



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

VIA EMAIL

June 14, 2016

Director Michael T. Hogan
Director Keith Lewinger
Director Fern Steiner
Director Yen C. Tu
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Directors:

Your letter dated June 11, 2016 regarding Board Letter 8-2

We received your letter regarding Board Letter 8-2 which expressed your concern regarding the change to Metropolitan's disclosure procedures and we would like to provide some explanation concerning that change to address your concern.

Board Letter 8-2 asks for board approval of the attached Appendix A and authorization for its use in the issuance and remarketing of Metropolitan's bonds. Board Letter 8-2 also advises the Board of updated Metropolitan procedures with regard to Appendix A.

We appreciate your provision of information regarding MWD's disclosure obligations. Metropolitan is familiar with its responsibilities under the Federal antifraud laws and the SEC's guidance concerning those responsibilities and has worked closely with outside counsel to ensure complete compliance with all requirements.

Metropolitan continually evaluates its policies and procedures to comply with the Federal antifraud laws and current guidance from the SEC concerning the responsibilities of issuers of municipal securities. The presentation of Appendix A at a formal Board meeting reflects how seriously Metropolitan and its staff take its responsibilities under the Federal antifraud laws.

The SEC's recent guidance has urged issuers to adopt reasonable policies and procedures to ensure that they provide investors with accurate and complete disclosure. Metropolitan has heeded this guidance by ensuring that any disclosure it provides investors follows policies and procedures that ensure that any such disclosure reflects an information-gathering process that takes into consideration where key information resides within the organization and a review

process that takes into consideration who the key subject matter experts are within the organization and how it should appropriately vet disclosure. The SEC has not provided guidance concerning how often or the context of when issuers (especially frequent issuers) should present their disclosure document to their boards. The SEC has never suggested or required that the boards of issuers need to formally approve disclosure through their formal board meeting process. It is left to issuers to determine both how often and the appropriate level of involvement of board members in the preparation of an issuer's disclosure given its own facts and circumstances.

In formulating its policies and procedures, Metropolitan has given significant consideration as to how best to involve its Board in the process so that involvement reflects a reasonable process given the overall disclosure process of Metropolitan. For infrequent issuers, it is common for disclosure to be approved by their boards with every transaction. With frequent issuers (like Metropolitan), it is common for an issuer to provide their board with a copy of the disclosure before an offering but do so outside of the formal board approval process so that members of the board can review and provide comments. Practices can vary. For many years, Metropolitan's process was to provide a copy of its disclosure to Board members outside of the formal board meeting process. A few years ago, Metropolitan changed this process to provide formal board participation and approval in connection with each offering. Recently, in considering the whole of Metropolitan's policies and procedures, Metropolitan staff, in conjunction with outside counsel, determined that a bifurcated process would be best.

The bifurcated process involves the following: First, at least twice a year, staff will present the Board with the entire Appendix A for formal approval. Second, interim updates to Appendix A between the Board's semi-annual approval and before Appendix A is used in an offering, will be provided to the Board for review and comment. However a vote of the Board would not be required for the Board's review and comment upon the interim updates. The thought behind this is that, from an investor's perspective, the essential credit information concerning Metropolitan's financial and operating information remains fundamentally the same for many months at a time. By narrowing down board approval to two times a year, it allows for a more-focused review by all participants at the times of the year when Metropolitan's disclosure is expected to materially change. We have made this change with very careful consideration of the SEC's recent guidance in the municipal securities market.

One additional point of clarification is important too. Board Letter 8-2 did not relate to the Board's approval of a bond transaction and instead was intended, in implementation of the revised procedure, as an opportunity for the Board to review and provide comments to Metropolitan's disclosure to investors through a formal board meeting. I mentioned at the June 13th Finance & Insurance Committee meeting that we plan to use the updated disclosure in connection with a bond refunding this week. Specifically, Metropolitan is planning to use the updated Appendix A on Thursday, June 16 when it is planning to print a preliminary official statement with respect to a refunding bond transaction of approximately \$280 million of Metropolitan's outstanding Water Revenue Bonds for an anticipated debt savings of \$90 million. As has been the case since 1993, Metropolitan will approve this specific refunding through an

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Ad Hoc Committee process pursuant to the Fourth Supplemental Resolution to its Master Senior Resolution. Accordingly, Metropolitan is not seeking specific Board approval for this refunding.

Your letter states that SDCWA has comments to the Appendix A provided by Board Letter 8-2, but you are not providing them at this time. Since we are planning to print a preliminary official statement using this Appendix A, we would like to receive and review your comments as soon as possible so that we can take them into consideration before the preliminary official statement is published this Thursday. We appreciate any input and contributions you can make regarding the disclosure.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Breaux". The signature is stylized and cursive.

Gary Breaux
Assistant General Manager/Chief Financial Officer

cc: MWD Board Members
J. Kightlinger
M. Scully