



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the Board of Directors

February 14, 2012

Director Lynn Heidel
Director Keith Lewinger
Director Fern Steiner
Director Doug Wilson
San Diego County Water Authority
4766 Overland Avenue
San Diego, CA 92123

Dear Directors:

Member Agency Comments on Appendix A to Remarketing Statement

Thank you for your comments to the draft Remarketing Statement for Metropolitan's Water Revenue Refunding Bonds, 2011 Series A-1 and A-3. This letter responds to written comments received from the SDCWA directors early on February 13, 2012. As noted in the discussion of the Remarketing Statement at the Finance and Insurance Committee, also on February 13, the SDCWA letter demonstrates the interactive process between the Board and staff for preparation of the Remarketing Statement and Metropolitan's Official Statements. This response is provided in conjunction with your consideration of the Remarketing Statement at today's Board meeting.

SDCWA's comment letter repeated many of SDCWA's previous comments. Metropolitan provided written responses to previous SDCWA comments on September 23, 2010, December 13, 2010, May 24, 2011, and September 8, 2011. Each of these responses is available upon request.

As stated in previous responses, Appendix A to the Remarketing Statement describes Metropolitan's historical financial performance and operations and includes five-year financial projections based on stated assumptions. The projections in the Remarketing Statement are based on assumptions in the proposed biennial budget for 2012/13 and 2013/14 presented to the Board in January 2012. These assumptions are reasonable and the best estimate of what we believe water sales will be, based on history, recent experience and other factors. Nevertheless, we have modified Appendix A's discussion of the financial projections to disclose SDCWA's disagreement with these assumptions.

The Risk Factors section in the body of the Remarketing Statement discloses risks due to water sales volatility and variable supplies. Appendix A discusses Proposition 26, describes the historic volatility of Metropolitan's water sales and recent sales trends, points out that Metropolitan relies on receipts from

water sales for 75 to 80 percent of total revenues, and states that actual water sales are likely to vary from projections. It would be speculative and inappropriate to base projections on proposed policies that are being formulated in the Long-Range Finance Plan Work Group and thereafter will be subject to debate and consideration by the Board (such as purchase order renewals or replacements, which Appendix A discloses are currently under discussion, reserve policies or the potential to increase fixed charges).

We appreciate your comments on Appendix A. Board review of Appendix A is an essential component of Metropolitan's process to assure that Remarketing Statements and Official Statements for our financings are up to date and accurately reflect disclosure of material facts relevant to Metropolitan's financial position. Staff has considered prior comments, in consultation with bond counsel and the financing team, and in each instance made every effort to confirm facts based on the totality of information then available and refined each Remarketing Statement and Official Statement, then being considered, in response to comments from members of the Board. As noted above, we regard SDCWA's comments as a restatement of prior comments. If you have additional comments, we will appreciate detail in those comments.

Any additional comments that are provided to staff by 4:00 p.m. today will be considered and reviewed with the financing team. Appendix A to the Remarketing Statement also will be included as Appendix A to the Official Statement for the refunding bond issue described at the Finance and Insurance Committee yesterday, and the financing schedules discussed yesterday call for printing of the Preliminary Official Statement for the refunding bonds on Wednesday, February 15, 2012.

Sincerely,

John V. Foley
Chairman of the Board

cc: J. Kightlinger
M. Scully
G. Breaux
K. Norris
S. Bennion
C. Dunn