to water service from the State Water Project. Subsequently, other public agencies also entered into water supply contracts with DWR, all of which were patterned after Metropolitan's State Water Contract. Metropolitan's State Water Contract accounts for nearly one-half of the total entitlement for State Water Project water contracted for by all contractors.

The State Water Contract will remain in effect until 2035 or until all DWR bonds issued to finance construction of project facilities are repaid, whichever is longer. At the expiration of the State Water Contract, Metropolitan has the option to continue service under substantially the same terms and conditions. Metropolitan presently intends to exercise this option to continue service to at least 2052. As of September 1, 2011, the latest maturity of outstanding DWR bonds issued for such purpose was December 1, 2035.

Under the State Water Contract, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operating and maintenance costs through at least 2035, regardless of quantities of water available from the project. Other payments are based on deliveries requested and actual deliveries received, costs of power required for actual deliveries of water, and offsets for credits received. Metropolitan's payment obligation for the State Water Project for the fiscal year ended June 30, 2011 was \$491.9 million, which amount reflects prior year's credits of \$46.1 million. For the fiscal year ended June 30, 2011, Metropolitan's payment obligations under the State Water Contract were approximately 37 percent of Metropolitan's total annual expenditures. A portion of Metropolitan's annual property tax levy is for payment of State Water Contract capital charges. See Note 9(a) to Metropolitan's audited financial statements in Appendix B for an estimate of Metropolitan's payment obligations under the State Water Contract. Also see "POWER SOURCES AND COSTS" in this Appendix A for a description of current and future costs for electric power required to operate State Water Project pumping systems and a description of litigation involving the federal relicensing of the Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville.

On April 25, 2005, a group of fourteen State Water Project contractors filed suit against DWR challenging the manner in which it allocates certain energy costs and revenues related to operation of the State Water Project. Among other things, these contractors alleged that DWR has been and is administering certain provisions of State Water Contract incorrectly, depriving them of "all benefits" derived from the sale or other disposal of electrical energy generated at the Hyatt-Thermalito power facility. The plaintiffs did not allege specific amounts for damages; however, success by plaintiffs could have resulted in shifting tens of millions of dollars in annual costs from State Water Project contractors located north of the Tehachapi Mountains to State Water Project contractors located south of the Tehachapi Mountains and on the Central Coast, including Metropolitan. Metropolitan and twelve other State Water Project contractors intervened in the litigation. After a trial limited to contract interpretation issues, on September 14, 2009, the court rejected all of the

plaintiffs' assertions and on April 19, 2010, the court dismissed all remaining claims without leave to amend. The court entered its final statement of decision and final judgment in favor of defendants on May 3, 2010. On May 25, 2010, the plaintiffs filed a motion for a new trial, which was denied. The plaintiffs filed a notice of appeal on July 1, 2010. No date for oral argument has been set by the court.

The State Water Contract requires that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. Currently a portion of the capital costs under the State Water Contract are paid from ad valorem taxes levied by Metropolitan. In the opinion of Metropolitan's General Counsel, a tax increase to provide for additional payments under the State Water Contract would be within the exemption permitted under Article XIII A of the State Constitution as a tax to pay pre-1978 voter approved indebtedness.

Metropolitan capitalizes its share of system construction costs as participation rights in State Water Project facilities as such costs are billed by DWR. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State Water Project system. Metropolitan's share of system operating and maintenance costs are annually expensed.

Metropolitan has entered into amendments to the State Water Contract that represent additional long-term obligations, as described below.

Devil Canyon-Castaic Contract. On June 23, 1972, Metropolitan and five other southern California public agencies entered into a contract (the "Devil Canyon-Castaic Contract") with DWR for the financing and construction of the Devil Canyon and Castaic power recovery facilities, located on the aqueduct system of the State Water Project. Under this contract, DWR agreed to build the Devil Canyon and Castaic facilities, using the proceeds of revenue bonds issued by DWR under the State Central Valley Project Act. DWR also agreed to use and apply the power made available by the construction and operation of such facilities to deliver water to Metropolitan and the other contracting agencies. Metropolitan, in turn, agreed to pay to DWR 88.1 percent of the debt service on the revenue bonds issued by DWR. For calendar year 2011, this represents a payment of \$7.6 million. In addition, Metropolitan agreed to pay 78.5 percent of the operation and maintenance expenses of the Devil Canyon facilities and 96 percent of the operation and maintenance expenses of the Castaic facilities. Metropolitan's obligations under the Devil Canyon-Castaic Contract continue until the bonds are fully retired in 2022 even if DWR is unable to operate the facilities or deliver power from these facilities.

Off-Aqueduct Power Facilities. In addition to system "on-aqueduct" power facilities costs, DWR has, either on its own or by joint venture, financed certain off-aqueduct power facilities. The power generated is utilized by the system for water transportation and other State Water Project purposes. Power generated in excess of system needs is marketed to various utilities and the California power exchange market. Metropolitan is entitled to a proportionate share of the revenues resulting from sales of excess power. By virtue of a 1982 amendment to the State Water Contract and the other water supply contracts, Metropolitan and the other water contractors are responsible for paying the capital and operating costs of the off-aqueduct power facilities regardless of the amount of power generated. Other costs of Metropolitan in relation to the State Water Project and the State Water Contract may increase as a result of restructuring of California's electric utility industry and new Federal Energy Regulatory Commission regulations.

East Branch Enlargement Amendment. In 1986, Metropolitan's State Water Contract and the water supply contracts of certain other State Water Project contractors were amended for the purpose, among others, of financing the enlargement of the East Branch of the California Aqueduct. Under the amendment, enlargement of the East Branch can be initiated either at Metropolitan's request or by DWR finding that enlargement is needed to meet demands. Metropolitan, the other State Water Contractors on the East Branch, and DWR are currently in discussions on the timetable and plan for future East Branch enlargement actions.

The amendment establishes a separate subcategory of the Transportation Charge under the State Water Contract for the East Branch Enlargement and provides for the payment of costs associated with financing and operating the East Branch Enlargement. Under the amendment, the annual financing costs for such facilities financed by bonds issued by DWR are allocated among the participating contractors based upon the delivery capacity increase allocable to each participating contractor. Such costs include, but are not limited to, debt service, including coverage requirements, deposits to reserves, and certain operation and maintenance expenses, less any credits, interest earnings or other moneys received by DWR in connection with this facility.

If any participating contractor defaults on payment of its allocable charges under the amendment, among other things, the non-defaulting participating contractors may assume responsibility for such charges and receive delivery capability that would otherwise be available to the defaulting participating contractor in proportion to the non-defaulting contractor's participation in the East Branch Enlargement. If participating contractors fail to cure the default, Metropolitan will, in exchange for the delivery capability that would otherwise be available to the defaulting participating contractor, assume responsibility for the capital charges of the defaulting participating contractor.

Water System Revenue Bond Amendment. In 1987, the State Water Contract and other water supply contracts were amended for the purpose of financing State Water Project facilities through revenue bonds. This amendment establishes a separate subcategory of the Delta Water Charge and the Transportation Charge for projects financed with DWR water system revenue bonds. This subcategory of charge provides the revenues required to pay the annual financing costs of the bonds and consists of two elements. The first element is an annual charge for repayment of capital costs of certain revenue bond financed water system facilities under the existing water supply contract procedures. The second element is a water system revenue bond surcharge to pay the difference between the total annual charges under the first element and the annual financing costs, including coverage and reserves, of DWR's water system revenue bonds.

If any contractor defaults on payment of its allocable charges under this amendment, DWR is required to allocate a portion of the default to each of the nondefaulting contractors, subject to certain limitations, including a provision that no nondefaulting contractor may be charged more than 125 percent of the amount of its annual payment in the absence of any such default. Under certain circumstances, the nondefaulting contractors would be entitled to receive an allocation of the water supply of the defaulting contractor.

The following table sets forth Metropolitan's projected costs of State Water Project water, based upon DWR's Annual Billing to Metropolitan for calendar year 2012 and projections based on Metropolitan's adopted biennial budget for fiscal years 2012-13 and 2013-14. The projections include projected costs to complete the planning phase of the BDCP. If a Bay-Delta improvement alternative is identified and funding is approved, construction may commence in 2016. See "METROPOLITAN'S WATER SUPPLY—State Water Project—*Bay-Delta Regulatory and Planning Activities.*"

**PROJECTED COSTS OF METROPOLITAN
FOR STATE WATER PROJECT WATER⁽¹⁾
(Dollars in Millions)**

Year Ending June 30	Capital Costs	Minimum OMP&R⁽²⁾	Power Costs⁽³⁾	Refunds & Credits	Total⁽⁴⁾
2013	\$179.6	\$179.5	\$279.6	\$(45.2)	\$593.4
2014	185.3	184.6	238.1	(44.1)	563.8
2015	202.8	186.1	242.6	(35.3)	596.1
2016	216.5	189.6	234.9	(35.3)	605.5
2017	222.3	191.1	247.3	(35.3)	625.3

Source: Metropolitan.

- (1) Projections are based upon DWR's Annual Billing to Metropolitan for 2012 and attachments, dated July 1, 2011, and Metropolitan water purchase estimates. All costs are adjusted from calendar year to fiscal year periods ending June 30. The total charges shown above differ from those shown in Note 9 of Metropolitan's audited financial statements (for the fiscal years ended June 30, 2011 and June 30, 2010) in Appendix B due to the inclusion above of allowances for inflation and anticipated construction of additional State Water Project facilities. The projections above also include State Water Project refunds and credits. See "POWER SOURCES AND COSTS—State Water Project."
- (2) Minimum Operations, Maintenance, Power and Replacement ("OMP&R") represents costs which are fixed and do not vary with the amount of water delivered.
- (3) Assumptions for water deliveries through the California Aqueduct (not including SBVMWD and Desert Water/Coachella Valley transfers and exchanges) into Metropolitan's service area and to storage programs are as follows: 1.14 million acre-feet for fiscal year 2012-13, 1.03 million acre-feet for fiscal year 2013-14, 1.03 million acre-feet for fiscal year 2014-15, 0.96 million acre-feet for fiscal year 2015-16 and 0.96 million acre-feet for fiscal year 2016-17. Availability of State Water Project supplies vary and deliveries may include transfers and storage. All deliveries are within maximum contract amount and are based upon availability, as determined by hydrology, water quality and wildlife conditions. See "METROPOLITAN'S WATER SUPPLY—State Water Project—*Endangered Species Act Considerations*" in this Appendix A.
- (4) Annual totals include BDCP related costs for the fiscal years ended June 30, 2013 through June 30, 2017 of \$11.6 million, \$5.5 million, \$7.0 million, \$8.2 million and \$15.6 million, respectively. BDCP related costs are included in Capital Costs and Minimum OMP&R costs.

Other Long-Term Commitments

Metropolitan also has various ongoing fixed annual obligations under its contract with the United States for power from the Hoover Power Plant. Under the terms of the Hoover Power Plant contract, Metropolitan purchases energy to pump water through the Colorado River Aqueduct. In fiscal year 2010-11 Metropolitan paid approximately \$18.4 million under this contract. Payments made under the Hoover Power Plant contract are treated as Operation and Maintenance Expenditures. See "POWER SOURCES AND COSTS—Colorado River Aqueduct" in this Appendix A.

Defined Benefit Pension Plan

Metropolitan is a member of the California Public Employees' Retirement System ("PERS"), a multiple-employer pension system that provides a contributory defined-benefit pension for substantially all Metropolitan employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. A menu of benefit provisions is established by State statutes within the Public Employees' Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with PERS.

Metropolitan makes biweekly contributions to PERS based on actuarially determined employer contribution rates. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. Employees are required to contribute seven percent of their earnings (excluding overtime

pay) to PERS. Pursuant to current memoranda of understanding, Metropolitan contributes the requisite seven percent contribution for all employees represented by the Management and Professional Employees Association, the Association of Confidential Employees, Supervisors and Professional Personnel Association and AFSCME Local 1902. Metropolitan also contributes the entire seven percent on behalf of the unrepresented employees. In addition, Metropolitan is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. For fiscal year 2010-11, Metropolitan contributed 11.87 percent of annual covered payroll. In addition, since July 1, 2001, Metropolitan has paid the 7 percent employees' share of the PERS contribution. The fiscal year 2010-11 annual pension cost was \$36.4 million, of which \$13.5 million was for Metropolitan's pick-up of the employees' 7 percent share. For fiscal year 2011-12, Metropolitan is required to contribute 14.84 percent of annual covered payroll, in addition to member contributions paid by Metropolitan, and for fiscal year 2012-13, Metropolitan is required to contribute 15.0 percent of annual covered payroll, in addition to member contributions paid by Metropolitan. The fiscal year 2010-11 and 2011-12 contribution requirements are based on the June 30, 2008 and June 30, 2009 valuation reports, respectively, and the fiscal year 2012-13 contribution requirement is based on the June 30, 2010 valuation report. The June 30, 2010 actuarial valuation report includes a projected employer contribution rate for fiscal year 2013-14 of 15.4 percent of annual covered payroll, based on PERS' projected investment return for fiscal year 2010-11 of 20.0 percent, and a projected employer contribution rate for fiscal year 2013-14 of 15.7 percent of annual covered payroll, based on PERS' projected investment return for fiscal year 2011-12 of 7.75 percent. As of June 30, 2010, the date of the most recent actuarial valuation report available from PERS, the actuarial and market values of assets in Metropolitan's pension plan were approximately \$1.351 billion and \$1.058 billion, respectively. The plan had an unfunded liability of approximately \$212 million (86.4 percent funded based on actuarial value of assets and 67.7 percent funded based on market value), reflecting the impact of financial market conditions as of that date, which resulted in decreased valuation of PERS assets. This compares to the plan's unfunded liability of \$191 million as of the June 30, 2009 actuarial valuation (87.1 percent funded based on actuarial value of assets and 63.6 percent funded based on market value), \$102 million as of the June 30, 2008 actuarial valuation (92.3 percent funded based on actuarial value of assets and 94.1 percent funded based on market value), \$95 million as of the June 30, 2007 actuarial valuation (92.4 percent funded based on actuarial value of assets and 107 percent funded based on market value) and unfunded liability of \$78 million as of the June 30, 2006 actuarial valuation (93.2 percent funded based on actuarial value of assets and 98.7 percent funded based on market value). The pension plan had excess assets of \$95 million as of the June 30, 2002 actuarial valuation. The increase in unfunded liability is due to the draw-down of excess assets relating to the employer pick-up of the employees' 7 percent share and prior asset losses in PERS investments, and the recognition of gains and losses on an actuarial basis over a "smoothing" period. The actuarial value of PERS assets since fiscal year 2003-04 is based on a policy to smooth the market value of investments over a fifteen-year period to reduce the volatility of employers' future contributions and stabilize pension costs. However, in June 2009, the PERS Board adopted temporary modifications to the asset smoothing method in order to phase in over a three year period the impact of the 24 percent investment loss experienced in fiscal year 2008-09. In its June 2010 valuation report, PERS continued the effects of the temporary modification. The phase-in provides short-term relief to local government employers and is designed to strengthen the long-term financial health of the pension funds. For more information on the plan, see Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)."

Metropolitan provides post-employment medical insurance to retirees. Metropolitan currently pays the post-employment medical insurance premiums to PERS. Metropolitan funds such benefits on a pay-as-you-go basis. Payments for this benefit were \$11.9 million in fiscal year 2010-11 and are estimated to be \$12.8 million in fiscal year 2011-12. Under Governmental Accounting Standards Board Statement No. 45,

Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Metropolitan was required to account for and report the outstanding obligations and commitments related to such benefits, commonly referred to as other postemployment benefits (“OPEB”), on an accrual basis for the fiscal year ended June 30, 2008. Metropolitan began accounting for and reporting its OPEB obligations beginning with its financial statements for the fiscal year ended June 30, 2006.

Metropolitan’s annual required OPEB contributions were \$37.2 million in fiscal year 2010-11 and are projected to be \$36.0 million in fiscal year 2011-12. Pay-as-you-go contributions were \$11.9 million in fiscal year 2010-11 and are projected to be \$12.8 million in fiscal year 2011-12, which represent 32.0 percent and 35.6 percent respectively of the annual required contributions. The required contributions were based on a January 1, 2009 actuarial valuation using the entry-age normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 5.0 percent investment rate of return, (b) a general inflation component of 3.0 percent and (c) increases to basic medical premiums of 8.4 percent for Kaiser, 9.4 percent for Blue Shield and 10.0 percent for Preferred Provider Organization plans per year for 2011 grading down to 4.5 percent for 2017 thereafter. As of January 1, 2009, the date of the actuarial report, the unfunded OPEB liability was estimated to be \$404 million. The June 30, 2007 unfunded actuarial accrued liability is amortized over a fixed 30-year period starting with fiscal year 2007-08. Assumption changes are amortized over a fixed 20-year period starting with fiscal year 2009-10. Actuarial gains and losses are amortized over a rolling 15-year period. Metropolitan intends to continue funding on a pay-as-you-go-basis while it reviews various funding options.

HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES

The table below, for fiscal years 2008-12, provides a summary of revenues and expenditures of Metropolitan prepared on a cash basis, which conforms to the Revenue Bond Resolution provisions regarding rates and additional Bonds (as defined in the Master Resolution) and Parity Obligations (as defined in the Master Resolution). See “METROPOLITAN EXPENDITURES—Limitations on Additional Revenue Bonds” in this Appendix A. Under cash basis accounting, water sales revenues are recorded when received (two months after billed) and expenses when paid (approximately one month after invoiced). The financial projections for fiscal years 2013-16, are prepared on a modified accrual basis. This is consistent with the adopted biennial budget for fiscal years 2012-13 and 2013-14, which was prepared on a modified accrual basis instead of a cash basis. The table does not reflect the accrual basis of accounting, which is used to prepare Metropolitan’s annual audited financial statements. The modified accrual basis of accounting varies from the accrual basis of accounting in the following respects: depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. Under the modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. As a result of this change, projected revenues are \$11 million greater in fiscal year 2012-13 and \$17 million greater in fiscal year 2013-14 than under the previous cash basis of accounting. Projections of expenditures are not materially affected by this change. The change to modified accrual accounting is for budgeting purposes and Metropolitan will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Resolutions in accordance with their terms.

The projections are based on assumptions concerning future events and circumstances that may impact revenues and expenditures and represent management’s best estimates of results at this time. See footnotes to the table below entitled “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” for relevant assumptions, including projected water sales and average annual increase in the effective water rate, and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” for a discussion of potential impacts. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur.

Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material.

In addition to the Parity Bonds currently outstanding and the Bonds described in the Official Statement, Metropolitan anticipates issuing approximately \$930 million aggregate principal amount of debt through fiscal year 2016-17 to finance the CIP. In September 2004 Metropolitan adopted a goal to maintain a minimum fixed charge coverage ratio, measuring total coverage of all fixed obligations (which includes all revenue bond debt service obligations, State Water Contract capital payments paid from current year operations and subordinate obligations) after payment of operating expenditures, of 1.2 times. This goal is subject to change by future action of Metropolitan's Board.

Estimated revenues and expenditures are based on assumptions and estimates used in the adopted biennial budget for fiscal years 2012-13 and 2013-14. In addition, the forecasted revenues and expenditures for fiscal year 2012-13 through fiscal year 2015-16 reflect the issuance of additional bond sales projected over this period. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES—Water Sales Receipts" in this Appendix A.

The projections in the table below assumed that water sales would be 1.67 million acre-feet in fiscal year 2011-12, as (including 225,000 acre-feet of replenishment sales), 1.7 million acre-feet in fiscal year 2012-13, 1.7 million acre-feet in fiscal year 2013-14, 1.75 million acre-feet in fiscal year 2014-15 and 1.75 million acre-feet in fiscal year 2015-16. Rates and charges increased by 7.5 percent, effective January 1, 2012, and will increase by 5.0 percent on January 1, 2013 and 5.0 percent on January 1, 2014. Rates and charges are projected to increase 3.0 percent annually thereafter. Actual rates and charges to be effective in 2015 and thereafter are subject to adoption by Metropolitan's Board. The projections were prepared by Metropolitan and have not been reviewed by independent certified public accountants or any entity other than Metropolitan. Dollar amounts are rounded.

Metropolitan's resource planning projections are developed using a comprehensive analytical process that incorporates demographic growth projections from recognized regional planning entities, historical and projected data acquired through coordination with local agencies, and the use of generally accepted empirical and analytical methodologies. See "METROPOLITAN'S WATER SUPPLY—Integrated Water Resources Plan and"—The Integrated Resources Plan Strategy" in this Appendix A. Metropolitan has conservatively set the water sales projections in the following table which are below its projections for resource planning purposes. Metropolitan estimates that its water sales projections have a seventy percent statistical likelihood of being exceeded, compared to the fifty percent exceedance levels in the projections of water sales used to set prior years' budgets and rates. Nevertheless, Metropolitan's assumptions have been questioned by directors representing SDCWA on Metropolitan's Board. Metropolitan has reviewed SDCWA's concerns and, while recognizing that assumptions may vary, believes that the estimates and assumptions that support Metropolitan's projections are reasonable and the best estimates available at this time, based upon history, recent experience and other factors as described above.

HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES^(a)
(Dollars in Millions)

	-----Actual-----				-----Projected-----				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Receipts from Water Sales ^(b)	\$968	\$988	\$1,011	\$996	\$1,064	\$1,184	\$1,241	\$1,326	\$1,370
Additional Revenue Sources ^(c)	<u>114</u>	<u>120</u>	<u>135</u>	<u>153</u>	<u>170</u>	<u>174</u>	<u>182</u>	<u>200</u>	<u>210</u>
Total Operating Revenues	<u>1,082</u>	<u>1,108</u>	<u>1,146</u>	<u>1,149</u>	<u>1,234</u>	<u>1,358</u>	<u>1,423</u>	<u>1,526</u>	<u>1,580</u>
O&M, CRA Power and Water Transfer Costs ^(d)	(470)	(532)	(551)	(531)	(503)	(492)	(503)	(555)	(578)
Total SWC OMP&R and Power Costs ^(e)	<u>(321)</u>	<u>(251)</u>	<u>(274)</u>	<u>(322)</u>	<u>(323)</u>	<u>(425)</u>	<u>(400)</u>	<u>(414)</u>	<u>(414)</u>
Total Operation and Maintenance	<u>(792)</u>	<u>(782)</u>	<u>(825)</u>	<u>(853)</u>	<u>(826)</u>	<u>(917)</u>	<u>(903)</u>	<u>(969)</u>	<u>(992)</u>
Net Operating Revenues	\$ 290	\$ 326	\$ 321	\$ 296	\$ 408	\$ 441	\$520	\$557	\$ 588
Miscellaneous Revenue ^(f)	7	20	33	74	49	19	19	19	19
Sales of Hydroelectric Power ^(g)	41	23	19	22	29	24	21	21	25
Interest on Investments ^(h)	<u>46</u>	<u>32</u>	<u>19</u>	<u>17</u>	<u>10</u>	<u>13</u>	<u>13</u>	<u>15</u>	<u>16</u>
Adjusted Net Operating Revenues ⁽ⁱ⁾	385	401	392	409	496	497	573	612	648
Bonds and Additional Bonds Debt Service ^(j)	(219)	(223)	(244)	(277)	(291)	(305)	(308)	(316)	(325)
Subordinate Revenue Obligations ^(k)	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Funds Available from Operations	\$ 165	\$ 177	\$ 147	\$ 131	\$ 204	\$ 191	\$ 264	\$ 295	\$ 322
Bonds and Additional Bonds Debt Service Coverage ^(l)	1.76	1.80	1.61	1.48	1.71	1.63	1.86	1.94	1.99
Debt Service Coverage on all Obligations ^(m)	1.75	1.79	1.60	1.47	1.70	1.62	1.85	1.93	1.99
Funds Available from Operations	\$ 165	\$ 177	\$ 147	\$ 131	\$ 204	\$ 191	\$ 264	\$ 295	\$ 322
Other Receipts (Expenditures)	(19)	(8)	(5)	(2)	(8)	(8)	(11)	(8)	(9)
Pay-As-You Go Construction	(45)	(31)	(35)	(45)	(45)	(55)	(125)	(125)	(125)
Water Transfer Capital Costs	(48)	(8)	(12)	-0-	-0-	-0-	-0-	-0-	-0-
Total SWC Capital Costs Paid from Current Year Operations	<u>(90)</u>	<u>(86)</u>	<u>(115)</u>	<u>(119)</u>	<u>(113)</u>	<u>(127)</u>	<u>(123)</u>	<u>(145)</u>	<u>(158)</u>
Remaining Funds Available from Operations	(37)	44	(20)	(35)	38	1	5	17	30
Fixed Charge Coverage ⁽ⁿ⁾	1.24	1.30	1.09	1.03	1.23	1.15	1.33	1.33	1.34
Tax Receipts	101	105	97	88	81	83	81	61	56
General Obligation Bonds Debt Service	(49)	(49)	(48)	(39)	(39)	(40)	(40)	(23)	(23)
SWC Capital Costs Paid from Taxes	<u>(52)</u>	<u>(56)</u>	<u>(49)</u>	<u>(49)</u>	<u>(42)</u>	<u>(43)</u>	<u>(41)</u>	<u>(38)</u>	<u>(33)</u>
Net Funds Available from Current Year	\$ (37)	\$ 44	\$(20)	\$(35)	\$38	\$1	\$5	\$ 17	\$30

Source: Metropolitan.

(a) Unaudited. Prepared on a cash basis for fiscal years ended June 30, 2008 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2016.

(Footnotes continued on next page)

- (b) During the four fiscal years ended June 30, 2008 through June 30, 2011, annual water sales (in acre-feet) were 2.31 million, 2.17 million, 1.86 million, and 1.63 million, respectively. See “METROPOLITAN REVENUES—Water Sales Revenues,” table entitled “SUMMARY OF WATER SOLD AND WATER SALES RECEIPTS” in this Appendix A. The water receipts projections are based upon estimated annual water sales (in acre-feet) of 1.67 million in fiscal year 2011-12 (including 225,000 acre-feet of replenishment sales), 1.7 million in fiscal year 2012-13, 1.7 million in fiscal year 2013-14, 1.75 million in fiscal year 2014-15 and 1.75 million in fiscal year 2015-16. Projections reflect Board adopted rate and charge increases of 7.5 percent, which became effective on January 1, 2011, 7.5 percent, which became effective on January 1, 2012, 5.0 percent, effective on January 1, 2013 and 5.0 percent, effective on January 1, 2014. Rates and charges are projected to increase 3.0 percent per fiscal year thereafter, subject to adoption by Metropolitan’s Board. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” below.
- (c) Includes receipts from water standby, readiness-to-serve and capacity charges. The term Operating Revenues excludes ad valorem taxes. See “METROPOLITAN REVENUES — Additional Revenue Components” in this Appendix A.
- (d) Water Transfer Costs are included in Operation and Maintenance Expenditures for purposes of calculating the debt service coverage on all Obligations. Increase in 2009 reflects increased purchases of water transfer supplies.
- (e) Includes on and off aqueduct power and operation, maintenance, power and replacement costs payable under the State Water Contract. See “METROPOLITAN EXPENDITURES—State Water Contract Obligations” in this Appendix A.
- (f) Includes lease and rental net proceeds, net proceeds from sale of surplus property and federal interest subsidy payments for Build America Bonds of \$6.6 million in fiscal year 2009-10, \$3.6 million in fiscal year 2010-11, \$6.6 million in fiscal year 2011-12 and \$13 million in fiscal year 2012-13 through fiscal year 2015-16. Includes in fiscal year 2010-11, \$8 million from surplus property sales and a \$28.2 million capital reimbursement received from the Calleguas Municipal Water District in fiscal year 2010-11 related to termination of the Las Posas water storage program. See “REGIONAL WATER RESOURCES—Local Water Supplies—Groundwater Storage Programs.” Also includes in fiscal year 2011-12 \$27.5 million from CVWD for delivery of 105,000 acre-feet under the exchange agreement between Metropolitan and CVWD. See “METROPOLITAN’S WATER SUPPLY—Water Transfer, Storage and Exchange Programs—Metropolitan/CVWD/Desert Water Agency Exchange and Advance Delivery Agreement.”
- (g) Includes Colorado River Aqueduct power sales.
- (h) Does not include interest applicable to Bond Construction Funds, the Excess Earnings Funds, other trust funds and the Deferred Compensation Trust Fund.
- (i) Adjusted Net Operating Revenues is the sum of all available revenues that the revenue bond resolutions specify may be considered by Metropolitan in setting rates and issuing additional Bonds and Parity Obligations.
- (j) Includes debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011 and additional Bonds (projected). Assumes the issuance of additional Bonds as follows: \$180 million in 2012-13, \$180 million in 2013-14, \$200 million in 2014-15 and \$180 million in 2015-16. See “OPERATING REVENUES AND DEBT SERVICE—Anticipated Financings” in the Official Statement.
- (k) Consisting of subordinate lien California Safe Drinking Water Revolving Fund Loan debt service. See “METROPOLITAN EXPENDITURES—Subordinate Revenue Obligations” in this Appendix A.
- (l) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011 and additional Bonds (projected).
- (m) Adjusted Net Operating Revenues, divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011, the subordinate lien California Safe Drinking Water Revolving Fund Loan and additional Bonds (projected). See “METROPOLITAN EXPENDITURES—Subordinate Revenue Obligations” in this Appendix A.
- (n) Adjusted Net Operating Revenues, divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011, the subordinate lien California Safe Drinking Water Revolving Fund Loan, and additional Bonds (projected).

MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES

Water Sales Receipts

Metropolitan relies on receipts from water sales for about 75 to 80 percent of its total revenues. Metropolitan’s Board has adopted annual increases in water rates each year beginning with the rates effective January 1, 2004. See “METROPOLITAN REVENUES—Rate Structure” and “—Classes of Water Service” in this Appendix A. Effective January 1, 2009, base water rates and charges increased by 9.8 percent plus a \$25 per acre-foot water supply surcharge. The combined impact was an increase of approximately 14.3 percent. Water rates and charges increased an average of 19.7 percent effective September 1, 2009, and the water supply surcharge was replaced by a \$69 per acre-foot Delta Supply Surcharge intended to recover the costs of additional water transfer purchases to augment State Water Project supplies and to be reduced as interim Delta improvements ease pumping restrictions, resulting in lower costs for additional supplies. See “METROPOLITAN’S WATER SUPPLY—State Water Project” and “—Water Transfer, Storage and Exchange Programs” in this Appendix A. On April 14, 2009, Metropolitan’s Board directed staff to evaluate historical cost-of-service methodology with the intent to ensure that all rates and charges recover the full cost of service effective January 1, 2011. On April 13, 2010, Metropolitan’s Board adopted a Delta Supply Surcharge of \$51 and \$58 per acre-foot, effective January 1, 2011 and January 1, 2012, respectively, with corresponding base water rate increases of 7.5 percent. The Delta Supply Surcharge is zero for calendar years 2013 and 2014. On April 10, 2012, Metropolitan’s Board adopted a 5.0 percent rate and charge increase

effective January 1, 2013 and a 5.0 percent increase effective January 1, 2014. Increases in rates and charges reflect increasing operations and maintenance costs, including higher treatment costs, financing requirements of the approximately \$1.45 billion five-year CIP (covering the years 2013 to 2017), increasing State Water Project costs, and reduced water sales.

Metropolitan's financial projections in the above table assumed that water sales would be 1.67 million acre-feet in fiscal year 2011-12, which included 225,000 acre-feet of replenishment sales (see "METROPOLITAN REVENUES—Classes of Water Service—*Replenishment*"). Sales forecasts beyond fiscal year 2011-12 are: 1.7 million acre-feet in fiscal year 2012-13, 1.7 million acre-feet in fiscal year 2013-14, 1.75 million acre-feet in fiscal year 2014-15 and 1.75 million acre-feet in fiscal year 2015-16. For purposes of comparison, Metropolitan's water sales were approximately 2.17 million acre-feet as recently as fiscal year 2008-09, before Metropolitan implemented its Water Supply Allocation Plan on July 1, 2009.

These financial projections reflect the Board's actions to increase water rates and charges by 7.5 percent, effective January 1, 2011, 7.5 percent, effective January 1, 2012, 5.0 percent, effective January 1, 2013 and 5.0 percent, effective January 1, 2014. Rates are projected to increase 3.0 percent per year thereafter. Actual rates and charges to be effective in 2015 and thereafter are subject to adoption by Metropolitan's Board. Metropolitan is required to fix rates and charges estimated to provide operating revenues which, together with other available revenues, are sufficient to pay Metropolitan's operating expenses and provide for payment of the interest and principal of its bonds and other costs.

Metropolitan has funded a Water Rate Stabilization Fund and a Water Treatment Surcharge Stabilization Fund with a portion of the water revenues collected. The Board's stated policy is to use moneys in these funds to mitigate the need to increase water rates as a result of annual variability in water sales. The Water Rate Stabilization and Revenue Remainder funds increased by \$35.7 million in fiscal year 2008-09 and decreased by \$29.0 million in fiscal year 2009-10. Given the lower than budgeted sales volumes, \$61 million was drawn from these funds during fiscal year 2010-11, which include \$13 million held in financial reserves in Metropolitan's General Fund pursuant to the exchange contract between Metropolitan and SDCWA due to SDCWA's litigation challenging Metropolitan's rate structure (see "METROPOLITAN's WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*"). This reserve is projected to increase by \$37 million to \$50 million by the end of fiscal year 2011-12.

The Long-Range Finance Plan adopted by the Board on March 9, 1999 provides for a minimum/maximum reserve policy based on Metropolitan's water sales during wet periods. Funds representing the minimum reserve level are held in the Revenue Remainder Fund, and any funds in excess of the minimum reserve level (up to the maximum reserve level) are held in the Water Rate Stabilization Fund. The maximum reserve level on June 30, 2011 was calculated to be \$483 million and the minimum reserve requirement as of June 30, 2011, was \$191 million. Actual reserves on June 30, 2011 totaled \$248 million (consisting of balances in the Water Rate Stabilization Fund and the Revenue Remainder Fund and \$13 million relating to the SDCWA litigation challenging Metropolitan's rate structure. See "METROPOLITAN REVENUES—Rate Structure" and "—Litigation Challenging Rate Structure" in this Appendix A. The maximum reserve level on June 30, 2012 is projected to be \$491 million and the minimum reserve requirement as of June 30, 2012, is projected to be \$198 million. The fund balances in the Water Rate Stabilization Fund and the Revenue Remainder Fund at that date are projected to total \$271 million which includes \$50 million to be set aside for the SDCWA rate structure litigation. See "METROPOLITAN REVENUES—Financial Reserve Policy" and "CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing" in this Appendix A.

Water Sales Projections

Metropolitan's water sales projections are the result of a comprehensive retail demand, conservation, and local supply estimation process, including supply projections from member agencies and other water providers within Metropolitan's service area. Retail demands for water are estimated with a model driven by projections of relevant demographics provided by SCAG and SANDAG. Retail demands are adjusted downward for conservation savings and local supplies, with the remainder being the estimated demand for Metropolitan supplies. Conservation savings estimates include all conservation programs in place to date as well as estimates of future conservation program goals that will result from regional 20 percent reductions by 2020 conservation savings. See "METROPOLITAN'S WATER SUPPLY—Water Conservation." Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, and recycled water (see "REGIONAL WATER RESOURCES").

The water sales projections are used to determine water rates and charges. In adopting the budget and rates and charges for each fiscal year, Metropolitan's board reviews the anticipated revenue requirements and projected water sales to determine the rates necessary to produce substantially the revenues to be derived from water sales during the fiscal year. Metropolitan sets rates and charges estimated to provide operating revenues sufficient, with other sources of funds, to provide for payment of its expenditures. See "—Water Sales Receipts" above.

Actual water sales are likely to vary from projections. Over the ten-year period from fiscal-year 2001-02 through 2010-11, actual water sales exceeded budgeted sales for the fiscal year in six fiscal years, with the greatest positive variance in fiscal year 2001-02 when actual sales of 2,267,500 acre-feet were 117 percent of budgeted sales (1,940,982 acre-feet). Actual sales were less than budgeted sales in four fiscal years, with the greatest negative variance in fiscal year 2010-11 when actual sales of 1,632,277 acre-feet were 85 percent of budgeted sales (1,927,875 acre-feet). Over the ten fiscal years from 2001-02 through 2010-11, average actual sales exceeded average budgeted sales by 2.2 percent. In fiscal year 2011-12, actual sales were 1.67 million acre-feet, as budgeted. If actual sales exceed projections, the revenues from water sales during the fiscal year will exceed budget, resulting in an increase in financial reserves. See "METROPOLITAN REVENUES—Financial Reserve Policy." If actual sales are less than projections, Metropolitan uses various tools to manage reductions in revenues, such as reducing expenditures below budgeted levels and drawing on reserves. Metropolitan considers actual sales, revenues and expenditures, and financial reserve balances in setting rates for future fiscal years.

Operation and Maintenance Expenditures

Operation and maintenance expenditures in fiscal year 2010-11 were \$853 million, which represented approximately 64 percent of total costs. These expenditures include the costs of labor, electrical power, materials and supplies of both Metropolitan and its contractual share of the State Water Project. The cost of power for pumping water through the aqueducts is a major component of this category of expenditures.

The 2011-12 estimated operation and maintenance expenditures are \$826 million. Metropolitan's Board adopted a budget benchmark in September 2004 to limit the annual increase in departmental operations and maintenance budgets to no more than the five-year rolling average change in the Los Angeles/Orange/Riverside Counties consumer price index. The fiscal year 2011-12 projected departmental expenditures of \$357 million is approximately 6.6 percent and 6.0 percent higher than expenditures in the fiscal years ending in 2010 and 2011, respectively.

POWER SOURCES AND COSTS

General

Current and future costs for electric power required for operating the pumping systems of the Colorado River Aqueduct and the State Water Project are a substantial part of Metropolitan's overall expenses. Expenditures for electric power for the Colorado River Aqueduct (not including credits from power sales and related revenues) for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011 were approximately \$37.4 million, \$42.4 million and \$46.9 million, respectively.

Expenditures for electric power and transmission service for the State Water Project were \$80.2 million (not including credits for prior period adjustments) for the fiscal year ended June 30, 2000, but increased to \$105.2 million for the fiscal year ended June 30, 2001 and \$187 million for the fiscal year ended June 30, 2002. As the market prices for energy declined from the crisis levels in 2000 and 2001, State Water Project power costs decreased to \$136.3 million for the fiscal year ended June 30, 2003. Expenditures for the fiscal years ended June 30, 2004, June 30, 2005 and June 30, 2006 were approximately \$182.3 million, \$176.8 million and \$201.4 million, respectively, showing the effect of more State Water Project deliveries. Expenditures for the fiscal years ended June 30, 2009, June 30, 2010 and June 30, 2011 were approximately \$154.5 million, \$156.1 million and \$189.8 million respectively.

Given the continuing uncertainty surrounding the electricity markets in California and in the electric industry in general, Metropolitan is unable to give any assurance with respect to the magnitude of its power costs.

Colorado River Aqueduct

Generally 55 to 70 percent of the power requirements for pumping at full capacity (1.25 million acre-feet of Colorado River water) in Metropolitan's Colorado River Aqueduct are secured through long-term contracts with the United States for energy generated from facilities located on the Colorado River (Hoover Power Plant and Parker Power Plant) and Edison. These contracts provide Metropolitan with reliable and economical power resources to pump Colorado River water to Metropolitan's service area.

On December 20, 2011, President Obama signed into law the Hoover Power Allocation Act of 2011 (H.R. 470). This new law requires the Western Area Power Administration to renew existing contracts for electric energy generated at the Hoover Power Plant for an additional 50 years through September 2067. The contractors will retain 95 percent of their existing power rights. The law will allow Metropolitan to continue to receive a significant amount of power from the Hoover power plant after the current contract expires in 2017.

Approximately 30 to 45 percent of pumping power requirements for full capacity pumping on the Colorado River Aqueduct is obtained through energy purchases from municipal and investor-owned utilities or power marketers. Gross diversions of water from Lake Havasu for the fiscal years ended June 30, 2010 and June 30, 2011 were approximately 1,030,000 acre-feet and 1,005,000 acre-feet, respectively, including Metropolitan's basic apportionment of Colorado River water and supplies from water transfer and groundwater storage programs.

The Metropolitan-Edison 1987 Service and Interchange Agreement includes provisions for the sharing of the benefits realized by the integrated operation of Edison's and Metropolitan's electric systems. Under this agreement, with a prior year pumping operation of 1 million acre-feet, Edison provides Metropolitan additional energy (benefit energy) sufficient to pump approximately 140,000 acre-feet annually. As the amount of pumping is increased, the amount of benefit energy provided by Edison is reduced.

Under maximum pumping conditions, Metropolitan can require up to one million megawatt-hours per year in excess of the base resources available to Metropolitan from the Hoover Power Plant, the Parker Power

Plant, and Edison benefit energy. Metropolitan is a member of the Western Systems Power Pool (“WSPP”), and utilizes its industry standard form contract to make wholesale power purchases at market cost. Metropolitan acquires the majority of its supplemental power from WSPP members. In calendar years 2009 and 2010, Metropolitan purchased 675,000 megawatt-hours and 755,000 megawatt-hours, respectively, of energy above its base power resources. In calendar year 2011, Metropolitan pumped approximately 705,000 acre-feet of its Colorado River water and additional supplies from other Colorado River sources and purchased about 100,000 megawatt-hours of additional energy supplies above its base power resources.

State Water Project

The State Water Project’s power requirements are met from a diverse mix of resources, including State-owned hydroelectric generating facilities. DWR has long-term contracts with Nevada Energy (coal-fired energy), Morgan Stanley (unspecified energy sources), Metropolitan (hydropower), Kern River Conservation District (hydropower) and the Northern California Power Agency (natural gas generation). The remainder of its power needs are met by short-term purchases. Metropolitan pays approximately 70 percent of State Water Project power costs.

DWR is seeking renewal of the license issued by the Federal Energy Regulatory Commission (“FERC”) for the State Water Project’s Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville. A Settlement Agreement containing recommended conditions for the new license was submitted to FERC in March 2006. That agreement was signed by over 50 stakeholders, including Metropolitan and other State Water Project contractors. With only a few minor modifications, FERC staff recommended that the Settlement Agreement be adopted as the condition for the new license. DWR issued a Final EIR for the relicensing project on July 22, 2008. On August 21, 2008, Butte County and Plumas County filed separate lawsuits against DWR challenging the adequacy of the Final EIR. This lawsuit also named all of the signatories to the Settlement Agreement as “real parties in interest,” since they could be adversely affected by this litigation. A trial was conducted in late January 2012. No ruling has been issued. Regulatory permits and authorizations are required before the new license can take effect. Chief among these is a biological opinion from the National Marine Fisheries Service setting forth the terms and conditions under which the relicensing project must operate in order to avoid adverse impacts to threatened and endangered species. DWR has filed an application requesting this biological opinion. FERC has issued one-year renewals of the existing license since its initial expiration date on January 31, 2007, and is expected to issue successive one-year renewals until a new license is obtained.

DWR receives transmission service from investor-owned utilities under existing contracts and from the California Independent System Operator, a nonprofit public benefit corporation formed in 1996 pursuant to legislation that restructured and deregulated the electric utility industry in California. The transmission service provider may seek increased transmission rates, subject to the approval of FERC. DWR has the right to contest any such proposed increase. DWR may be subject to increases in the cost of transmission service as new electric grid facilities are constructed.

Energy Management Program

Metropolitan staff completed a comprehensive Energy Management and Reliability Study in late 2009 and Metropolitan’s Board adopted energy management policies in August 2010 that provide objectives for future energy-related projects to contain costs and reduce Metropolitan’s exposure to energy price volatility, increase operational reliability through renewable energy projects, provide a revenue stream to offset energy costs and move Metropolitan toward energy independence.

Metropolitan’s Energy Management Program mandates that Metropolitan design and operate its facilities in the most energy-efficient and cost-effective manner. This program includes: setting design standards for energy-efficient facilities; taking advantage of available rebates for energy efficiency and energy-saving projects; operating Metropolitan’s facilities in the most energy-efficient manner; and continuing to investigate alternative energy sources, such as solar and wind power. Metropolitan has

completed energy efficiency assessments at all five of its water treatment plants and is evaluating recommendations for proposed changes. Metropolitan has completed construction of a one-megawatt solar generation facility at the Robert A. Skinner Treatment Plant and is investigating additional solar power generation at other treatment plants and facilities. Metropolitan has begun integrating fuel-efficient hybrid vehicles into its fleet and assessing the use of alternative fuels (biodiesel) for its off-road vehicles and construction equipment. Finally, Metropolitan is assessing the feasibility of expanding its hydroelectric generation capabilities.

In February 2007, the Board authorized Metropolitan's membership in the California Climate Action Registry, a nonprofit voluntary registry for greenhouse gas emissions that was established by the California Legislature in 2000. Metropolitan began annual reporting of its certified baseline greenhouse gas inventory, or carbon footprint, in calendar year 2005 to the California Climate Action Registry. In calendar year 2010, Metropolitan's emissions reporting transitioned from the California Climate Action Registry to The Climate Registry, a nonprofit North American emission registry. Metropolitan also reports required emissions data to the California Air Resources Board ("CARB") under mandatory reporting regulations adopted pursuant to AB 32, California's Global Warming Solutions Act. On December 16, 2010, CARB adopted a regulation for a California cap on greenhouse gas emissions under AB 32, and after additional workshops, public comment and further consideration, approved the regulation on October 20, 2011, with compliance deferred to 2013. Metropolitan does not anticipate it will incur cap and trade allowance obligations in 2013.

APPENDIX B

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS AS OF FISCAL YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010 AND BALANCE SHEETS AND STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND MARCH 31, 2011 (UNAUDITED)

[Available at http://www.mwdh2o.com/mwdh2o/pages/finance/afr-11/Basic_Financials.pdf and <http://edmsidm.mwdh2o.com/idmweb/cache/MWD%20EDMS/003722242-1.pdf>]

APPENDIX E

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

This Appendix E has been prepared by the Center for Continuing Study of the California Economy. Neither the Center for Continuing Study of the California Economy nor Metropolitan is obligated to issue any updates or revisions to the data set forth in this Appendix E.

General

The map contained in the body of the Official Statement shows the area served by Metropolitan. It includes parts of six of the ten counties that comprise Southern California. The area served by Metropolitan represents the most densely populated and heavily industrialized portions of Southern California.

In this Appendix, 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. Although these counties comprise Metropolitan's service area, Metropolitan's territory does not encompass all of the area within each of the six counties. In 2010, the economy of this area was larger than all but thirteen nations of the world. The Six County Area economy ranked between Spain and Mexico, with an estimated gross domestic product of \$1 trillion. The Six County Area gross domestic product in 2010 was larger than all states except California, Texas and New York.

RANKING OF AREAS BY GROSS DOMESTIC PRODUCT (Dollars in Billions)

2010	
United States	\$14,526
China	5,879
Japan	5,498
Germany	3,310
France	2,560
United Kingdom	2,246
Brazil	2,088
Italy	2,051
California	1,901
India	1,729
Canada	1,574
Russian Federation	1,480
Spain	1,407
Texas	1,207
New York	1,159
Mexico	1,040
Six County Area	1,035
South Korea	1,014
Australia	924

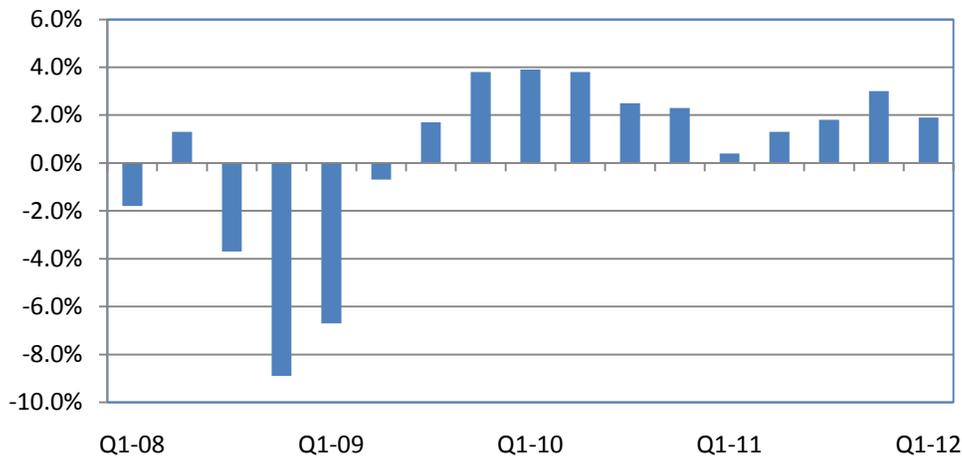
*Source: Countries—World Bank; U.S.—Bureau of Economic
Analysis; California and Six County Area—U.S.
Department of Commerce*

An Update on the U.S. Economic Outlook

The national economy expanded in 2011 although at growth rates below the historical average for economic recoveries. The nation's output of goods and services (GDP) expanded at slow but increasing rates in each quarter of 2011 reaching a 3.0% growth rate in the 4th quarter. (See figure below.) Job growth accelerated compared to 2010 levels and unemployment rates fell in recent months.

Economic growth has continued but at a slower pace since the end of 2011. First quarter 2012 GDP growth is currently estimated at 1.9% constrained by a decline in government spending and slower consumer spending growth. Private sector job growths slowed in March, April and May. Unemployment rates declined from December to March but have since stabilized. The European economic downturn and financial crises and slower growth in China and India have hurt the U.S. economy.

U.S. GDP Growth

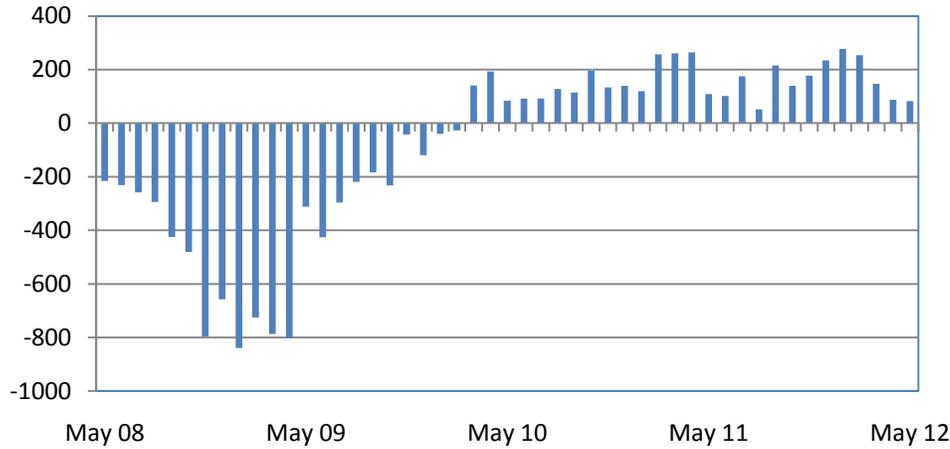


Source: Bureau of Economic Analysis, U.S. Department of Commerce

The nation lost 8.8 million private sector jobs between January 2008 and December 2009. Since then the U.S. economy has recorded private sector job gains in each of the past 27 months according to estimates from the U.S. Bureau of Labor Statistics. (See figure below.) Private sector job gains since December 2009 totaled 4.2 million including an increase of 487,000 manufacturing jobs. Still, in May 2012 private sector nonfarm wage and salary job levels were 4.6 million below the pre-recession peak.

First-time unemployment claims fell to 367,000 seasonally adjusted in the last week of January 2012, which is the lowest level for first-time claims since May of 2008. The four-week moving average fell below 375,750, which is the level normally associated with expanding job growth.

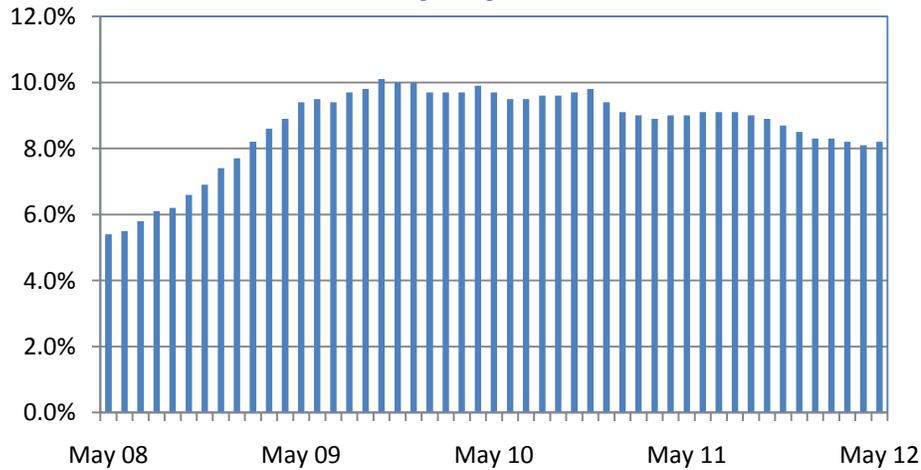
Change in U.S. Private Sector Jobs



Source: Bureau of Labor Statistics, U.S. Department of Labor

During the past year, the unemployment rate in the nation has declined from near 10% to 8.2% in May 2012. (See figure below.) The last time the national unemployment rate was this low was in February 2009. Part of the decline is the result of recent job growth and part is the result very slow labor force growth. Near-term declines in the unemployment rate are likely to slow until job growth accelerates and as workers who left the labor force begin to return in the hope of finding jobs in the strengthening economy.

U.S. Unemployment Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor

Most forecasts for 2012 expect positive but moderate GDP growth and continued moderate job growth increasing toward the later part of the year. The resulting job growth is expected to leave the unemployment near 8% by the end of 2012. The U.S. economy faces two major threats—1) the impact of a European economic slowdown and debt crisis whose dimensions are unclear at the end of May 2012 and 2) the possibility of a decline in GDP growth in 2013 if all of the tax increases and spending cuts currently scheduled actually happen.

The Federal Reserve Bank announced in January 2012 that the federal funds rate would remain near low current levels until late 2014. Treasury bond rates and 30-year mortgage rates are at historic lows. However, efforts to reduce foreclosures have produced fewer loan modifications than originally anticipated although an agreement was recently reached between the U.S. Treasury, state Attorney Generals and the five largest mortgage servicers to provide \$25 billion toward providing financial relief to eligible homeowners.

The following pages describe current economic trends in the Six County Area and describe the long-term prospects for job and population growth based on the assumption that the current economic recovery will continue with moderate job growth.

Recent Six County Area Job Growth Trends

The Six County Area experienced job losses in 2008, 2009 and 2010 as reported by the California Employment Development Department (“EDD”). (See table below.) Job losses occurred in all five metropolitan areas in the Six County Area. The Six County Area experienced sharp declines in the level of residential and nonresidential construction during the past five years. (See “Construction Activity” and “Nonresidential Construction” below.) As a result job losses in construction related industries were large relative to job losses in these industries nationally and are the major explanation of why job losses in the Six County Area exceeded those in the nation.

The Six County Area recorded job gains in 2011 with job growth accelerating in the final months of 2011 and continued into 2012. Year over year job gains between April 2011 and 2012 ranged from a high of 1.6% in Orange County to a low of 0.3% in Ventura County. Job growth for the entire Six County Area was 66,200 jobs or a gain of 0.8%.

RECENT EMPLOYMENT TRENDS (Non-Farm Wage and Salary Jobs in Thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Apr 11</u>	<u>Apr 12</u>	<u>Apr 11-12</u> <u>% Change</u>
Los Angeles	4,070.7	3,824.1	3,769.0	3,785.0	3,799.4	3,826.5	0.7%
Orange	1,481.6	1,372.1	1,352.9	1,367.2	1,362.7	1,384.5	1.6%
Riverside-San Bernardino	1,223.8	1,134.8	1,111.2	1,113.7	1,132.7	1,139.9	0.6%
San Diego	1,298.7	1,231.4	1,220.2	1,239.6	1,229.7	1,238.9	0.7%
Ventura	291.3	275.6	272.5	274.5	274.9	275.8	0.3%
Total Six County Area	8,366.2	7,838.1	7,725.7	7,780.0	7,799.4	7,865.6	0.8%

Source: EDD

The large job losses in 2008 and 2009 resulted in a sharp rise in unemployment rates throughout the Six County Area through the early months of 2010. Unemployment rates are affected by job trends but are also affected by the normal growth in the labor force as population increases. As a result, unemployment rates tend to decline slowly for some time after the economy starts to add jobs.

The Six County Area did see a decline in the unemployment rate from April 2011 to April 2012. In April 2012 unemployment rates ranged from a low of 7.4% in Orange County to a high of 11.8% in Riverside County. Unemployment rates are below 10% in Orange, San Diego and Ventura counties but remained above 11% in the other Six County Area counties. In April 2012 the state unemployment rate was 10.9% compared to the U.S. rate of 8.1%.

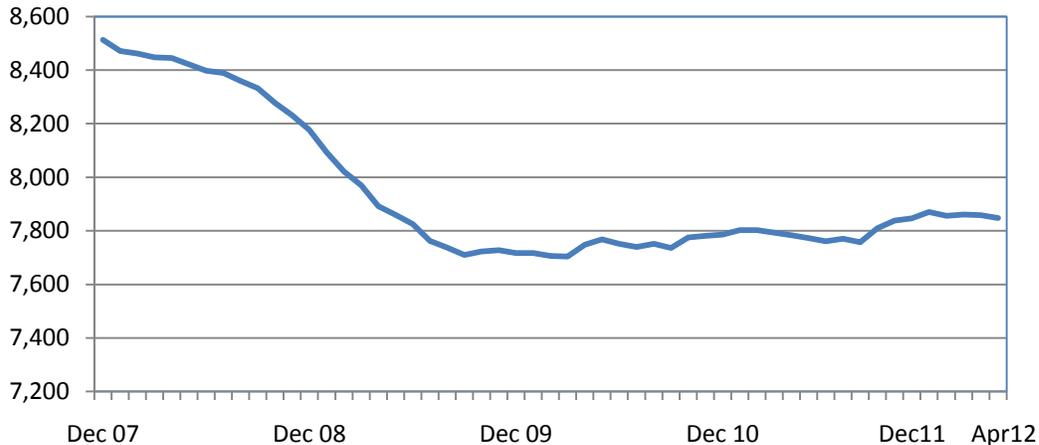
UNEMPLOYMENT RATES

	<u>1993</u>	<u>2000</u>	<u>2006</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Apr 11</u>	<u>Apr 12</u>
Los Angeles County	10.0%	5.4%	4.8%	7.5%	11.6%	12.6%	12.3%	11.7%	11.0%
Orange County	6.9	3.5	3.4	5.3	8.9	9.5	8.7	8.5	7.4
Riverside County	12.2	5.4	5.0	8.5	13.4	14.7	13.6	13.1	11.8
San Bernardino County	10.0	4.8	4.8	7.9	13.0	14.3	13.2	13.0	11.7
San Diego County	7.9	3.9	4.0	6.0	9.6	10.5	10.0	9.7	8.7
Ventura County	9.1	4.5	4.3	6.2	9.8	10.8	10.1	9.5	8.7
United States	6.9	4.0	4.6	5.8	9.3	9.6	9.0	9.0	8.1
State of California	9.5	4.9	4.9	7.2	11.3	12.4	11.7	11.8	10.9

Source: U.S. Bureau of Labor Statistics and EDD; U.S. and California estimates for April are seasonally adjusted.

The Six County Area moved from substantial job losses on a monthly basis to a period of stability in job levels and, finally over the past year to small gains. (See figure below). The direction of economic growth is slowly changing although job levels and unemployment rates remain close to the worst levels in the recession. Job losses in government and the lack of a construction rebound have offset job gains in other sectors of the economy. By April 2012 job levels had returned to the level in June 2009 but remained nearly 700,000 jobs below the pre-recession level.

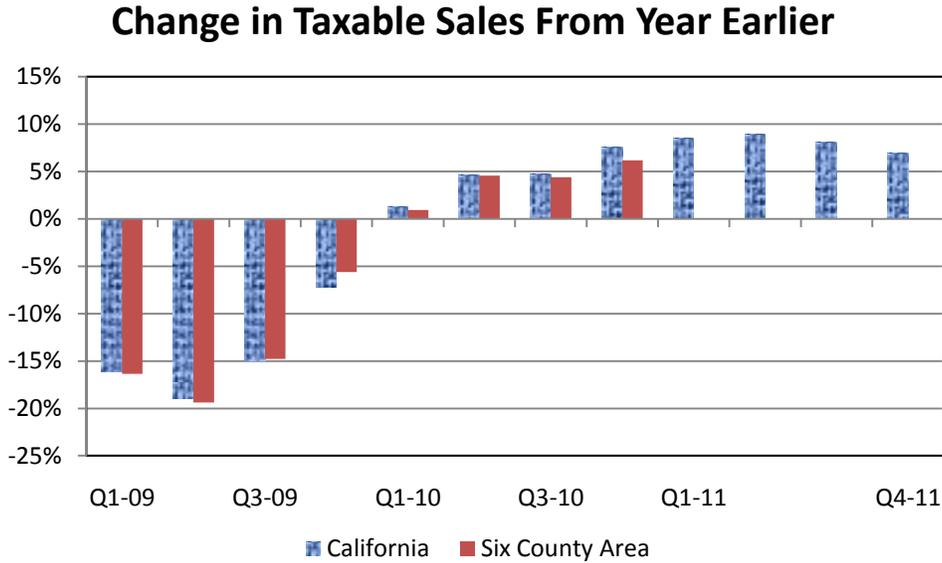
Six County Area Jobs (Thousands)



Source: California Employment Development Department; data are seasonally adjusted

Taxable Sales

Taxable sales declined substantially in California and the Six County Area throughout 2008 and 2009. (See figure below.) An increase in taxable sales was recorded in California in the each quarter of 2010 and 2011 continued with a year over year increase of 8.1% in 2011. While Six County Area data are available only through the fourth quarter of 2010, the area accounts for 55% of statewide taxable sales and 2011 results should reflect the pattern of statewide gains as shown on the figure below for 2011.



Source: California Board of Equalization

The decline in taxable sales during the recession resulted in sales (+14%) growing much more slowly than consumer prices (+32%) for the period from 2000 through 2010. Taxable sales in Riverside and San Bernardino counties, the fastest-growing counties between 2000 and 2006, and fell after 2006 as housing-related spending fell as fewer homes were built in these counties. Taxable sales rose in all counties in 2010 and based on state data for 2011, taxable sales in the Six County Area increased in 2011.

**TAXABLE SALES
(Dollars in Billions)**

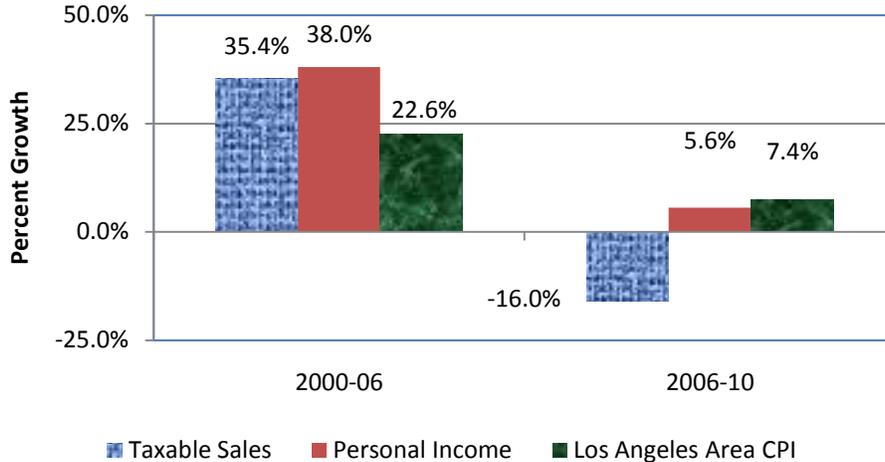
	<u>2000</u>	<u>2006</u>	<u>2009</u>	<u>2010</u>	<u>% Change 2000 - 2010</u>
Los Angeles County	\$106.7	\$136.2	\$112.7	\$116.9	10%
Orange County	44.5	57.2	45.7	47.7	7%
Riverside County	17.0	29.8	22.2	23.2	36%
San Bernardino County	18.9	31.3	23.7	24.7	31%
San Diego County	36.2	47.8	39.7	41.6	15%
Ventura County	9.1	12.3	9.9	10.2	12%
Total Six County Area	<u>\$232.4</u>	<u>\$314.6</u>	<u>\$253.9</u>	<u>\$264.3</u>	14%
Los Angeles Area Consumer Price Index (1982-84 = 100.0)	171.6	210.4	223.2	225.9	32%

Source: Taxable Sales—California Board of Equalization, Consumer Price Index—U.S. Bureau of Labor Statistics

Taxable sales grew in line with income growth between 2000 and 2006 (+35.4%) while outpacing the increase in consumer prices (+22.6%). Between 2006 and 2010 taxable sales declined (-16.0%) while

personal income and consumer prices rose slightly. The state data for 2011 make it likely that growth in taxable sales in the Six County Area continued in 2011 and outpaced the gain in consumer prices. The decline in taxable sales after 2006 was one of the factors that reduced revenues and created fiscal stress on local governments throughout the Six County Area.

Growth in Taxable Sales, Income and Inflation Six County Area



Sources: California Board of Equalization, U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

Construction Activity

Residential building permit levels in the Six County Area declined sharply after 2004. Between 2004 and 2009, permit levels fell by 84% from 108,322 to 17,932 units. Permit levels rebounded in 2010 rising 16% to 20,899 units and are increased another 26% in 2011 to reach 26,337 permits. Permit levels were up 17% in the first three months of 2012. All of the increase in permit levels since 2009 has been in multi-family units.

Projected long-term job and population growth will support a much higher level of residential construction than is currently occurring. While housing prices have dropped substantially as discussed below, higher levels of residential construction will also require some time for the housing market and economy to stabilize. Housing prices are not expected to begin recovering before the end of 2012.

RESIDENTIAL BUILDING PERMITS

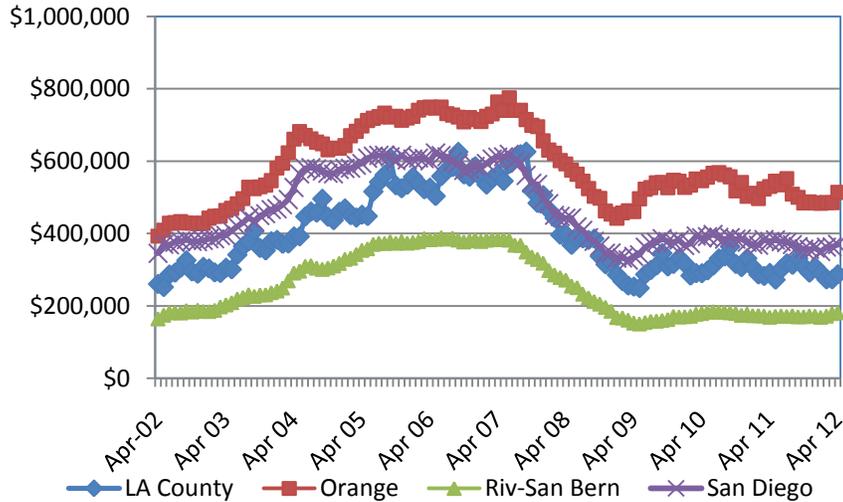
	<u>2000</u>	<u>2004</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>% Chg Jan-Mar 11-12</u>
Los Angeles County	17,071	26,395	5,653	7,468	10,380	31%
Orange County	12,367	9,322	2,200	3,091	4,818	20%
Riverside County	15,410	34,226	4,190	4,557	3,749	4%
San Bernardino County	6,580	18,470	2,495	1,847	1,465	105%
San Diego County	15,927	17,306	2,990	3,346	5,223	-23%
Ventura County	<u>3,971</u>	<u>2,603</u>	<u>404</u>	<u>590</u>	<u>702</u>	<u>180%</u>
Total Six County Area	<u>71,326</u>	<u>108,322</u>	<u>17,932</u>	<u>20,899</u>	<u>26,337</u>	<u>17%</u>

Source: Construction Industry Research Board

Housing Prices and the Six County Area Economy

Housing prices have stabilized throughout the Six County Area during the past 3 years after a long and sharp decline.

Median Resale Housing Prices



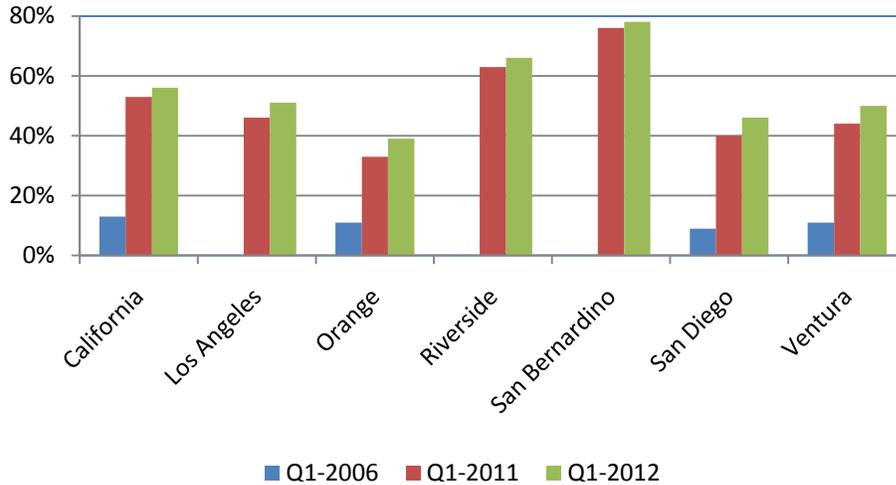
Source: California Association of Realtors

Median resale prices in Six County Area markets were near 2003 levels at the lowest recent levels in March 2009. Since then median prices have fluctuated in a narrow range as shown above. In April 2012 median prices throughout the Six County Area remained far below peak levels. Median price fluctuations in the near term are influenced by the share of transactions that represent foreclosures or short sales and the high percentage of foreclosures in recent sales has the impact of reducing median prices.

The decline in housing prices and the drop in mortgage rates have had the effect of raising the level of housing affordability throughout the Six County Area. Housing affordability as measured by the California Association of Realtors, increased statewide from 13% in the first quarter of 2006 to 56% in the first quarter of 2012. Increases were recorded in Orange County from 11% to 39%, from 11% to 50% in Ventura County and from 9% to 46% in San Diego County. Affordability in the first quarter of 2012 was 51% in Los Angeles County, 66% in Riverside County and 78% in San Bernardino County. Although affordability in the Six County Area is still below national affordability rates, recent increases have returned homebuyer affordability to the highest levels in ten years.

The long-term demand for housing based on job and population growth remains well above current levels according to projections from the Southern California Association of Governments (SCAG), the San Diego Association of Governments ("SANDAG") and the Center for Continuing Study of the California Economy ("CCSCE"). The short-term outlook is still uncertain and depends on the amount of foreclosures that will add to inventory in Six County Area markets, the success of programs to reduce potential foreclosures and the pace of recovery in jobs and income. The California Association of Realtors forecasts a 1.0% increase in existing home sales in 2012 and a 1.7% increase in median prices.

Housing Affordability Index



Source: California Association of Realtors, some estimates for Q1-2006 not reported

Nonresidential Construction

Nonresidential construction throughout the Six County Area peaked at \$11.3 billion in 2007 led by strong gains in Los Angeles County. Since then, nonresidential construction has declined by more than 50% to a 2010 level of \$5.3 billion. All counties experienced sharp declines between 2007 and 2009 with the largest losses in Riverside and San Bernardino counties. In 2010 nonresidential permit values in the Six County Area were nearly unchanged from 2009 levels with a gain of 4%.

The Six County Area saw a rebound in nonresidential permit levels in 2011 with a 21% increase to nearly \$6.6 billion led by gains in San Diego County.

TOTAL NONRESIDENTIAL CONSTRUCTION PERMIT VALUATION

(Dollars in Billions)

	<u>2000</u>	<u>2002</u>	<u>2007</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>% Chg</u> <u>Jan-Mar 11-12</u>
Los Angeles County	\$3.3	\$2.9	\$4.7	\$2.7	\$2.7	\$3.1	31%
Orange County	1.8	1.2	2.0	1.0	1.1	1.3	20%
Riverside County	0.8	0.7	1.5	0.4	0.5	0.6	4%
San Bernardino County	0.8	0.7	1.4	0.3	0.2	0.4	105%
San Diego County	1.4	1.2	1.4	0.6	0.7	1.1	-23%
Ventura County	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>	180%
Total Six County Area	<u>\$8.4</u>	<u>\$7.0</u>	<u>\$11.3</u>	<u>\$5.1</u>	<u>\$5.4</u>	<u>\$6.6</u>	17%

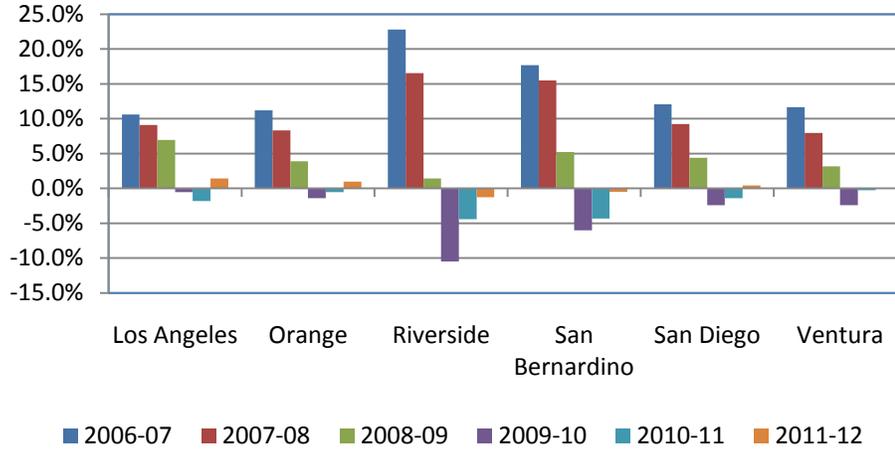
Source: Construction Industry Research Board; totals and percentages calculated from unrounded data

Assessed Valuation

The downturn in residential and nonresidential construction led to a sharp decline in the rate of growth in assessed valuation throughout the Six County Area with some counties experiencing an actual decline in the assessed value of properties in 2009, 2010 and 2011. These declines and the associated

slowdown in property tax revenue growth were another source of fiscal pressure on local communities throughout the Six County Area in recent years.

Change in Assessed Value

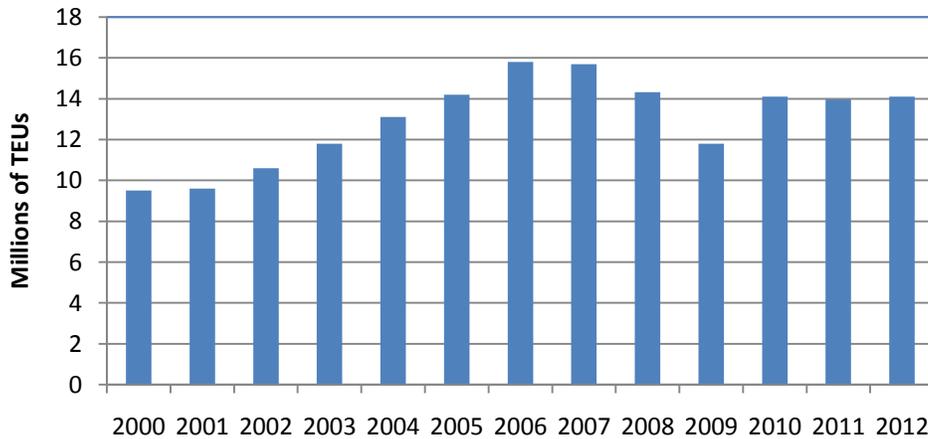


Source: California Board of Equalization

International Trade

The recession led to a decline in the dollar volume and physical volume of international trade in the Six County Area in 2008 and 2009. However, foreign trade volumes rebounded in 2010. Container volumes increased by 19% in 2010 led by record volumes of export shipments. Import volumes increased as well but have not returned to pre-recession levels. Total container volumes were level in 2011 and for the first four months of 2012. The dollar volume of trade through Six County Area ports and airports reached record levels of \$387 billion in 2011 and is projected to reach \$409 billion up 5.9% in 2012 according to the Los Angeles Economic Development Corporation (“LAEDC”).

Container Shipments Los Angeles and Long Beach Ports



Source: Ports of Los Angeles and Long Beach

Over the longer term, international trade has been a leading growth sector in the Six County Area. Container volume rose 48% between 2000 and 2010 despite the large drop in 2008 and 2009. This growth supports jobs and economic activity in the transportation, wholesale trade and warehousing industries as the Six County Area is a gateway for U.S. trade with Pacific Rim countries.

The Los Angeles and Long Beach ports are the nation's leading port complex in terms of trade volume and the eighth largest port complex in the world and the largest outside of Asia. The area's ports handle 50% of the nation's trade with China. China is by far the largest trading partner for these ports with \$208 billion in two-way trade in 2011, up 9.3% from 2010, with the dominant portion related to imports from China. The next largest trading partner is Japan (\$60 billion) followed by South Korea, Taiwan and Thailand. Mexico is by far the largest trading partner in the San Diego Customs District.

Long-term growth in the United States and in our trading partners will boost international trade levels of activity in the coming years. California exports surpassed pre-recession levels in June 2011 and have continued to post record levels. The Six County Area's largest trading partners include some of the world's fastest growing economies such as China.

The LAEDC International Trade report in May 2012 cited progress on a number of infrastructure projects to expand port capacity with more than \$6 billion being invested in current upgrades. The report also cited long-term challenges including competition from the Panama Canal expansion and from other west-coast ports. Another concern is with handling the increased volume of trade after it arrives at the port. Major initiatives to relieve congestion near the port are underway and additional projects are under discussion.

Income and Wages

Counties in the Six County Area have income and wage levels that range from below the national average to above the national average. Orange and Ventura counties have the highest household income levels within the Six County Area. Los Angeles and Orange counties have the highest wage levels, well above the national average. San Diego County income and wage levels are also above the national average. Riverside and San Bernardino counties have per capita income and wage levels that are below the national average. Median household income is above the national average in each of the counties in the Six County Area.

Per capita income and median household income measures are affected by demographic trends. Per capita income measures in the region are pushed downward by the above average percent of children in the Six County Area population compared to the national average while median household income measures are pushed upward by the above average number of wage earners per household in the Six County Area. Income and wage trends in the Six County Area have been comparable to national trends since 2000.

The table below shows per capita income, median household income and wage levels for each of the counties in the Six County Area, as well as for California and the United States, in 2010.

INCOME AND WAGES

	Per Capita Income (2010)	Median Household Income (2010)	Average Wage (2010)
Los Angeles County	\$41,791	\$52,684	\$53,143
Orange County	49,863	70,880	52,702
Riverside County	29,222	54,296	38,358
San Bernardino County	29,609	52,607	39,996
San Diego County	45,627	59,923	50,746
Ventura County	44,653	71,864	47,976
California	42,514	57,708	53,285
United States	39,937	50,046	46,751

Source: Per Capita Income—U.S. Department of Commerce and CCSCE; Median Household Income—U.S. Census Bureau (American Community Survey); Average Wage—U.S. Bureau of Labor Statistics

Population

In December 2010 the Census Bureau released 2010 Census estimates of population by state. The Census Bureau estimate for California was 37.3 million, which was 1.5 million lower than the DOF estimate for 2010. The 2010 population estimates for counties in the Six County Area was 960,000 below the DOF estimate for 2010. After the Census Bureau release the California Department of Finance revised the annual population estimates after 2000 for all counties and provided an estimate of 2011 population.

The Six County Area had 21.2 million residents in 2011, approximately 56% of the State's population. The Six County Area's population grew by 1.7 million residents between 2000 and 2010. Population growth slowed after 2005 as high housing prices have contributed to larger levels of out-migration to other areas of California and other states. The Six County Area added nearly 1.2 million residents between 2000 and 2005 but only an additional 583,000 residents in the next five years.

**SIX COUNTY AREA POPULATION
(In Thousands)**

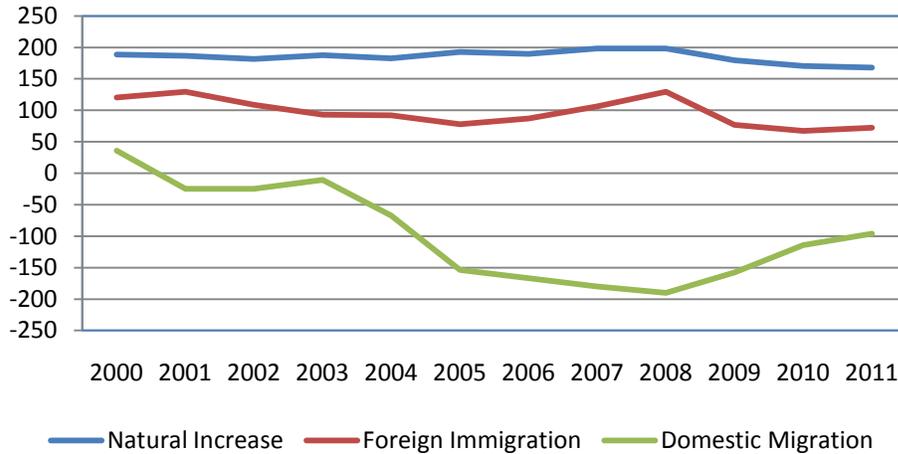
	<u>1990</u>	<u>2000</u>	<u>2005</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Los Angeles County	8,860	9,544	9,810	9,805	9,827	9,858
Orange County	2,412	2,854	2,957	2,999	3,017	3,044
Riverside County	1,188	1,557	1,935	2,158	2,192	2,227
San Bernardino County	1,432	1,719	1,943	2,022	2,039	2,060
San Diego County	2,505	2,828	2,970	3,078	3,095	3,131
Ventura County	<u>669</u>	<u>757</u>	<u>797</u>	<u>818</u>	<u>825</u>	<u>830</u>
Total Six County Area	<u>17,066</u>	<u>19,259</u>	<u>20,412</u>	<u>20,880</u>	<u>20,995</u>	<u>21,150</u>

Source: California Department of Finance as of July 1

Six County Area population growth is determined by three major components—natural increase, which is the number of births minus the number of deaths, net foreign immigration, which is the number of people moving to the region from abroad minus the number moving abroad and net domestic migration, which is the number of people moving from other regions of the state and nation minus the number moving out to these areas. Natural increase is the largest component of population growth in

recent years averaging near 187,000 per year. Foreign immigration has averaged 99,000 per year since 2000 while domestic migration has been negative since 2000 averaging -96,000 per year.

Components of Change in Six County Area Population (Thousands)



Source: California Department of Finance as of July 1

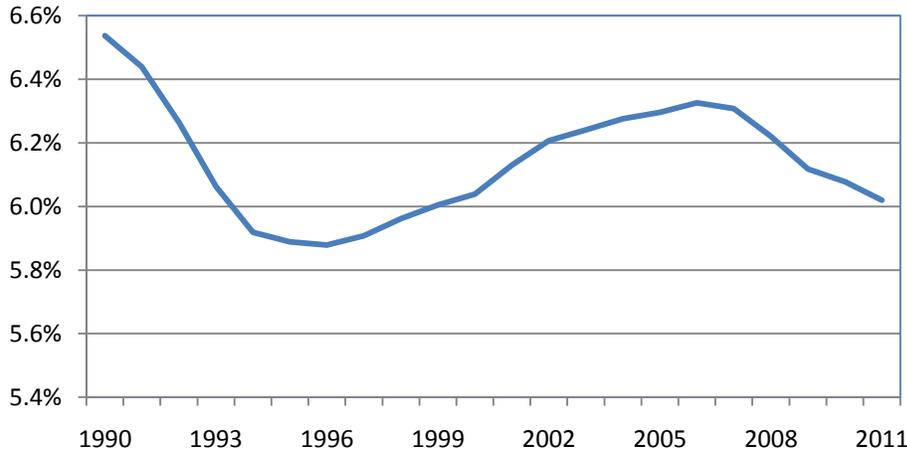
Population projections for 2035 were prepared by SCAG and SANDAG in 2010 and 2011 as part of their planning process to update regional transportation and land use plans, which will be adopted in 2012. These projections show expected population growth of approximately 4.8 million for the Six County Area, an increase of 23% between 2010 and 2035. The SANDAG preliminary regional agency projections do not reflect complete analysis of the 2010 Census population estimates and may be revised.

Economic Structure of the Six County Area and Long-Term Prospects

The Six County Area and the nation both ended 2011 with fewer jobs than they had in 2000 and the Six County Area matched the national job growth rate since 2000. During the early 1990s recession when aerospace jobs declined sharply, the Six County Area share of U.S. non-farm wage and salary jobs fell from 6.6% to a low of 5.9%. From 1994 to 2007, the Six County Area experienced job growth that slightly exceeded the national average and brought the Area's job share back to 6.3%. However, the Six County Area experienced larger job losses than the nation in 2008 through 2011 and the 2011 share of national jobs was 6.0% the same as in 2000.

In 2011 Government was the largest major industry sector in the Six County Area measured by jobs, with more than 1.2 million jobs in 2011 or 15.5% of the Six County Area total. Professional and Business Services was the next largest sector in 2011, followed by Educational and Health Services, Leisure and Hospitality, Retail Trade and Manufacturing. Two sectors accounted for most of the job growth since 2000: Educational and Health Services and Leisure and Hospitality.

Six County Area Jobs as Share of U.S.



Sources: California Employment Development Department, Bureau of Labor Statistics, U.S. Dept. Of Labor, CCSCE

The recent job trends for the Six County Area related to the recession are discussed under the heading “Recent Six County Area Job Growth Trends” above.

SIX COUNTY AREA EMPLOYMENT BY MAJOR SECTOR (In Thousands)

	<u>2000</u>	<u>2007</u>	<u>2010</u>	<u>2011</u>	<u>Change 2000-2011</u>
Farm	67.7	63.8	59.8	58.6	-9.1
Natural Resources and Mining	6.3	7.8	7.2	7.1	0.8
Construction	373.3	479.0	298.8	296.8	-76.5
Manufacturing	1,111.2	888.6	733.1	728.3	-382.9
Wholesale Trade	387.8	429.2	381.9	387.8	0.0
Retail Trade	833.4	948.5	847.8	858.1	24.7
Transp, Warehousing and Utilities	286.6	298.9	275.7	277.6	-9.0
Information	346.3	299.8	262.3	263.3	-83.0
Financial Activities	450.0	526.9	441.9	440.9	-9.1
Professional and Business Services	1,166.8	1,278.8	1,136.0	1,157.6	-9.2
Educational and Health Services	770.2	920.1	989.6	1,013.3	243.1
Leisure and Hospitality	745.3	897.2	861.3	878.4	133.1
Other Services	270.6	293.9	272.5	273.2	2.6
Government	1,170.9	1,245.8	1,240.8	1,215.4	44.5
Total Wage and Salary Jobs	7,986.4	8,578.3	7,808.7	7,856.4	-130.0

Source: California Employment Development Department (EDD)

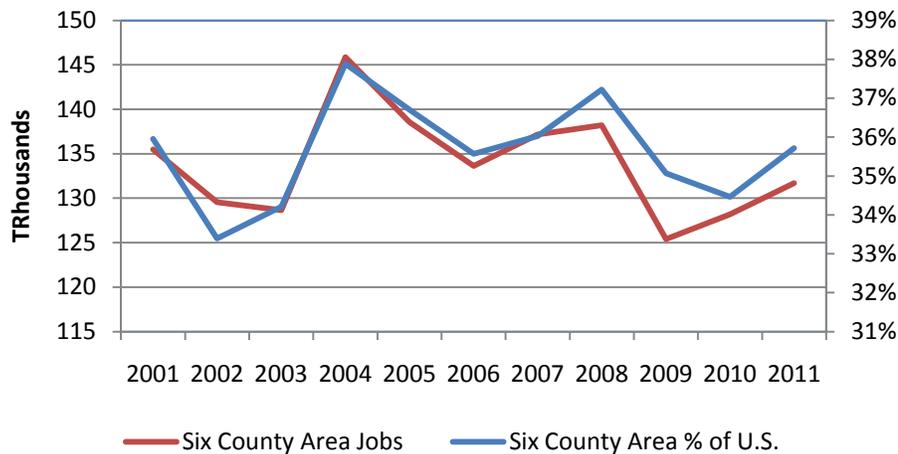
Long-term job growth is driven by the Six County Area’s economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area.

The Six County Area economy has an economic base that is diversified and well positioned to participate in U.S. and world economic growth over the next ten years. Job levels are expected to grow in the high-wage and fast-growing professional and information services sectors, which include architecture, design, computer, research and development, advertising, legal, accounting, Internet-related and management services. CCSCE projects that the Professional and Information Services sector of the Six County Area economy will experience the largest job gains in the next ten years.

The Six County Area has an above-average share of two additional fast-growing sectors— Wholesale Trade and Transportation, tied to the area’s projected growth in foreign trade, and Tourism and Entertainment, tied to growth in disposable income in the U.S. and worldwide.

Film production is a major component of the Six County Area economic base. Film production activity in Los Angeles increased between 2000 and 2007 driven by gains in television and filming of commercials, which offset declines in motion picture filming days. Filming activity declined during the recession. California approved a \$500 million tax credit program to be allocated over the next five years to qualified motion picture and television productions in California. Job levels increased in 2011. Over the decade the Six County Area has maintained a relatively steady share of U.S. jobs, which are projected to increase in the decade ahead.

Six County Area Motion Picture Jobs



Source: U.S. Bureau of Labor Statistics

Recent projections by CCSCE, SCAG and SANDAG report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade and Tourism and Entertainment.

The positives for long-term economic growth include the strength of the region as a center for knowledge-based and creative activities and international trade, tourism and investment with the Pacific Rim. On the other hand state budget decisions remain in political gridlock. This gridlock affects the ability to fund education and infrastructure investments as well as local public services and could negatively affect economic competitiveness in the Six County Area.