NEW ISSUE – FULL BOOK-ENTRY

DAC Bond®

Ratings:
S&P: *"AA"*
Moody's: *"Aa3"*
Fitch: *"AA"*
See **RATINGS**.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Water Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2011S-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from the State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2011S-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2011S-1 Bonds. See ***TAX MATTERS****.*

San Diego County Water Authority

$86,630,000
San Diego County Water Authority
Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1

Dated: Date of Delivery **Due: As shown below**

The San Diego County Water Authority Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 (the "2011S-1 Bonds"), will be issued pursuant to an Indenture, dated as of July 1, 2011 (the "Indenture"), by and between the San Diego County Water Authority (the "Water Authority") and U.S. Bank National Association, as trustee (the "Trustee"). The 2011S-1 Bonds will be issued in denominations of $5,000 or any integral multiple thereof and will mature on the dates and in the amounts set forth below. Interest on the 2011S-1 Bonds is payable semiannually on January 1 and July 1, commencing January 1, 2012.

The 2011S-1 Bonds will be issued as fully registered bonds and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2011S-1 Bonds. Individual purchases of the 2011S-1 Bonds will be made in book-entry form only. So long as the 2011S-1 Bonds are registered in the name of Cede & Co., payment of the principal of, premium, if any, and interest on the 2011S-1 Bonds will be payable to DTC or its nominee. DTC in turn is obligated to remit such payments to DTC Participants for subsequent disbursement to the beneficial owners of the 2011S-1 Bonds.

The 2011S-1 Bonds are being issued by the Water Authority to refinance a portion of the design, acquisition and construction of various capital projects of its Capital Improvement Program by providing funds for the retirement of a portion of the Water Authority's outstanding Commercial Paper Notes.

The 2011S-1 Bonds are subject to optional redemption as described herein.

The 2011S-1 Bonds are secured by a pledge of Net Water Revenues (as defined herein).

THE 2011S-1 BONDS ARE LIMITED OBLIGATIONS OF THE WATER AUTHORITY, PAYABLE SOLELY FROM A PLEDGE OF NET WATER REVENUES, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE WATER AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT THEREOF. PAYMENT OF THE 2011S-1 BONDS FROM NET WATER REVENUES IS SUBORDINATE TO THE PAYMENT OF ANY PRIOR OBLIGATIONS (AS DEFINED HEREIN) PRESENTLY OUTSTANDING OR HEREAFTER INCURRED BY THE WATER AUTHORITY IN ACCORDANCE WITH THE GENERAL RESOLUTION (AS DEFINED HEREIN).

MATURITY SCHEDULE

$2,955,000	**3.00% Bonds**	**Due July 1, 2016**	**Yield – 1.480%**	**Price – 107.102***	**CUSIP† 797412 AA1**
$83,675,000	**5.00% Bonds**	**Due July 1, 2016**	**Yield – 1.480%**	**Price – 116.449***	**CUSIP† 797412 AB9**

This cover page contains information for general reference only. It is not intended to be a summary of this issue. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2011S-1 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, and to certain other conditions. Certain matters will be passed upon for the Water Authority by Daniel S. Hentschke, its General Counsel. Orrick, Herrington & Sutcliffe LLP, San Francisco, California, is also acting as Disclosure Counsel. Certain matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Los Angeles, California. It is expected that the 2011S-1 Bonds in book-entry form will be available for delivery through the facilities of DTC on or about July 21, 2011.

Morgan Stanley **Citi**

July 12, 2011

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* Priced to the par call date of June 1, 2016.

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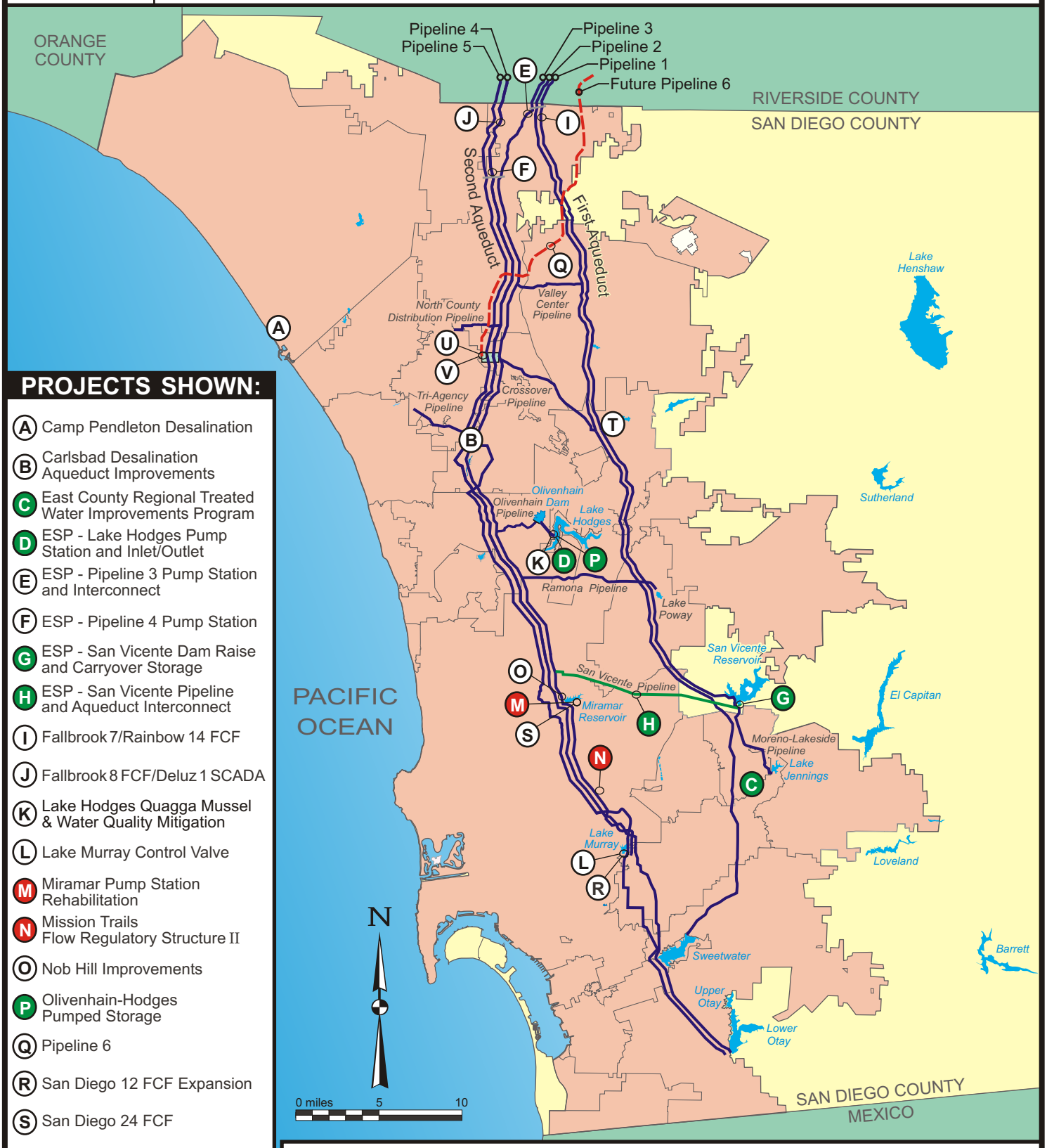
San Diego County Water Authority

CAPITAL IMPROVEMENT PROGRAM LOCATION MAP



PROJECTS SHOWN:

- (A) Camp Pendleton Desalination
- (B) Carlsbad Desalination Aqueduct Improvements
- (C) East County Regional Treated Water Improvements Program
- (D) ESP - Lake Hodges Pump Station and Inlet/Outlet
- (E) ESP - Pipeline 3 Pump Station and Interconnect
- (F) ESP - Pipeline 4 Pump Station
- (G) ESP - San Vicente Dam Raise and Carryover Storage
- (H) ESP - San Vicente Pipeline and Aqueduct Interconnect
- (I) Fallbrook 7/Rainbow 14 FCF
- (J) Fallbrook 8 FCF/Deluz 1 SCADA
- (K) Lake Hodges Quagga Mussel & Water Quality Mitigation
- (L) Lake Murray Control Valve
- (M) Miramar Pump Station Rehabilitation
- (N) Mission Trails Flow Regulatory Structure II
- (O) Nob Hill Improvements
- (P) Olivenhain-Hodges Pumped Storage
- (Q) Pipeline 6
- (R) San Diego 12 FCF Expansion
- (S) San Diego 24 FCF
- (T) System Regulatory Storage
- (U) Twin Oaks Regulatory Storage
- (V) Twin Oaks WTP Expanded Service Area

LEGEND

WATER AUTHORITY SERVICE AREA WITH MEMBER AGENCY BOUNDARIES

PLANNING / EIR

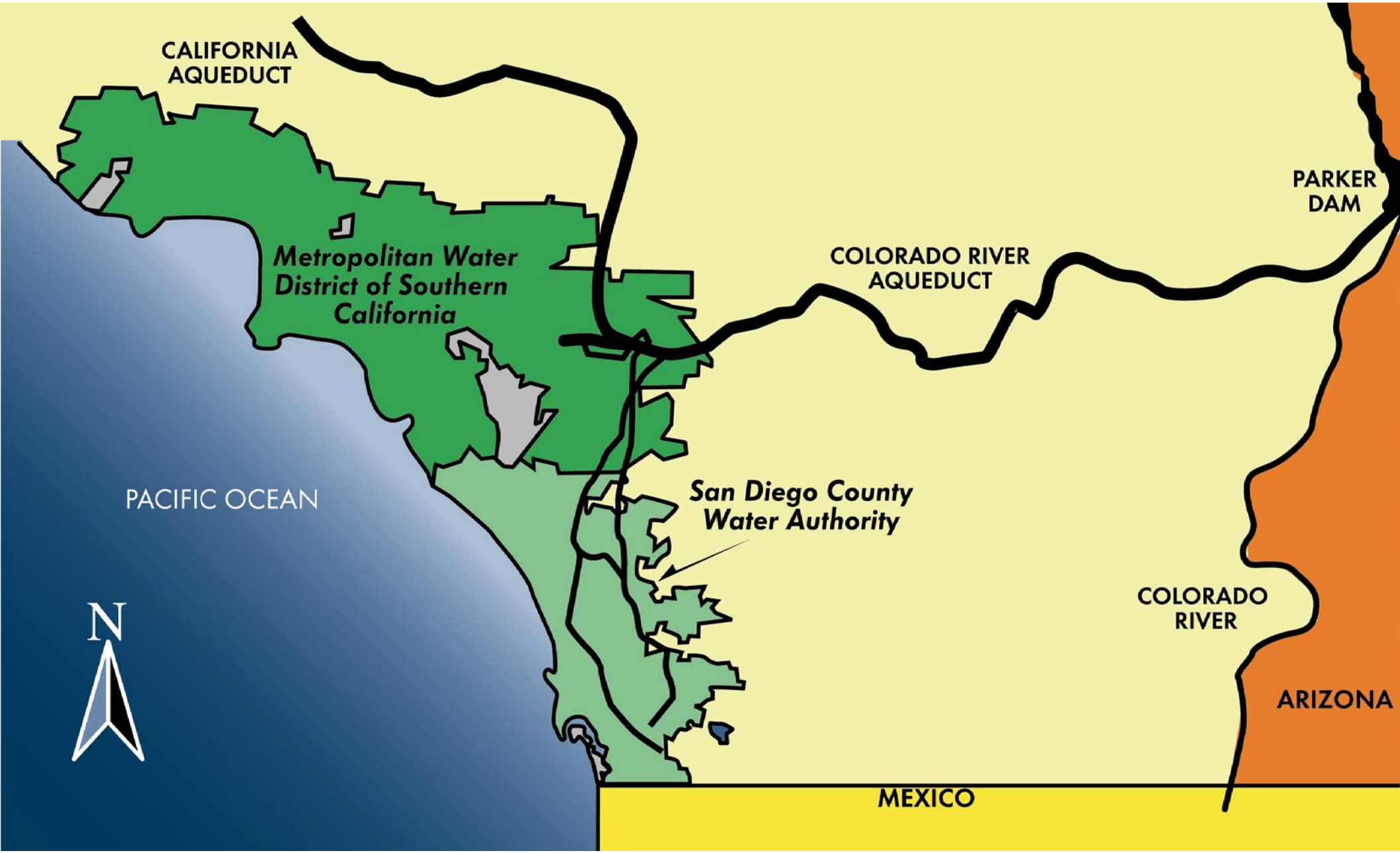
DESIGN

CONSTRUCTION

3-31-2011

W:\GRAPHICS \ GRAPHICS SAMPLES \ MAPS - AGENCY, CIP, COUNTY, PIPELINE \ CIP Location Map 3-2011.pdf

Orange County
San Diego County
Riverside County
San Diego County
CAMP PENDLETON MARINE CORPS BASE
FALLBROOK PUD
YUIMA MWD
RAINBOW MWD
VALLEY CENTER MWD
CITY OF OCEANSIDE
VISTA ID
CARLSBAD MWD
VALLECITOS WD
RINCON DEL DIABLO MWD
CITY OF ESCONDIDO
OLIVENHAIN MWD
SAN DIEGUITO WD
SANTA FE ID
RAMONA MWD
CITY OF POWAY
CITY OF DEL MAR
CITY OF SAN DIEGO
LAKESIDE WD
PADRE DAM MWD
HELIX WD
OTAY WD
NATIONAL CITY
SOUTH BAY ID
CITY OF SAN DIEGO
PACIFIC OCEAN
Santa Margarita River
San Luis Rey River
Lake Pulgas
Lake O'Neill
Red Mountain Reservoir
Beck Reservoir
Morro Reservoir
Windmill Lake
Whalen Lake
Guajome Lake
Hubbert Lake
Talone Lake
Oceanside Harbor
Buena Vista Creek
Calveras Lake
Buena Vista Lagoon
Squires Dam
Aqua Hedionda Creek
Aqua Hedionda Lagoon
Carlsbad
San Marcos
San Marcos Creek
Batiquitos Lagoon
Encinitas
San Dieguito Reservoir
San Elijo Lagoon
Solana Beach
San Dieguito River
San Dieguito Lagoon
Los Penasquitos Lagoon
Los Penasquitos Creek
Miramar Reservoir
Lusardi Creek
Lake Hodges
Santa Ysabel Creek
Sutherland Reservoir
Lake Ramona
Lake Poway
Boulder Creek
San Vicente Reservoir
El Capitan Reservoir
Lake Jennings
Santee Lakes
Santee
Lake Lindo
San Diego River
Palo Verde Lake
Loveland Reservoir
Lake Murray
El Cajon
Mount Helix Lake
La Mesa
Mission Bay
San Diego
Chollas Heights Reservoir
Lemon Grove
Hansen Reservoir
Sweetwater River
Sweetwater Reservoir
Coronado
San Diego Bay
National City
Chula Vista
Upper Otay Reservoir
Dulzura Creek
Lower Otay Reservoir
Otay River
Imperial Beach
Tijuana River
Cottonwood Creek
UNITED STATES OF AMERICA
MEXICO
San Diego County
Baja California Norte
SAN DIEGO COUNTY WATER AUTHORITY
MEMBER AGENCIES
GIS
0 1.25 2.5 5 Miles
N
Member Agency areas are based on information from the County of San Diego Assessor's Office. This map was created using the best available information at the time of completion. For site specific information please refer to the individual member agencies.
Map Created: June 2007


CALIFORNIA AQUEDUCT
Metropolitan Water District of Southern California
PACIFIC OCEAN
N
San Diego County Water Authority
COLORADO RIVER AQUEDUCT
PARKER DAM
COLORADO RIVER
ARIZONA
MEXICO

SAN DIEGO COUNTY WATER AUTHORITY

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FERN STEINER
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BARBARA WIGHT
KENNETH WILLIAMS
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Pendleton Military Reservation
JEREMY JUNGREIS

SPECIAL DISTRICTS

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CLAUDE A. "BUD" LEWIS

Fallbrook Public Utility District
KEITH LEWINGER

Helix Water District
JOHN B. LINDEN
RICHARD K. SMITH

Lakeside Water District
FRANK HILLIKER

Olivenhain Municipal Water District
MARK MUIR

Otay Water District
GARY CROUCHER
MARK W. WATTON

Padre Dam Municipal Water District
DOUG WILSON

Rainbow Municipal Water District
GERALD WALSON

Ramona Municipal Water District
RALPH McINTOSH

Rincon del Diablo Municipal Water District
MITCHELL DION

San Dieguito Water District
JIM BOND

Santa Fe Irrigation District
MICHAEL T. HOGAN

South Bay Irrigation District
BUD POCKLINGTON

Vallecitos Water District
MARGARET E. "BETTY" FERGUSON

Valley Center Municipal Water District
GARY ARANT

Vista Irrigation District
HOWARD S. WILLIAMS

Yuima Municipal Water District
W.D. "BILL" KNUTSON

SAN DIEGO COUNTY WATER AUTHORITY

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Financial Planning Manager

FINANCIAL ADVISORS
Montague DeRose and Associates, LLC

INDEPENDENT AUDITORS
Lance, Soll & Lunghard, L.L.P.
Certified Public Accountants

BOND COUNSEL AND DISCLOSURE COUNSEL
Orrick, Herrington & Sutcliffe LLP

TRUSTEE
U.S. Bank National Association

No dealer, broker, salesperson or other person has been authorized by the Underwriters, the Water Authority or the Trustee to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of 2011S-1 Bonds by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as a contract with the purchasers or any of the owners of 2011S-1 Bonds. Any statement made in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended solely as such and not as representations of fact. The information set forth herein has been furnished by the Water Authority and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriters. 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, create any implication that there has been no change in the affairs of the Water Authority since the date hereof.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE", "PROJECT", "ANTICIPATE", "EXPECT", "INTEND", "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The Underwriters have provided the following for inclusion in the Official Statement in connection with the offering of the 2011S-1 Bonds: 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.

THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2011S-1 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

While the Water Authority maintains a website for various purposes, none of the information on the Water Authority's website is intended to assist investors in making an investment decision or to provide any continuing information with respect to the 2011S-1 Bonds.

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OFFICIAL STATEMENT

$86,630,000
San Diego County Water Authority
Subordinate Lien Water Revenue Refunding Bonds,
Series 2011S-1

INTRODUCTION

This Official Statement, including the cover page and Appendices hereto, is provided to furnish certain information in connection with the offering of San Diego County Water Authority Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 (the "2011S-1 Bonds"), in the aggregate principal amount of $86,630,000.

The 2011S-1 Bonds are being issued by the San Diego County Water Authority (the "Water Authority") pursuant to the County Water Authority Act of the State of California and all laws amendatory thereof or supplemental thereto, including Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (collectively, the "Act") and an Indenture, dated as of July 1, 2011 (the "Indenture"), between the Water Authority and U.S. Bank National Association as trustee (the "Trustee").

The 2011S-1 Bonds are secured by a pledge of Net Water Revenues (defined below). Payment of the 2011S-1 Bonds from Net Water Revenues is subordinate to the payment of any Prior Obligations (defined below) presently outstanding or hereafter incurred by the Water Authority in accordance with its General Resolution (defined below).

The 2011S-1 Bonds constitute limited obligations of the Water Authority, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof.

The 2011S-1 Bonds are being issued by the Water Authority to refinance a portion of the design, acquisition and construction of various capital projects of its Capital Improvement Program by refunding a portion of the Water Authority's outstanding Commercial Paper Notes. See **THE CAPITAL IMPROVEMENT PROGRAM** and **FINANCING PLAN.**

Principal of the 2011S-1 Bonds is expected to be paid from the proceeds of revenue bonds or other revenue secured obligations (referred to herein as the "Take-Out Bonds") to be issued by the Water Authority on or prior to the maturity of the 2011S-1 Bonds for that purpose. See **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Access to Capital Markets**. If the Water Authority is unable to issue Take-Out Bonds, no assurance can be given that the Water Authority will have sufficient funds on hand to pay the principal of the 2011S-1 Bonds on their maturity date.

Brief descriptions of the 2011S-1 Bonds, the security and sources of payment for the 2011S-1 Bonds and the Water Authority and its Capital Improvement Program are provided herein. Such descriptions do not purport to be comprehensive or definitive. Definitions of certain capitalized terms used herein may be found in **APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions.** All references made to various documents herein are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the office of the Water Authority's Clerk of the Board of Directors.

WATER AUTHORITY DEBT

The Water Authority may borrow money and incur indebtedness and may issue bonds or other evidences of indebtedness, provided that the Water Authority may not incur indebtedness in excess of 15 percent of the assessed valuation of the taxable property within the Water Authority's service area. Revenue bonds of the Water Authority must be authorized by a majority vote of the Board of Directors, and general obligation bonds must be authorized by a two-thirds majority vote of the qualified electors of the Water Authority. The Water Authority has no revenue bonds or general obligation bonds outstanding. The Water Authority may purchase real or personal property (through installment sale agreements) and may also incur indebtedness by contract. Installment sale agreements are not limited in principal amount and contract indebtedness is limited in aggregate amount to 1/10 of 1 percent of the assessed value of property taxable for Water Authority purposes. As of June 30, 2010, 1/10 of 1 percent of the assessed value of property taxable for Water Authority purposes was approximately $387 million. As of May 1, 2011, the Water Authority had contract indebtedness in an aggregate principal amount of $189,985,000 outstanding and installment sale agreements in an aggregate principal amount of $1,779,660,000 outstanding. Any proposal to incur indebtedness by contract in excess of said 1/10 of 1 percent limit, and any proposal to purchase, lease or otherwise acquire rights, privileges or services in excess of 40 years requires majority approval of the qualified electors of the Water Authority. The Water Authority may also issue and sell, without voter approval, commercial paper in the form of short-term revenue certificates for any Water Authority purpose, and may arrange for bank lines of credit or letters of credit in connection therewith. All of the Water Authority's payment obligations with respect to all of the Water Authority's outstanding installment sale agreements and contracts of indebtedness are evidenced by certificates of participation or secure revenue bonds issued by the San Diego County Water Authority Financing Agency.

On May 11, 1989, the Water Authority adopted its Resolution No. 89-21, entitled "A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues," which was supplemented by Resolution No. 97-52 of the Water Authority, adopted on December 11, 1997 and by Resolution No. 09-23 of the Water Authority, adopted on December 17, 2009 (as supplemented, the "General Resolution"). The 2011S-1 Bonds are payable from Net Water Revenues under the General Resolution on a basis subordinate to the installment payments payable by the Water Authority under the following outstanding installment sale agreements and contracts of indebtedness (collectively, the "Contracts"): 1997 Installment Sale Agreement and 1997 Contract of Indebtedness (the "1997 Contracts"), 1998 Installment Sale Agreement and 1998 Contract of Indebtedness (the "1998 Contracts"), the 2002 Installment Sale Agreement, the 2004 Installment Sale Agreement, the 2005 Installment Sale Agreement and the 2005 Contract of Indebtedness (the "2005 Contracts"), the 2008A Installment Sale Agreement and 2008A Contract of Indebtedness (the "2008 Contracts"), and the 2010A Contract of Indebtedness and the 2010B Installment Sale Agreement (the "2010 Contracts").

The Water Authority's obligation to make installment payments under the Contracts are evidenced by the following certificates of participation or secure the following bonds:

	Initial Principal Amount	Principal Amount Outstanding as of May 1, 2011
Water Revenue Certificates of Participation:		
Water Revenue Refunding Certificates of Participation, Series 1997A (the "1997A Certificates")	$ 162,315,000	$ 6,110,000
Water Revenue Certificates of Participation, Series 1998A	180,000,000	11,685,000
Water Revenue Certificates of Participation, Series 2002A (the "2002A Certificates")	300,000,000	236,750,000
Water Revenue Certificates of Participation, Series 2004A (the "2004A Certificates")	425,000,000	425,000,000
Water Revenue Refunding Certificates of Participation, Series 2005A (the "2005A Certificates")	107,455,000	107,455,000
Water Revenue Certificates of Participation, Series 2008A (the "2008A Certificates")	558,015,000	558,015,000
Water Revenue Bonds:		
Water Revenue Bonds, Series 2010A (the "2010A Bonds")	98,495,000	98,495,000
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds) (the "2010B Bonds")	526,135,000	526,135,000
	$2,357,415,000	$1,969,645,000

The Contracts are all fixed interest rate obligations and all are payable from Net Water Revenues on a senior basis to payments on the 2011S-1 Bonds. The Water Authority has no indebtedness outstanding which is payable from Net Water Revenues senior to payments on the Contracts, and the General Resolution does not allow the Water Authority to incur indebtedness payable from Net Water Revenues senior to payments on the Contracts. The Water Authority may issue refunding revenue bonds or enter into future installment sale agreements or contract indebtedness that will be payable from Net Water Revenues on a parity with the Contracts, subject to the requirements summarized in this section and in **SECURITY AND SOURCES OF PAYMENT – Additional Prior Obligations**.

In November 1995, the Water Authority established a commercial paper program in order to finance additional capital facilities. Commercial paper notes issued under the program (the "Commercial Paper Notes") are authorized to be issued in the aggregate principal amount of $460,000,000 outstanding from time to time. Commercial Paper Notes in the aggregate principal amount of $460,000,000 are currently outstanding (of which $100,000,000 principal amount will be retired from the proceeds of the 2011S-1 Bonds). See **FINANCING PLAN**. The Commercial Paper Notes and certain payments to the banks providing liquidity support for the Commercial Paper Notes are payable from Net Water Revenues on a parity with the 2011S-1 Bonds. The Water Authority may incur future obligations that will be payable from Net Water Revenues on a parity with the 2011S-1 Bonds, the Commercial Paper Notes and such bank obligations, as further set forth in **SECURITY AND SOURCES OF PAYMENT – Additional Subordinate Obligations**.

Debt service reserve funds were created in connection with the execution and delivery of the 1997A Certificates, the 1998A Certificates, the 2002A Certificates, the 2004A Certificates, the 2005A Certificates and the 2008A Certificates. Amounts in such debt service reserve funds are not available to secure the 2011S-1 Bonds. No debt service reserve fund will be created to secure the 2011S-1 Bonds.

The Water Authority also expects to issue additional bonds in August 2011 that will constitute Prior Obligations payable from Net Water Revenues on a senior basis to the 2011S-1 Bonds for the purpose of refunding the Water Authority's obligations under certain outstanding Contracts described above. Such bonds are only to be issued to achieve debt service savings and are not offered hereby.

FINANCING PLAN

A portion of the proceeds of the 2011S-1 Bonds, together with other available monies, will be used by the Water Authority to retire $100,000,000 aggregate principal amount of San Diego County Water Authority Commercial Paper Notes, Series 2 (the "Refunded Notes") at their respective maturity dates. The Refunded Notes were originally issued to finance costs of the Water Authority's Capital Improvement Program. See **THE CAPITAL IMPROVEMENT PROGRAM**.

The balance of the proceeds of the 2011S-1 Bonds, net of Underwriters' discount, will be used to pay costs of issuance. See **SOURCES AND USES OF FUNDS**.

THE 2011S-1 BONDS

General

The 2011S-1 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on July 1 in the year and in the amount set forth on the cover page hereof. Interest on the 2011S-1 Bonds is payable from their dated date at the rate set forth on the cover page hereof, on January 1 and July 1 of each year, commencing January 1, 2012. Interest on the 2011S-1 Bonds will be computed on the basis of a 360-day year of twelve 30-day calendar months.

The 2011S-1 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC," and, together with any successor securities depository, the "Securities Depository"). DTC will act as Securities Depository for the 2011S-1 Bonds. Individual purchases of the 2011S-1 Bonds will be made only in book-entry form. Purchasers will not receive physical certificates representing their beneficial ownership interest in the 2011S-1 Bonds. So long as the 2011S-1 Bonds are registered in the name of Cede & Co., payment of the principal of, premium, if any, and interest on the 2011S-1 Bonds will be payable to DTC or its nominee. DTC in turn is obligated to remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners. See **APPENDIX E – BOOK-ENTRY SYSTEM**.

THE 2011S-1 BONDS ARE LIMITED OBLIGATIONS OF THE WATER AUTHORITY, PAYABLE SOLELY FROM A PLEDGE OF NET WATER REVENUES, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE WATER AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED FOR THE PAYMENT THEREOF. PAYMENT OF THE 2011S-1 BONDS FROM NET WATER REVENUES IS SUBORDINATE TO THE PAYMENT OF ANY PRIOR OBLIGATIONS PRESENTLY OUTSTANDING OR HEREAFTER INCURRED BY THE WATER AUTHORITY IN ACCORDANCE WITH THE GENERAL RESOLUTION.

Redemption

Optional Redemption. The 2011S-1 Bonds shall be subject to redemption prior to their stated maturity date at the option of the Water Authority, from any source of available funds, as a whole or in part on any date on or after June 1, 2016, at a redemption price equal to the principal amount of such 2011S-1 Bonds called for redemption, together with accrued interest thereon to the date fixed for redemption, without premium.

Partial Redemption. If less than all 2011S-1 Bonds are to be redeemed at any one time, the Trustee shall select the 2011S-1 Bonds to be redeemed in any manner that it deems appropriate and fair and shall promptly notify

the Water Authority in writing of the numbers of such 2011S-1 Bonds so selected for redemption. For purposes of such selection, the 2011S-1 Bonds shall be deemed to be composed of $5,000 multiples and any such multiple may be separately redeemed.

Notice, Rescission and Effect of Redemption

Notice of Redemption. Notice of redemption is required to be mailed by first-class mail by the Trustee, not less than 20 nor more than 60 days prior to the redemption date to (i) the respective Owners of the 2011S-1 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) the Municipal Securities Rulemaking Board. Notice of redemption to the Securities Depositories and the Municipal Securities Rulemaking Board is required to be given by registered mail or overnight delivery or facsimile transmission. Each notice of redemption is required to state the date of such notice, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the CUSIP number of the maturity or maturities, and if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the 2011S-1 Bonds of such maturity to be redeemed and, in the case of 2011S-1 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice is also required to state that on said date there will become due and payable on each of said 2011S-1 Bonds the redemption price thereof and in the case of 2011S-1 Bonds to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and require that the 2011S-1 Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

So long as the 2011S-1 Bonds are held in book-entry only form, notice of redemption will be mailed by the Trustee only to DTC and not to the Beneficial Owners of 2011S-1 Bonds under the DTC book-entry only system. Neither the Water Authority nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See **APPENDIX E – BOOK-ENTRY SYSTEM**.

Neither the failure to receive any such notice of redemption nor any defect therein will affect the validity of the proceedings for the redemption of such 2011S-1 Bonds or the cessation of the accrual of interest on the redemption date.

Conditional Notice of Optional Redemption. Any notice of optional redemption of the 2011S-1 Bonds may be conditional and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and the Water Authority shall not be required to redeem such 2011S-1 Bonds and the redemption shall be cancelled and the Trustee shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

Right to Rescind or Cancel Redemption. The Water Authority shall have the right to rescind any optional redemption by written notice of rescission. In addition, any notice of optional redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the 2011S-1 Bonds then called for redemption. Any such rescission or cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of rescission or cancellation of such redemption in the same manner as the original notice of redemption was sent.

Effect of Redemption. If notice of redemption has been duly given and money for the payment of the redemption price of the 2011S-1 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice the 2011S-1 Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such 2011S-1 Bonds shall cease to accrue, and the Owners of such 2011S-1 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the 2011S-1 Bonds are anticipated to be as follows:

SOURCES:	
Principal Amount of the 2011S-1 Bonds	$86,630,000.00
Original Issue Premium	13,973,564.85
TOTAL	$100,603,564.85
USES:	
Payment of the Refunded Notes	$100,000,000.00
Cost of Issuance[1]	603,564.85
TOTAL	$100,603,564.85

[1] Includes underwriters' discount, legal fees, financial advisory fees, printing expenses and other costs relating to the issuance and delivery of the 2011S-1 Bonds.

SECURITY AND SOURCES OF PAYMENT

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in **APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Certain Definitions**.

General

The Indenture provides that the 2011S-1 Bonds shall constitute Subordinate Obligations under the General Resolution secured by a pledge of Net Water Revenues as provided therein. Under the General Resolution, Net Water Revenues are pledged to secure the payment by the Water Authority of all Bond Payments, Installment Payments and Reimbursement Payments relating to Bonds and Contracts and other evidences of indebtedness or obligations constituting Prior Obligations (defined below), and, subordinate thereto, the payment of all Subordinate Obligations.

The 2011S-1 Bonds constitute limited obligations of the Water Authority, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the 2011S-1 Bonds from Net Water Revenues is subordinate to the payment of any Prior Obligations presently outstanding or hereafter incurred by the Water Authority in accordance with the General Resolution.

"Prior Obligations" means the Water Authority's obligations to make Bond Payments, Installment Payments and Reimbursement Payments relating to the Water Revenue Certificates of Participation, Series 1998A, 2002A, 2004A and 2008A; the Water Authority's Water Revenue Refunding Certificates, Series 1997A and 2005A; the San Diego County Water Authority Financing Agency Water Revenue Bonds, Series 2010A and 2010B; and any other Bonds, Contracts or evidences of indebtedness or obligations of the Water Authority authorized under the Act and which state that they are payable from Net Water Revenues on a basis that is senior to the Water Authority's Subordinate Obligations (including the 2011S-1 Bonds).

Pledge of Net Water Revenues

The Indenture provides that the 2011S-1 Bonds shall constitute Subordinate Obligations under the General Resolution secured by a pledge of Net Water Revenues as provided therein. The Indenture further provides that the Owners shall be beneficiaries of all of the obligations assumed by the Water Authority and the covenants made by the Water Authority in the General Resolution.

In addition, all amounts (including proceeds of the sale of the 2011S-1 Bonds) held by the Trustee in any fund or account established under the Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of and redemption premiums, if any, on the 2011S-1 Bonds as provided in the Indenture and shall not be used for any other purpose while any of the 2011S-1 Bonds remain Outstanding; provided, however, that out of such moneys there may be applied such sums for such purposes as are permitted under the Indenture.

Payment of 2011S-1 Bonds

To provide for the payment of the principal of and interest on the 2011S-1 Bonds as the same shall become due and payable, the Water Authority shall, from Net Water Revenues on deposit in the Subordinate Obligations Payment Fund established under the General Resolution on a parity with all other Subordinate Obligations (as defined in the General Resolution), deposit in the Debt Service Fund from time to time the sum or sums required to be deposited under or pursuant to the Indenture to provide for the payment of principal of and interest on the 2011S-1 Bonds. Such payment shall be subject and subordinate to the application of Net Water Revenues to the payment of principal and accreted value of, premium, if any, interest on, and any reserve fund requirements for, or other obligations with respect to, any Prior Obligations.

The Water Authority agrees and covenants that on or before the Business Day immediately preceding January 1 and July 1 of each year, beginning January 1, 2012, the Water Authority shall, from amounts in the Subordinate Obligation Payment Fund (on a parity with the payment of other Subordinate Obligations), transfer to the Trustee for deposit in the Debt Service Fund, which fund the Trustee shall establish, maintain and hold in trust so long as any Bonds remain outstanding, a sum equal to the amount of interest and principal becoming due on the next succeeding January 1 or July 1, as the case may be; provided, no such transfer need be made if the amount on deposit in the Debt Service Fund is at least equal to the amount of interest and principal becoming due and payable on the Bonds on such January 1 or July 1, as the case may be.

All money on deposit in the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the Bonds as such interest and principal become due and payable.

No debt service reserve fund to secure the 2011S-1 Bonds is created under the Indenture.

Net Water Revenues

Net Water Revenues. Net Water Revenues, the source of payment for the 2011S-1 Bonds, is defined by the General Resolution to be, for any fiscal year, the Water Revenues during such fiscal year less the Maintenance and Operation Costs during such fiscal year.

Current Water Revenues; Water Revenues. "Water Revenues" is defined under the General Resolution as Current Water Revenues plus amounts transferred to the Water Revenue Fund from the Rate Stabilization Fund less amounts transferred from the Water Revenue Fund to the Rate Stabilization Fund.

Under the General Resolution, "Current Water Revenues" generally include all gross income and revenue received or receivable by the Water Authority from its ownership and operation of the Water System, including income derived from water sales, Water Standby Availability Charges, capacity charges, infrastructure access charges, sales of hydroelectric power associated with the Water System and certain investment earnings, but excluding any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

Interest Subsidy Payments received by the Water Authority with respect to the San Diego County Water Authority Financing Agency Water Revenue Bonds, Series 2010B, will constitute Current Water Revenues. The Water Authority has amended the General Resolution pursuant to Resolution 09-23, adopted on December 17, 2009 ("Resolution No. 09-23"), to provide that Interest Subsidy Payments are treated as a reduction to Debt Service rather than as Current Water Revenues. Such amendment will become effective, however, only if and when requisite approvals for an amendment of the General Resolution have been obtained by the Water Authority. **By their purchase of 2011S-1 Bonds, the purchasers of such 2011S-1 Bonds consent to such amendment.**

Rate Stabilization Fund. In order to avoid fluctuations in its water rates, the Water Authority may transfer portions of its Current Water Revenues from time to time to the Rate Stabilization Fund, and from time to time transfer moneys from the Rate Stabilization Fund to the Water Revenue Fund. Such transfers from the Rate Stabilization Fund are to be used by the Water Authority solely to pay Maintenance and Operation Costs. It is expected that the amounts to be transferred into and out of the Rate Stabilization Fund will be budgeted by the Water Authority on an annual basis in order to provide sufficient Water Revenues to meet its capital improvement funding objectives and its covenant obligations under the General Resolution. See **FINANCIAL OPERATIONS - Financial Management Policies** and **PROJECTED OPERATING RESULTS – Projected Operating Revenue.**

Maintenance and Operation Costs. The Water Authority is required to pay all Maintenance and Operation Costs from the Water Revenue Fund as they become due. Such costs include all costs paid or incurred by the Water Authority for maintaining and operating the Water System, including water purchases, determined in accordance with Generally Accepted Accounting Principles, as more fully set forth in the General Resolution. Maintenance and Operation Costs exclude depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, and interest expense. Also excluded are maintenance and operation costs paid from other than Water Revenues, including, without limitation, costs paid from ad valorem property tax revenues.

The Water Authority may enter into contracts or leases with respect to the payment of certain maintenance and operation expenses. However, amounts paid pursuant to any contract or lease longer than five years (an "Obligation") shall be treated as Maintenance and Operation Costs only if the Water Authority determines at the time it enters into the Obligation that (a) the treatment of payments on such Obligation as Maintenance and Operation Costs will not impair its ability to comply with its rate covenant (hereinafter described) during the succeeding five fiscal years (or during the five years after the commercial operation date of the project being financed with the Obligation, if later), and (b) the properties, services or commodities to be furnished pursuant to the Obligation can be economically and beneficially utilized by the Water Authority. If these criteria cannot be met, amounts due under the Obligation shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund (each hereinafter described).

Application of Water Revenues Under the General Resolution

The General Resolution established five special funds which are held by the Water Authority: a Water Revenue Fund; a Rate Stabilization Fund; an Installment Payment Fund; a Subordinate Obligation Payment Fund; and a General Reserve Fund.

Water Revenue Fund. Under the General Resolution, all Current Water Revenues are deposited initially in the Water Revenue Fund. The Water Revenue Fund may also receive transfers from the Rate Stabilization Fund, and the Water Authority may make transfers from the Water Revenue Fund to the Rate Stabilization Fund.

Amounts in the Water Revenue Fund are utilized to pay Maintenance and Operation Costs as they become due and payable. Remaining amounts, constituting Net Water Revenues, are set aside and deposited or transferred by the Water Authority, as the case may be, at the following times in the following order of priority:

(a) Installment Payment Fund. On or before the last business day of each month, the Water Authority shall deposit in the Installment Payment Fund a sum equal to the Monthly Accrued Debt Service for such month, plus a sum equal to all Reimbursement Payments then due and payable, provided that no such deposit need be made if amounts on deposit in the Installment Payment Fund equal the amount of Bond Payments or Installment Payments due with respect to all Bonds (revenue bonds payable prior to the 2011S-1 Bonds) and Contracts (leases, installment sale agreements and contracts of indebtedness payable prior to the 2011S-1 Bonds) on the next succeeding Interest Payment Date (with respect to interest), Principal Payment Date (with respect to principal) and Accreted Value Payment Date (with respect to Accreted Value) for such Bonds or Contracts, and the Reimbursement Payments then due and payable.

(b) Bond or Contract Reserve Fund. On or before the last business day of each month, the Water Authority shall transfer to each trustee for deposit in the applicable Bond or Contract Reserve Fund an amount equal to the amount, if any, required to be deposited therein to build up or replenish such Bond or Contract Reserve Fund as, and to the extent, required by the applicable Contract or indenture or trust agreement relating thereto.

(c) Subordinate Obligation Payment Fund. On or before the last business day of each month, the Water Authority shall deposit in the Subordinate Obligation Payment Fund the sum or sums required to be deposited under or pursuant to the Indenture or other instrument securing each Subordinate Obligation.

The 2011S-1 Bonds, the Water Authority's Commercial Paper Notes and the Water Authority's obligations to the banks providing liquidity support for the Water Authority's Commercial Paper Notes all constitute "Subordinate Obligations" under the General Resolution.

(d) Subordinate Obligation Reserve Fund. On or before the last business day of each month, the Water Authority shall transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or Indenture or other instrument securing such Subordinate Obligation.

No debt service reserve fund will be created to secure the 2011S-1 Bonds.

(e) General Reserve Fund. On the last business day of each month, the Water Authority shall, after making each of the foregoing deposits and transfers, transfer all money remaining in the Water Revenue Fund to the General Reserve Fund. The Water Authority may withdraw money in the General Reserve Fund for any lawful purpose of the Water Authority except to make transfers to the Rate Stabilization Fund.

The Water Authority covenants in the General Resolution to keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System. To fulfill this requirement, the Water Authority employs enterprise accounting principles and practices in accordance with Generally Accepted Accounting Principles. See **APPENDIX A – WATER AUTHORITY FINANCIAL STATEMENTS**. Consistent with such accounting principles and practices and as authorized by the General Resolution, the Water Authority does not maintain on its books the specific funds named in the General Resolution. The Water Authority does, however, account for Water Revenues, Maintenance and Operation Costs, Debt Service and Monthly Accrued Debt Service in a manner consistent with and authorized by the General Resolution, and the accounting system employed by the Water Authority enables the Water Authority to calculate Net Water Revenues and to allocate Water Revenues in the priority specified in the General Resolution.

Rate Covenant

The Water Authority covenants under the Indenture that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during the next succeeding fiscal year of the Water Authority Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues during such fiscal year, including payment of interest on and principal of the 2011S-1 Bonds expected by the Water Authority to be paid with Net Water Revenues (e.g., excluding capitalized interest and principal expected to be paid from the proceeds of refunding obligations).

The Water Authority covenants under the General Resolution that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for Water Service which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield, during the next succeeding fiscal year of the Water Authority, Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues (including Subordinate Obligations) and at least equal to 120 percent of the Debt Service on all Bonds and Contracts that constitute Prior Obligations for such fiscal year. The Water Authority may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of such covenant.

The Water Authority has amended the General Resolution to provide that Interest Subsidy Payments are treated as a reduction to Debt Service rather than as Current Water Revenues. Such amendment will become effective, however, only if and when requisite approvals for an amendment of the General Resolution have been obtained by the Water Authority. **By their purchase of 2011S-1 Bonds, the purchasers of such 2011S-1 Bonds consent to such amendment.**

Additional Prior Obligations

The Water Authority covenants under the Indenture that it will not issue any bonds or incur any obligations payable from Net Water Revenues senior to the payment of principal of or interest on the Bonds except in compliance with the terms of the General Resolution. The General Resolution provides that the Water Authority may at any time issue any Bonds or execute any Contract the payments under and pursuant to which are payable from the Net Water Revenues senior to the 2011S-1 Bonds; provided:

(a) For any period of 12 consecutive calendar months within the 24 calendar month period next preceding the month in which such Bonds are issued or such Contract is executed, as the case may be, as evidenced by a certificate of the Water Authority (together with supporting calculations prepared by the Water Authority), (1) the Net Water Revenues shall have been equal to at least 120 percent of the Maximum Annual Debt Service on all Bonds and Contracts outstanding after the issuance of such Bonds or the execution of such Contract, as the case may be, and (2) the Net Water Revenues shall have been sufficient for the payment of all amounts payable from Net Water Revenues during such 12-month period and at least equal to 120 percent of Debt Service on all Bonds and Contracts outstanding during such 12-month period, or

(b) (1) For any period of 12 consecutive calendar months within the 24 calendar month period next preceding the month in which such Bonds are issued or such Contract is executed, as the case may be, as evidenced by a certificate of the Water Authority (together with supporting calculations prepared by the Water Authority), the Net Water Revenues shall have been sufficient for the payment of all amounts payable from Net Water Revenues during such 12-month period and at least equal to 120 percent of Debt Service on all Bonds and Contracts outstanding during such 12-month period, and (2) as evidenced by a certificate of the Water Authority (together with supporting calculations and assumptions prepared by the Water Authority), in each of the five succeeding fiscal years, projected Net Water Revenues shall be sufficient for the payment of all amounts payable from Net Water Revenues in each such fiscal year and at least equal to 120 percent of Debt Service on all Bonds and Contracts to be outstanding in each such fiscal year; and

(c) The Water Authority shall certify that it is not then in default under any indenture or trust agreement or with respect to any Bonds or Contracts; and

(d) No Bond or Contract shall allow the declaration of Bond Payments or Installment Payments to be immediately due and payable in the event of default by the Water Authority thereunder or under the applicable indenture or trust agreement unless such remedy is made applicable to all Bonds and Contracts then outstanding. (None of the Water Authority's Outstanding Bonds or Contracts allows such a declaration.)

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the Water Authority to execute any Contract or to issue any Bonds at any time to refund any outstanding Bonds or any outstanding Contract or to execute Reimbursement Agreements.

Additional Subordinate Obligations

Other than the 2011S-1 Bonds and the Commercial Paper Notes (except to the extent the aggregate principal amount of Commercial Paper Notes at the time outstanding exceeds $360,000,000), the Water Authority covenants in the Indenture that it will not issue or incur any additional Subordinate Obligations the payments under and pursuant to which are payable from the Net Water Revenues on parity with the 2011S-1 Bonds and the Water Authority's other outstanding Subordinate Obligations, unless:

(1) the Water Authority shall determine that such issuance or incurrence will not adversely impact its ability to comply with the requirement summarized in the first paragraph under the heading **Rate Covenant** above; and

(2) the Water Authority files a Certificate of the Water Authority with the Trustee to the effect that either:

(a) Net Water Revenues for the most recent fiscal year for which audited financial statements are available were at least equal to 105% of the sum of Total Debt Service paid in such

fiscal year and the maximum annual debt service on such additional Subordinate Obligations; or

(b) Net Water Revenues for the first full fiscal year for which no interest on such additional Subordinate Obligations will be capitalized are projected to be at least equal to 105% of Total Debt Service for such fiscal year.

Notwithstanding the foregoing provisions, there shall be no limitation on the ability of the Water Authority to enter into agreements with banks or other financial institutions to provide for liquidity or credit support for Subordinate Obligations and to incur repayment or reimbursement obligations with respect thereto or to issue or incur Subordinate Obligations to refund any outstanding Subordinate Obligations.

The Indenture defines "Total Debt Service" to mean (i) Debt Service (as defined in the General Resolution, including as amended by Resolution No. 09-23 whether or not Resolution No. 09-23 has taken effect) on Prior Obligations, plus (ii) interest on and principal of Subordinate Obligations expected by the Water Authority to be paid with Net Water Revenues (e.g., excluding capitalized interest and amounts expected to be paid from the proceeds of refunding obligations).

Access to Capital Markets

The Water Authority expects that the source of repayment of the principal of the 2011S-1 Bonds will be the proceeds of Take-Out Bonds to be issued by the Water Authority on or prior to the maturity date of the 2011S-1 Bonds. It is possible that the occurrence of an unforeseen circumstance could prevent or delay the Water Authority's ability to access the capital markets and issue the Take-Out Bonds. Such market disruptions may occur in connection with an economic downturn, such as the current global economic downturn. Discrete and short-term market disruptions are rare, but have occurred in the past, as a result of a variety of factors and events, such as terrorist attacks, natural disasters or the failure or dissolution of, or other economic trouble being experienced by, an entity of systemic importance to the financial industry or the economy in general. No assurance can be given that the Water Authority will be able to issue the Take-Out Bonds, and, if the Water Authority is unable to issue the Take-Out Bonds, no assurance can be given that the Water Authority will have sufficient funds on hand to pay the principal of the 2011S-1 Bonds on their maturity date.

Limitations on Remedies

The ability of the Water Authority to comply with its covenants under the Indenture may be adversely affected by actions or events outside of the control of the Water Authority and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See **CONSTITUTIONAL LIMITATIONS**. Furthermore, any remedies available to the Trustee or the owners of the 2011S-1 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public entities in the State of California. The opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, bond counsel, concurrently with the issuance of the 2011S-1 Bonds, that the Indenture constitutes a valid and binding obligation of the Water Authority will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2011S-1 Bonds will be similarly qualified. A complete copy of the proposed form of opinion of bond counsel is set forth in Appendix F hereto. In the event the Water Authority fails to comply with its covenants under the Indenture or to pay principal and interest on the 2011S-1 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the 2011S-1 Bonds.

DEBT SERVICE SCHEDULE

The table below sets forth the total payments due with respect to the outstanding Prior Obligations and the Water Authority's Commercial Paper Notes, the principal and interest on the 2011S-1 Bonds and the total payments due following the refunding described under **FINANCING PLAN**:

Year (ending May 1)	Total Prior Obligation Debt Service[1/]	Commercial Paper Notes Debt Service[3/]	2011S-1 Bonds Interest	2011S-1 Bonds Principal[4/]	Total Debt Service
2012	$ 130,308,918.80	$ 6,425,877.78	$1,898,844.44	-	$ 138,633,641.02
2013	130,956,343.80	6,927,322.22	4,272,400.00	-	142,156,066.02
2014	133,683,593.80	9,802,322.22	4,272,400.00	-	147,758,316.02
2015	134,777,706.30	12,677,322.22	4,272,400.00	-	151,727,428.52
2016	137,076,151.30	15,515,000.00	4,272,400.00	-	156,863,551.30
2017	138,057,661.30	15,515,000.00	2,136,200.00	$86,630,000.00	242,338,861.30
2018	139,045,653.80	15,515,000.00	-	-	154,560,653.80
2019	139,539,591.30	19,934,065.86	-	-	159,473,657.16
2020	140,034,653.80	19,898,283.70	-	-	159,932,937.50
2021	140,031,453.80	24,861,249.17	-	-	164,892,702.97
2022	140,030,141.30	27,463,767.13	-	-	167,493,908.43
2023	139,313,128.80	23,220,480.32	-	-	162,533,609.12
2024	139,314,203.80	24,147,100.98	-	-	163,461,304.78
2025	139,309,203.80	23,028,056.13	-	-	162,337,259.93
2026	139,268,209.50	16,949,450.34	-	-	156,217,659.84
2027	139,138,119.00	18,450,070.90	-	-	157,588,189.90
2028	148,021,183.50[2/]	18,544,198.66	-	-	166,565,382.16
2029	135,633,751.70	19,729,236.40	-	-	155,362,988.10
2030	135,484,841.70	19,599,513.95	-	-	155,084,355.65
2031	135,325,495.30	17,467,159.00	-	-	152,792,654.30
2032	144,001,848.70[2/]	17,419,382.87	-	-	161,421,231.57
2033	125,380,018.60	17,369,934.58	-	-	142,749,953.18
2034	135,886,317.50	35,767,548.68	-	-	171,653,866.18
2035	96,255,335.70	36,265,194.45	-	-	132,520,530.15
2036	95,785,487.80	36,750,089.78	-	-	132,535,577.58
2037	95,299,432.40	37,222,309.90	-	-	132,521,742.30
2038	94,779,964.30	32,680,697.70	-	-	127,460,662.00
2039	46,910,549.00	58,340,456.73	-	-	105,251,005.73
2040	46,359,924.40	62,908,716.97	-	-	109,268,641.37
2041	45,791,385.30	-	-	-	45,791,385.30
2042	45,192,169.60	-	-	-	45,192,169.60
2043	44,570,129.00	-	-	-	44,570,129.00
2044	43,927,501.40	-	-	-	43,927,501.40
2045	43,256,217.80	-	-	-	43,256,217.80
2046	42,558,516.10	-	-	-	42,558,516.10
2047	41,836,327.30	-	-	-	41,836,327.30
2048	41,081,275.50	-	-	-	41,081,275.50
2049	40,295,291.70	-	-	-	40,295,291.70
TOTALS	$4,023,517,698.50	$690,394,808.64	$21,124,644.44	$86,630,000.00	$4,821,667,151.58

1. Gross amount; does not reflect interest subsidy payments expected to be received in connection with the 2010B Bonds. Does not reflect the proposed issuance of the 2011A Bonds to refund certain Prior Obligations.
2. Includes amounts expected to be paid from debt service reserve fund monies.
3. Assumes principal of Commercial Paper Notes is repaid in accordance with Water Authority's current financial projections and includes program fees. Reflects the retirement of $100,000,000 of currently outstanding Commercial Paper Notes with proceeds of the 2011S-1 Bonds.
4. Does not reflect anticipated issuance of Take-Out Bonds to refund the 2011S-1 Bonds at maturity.

THE WATER AUTHORITY

Organization, Purpose and Powers

The Water Authority was organized on June 9, 1944, under the Act for the primary purpose of supplying water to San Diego County for wholesale distribution to the Water Authority's member agencies in order to meet their respective needs for beneficial uses and purposes.

The Water Authority is authorized to acquire water and water rights within or outside the State of California; to develop, store and transport such water; to provide, sell and deliver water for beneficial uses and purposes and to provide, sell and deliver water of the Water Authority not needed or required for beneficial purposes of its member agencies to areas outside the boundaries of the Water Authority.

The Act also authorizes the Water Authority to exercise the power of eminent domain; to levy and collect taxes; to fix, prescribe and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each fiscal year a Water Standby Availability Charge on land within the boundaries of the Water Authority to which water is made available by the Water Authority.

The Water Authority is authorized by the Act to utilize any part of its water, and any parts of its facilities used for the development, storage, and transportation of water, to provide, generate, and deliver hydroelectric power, and may acquire, construct, operate and maintain any and all of its facilities for such utilization, and the Act authorizes the Water Authority to purchase, lease, sell and otherwise dispose of real or personal property. The Water Authority is authorized to contract to provide, sell and deliver hydroelectric power to the United States of America, to the State of California for the State Water Project and to any other person engaged in the sale of electric power at retail or wholesale. The Water Authority is also authorized to acquire, construct, own, operate, control or use works for supplying its member agencies with gas or electricity and to purchase, sell and exchange gas and electricity from, to and with any public agency, private company or person engaged in the sale of gas or electricity at retail.

Member Agencies

The Water Authority was organized by 11 member agencies in 1944. The Water Authority currently has 24 member agencies, consisting of 6 cities, 17 special districts, and the Pendleton Military Reservation. Reference is made to the map in the front portion of this Official Statement for the location of the member agencies. Pursuant to the provisions of the Act, additional member agencies may join the Water Authority. Subject to certain limitations, the Act also permits member agencies to withdraw from the Water Authority.

The following are the member agencies of the Water Authority:

Cities

Del Mar	Oceanside
Escondido	Poway
National City	San Diego

Special Districts

Carlsbad Municipal Water District	Rincon del Diablo Municipal Water District
Fallbrook Public Utility District	San Dieguito Water District
Helix Water District	Santa Fe Irrigation District
Lakeside Water District	South Bay Irrigation District
Olivenhain Municipal Water District	Vallecitos Water District
Otay Water District	Valley Center Municipal Water District
Padre Dam Municipal Water District	Vista Irrigation District
Rainbow Municipal Water District	Yuima Municipal Water District
Ramona Municipal Water District	

Federal Agency

Pendleton Military Reservation

Board of Directors, Management and Employee Relations

Board of Directors. The decision-making body of the Water Authority is its 36-member Board of Directors (the "Board"). Each of the member agencies of the Water Authority has at least one representative on the Board. Any member agency may appoint one additional representative for each full five percent (5%) of total assessed value of property taxable for Water Authority purposes that is within the public agency. As a result, the City of San Diego is currently entitled to representation by ten directors and Helix Water District, Otay Water District and Carlsbad Municipal Water District are each currently entitled to representation by two directors.

Under the Act, a member agency's vote is based on its "total financial contribution" to the Water Authority since the Water Authority was organized in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees and charges to or on behalf of the Water Authority or The Metropolitan Water District of Southern California ("MWD"). The Act authorizes each Board member to cast one vote for each $5,000,000, or major fractional part thereof, of the total financial contribution paid by the member agency. As of January 1, 2011, the member agencies' voting entitlements are as follows:

CALENDAR YEAR 2011 MEMBER AGENCY VOTING ENTITLEMENTS

Agency	Votes	Percent
Carlsbad Municipal Water District	61.627	3.47%
City of Del Mar	5.342	0.30%
City of Escondido	61.808	3.48%
Fallbrook Public Utility District	43.686	2.46%
Helix Water District	127.488	7.18%
Lakeside Water District	13.524	0.76%
City of National City	13.663	0.77%
City of Oceanside	88.937	5.01%
Olivenhain Municipal Water District	51.906	2.92%
Otay Water District	91.203	5.14%
Padre Dam Municipal Water District	47.808	2.69%
Pendleton Military Reservation	2.345	0.13%
City of Poway	38.172	2.15%
Rainbow Municipal Water District	73.454	4.14%
Ramona Municipal Water District	28.464	1.60%
Rincon del Diablo Municipal Water District	26.858	1.51%
City of San Diego	710.127	39.99%
San Dieguito Water District	19.553	1.10%
Santa Fe Irrigation District	27.389	1.54%
South Bay Irrigation District	41.814	2.36%
Vallecitos Water District	43.173	2.43%
Valley Center Municipal Water District	98.828	5.57%
Vista Irrigation District	52.417	2.95%
Yuima Municipal Water District	6.261	0.35%
TOTALS	1,775.847	100.00%

Directors are appointed by the chief executive officers of the respective member agencies, subject to approval by the agencies' governing bodies. Although directors are appointed for a six-year term, the Act states that all directors serve at the pleasure of the agencies that appointed them and may be removed by a majority vote of the governing board. The Act further provides that member agencies with more than one representative may require through ordinance that its directors vote as a block, as determined by a majority of such member agency's representatives. The City of San Diego has adopted such an ordinance. Another provision of the Act states that, except as otherwise provided in the Act, a 55 percent vote is required for Board action. At such time as the City of San Diego's proportion of financial contribution equals 38 percent or less, however, all questions will be required to receive only a majority of the vote.

Michael T. Hogan, representing the Santa Fe Irrigation District, is the current Chair of the Board; Thomas V. Wornham, representing the City of San Diego, serves as Vice-Chair of the Board; and Richard K. Smith, representing the Helix Water District, serves as Secretary of the Board.

The Board has five standing committees: Administrative and Finance; Engineering and Operations; Imported Water; Legislation, Conservation and Outreach; and Water Planning. These committees review Water Authority matters and recommend action to be taken by the Board.

Management. Maureen A. Stapleton serves as General Manager of the Water Authority. Ms. Stapleton became General Manager of the Water Authority in January 1996 following nine years of service at the City of San Diego as Deputy City Manager and Assistant City Manager. Ms. Stapleton has over 25 years of experience in municipal government in a variety of positions. Ms. Stapleton received her Bachelor of Science degree from California State Polytechnic University, Pomona and earned her Master of Public Administration from California State University Consortium, Long Beach.

Daniel S. Hentschke serves as the Water Authority's General Counsel. Mr. Hentschke became the Water Authority's General Counsel in February 1998. Before joining the Water Authority, Mr. Hentschke was a member of the Law Firm of Brown, Diven & Hentschke and served as City Attorney for the cities of Oceanside (1991-1998), San Marcos (1988-1992), and Solana Beach (1986-1998). Prior to that, he was Assistant City Attorney for the City of Carlsbad and Deputy City Attorney for the City of San Diego. He has extensive experience representing a variety of California public agencies as general and special counsel and in public finance matters. Mr. Hentschke received a Bachelor of Arts degree from the University of California, Santa Barbara, and earned his Doctor of Jurisprudence at the University of the Pacific, McGeorge School of Law.

Frank Belock, Jr. serves as Deputy General Manager of the Water Authority. Mr. Belock joined the Water Authority in August 2007. Before joining the Water Authority, Mr. Belock was employed by the Parsons Corporation serving in the capacity of Area Manager for the San Diego office. Mr. Belock is a California registered professional civil engineer. Prior to his employment with Parsons, he served as Water Department Director and Director of Engineering and Capital Projects for the City of San Diego. Mr. Belock received his Bachelor of Science degree in Civil Engineering from the University of Vermont and his Master of Public Administration from San Diego State University.

Sandra L. Kerl serves as Deputy General Manager of the Water Authority. Ms. Kerl joined the Water Authority in November 2009 following over twenty-five years of service in municipal management. Most recently Ms. Kerl served as City Manager in the City of La Mesa. She received a Bachelor of Arts degree in political science from Cal Poly, San Luis Obispo and a Master of Business Administration Degree from the University of Redlands.

Dennis A. Cushman serves as Assistant General Manager of the Water Authority. Prior to his appointment as Assistant General Manager in August 2002, Mr. Cushman served as Public Affairs Director of the Water Authority beginning in July 1997. Mr. Cushman has more than 20 years experience in public affairs and management in the public and private sectors. He holds a Bachelor of Arts degree in journalism from San Diego State University.

Eric L. Sandler serves as Director of Finance/Treasurer for the Water Authority. Mr. Sandler joined the Water Authority in December 2005 as Deputy Director of Finance. He has over 15 years of experience in municipal and infrastructure finance. Prior to joining the Water Authority, Mr. Sandler served as Director of Financial Planning and Acting Director of Finance for the San Francisco Public Utilities Commission. Previously, Mr. Sandler was employed by Lehman Brothers in the municipal investment banking group in San Francisco. Mr. Sandler holds a Bachelor of Science degree in Biology from Stanford University and a Master of Business Administration degree from the Haas School of Business at the University of California at Berkeley.

William J. Rose, P.E. serves as Director of Engineering of the Water Authority. Mr. Rose joined the Water Authority in February 2001 as Director of Right of Way and, between 2009 and 2011, Mr. Rose served as the Water Conservation Program Executive. Mr. Rose has 30 years of engineering and right of way experience at the regional level working for San Diego Gas and Electric Company ("SDG&E"), the San Diego Metropolitan Transit Development Board and the Water Authority. Mr. Rose received his bachelor's degree in Civil Engineering from California Polytechnic State University, San Luis Obispo, and is a registered civil engineer in California.

David G. Shank serves as the Financial Planning Manager for the Water Authority. Mr. Shank joined the Water Authority in 2006. Prior to joining the Water Authority, Mr. Shank served as a consultant for Malcolm Pirnie and a resource economist for the United States Department of Agriculture's Economic Research Service. Mr. Shank received a Master of Science degree from the University of California, Davis in Resource Economics, a Master of Science degree from the University of Illinois at Urbana-Champaign in Environmental Engineering and a Bachelor of Arts degree from Emory University in Economics.

Employee Relations. As of May 2, 2011, the Water Authority had 260 full-time equivalent employees. Approximately 82% of the employees are members of Teamsters Local 911 which is the recognized employee organization designated to represent them in their employment relations with the Water Authority, including wages, hours and other terms and conditions of employment. The Water Authority's current labor contracts with Local 911 are in effect through the fiscal year ending June 30, 2012.

CalPERS Defined Benefit Pension Plan. The Water Authority contributes to the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries.

The Water Authority's contributions to CalPERS for fiscal years ended June 30, 2009 and June 30, 2010 were $4,526,549 and $4,771,669, respectively. For the fiscal years ended June 30, 2010 and June 30, 2011, the Water Authority's annual contribution rates were 16.204 percent and 16.552 percent, respectively, of salaries and wages. For the fiscal year ending June 30, 2012, the contribution rate is 19.623 percent of salaries and wages. The Water Authority also pays seven percent of the employees required contribution and the employee pays the remaining one percent. As of June 30, 2009, the Water Authority's unfunded pension obligation as determined by CalPERS was approximately $40.1 million based on the actuarial value of plan assets (representing a funded ratio of 69.7 percent based on the actuarial value of plan assets and 50.8 percent based on the market value of assets).

Effective July 1, 2010, Technical/Support, Professional/Administrative, and Managerial/Supervisory employees increased the amount they pay toward their retirement plan (CalPERS) by one percent and an additional 2.5 percent increase effective July 1, 2011, for a total contribution of 4.5 percent. Executive, Senior Management, and Confidential employees increased their contribution by 3.5 percent, for a total contribution of 4.5 percent effective July 1, 2010. For additional information on the Water Authority's retirement plan obligation, see **APPENDIX A – WATER AUTHORITY FINANCIAL STATEMENTS.**

Other Post-Employment Benefits. The Water Authority established a Retiree Healthcare Plan ("Plan"), a single-employer defined benefit retiree healthcare plan. This Plan, which is administered by the Water Authority, provides employees who retire directly from the Water Authority at age 55 with five years of service a cash subsidy for monthly medical insurance premiums up to a cap of $200 per employee or $320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of $160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit. Employees who retire directly from the Water Authority at age 55 with five years of service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. The required contribution is based on projected pay-as-you-go financing requirements.

Governmental Accounting Standards Board Statement No. 45 requires each employer to calculate its actuarial accrued liability on explicit and implicit other post-employment benefits. It also requires a calculation of the annual required contribution, representing the annual contribution that will fund the current active and retired members' other post-employment benefits by the end of their working lifetimes. For the fiscal years ended June 30, 2009 and June 30, 2010, the Water Authority contributed $59,268 and $72,133 in current premiums, respectively. The Water Authority's unfunded liability for the Plan was approximately $3.0 million (representing a funded status of 0.00 percent), based on its most recent actuarial valuation dated January 1, 2009. For additional information on the Water Authority's obligations under the Plan, see **APPENDIX A – WATER AUTHORITY FINANCIAL STATEMENTS**.

WATER AUTHORITY SERVICE AREA

The Water Authority's service area lies within the foothill and coastal areas of the westerly third of San Diego County, encompassing 947,289 acres (1,480 square miles). When the Water Authority was established in 1944, its service area consisted of 94,707 acres. Growth has primarily resulted from the addition of and annexation of additional service areas by member agencies. The City of San Diego, with 213,121 acres, is the largest service area within the Water Authority's total service area. In its 2010 county population estimate, the United States Bureau of the Census ranked San Diego County the second largest county by population in California. Of the total population of San Diego County, 97 percent live within the Water Authority's service area. Based upon population estimates provided by the member agencies, it is estimated that the population of the Water Authority's service area as of June 30, 2010 was 3,167,171. The population of the City of San Diego, estimated at 1,376,173 as of June 30, 2010, represented approximately 43 percent of the total population of the Water Authority's service area.

The Water Authority's service area is a semi-arid region where historically the natural occurrence of water from rainfall and groundwater provides a firm water supply for only a small portion of the water needs of the current population. Since 1990, the Water Authority has provided an average of 85 percent of the water supply within its service area, with annual amounts ranging from a high of 95 percent in fiscal year ended June 30, 1990 to a low of 75 percent in fiscal year ended June 30, 1999. In fiscal year ended June 30, 2010, the Water Authority provided an estimated 87 percent of the water supply within its service area (excluding estimated conservation savings). As a wholesaling entity, the Water Authority has no retail customers, but serves only its member agencies.

For additional demographic and economic information relating to San Diego County, see **APPENDIX B - ECONOMY OF SAN DIEGO COUNTY**.

The following table sets forth the area of the Water Authority served by each member agency and the population of each member agency service area as estimated by the respective member agencies.

AREA AND POPULATION – WATER AUTHORITY MEMBER AGENCIES
(as of June 30, 2010)

Member Agency	Total Member Agency Service Area (acres)	Percent of Total Water Authority Service Area	Population Estimate	Percent of Total Water Authority Service Area Population
Carlsbad M.W.D.	20,640.0	2.18%	80,800	2.55%
City of Del Mar	1,443.0	0.15	4,580	0.15
City of Escondido	21,569.0	2.28	141,788	4.48
Fallbrook P.U.D.	27,988.0	2.96	32,000	1.01
Helix W.D.	31,350.0	3.31	263,642	8.33
Lakeside W.D.	11,488.0	1.21	35,500	1.12
City of National City	4,812.4	0.51	59,341	1.87
City of Oceanside	26,982.5	2.85	183,095	5.78
Olivenhain M.W.D.	30,942.1	3.27	66,872	2.11
Otay W.D.	80,320.0	8.48	205,994	6.50
Padre Dam M.W.D.	54,402.2	5.74	99,100	3.13
Pendleton Military Reservation	134,625.0	14.21	50,000	1.58
City of Poway	25,047.0	2.64	52,056	1.64
Rainbow M.W.D.	47,260.4	4.99	18,000	0.57
Ramona M.W.D.	46,523.7	4.91	40,000	1.26
Rincon del Diablo M.W.D.	10,596.1	1.12	29,546	0.93
City of San Diego	213,121.0	22.50	1,376,173	43.45
San Dieguito W.D.	5,652.7	0.60	38,979	1.23
Santa Fe I.D.	10,359.0	1.09	21,682	0.69
South Bay I.D.	13,836.9	1.46	126,756	4.00
Vallecitos W.D.	29,450.0	3.11	87,728	2.77
Valley Center M.W.D.	64,253.0	6.78	25,707	0.81
Vista I.D.	21,167.1	2.23	125,962	3.98
Yuima M.W.D.	13,460.0	1.42	1,870	0.06
Total Water Authority	947,289.1	100.00%	3,167,171	100.00%

WATER AUTHORITY WATER SUPPLY

The Water Authority's mission is to provide its service area a safe and reliable water supply. Historically, the principal source of supply for the Water Authority's service area has been water purchased by the Water Authority from The Metropolitan Water District of Southern California ("MWD") for sale to the Water Authority's member agencies. However, historic supply shortage events and continued population growth in the Water Authority's service area have reinforced the need for diversification of the Water Authority's water supply. Therefore, consistent with its mission statement, the Water Authority has actively pursued a strategy of supply diversification that includes the acquisition and importation of additional water supplies, the development of additional local water supply projects and augmentation of its water supply via local and regional water storage capacity. Water supplies utilized within the Water Authority service area originate from two sources: (1) water imported by the Water Authority and (2) local supplies (such as local runoff, groundwater, recycled water and, prospectively, seawater desalination). The Water Authority has implemented programs and supported new technologies to assist its member agencies' efforts to increase local supply development. Recent years have also seen the diversification of the Water Authority's sources of imported water through water transfer agreements. See **Quantification Settlement Agreement.**

MWD remains the Water Authority's largest source of imported water. See **Water Purchases from The Metropolitan Water District of Southern California**. MWD obtains its water supply from two primary sources: the Colorado River, via MWD's Colorado River Aqueduct, and the State of California Department of Water Resources' State Water Project ("SWP"), via the Edmund G. Brown California Aqueduct. A map in the front portion of this Official Statement provides the location of the Colorado River Aqueduct and the California Aqueduct. See **MWD Water Supply.**

As an alternative to purchasing all of its imported water from MWD, the Water Authority has begun to diversify its purchases through core supply transfers and dry-year transfers. Since 2003, the Water Authority has been receiving a portion of its imported water pursuant to the terms of the Quantification Settlement Agreement ("QSA") among the State of California acting by and through the Department of Fish and Game (the "DFG"), the Coachella Valley Water District ("CVWD"), the Imperial Irrigation District ("IID") and the Water Authority, executed on October 10, 2003, the Water Transfer Agreement (defined below) and other QSA related agreements. See **Quantification Settlement Agreement**. Water that the Water Authority receives from IID is conveyed through the Colorado River Aqueduct pursuant to an exchange agreement with MWD. The Water Authority began receiving transferred water from IID in December 2003. Starting with the initial delivery of 10,000 acre-feet, the amount of water to be delivered is increasing according to an agreed-upon schedule until the maximum transfer yield of 200,000 acre-feet per year is achieved in 2021. (Quantities of water are expressed in terms of acre-feet. An acre-foot is the amount of water that will cover one acre to a depth of one foot and is equivalent to approximately 326,000 gallons, which is approximately the average annual water use of two households of four persons each.) In addition, the Water Authority's portfolio includes imported supplies from water conserved as a result of the lining of the All-American Canal and the Coachella Canal. The Water Authority began receiving water from the Coachella Canal Lining Project in 2007 and from the All-American Canal Lining Project in 2009. In 2010, the Water Authority received almost 80,000 acre-feet from Coachella Canal Lining Project and All-American Canal Lining Project transfers. See **Quantification Settlement Agreement**. The Water Authority also successfully secured dry-year water transfers to provide supplemental supplies to the region during MWD's mandatory cutbacks to full service customers that started in July 2009 and ended in April 2011. Dry-year transfers are short-term transfers or leases, typically agreed to and completed within one to three years.

The Water Authority's progress in supply diversification for the last five fiscal years is set forth in the following table:

WATER AUTHORITY SERVICE AREA WATER SUPPLY

Fiscal Year Ended June 30 (In Acre-Feet)

Supply Source	2006	2007	2008	2009	2010
MWD	541,620	605,559	528,321	441,545	334,814
IID Transfer	35,000	45,000	50,000	55,000	65,000
Canal Lining	--	10,750	30,582	59,244	79,626
Dry Year Transfer	--	--	--	--	15,520
Surface Water[(1)]	80,850	40,197	39,339	43,757	27,335
Groundwater	14,956	19,451	18,475	18,031	18,556
Recycled Water	14,828	20,936	25,214	26,323	25,592
Total[(2)]	687,254	741,893	691,931	643,900	566,443

1 Reduction in surface water use attributed to multiple consecutive years of below normal rainfall.

2 Drop in post-2007 demand on MWD due to ramp-up of extraordinary conservation savings, lingering economic downturn, and MWD mandatory cutbacks.

The Water Authority continues to pursue regional supply diversification efforts through the support of long-term planning efforts for local surface water, groundwater, recycled water, local seawater desalination and conservation efforts. See **Future Water Supply**.

Water storage facilities are also critical to assuring consistent water availability notwithstanding fluctuation in available supply. The Water Authority has entered into agreements to expand available storage capacity. See **WATER AUTHORITY WATER FACILITIES – Water Storage**. One of the purposes of the Water Authority's Capital Improvement Program is to interconnect a number of member agency storage facilities. Another purpose is to enhance the Water Authority's own storage capacity. See **THE CAPITAL IMPROVEMENT PROGRAM**.

Local Water Supplies

In 1990, San Diego County area local supplies consisted primarily of surface water and groundwater sources which represented only five percent of the region's total water supply. These sources are heavily dependent upon precipitation and are cyclical in nature. Over the last several decades, total local supplies have ranged from a low of approximately 33,000 acre-feet in fiscal year ended June 30, 1991 to more than 152,000 acre-feet in fiscal year ended June 30, 1999. A number of the member agencies have storage facilities for the impounding of local runoff and water purchased from the Water Authority. The total capacity of such storage is approximately 590,000 acre-feet. Such storage is generally only available to the member agencies operating these facilities and is generally not available for use by other member agencies, since most storage facilities are currently not interconnected. However, some member agencies are able to sell water to certain other agencies under separate agreements.

By 2010, local supplies increased to approximately 15 percent of the region's supply portfolio. This was achieved through the development of recycled supplies and expanded groundwater use. The Water Authority has encouraged development of these additional local water supply projects through the award of Local Water Supply Development ("LWSD") incentives of up to $200 per acre-foot for recycled water and groundwater produced and beneficially reused within the Water Authority's service area. The purpose of the Water Authority's LWSD program is to promote the development of cost-effective water recycling and groundwater projects that prevent or reduce a demand for imported water and improve regional water supply reliability. The LWSD program reimburses member agencies for all or a portion of the difference between the actual per acre-foot cost of producing recycled water, and the revenue generated by the LWSD participant through the sale of that acre-foot of recycled water (not to exceed $200 per acre-foot). In February 2008, the program was expanded to include funding for local brackish and seawater desalination projects.

The Water Authority also provides financial assistance through the Local Investigations and Studies Assistance ("LISA") program for conceptual-level studies to evaluate potential new member agency local water supply projects. The LISA program provides matching grant funding on a 50-50 cost sharing basis for exploratory project development activities including feasibility studies, field investigations, and environmental studies and documentation. The Water Authority has committed $5.7 million over the term of the agreements, the last of which is scheduled to expire on December 31, 2012, to assist its member agencies with studies to develop additional new local supplies. The Water Authority's remaining obligation for existing grant funding agreements totals $1.6 million for fiscal years ending June 20, 2012 and June 20, 2013. The grant funding program has been discontinued for the immediate future and additional studies will not be funded in the budget cycle ending June 30, 2013.

Water Transfers

Core water transfers have emerged as one of the Water Authority's primary alternatives to heavy reliance upon purchases from MWD, thus helping the Water Authority accomplish its supply diversification goal. In general, water transfers typically involve purchasing water for a specified period of time from an agency or district that then reduces its water use by the equivalent amount. The principle behind water transfers is that market forces will work to reallocate water. The Water Authority/IID core water transfer, included in the QSA, is an example of this principle and will ultimately provide the Water Authority with 200,000 acre-feet per year by 2021. Between calendar years 2003 and 2010 the Water Authority received an aggregate of 330,000 acre-feet from this transfer.

Quantification Settlement Agreement

The QSA and its related water transfer and other agreements outline how California will reduce its overuse of Colorado River water over a 15-year period. The Water Authority's Colorado River Program manages the implementation of the Water Authority's agreements under the QSA, including the Water Transfer Agreement and the concrete lining of portions of the All-American and Coachella canals. A key element of the QSA is the Water Authority/IID water transfer agreement described on the following page. Under the QSA, the Water Authority will receive 30 percent of its water supply from the water transfer and canal lining projects by 2020.

The following table details the existing priorities of the various California users of Colorado River water. Water purchased by the Water Authority from MWD was obtained by MWD pursuant to Priority 4 and, prior to 2003, Priority 5. Amounts received by the Water Authority pursuant to the QSA will be obtained pursuant to Priority 3(a).

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	
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	3,850,000
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	
6(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	300,000
	TOTAL	5,362,000
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

Source: MWD.

(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 Water Authority, MWD and the Secretary of the Interior entered into a contract that merged and added the City of San Diego and the County of San Diego's rights to storage and delivery of Colorado River water to the rights of MWD.

Water Authority/Imperial Irrigation District Water Transfer. In September 1995, the Water Authority approved a Memorandum of Understanding with IID to negotiate a long-term transfer of conserved agricultural water. In July 1996, the Water Authority and IID agreed to draft terms for a Cooperative Water Conservation and Transfer Program. On April 29, 1998, the Water Authority and IID approved an Agreement for the Transfer of Conserved Water (the "Water Transfer Agreement"). Concurrently with its approval of the QSA on October 10, 2003, the Water Authority executed a Revised Fourth Amendment to the Water Transfer Agreement and commenced implementation of the water transfer. The Water Transfer Agreement provides that reliable water saved through conservation measures in Imperial Valley will be transferred to the Water Authority through existing MWD facilities. This water is highly reliable because it comes from IID's Colorado River Water, Priority 3. This means that water will likely remain available for transfer even during drought. Implementation of the water transfer began in 2003 with a transfer of 10,000 acre-feet of water. The quantities increase according to an agreed-upon delivery schedule, ultimately providing up to 200,000 acre-feet of water in 2021. This annual amount will continue to be transferred after 2021 until as late as 2077. In 2011 and 2012, the Water Authority will receive 80,000 acre-feet and 90,000 acre-feet, respectively, of conserved water from this program. Scheduled annual deliveries beyond 2012 are as follows:

SCHEDULED WATER TRANSFER DELIVERIES

Calendar Year	Transfer Amount
2013	100,000
2014	100,000
2015	100,000
2016	100,000
2017	100,000
2018	130,000
2019	160,000
2020	190,000
2021 - 2047	200,000

All-American Canal and Coachella Canal Lining Projects. As part of the QSA and related contracts, the Water Authority was assigned MWD's rights to approximately 77,700 acre-feet per year of conserved Colorado River water from projects to line portions of the previously earthen All-American Canal (All-American Canal Lining Project or "AACLP") and the Coachella Canal (Coachella Canal Lining Project or "CCLP") pursuant to an Allocation Agreement among various parties to the QSA (the "Allocation Agreement"). The AACLP will yield approximately 56,200 acre-feet of Colorado River water per year and the CCLP will yield approximately 21,500 acre-feet per year. Under the Allocation Agreement, IID has certain limited call rights to a portion of the conserved water, but exercise of call rights would extend the term of the deliveries to the Water Authority. The canal lining projects will reduce the loss of water that occurred through seepage and the conserved water is to be delivered to the Water Authority. This is expected to provide the Water Authority's service area with an additional 8.5 million acre-feet of water over the 110-year life of the agreement. IID and the CVWD managed the design, permitting, contracting, and construction of the two projects.

Construction work on the CCLP was deemed complete in April 2007. Water was turned into the newly lined canal starting on December 4, 2006 and the facility was taking full flow by December 21, 2006. In December 2007 the Water Authority and CVWD executed an agreement that allows up to an additional 4,850 acre-feet of conserved water that was previously considered necessary for environmental mitigation to be available for delivery to the Water Authority. The United States Bureau of Reclamation ("USBR") issued a final "secretarial determination" with a total project yield of 30,850 acre-feet per year, except that for calendar years 2007 and 2008 the quantity of conserved water by the CCLP was determined to be 27,850 acre-feet per year. The terms of the agreement provide that the Water Authority will receive up to an additional 1,850 acre-feet in calendar years 2007 and 2008, and up to 4,850 acre-feet per year thereafter. Although the actual total net supply available in any year will depend upon how much of the additional water may be necessary for environmental mitigation, the Water

Authority expects to receive 2,500 acre-feet per year on average of the additional 4,850 acre-feet per year derived from the project. The project is still implementing environmental mitigation measures, including a fishery mitigation pond and habitat restoration, and monitoring mitigation sites. Most of this work is expected to be completed by the end of calendar year 2012.

Construction work began on the AACLP in 2007 and water began flowing in the new canal in February 2009. The lining project consisted of constructing a concrete-lined canal parallel to 23 miles of the existing All-American Canal form Pilot Knob to Drop 3. Minor project work items must be completed before the project is deemed complete by USBR. The items include administrative reports, such as a construction report that provides a record of project construction, and a project cost report. The project must also continue to monitor environmental mitigation sites. These tasks are expected to be completed by the end of calendar year 2011. The Water Authority is expected receive 56,200 acre-feet of water per year in equal monthly installments from this project.

Exchange Agreement. The 2003 Exchange Agreement between the Water Authority and MWD provides for the delivery of the conserved water from the canal lining projects and the IID water transfer through MWD conveyance. Pursuant to the Exchange Agreement, MWD will deliver the canal lining water for the term of the Allocation Agreement (110 years) and up to 45 years for the IID water transfer. The Water Authority will pay MWD's applicable wheeling rate for each acre-foot of exchange water delivered. Between calendar years 2007 and 2010 the Water Authority has received a total of 235,973 acre feet from the canal lining projects. Between calendar years 2003 and 2010 the Water Authority has received 330,000 acre feet from the IID water transfer.

Quantification Settlement Agreement 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 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 pretrial 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 (the "QSA JPA Agreement"), pursuant to which IID, CVWD and the Water Authority 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 court held that the State's commitment violated Article XVI, Section 7 of the State's debt limitation under the California Constitution. The court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA JPA Agreement. Lastly, the 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. The Water Authority, MWD, IID, CVWD, the State and others have appealed various aspects of the court's ruling, which has been stayed pending outcome of the appeal. The appeal is pending in the Third District Court of Appeal. If the ruling stands, it could delay the implementation of programs authorized under the QSA or result in increased costs or other adverse impacts. The impact, if any, that the ruling might have on the Water Authority's water supplies cannot be determined at this time.

On January 28, 2010, the Water Authority 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 the National Environmental Policy Act and federal Clean Air Act. The complaint names the Department of Interior, Secretary of Interior, USBR and Commissioner of Reclamation as defendants, and the Water Authority, MWD, CVWD and IID as real parties in interest. The Water Authority and the other defendants and real parties filed separate answers to the complaint and later intervened as additional defendants. On September 9, 2010, the administrative record was filed with the court. However, on March 14, 2011, the case was transferred to a new judge and all existing filing and hearing dates were subsequently vacated. No schedule has since been issued by the court. The impact, if any, that the litigation might have on the Water Authority's water supplies cannot be determined at this time.

Salton Sea Environmental Issues. A complicating factor in the implementation of the QSA has been the fate of the Salton Sea. The Salton Sea is 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 federal

or California Endangered Species Acts (respectively, the "Federal ESA" and the "California ESA" and, collectively, the "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 on a trend towards hyper-salinity, which has already impacted the Salton Sea's fishery. This fishery has historically been suitable habitat for the fish-eating birds. The transfer of water from IID to the Water Authority will reduce the volume of agricultural run-off from IID into the Salton Sea, which in turn may accelerate the natural trend of the Salton Sea to hyper-salinity. The appropriate mitigation for impacts to the Salton Sea from the Water Authority/IID water transfer and the larger issue of Salton Sea restoration has been addressed by State legislation implementing the QSA. In passing that legislation, 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 State Legislature and funding of the associated capital improvements and operating costs. The Secretary for Resources recommended an $8.9 billion preferred alternative for restoration of the Salton Sea to the State Legislature in May 2007. While withholding authorization of the preferred alternative, the State Legislature approved funds from Proposition 84 to undertake demonstration projects and investigations called for in the Secretary's recommendation. In September 2010 the State Legislature established a Salton Sea Restoration Council for the purpose of evaluating a Salton Sea restoration plan that is to be submitted to the Governor and Legislature by June 30, 2013. The Council is comprised of 16 voting members and 8 non-voting members appointed or designated from various state, federal, local, tribal, and public agencies.

QSA Joint Powers Authority. The QSA JPA Agreement, which was executed in October 2003, established the Quantification Settlement Agreement Joint Powers Authority ("QSA JPA"). The purpose of the QSA JPA is to administer the funding of environmental mitigation requirements related to QSA water transfers. The QSA JPA collects, holds, invests, and disburses funds needed for mitigation projects. The QSA JPA is comprised of representatives from the DFG, CVWD, IID and the Water Authority. CVWD, IID, and the Water Authority are required to provide up to $133 million (in 2003 dollars, discounted at six percent per annum) to pay for the QSA mitigation program. Under terms of the QSA JPA Agreement, the collective financial obligation of the three water agencies is capped at $133 million, of which the Water Authority is responsible for $52.2 million (in 2003 dollars). The Water Authority's obligations are payable from Net Water Revenues subordinate to the 2011S-1 Bonds. To date, the Water Authority has made payments of $2,340,273 in 2003, $1,032,775 in 2004, $1,100,347 in 2005, $1,314,855 in 2006, $5,599,469 in 2007, $4,363,369 in 2008, $8,141,875 in 2009 and $2,770,483 in 2010. Scheduled Water Authority payments beyond 2010 are as follows:

WATER AUTHORITY PAYMENTS TO QSA JPA

Calendar Year	Payments Due December 31
2011	$3,084,803
2012	3,496,247
2013	5,245,201
2014	5,291,989
2015	6,076,346
2016	8,254,386
2017	8,314,814
2018	6,914,667
2019	1,060,053
2020	1,050,836
2021	3,836,522
2022	3,849,593
2023	9,889,722
2024	3,909,010
2025	2,057,337

The water agencies are also responsible for providing $30 million (in 2003 dollars) for the Salton Sea Restoration Fund, which is administered by DFG. CVWD and the Water Authority paid their full obligations to this

fund in fiscal year ended June 30, 2005 ($8.3 million for CVWD, and $11.8 million for the Water Authority (in 2003 dollars)). IID is paying these funds according to a payment schedule.

See ***Quantification Settlement Agreement Related Litigation***.

Water Purchases from The Metropolitan Water District of Southern California

The Water Authority is a member agency of MWD. MWD was 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) (the "MWD Act"). MWD's primary purpose is to provide a supplemental supply of wholesale water for domestic and municipal uses to its constituent agencies. The MWD 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. There are 26 member agencies of MWD, consisting of 14 cities, 11 municipal water districts and the Water Authority. A Board of Directors, currently numbering 37 members, governs MWD. Each constituent agency has at least one representative on the MWD's Board. Representation and voting rights are based upon the assessed valuation of property within each constituent agency. As of fiscal year ending June 30, 2010, the City of Los Angeles, the San Diego County Water Authority and the Municipal Water District of Orange County comprise over 50 percent of MWD's voting entitlement at 19.44%, 17.99% and 16.94% respectively. The Water Authority has four members on the MWD's Board. The total population of the MWD service area is currently estimated to be almost 19 million.

The Water Authority is the largest purchaser of water from MWD. In the fiscal year ended June 30, 2010, the Water Authority's estimated water purchases from MWD represented approximately 20 percent of MWD's total deliveries.

In the fiscal year ended June 30, 2010, MWD supplied approximately 1.6 million acre-feet of water to its member agencies. MWD 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 environmental regulations; (3) increased competition for low-cost water supplies; and (4) variable weather conditions. Supply deficiencies can occur during periods of drought. While MWD plans and manages reserve supplies to account for normal occurrences of drought conditions, the recent drought conditions and regulatory restrictions, have placed additional limitations on MWD's ability to provide water to its member agencies. See **MWD Water Supply**.

The MWD Act provides a preferential entitlement for the purchase of water by each of the MWD member agencies. This preferential right is based upon a ratio of all payments made to MWD by each member agency on tax assessments and other payments toward the capital cost and operating expense of MWD, except purchases of water, to all such payments made by all member agencies. Based upon the formula as applied by MWD, as of June 30, 2010 the Water Authority has a statutory preferential right to 17.47 percent of MWD's total supply.

It is MWD's declared policy to meet all the supplemental needs of each of its member agencies, including the Water Authority. The MWD Act provides for MWD member agencies having an allocation of water based on their preferential rights. Historically, during extreme supply shortages, the MWD's Board has adopted other allocation plans to restrict MWD supplies to its member agencies to reduce water use. Most recently, MWD adopted a shortage allocation method in February 2008 (the "WSAP"). The method allows MWD to allocate water based on uniform reduction by class of water service, with adjustments made for growth, loss of local supply, declines in demand due to implementation of water conservation, and the degree of a member agency's dependence on MWD for its total water supply, as well as other water supply related factors. On July 1, 2009, MWD implemented Level 2 of its water supply allocation plan and began allocating full service supplies among its member agencies pursuant to the plan. In the spring of 2010, MWD took action to extend its mandatory allocations for a second consecutive fiscal year beginning July 1, 2010. However based on the current water supply outlook, improved storage conditions, and reduced water demands the MWD's Board took action to terminate the Water Supply Allocation Level 2 allocation effective April 13, 2011, and determined not to implement any cutback for fiscal year ending June 30, 2012. See **INFORMATION CONCERNING THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA.**

MWD Water Supply

Colorado River Water. Under applicable laws, agreements and treaties governing the use of water from the Colorado River, California is entitled to 4.4 million acre-feet of Colorado River water annually, plus one-half of any surplus that may be available collectively for Arizona, California and Nevada as declared on an annual basis by the United States Secretary of the Interior. Under a priority system that governs the distribution of Colorado River water made available to California, MWD holds the fourth priority right of 550,000 acre-feet per year and a fifth priority right of 662,000 acre-feet per year. MWD's fourth priority right is within California's basic annual apportionment of 4.4 million acre-feet; however, the fifth priority right is outside of this entitlement and therefore is not considered a firm supply. (For a description of the priority of various California water users see the chart under **Quantification Settlement Agreement**). Until 2003, MWD 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 by other states. However, Arizona and Nevada have increased their use of water from the Colorado River, reducing the availability of unused apportionment for California. In addition, a severe drought in the Colorado River Basin reduced storage in system reservoirs, such that MWD stopped taking surplus deliveries in 2003 in an effort to mitigate the effects of the drought. Prior to 2003, MWD could divert over 1.2 million acre-feet (its aqueduct capacity) in any year, but since that time, MWD's net diversions of Colorado River water have been limited to a low of approximately 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 2010 were approximately 849,500 acre-feet, with annual volumes dependent primarily on availability of unused higher priority agricultural water and increasing transfers of conserved water. For 2011, MWD projects that its Colorado River deliveries will reach about 700,000 acre-feet, which includes 161,000 acre-feet of the Water Authority's QSA supplies. MWD also plans to store an additional 200,000 acre-feet of intentionally-created surplus water in Lake Mead for future withdrawals. These deliveries include the Water Authority's QSA water supplies conveyed by MWD in accordance with the Water Authority's Exchange Agreement with MWD.

Colorado River Aqueduct. The Colorado River Aqueduct is owned and operated by MWD. 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 MWD's member agencies. The Colorado River Aqueduct is 242 miles long, starting at Lake Havasu and terminating at Lake Mathews in Riverside County. After deducting evaporation and seepage losses in transporting and storing the water and considering maintenance requirements, the maximum capacity available for delivery by MWD to its member agencies is approximately 1.2 million acre-feet per year.

Management of California's Colorado River Water Supply. In response to Arizona and Nevada increasing use of their respective apportionments in the late 1990s and the uncertainty of continued surpluses on the Colorado River, the Colorado River Board of California ("CRB"), in consultation with MWD, IID, the Palo Verde Irrigation District ("PVID"), CVWD, the Los Angeles Department of Water and Power, and the Water Authority, embarked on the development of a plan for reducing California's use of Colorado River water to its basic annual apportionment of 4.4 million acre-feet when necessary (the "California Plan"). In 1999, MWD, IID, CVWD and the State agreed to a set of Key Terms aimed at managing California's Colorado River supply. These Key Terms were incorporated into CRB's May 2000 California Plan that proposed to optimize the use of the available Colorado River supply through water conservation, transfers from higher priority agricultural users to the Water Authority's and MWD's service area, and storage programs.

Many of the core elements of the California Plan are being put into effect under the QSA. The QSA establishes Colorado River water use limits for IID, CVWD and MWD, provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years, and restores the opportunity for MWD to receive special surplus water under the Interim Surplus Guidelines. The QSA also allows MWD to enter into other cooperative Colorado River supply programs, modify existing conservation and cooperative water supply agreements consistent with the QSA, and set aside several disputes among California's Colorado River water agencies. See **Quantification Settlement Agreement** for a discussion of the Water Authority's QSA supplies.

MWD Colorado River Supply Programs. MWD has taken steps to enhance its share of Colorado River water through agreements with other agencies that have rights to use such water. Under the 1988 Conservation Agreement between MWD and IID, IID constructed conservation projects that are providing 105,000 acre-feet of conserved water per year to MWD. Under the QSA, MWD agreed to forgo up to 20,000 acre-feet of this water for

CVWD's use. In 1992, MWD 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 Arizona. In August 2004, MWD and PVID entered into a Land Management Crop Rotation and Water Supply Program. This program produces up to 133,000 acre-feet of water to MWD in certain years. In October 2004, MWD entered into a storage and interstate release agreement with Southern Nevada Water Authority ("Nevada"). Under this program, Nevada can request MWD to store unused Nevada apportionment in California. 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 MWD for blending Colorado River water with State Water Project water and improves near-term water supply reliability. These programs, along with the Water Authority's QSA supplies, help maintain MWD's access to the Colorado River water.

Colorado River Operations, Shortage, and Surplus Guidelines. In December 2007, the Secretary of the Interior executed a Record of Decision ("ROD") for guidelines that determine potential shortage allocations among the Lower Basin states and revise reservoir operations (Colorado River Interim Guidelines for Lower Basin Shortages and the Coordinated Operations for Lake Powell and Lake Mead). Under the guidelines, California would not have to share in any of the potential annual shortages identified by the Secretary up to 500,000 acre-feet. The ROD also extended existing Interim Surplus Guidelines ("ISG") until 2026, which determine when surplus water is available for California, Arizona and Nevada. Availability of ISG surplus water depends upon whether drought conditions continue and how fast storage in the Colorado River Basin can recover from present conditions. The ROD also provided a way for Lower Basin Colorado River water contractors and others to create a storage account, under a program called Intentionally Created Surplus ("ICS"). Under ICS provisions, MWD can implement water conservation programs to create a storage account in Lake Mead of up to 1,500,000 acre-feet. When other surplus is not available and the Colorado River is not in shortage condition, MWD could call for the delivery of 375,000 acre-feet of this stored water in any year (400,000 acre-feet if water were needed to avoid shortages within the MWD service area). As of January 2011, MWD has approximately 257,000 acre-feet in its ICS accounts, made up of water conserved by fallowing in the Palo Verde Valley and from the yield allocated to MWD from the Drop 2 Reservoir Project and the Yuma Desalter pilot run.

From October 2010 through April 2011, precipitation in the Colorado River Basin was significantly above normal. On May 1, 2011, Upper Colorado River Basin snowpack measured 150% of normal with accumulations at the highest level on record and the annual runoff forecast for Lake Powell increased to 145 percent of average. This wet year followed a prolonged drought in the Upper Colorado River Basin from 2000 through 2010 with average annual runoff of 69 percent of normal. In November 2010, Lake Mead's elevation had dropped to 1,081 feet, the lowest since the initial filling of the reservoir in 1937. Lake Mead's elevation is projected to reach 1,113 feet by December 2011. Each ten-foot increase in Lake Mead's elevation represents approximately 1 million acre-feet of increased storage.

Environmental Considerations. Several fish species and other wildlife species either directly or indirectly have the potential to affect Colorado River operations, thus changing power operations and the amount of water deliveries to the Colorado River Aqueduct. A number of species that are on either "endangered" or "threatened" lists under the Federal ESA or the California ESA are present in the area of the Lower Colorado River. To address this issue, a broad-based state/federal/tribal/private regional partnership, which includes water, hydroelectric power and wildlife management agencies in Arizona, California and Nevada, developed a multi-species conservation plan for the main stem of the Lower Colorado River (the Lower Colorado River Multi-Species Conservation Program or "MSCP"). The MSCP allows MWD to obtain federal and state permits for any incidental take of protected species resulting from current and future water and power operations and diversions on the Colorado River. The MSCP also covers operations of federal dams and power plants on the Colorado River.

Seismic Considerations. Portions of the Colorado River Aqueduct are located near earthquake faults, including the San Andreas Fault. 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. Supplies are dispersed throughout MWD's service area, and a six-month reserve supply of water normally held in local storage provides reasonable assurance of continuing water supplies during seismic events. MWD has developed an emergency plan that calls for specific levels of response appropriate to an earthquake's magnitude and location. However, no assurance can be made that a significant seismic event would

not cause damage to project structures, which could thereby interrupt the supply of water from the Colorado River Aqueduct.

State Water Project. MWD's other major source of water is the SWP. The SWP is owned by the State of California and operated by the State Department of Water Resources ("DWR"). The SWP transports Feather River water stored in and released from Oroville Dam and unregulated flows diverted directly from the San Francisco Bay/Sacramento-San Joaquin Delta Estuary ("Bay-Delta") south via the California Aqueduct to four delivery points near the northern and eastern boundaries of MWD. The total length of the California Aqueduct is 444 miles.

MWD is one of 29 agencies that have long-term contracts for water service from DWR, but is the largest agency in terms of the number of people it serves (almost 19 million), the share of SWP water to which it is entitled, and the total amount of annual payments made to DWR. MWD's contract with DWR provides for the ultimate delivery of 1,911,400 acre-feet per year (46 percent of the total SWP entitlement). MWD also retains a "call" on 100,000 acre-feet per year on water transferred to CVWD and the Desert Water Agency, if needed, so long as it pays for the financial obligations associated with the water during the call period.

The SWP was originally intended to meet demands of 4.2 million acre-feet per year. Initial SWP facilities were completed in the early 1970s, and it was envisioned that additional facilities would be constructed as contractor demands increased. Several factors, including public opposition, increased costs, and increased non-SWP demands for limited water supplies, combined to delay the construction of additional facilities. The quantity of SWP water available for delivery each year is controlled by both hydrology and operational considerations. Water received from the SWP by MWD from 2002 through 2010, including water from water transfer, groundwater banking 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 calendar year 2004. MWD's allocation from the SWP for calendar year 2010 was 50 percent of its contracted amount, or 955,750 acre-feet. In 2010, MWD took delivery of 1,129,062 acre-feet to its service area plus approximately 175,000 acre-feet of net deliveries to storage in its Central Valley groundwater storage programs. This includes SWP supplies from water transfers, groundwater banking and exchange programs delivered through the California Aqueduct.

Due to drought conditions and the court-ordered restrictions described under **Endangered Species Act Considerations** below, then-California Governor Arnold Schwarzenegger issued a proclamation on February 27, 2009 declaring a statewide drought emergency. However, weather conditions varied over the past five years – from dry conditions in the Sierra Nevada watershed from 2007 through 2009 to above-normal precipitation from January 2010 through March 2011. As a result of more favorable conditions on the SWP, on March 31, 2011, California Governor Jerry Brown proclaimed an end to the statewide drought emergency.

For calendar year 2011, DWR's initial allocation estimate to the contractors was set at 25 percent of contracted amounts. This estimate was adjusted upwards to 50 percent, 60 percent, 70 percent and 80 percent of contracted amounts as of December 16, 2010, January 20, 2011, March 15, 2011, and April 20, 2011, respectively. The most recent allocation reflects significant above-normal precipitation and accumulated snowpack to levels of 179 percent of normal and greater. For MWD, the revised allocation, together with DWR Article 21 surplus supplies, and other water transfers and exchanges, translates to 1,979,000 acre-feet of projected supplies in 2011 from the SWP. DWR may further revise allocations for 2011 if the hydrologic and water supply conditions further improve.

Bay-Delta Regulatory and Planning Activities. The supply and reliability issues affecting the SWP are largely a result of longstanding environmental issues in the Bay-Delta estuary. In addition to its importance to urban and agricultural water users, the Bay-Delta is of critical ecological importance. The Bay-Delta is the largest estuary on the West Coast of the United States and provides habitat for more than 750 plant and animal species. One hundred fifty years of human activity have contributed to the destruction of habitat, the decline of several estuarine and anadromous fish species, and the deterioration of water quality. These activities include increasing water demands from urban and agricultural uses, the dredging and filling of tidal marshes, the construction of levees, urban runoff, agricultural drainage, runoff from abandoned mines, and the introduction of non-native species.

The State Water Resources Control Board ("SWRCB") is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of SWRCB can affect the availability of water to MWD and other users of SWP water. 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 standards 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. Since 2000, SWRCB's Water Rights Decision 1641 has governed the SWP's ability to export water from the Bay-Delta for delivery to MWD and other SWP contractors.

The CALFED Bay-Delta Program is a collaborative effort among state and federal agencies to develop a long-term solution to improve water supplies in California and the health of the Bay-Delta watershed. In August 2000, the federal government and the State of California issued a ROD and related documents approving the final programmatic environmental documentation for the CALFED Bay-Delta Program. Implementing the CALFED Bay-Delta Program during the first seven years has resulted in 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 the CALFED Bay-Delta Program and identify a strategy for managing the Bay-Delta as a sustainable resource, then-Governor Schwarzenegger in September 2006 established, by Executive Order, a Delta Vision process. The Delta Vision process is tied to legislation that created a cabinet-level committee tasked with developing a strategic vision for the Delta. The 41-member Delta Vision Blue Ribbon Task Force issued its Delta Vision Strategic Plan (the "Strategic Plan") on October 17, 2008, providing its recommendations for long-term sustainable management of the Bay-Delta. The Strategic Plan was reviewed by the Delta Vision Committee, chaired by the State Secretary for Resources. The Implementation Report summarizing the Delta Vision Committee's recommendations was submitted to then-Governor Schwarzenegger on December 31, 2008. These recommendations include completing the Bay-Delta Conservation Plan ("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 passed a comprehensive package of water legislation that included five bills (four of which were subsequently signed by then-Governor Schwarzenegger) addressing California's statewide water situation, with particular emphasis on the Bay-Delta. The water legislation signed into law (the "2009 State Water Legislation") includes, among other things, a 20 percent water conservation mandate for most localities in the State by 2020, new regulations regarding voluntary monitoring of groundwater levels by localities, and an $11.14 billion State general obligation bond measure that would provide funding for projects and programs throughout the State and in the Bay-Delta. Major categories of bond funding would include statewide water system operational improvements, Bay-Delta sustainability, water supply reliability, conservation and watershed protection, groundwater protection and water quality improvements, and water recycling and water conservation. The bond measure was scheduled to be included on the November 2010 ballot; however, in August 2010, the State Legislature postponed the bond election to 2012. The 2009 State Water Legislation also directed that the Bay-Delta be managed with dual goals of water supply reliability and ecosystem protection and created two new governmental agencies – the Delta Stewardship Council and the Sacramento-San Joaquin Delta Conservancy. The Delta Stewardship Council, formed in February 2010, is CALFED's successor agency and was directed to adopt and oversee implementation of a comprehensive management plan for the Bay-Delta by January 1, 2012, which would include the BDCP upon meeting certain conditions. The final BDCP and environmental reports are scheduled for completion by mid-2012. The Sacramento-San Joaquin Delta Conservancy will implement ecosystem restoration activities in the Bay-Delta. Delaying the bond election did not impact other parts of the 2009 State Water Legislation. At this time, the Water Authority cannot predict what effect the 2009 State Water Legislation will have on the operations and finances of the Water Authority.

Endangered Species Act Considerations. The listing of several fish species as threatened or endangered under the Federal ESA or the California ESA have adversely impacted SWP operations and limited the flexibility of the SWP. 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 ("NMFS") issued biological opinions and incidental take statements that govern operations of the SWP and the federal Central Valley Project (the "CVP") with respect to the Delta smelt, the winter-run and spring-run Chinook salmon and the Central Valley steelhead.

In July 2006, the USBR reinitiated consultation with the USFWS and NMFS 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. Under the Federal ESA, critical habitat also must be designated for each listed species. Critical habitat has been designated for each of the currently listed species, including the North American green sturgeon.

In May 25, 2007, U.S. District Judge Oliver Wanger invalidated the Delta smelt biological opinion that had guided the SWP and CVP operations and ordered a new biological opinion be developed. In December 2007, Wanger issued an injunction that reduced pumping from the end of December, when the fish are ready to spawn, until June, when the smelt typically move away from the pumps. The ruling caused reductions in water exports by the SWP and CVP in 2008. In December 2008, USFWS issued a new Delta smelt biological opinion. MWD along with other agencies and interested parties filed separate lawsuits in federal district court 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 and remanding the biological opinion to the USFWS for reconsideration. The court's decision invalidates some of the restrictions on the SWP operations contained in the Delta smelt biological opinion. On May 4, 2011, Judge Wanger issued a decision directing the USFWS to complete a new draft biological opinion by October 1, 2011 and to complete a final biological opinion with environmental documentation by December 1, 2013.

On June 4, 2009, the NMFS released its new biological opinion for salmonid species. The salmonid species biological opinion contains additional restrictions on SWP and CVP operations. Six lawsuits have been filed challenging the 2009 salmon biological opinion, which the court consolidated under the caption *Consolidated Salmon Cases.* On May 25, 2010, the court granted the plaintiffs' request for preliminary injunction in the *Consolidated Salmon Cases*, which restrained enforcement of two requirements that limit exported water during the spring months. Hearings on motions for summary judgment were held on December 16, 2010. It is unknown when the court will issue a decision in the *Consolidated Salmon Cases*.

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. An agreement settling the longfin smelt litigation was approved on February 2, 2011. Under the agreement, the USFWS agreed to complete a rangewide 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. The USFWS agreed to make a new determination on federal listing for the longfin smelt by September 30, 2011.

There are still hearings to be held on the biological opinion regarding salmon. In addition, the lawsuit by the Center for Biological Diversity challenged the federal government's decision not to list the longfin smelt as endangered. Should the federal government lose that lawsuit, the restrictions on pumping to protect the longfin smelt may erase any gains in water supply resulting from Judge Wanger's 2010 decision.

In addition to the Federal ESA litigation, other environmental groups sued DWR on October 4, 2006 in the Superior Court of the State of California 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 SWP 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 Superior Court issued its Statement of Decision finding that DWR was illegally "taking" listed fish through operation of the SWP 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 DFG. DWR appealed the order on May 7, 2007. The Court of Appeal subsequently issued a decision finding that DWR was a "person" under the California ESA and subject to its take prohibitions. 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.

State Water Project Operational Constraints. DWR has altered the operations of the SWP to accommodate species of fish listed under the ESAs. These changes in project operations have adversely affected SWP deliveries. The impact on total SWP 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 SWP 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. MWD received approximately 1,304,062 acre-feet of total water deliveries from the SWP in 2010, including its basic allocation and supplies from water transfers and exchanges that were delivered through the California Aqueduct. On August 24, 2010, DWR reported that approximately 800,000 acre-feet of water was lost from the SWP for calendar year 2010 as a result of pumping restrictions, of which about 370,000 acre-feet would have been made available to MWD. The initial allocation to SWP contractors for 2011 was 25 percent of their contracted amounts, based on low storage in SWP reservoirs and regulatory agency restrictions on water exports from the Bay-Delta to protect listed fish species. DWR revisited this allocation as conditions changed, and, following significantly above-normal precipitation over the entire Sierra Nevada Range, on April 20, 2011, DWR announced an allocation of 80 percent (1,529,200 acre-feet for MWD). Despite operational restrictions in 2011, high flows from above-normal precipitation reaching the Bay-Delta have provided increased storage in SWP reservoirs and greater than anticipated exports since late December 2010.

Operational constraints likely will continue until a long-term solution to the problems in the Bay-Delta is identified and implemented. New litigation, listings of additional species or new regulatory requirements could further adversely affect SWP operations in the future by requiring additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. The Water Authority 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 SWP pumps, MWD's SWP supplies and MWD's water reserves.

Seismic Considerations. Major portions of the California Aqueduct are located parallel to and near the San Andreas and other faults. All major faults are crossed 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. SWP facilities are designed to withstand earthquakes 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. No assurance can be made that a significant seismic event would not cause damage to project structures, which could thereby interrupt the supply of water from the California Aqueduct.

Integrated Water Resources Plan. MWD, its member agencies, sub-agencies and groundwater basin managers developed MWD's Integrated Water Resources Plan (the "MWD IRP") that was adopted by the Board in January 1996 as a long-term planning guideline for resources and capital investments. The purpose of the MWD IRP was the development of a preferred resource mix to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner. In 2004, MWD's Board adopted an updated MWD IRP that reviewed the goals and achievements of the original MWD IRP, identified changed conditions for water resource development and updated the resource targets through 2025. A key component of the updated plan was the addition of a planning buffer. The planning buffer provided for the identification of additional supplies,

both imported and locally developed, to address uncertainty in future supplies and demands from factors such as the level of population and economic growth which directly drive water demands, water quality regulations, new chemicals found to be unhealthful, endangered species affecting sources of supplies, and periodic and new changes in climate and hydrology. In October 2010, MWD's Board adopted an IRP update as a strategy to set goals and a framework for water resources development. The 2010 IRP update recommends an "Adaptive Management" approach, which it asserts will hedge against unforeseen uncertainties by establishing a three-component plan that includes: a Core Resources Strategy, an "Uncertainty Buffer", and Foundational Actions. Under this strategy, MWD potentially may develop up to 500,000 acre-feet of additional buffer supplies beyond demands.

Additional MWD Water Supply Enhancements. MWD is currently pursuing voluntary water transfer and storage and exchange programs with the State, federal, public and private water districts and individuals. MWD has entered into groundwater basin storage agreements with the Arvin-Edison Water Storage District and the Semitropic Water Storage District, an agreement with San Bernardino Valley Municipal Water District to coordinate the use of facilities and SWP supplies and groundwater banking and exchange transfer agreements with the Kern Delta Water District, the Mojave Water Agency, CVWD and the Desert Water Agency. In the fall of 2008, DWR convened the State Drought Water Bank as a one-year program to help mitigate water shortages in 2009. MWD purchased 36,900 acre-feet (before carriage and conveyance losses) of the supplies through the bank. In addition, for calendar year 2010, MWD participated with other State Water Contractors to purchase 88,137 acre-feet (before carriage and conveyance losses); MWD also entered into two transactions with Westlands Water District and San Luis Water District. Under the first transaction, MWD purchased 18,453 acre-feet; in the second, MWD accepted delivery of 110,692 acre-feet stored in San Luis Reservoir and will return up to two-thirds of that amount from MWD's SWP supply in 2011 for a net yield of about 37,000 acre-feet. MWD also entered into an agreement with DWR, in December 2007, to purchase a portion of the water released by the Yuba County Water Agency ("YCWA"); MWD's agreement allows MWD to purchase at least 13,750 acre-feet to 35,000 acre-feet per year of water supplies in dry years through 2025. For calendar years 2008, 2009 and 2010, MWD purchased 26,430 acre-feet, 42,915 acre-feet and 67,068 acre-feet of water, respectively, from YCWA under this program.

MWD Storage. The limitation on MWD's Colorado River supplies required MWD to rely more on the SWP to meet its demands**.** MWD's SWP contract is for up to 1.9 million acre-feet per year. However, the availability of SWP supply is more dependent on hydrologic conditions than MWD's Colorado River supplies. To mitigate the hydrologic variations, MWD devised a strategy to store excess SWP supplies during wet years for dry year use. MWD's storage capacity, which includes reservoirs, conjunctive use and other groundwater storage programs within its service area and groundwater and surface storage accounts delivered through the SWP or CRA, has increased to 5.83 million acre-feet. In July 2006, MWD had stored about 2.74 million acre-feet in various storage facilities and accounts, including emergency supplies. Approximately 626,000 acre-feet of stored water is emergency storage that is reserved for use in the event of supply interruptions from earthquakes or similar emergencies. However, the Bay-Delta pumping restrictions to protect the Delta smelt severely limited MWD's ability to take water from the SWP during all hydrologic conditions. Additionally, the statewide drought limited the amount of SWP water available to MWD. Since 2007, MWD has used storage to augment its limited imported supplies. In February 2008, MWD's Board adopted the WSAP. By the end of 2010, as a result of favorable conditions on the SWP, aggressive conservation at the retail level resulting in lower demands than estimated and some operational flexibility on the SWP, MWD's storage balance increased considerably.

MWD's Water Supply Allocation Plan. The WSAP sets forth specific formulas for calculating MWD's member agency supply allocations and the key implementation elements needed for administering an allocation during shortages. The WSAP also calls for the MWD board to consider setting a WSAP level in April of a given year, with implementation effective the following July through June. In April 2009, due to a low SWP Table A allocation and significant withdrawals from its storage reserves, MWD's Board declared a regional "Water Supply Condition 3 – Water Supply Allocation" and approved the implementation of the WSAP at a Regional Shortage Level 2. This action resulted in MWD member agencies receiving an allocated supply during times of shortage and was in effect from July 1, 2009 through June 30, 2010. In April 2010, the hydrology had not improved and storage reserves continued to be drawn down, and MWD's Board again approved implementation of the WSAP from July 1, 2010 through June 30, 2011. However, based on the outlook of water supply, demand, and storage conditions by the end of 2010 and anticipated end-of-year storage levels and the potential for further additional increases in supply in 2011, in April 2011, MWD terminated implementation of the allocation.

See **INFORMATION CONCERNING THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA.**

Current Water Supply Outlook

Over the past several years the Water Authority's primary water supply sources were adversely impacted by a combination of multiple dry-year climatic events and regulatory constraints imposed on water deliveries. However, water supply conditions have improved locally, statewide and on the Colorado River Basin following near normal conditions in 2010 and wet conditions in 2011. This turn of events resulted in a proclamation by California Governor Jerry Brown on March 30, 2011, officially ending the statewide drought that began in 2007.

As of June 2011, Lake Oroville, the principal storage reservoir on the SWP, had almost one million acre-feet more water in storage compared to June 2010 levels. Additionally, Lake Oroville is expected to reach its capacity of 3.5 million acre-feet as snow continues to melt. On the Colorado River Basin, snow pack levels are higher than those seen in more than a decade. Lake Mead's storage elevation is projected to grow by approximately 50 feet by the end of the year, based on USBR's latest unimpaired runoff forecast. In southern California, reservoir storage in MWD's Diamond Valley Lake totaled 792,072 acre-feet as of June 2010. Currently near capacity, Diamond Valley Lake storage has more than doubled since the low of 43 percent of capacity in June 2009. Locally, cumulative storage in Water Authority member agency reservoirs was approaching 70 percent of total capacity in June 2011. As a result of these storage conditions and current demand levels, MWD has stated that it has sufficient supplies necessary to meet normal-year projected demands at least through the year ending June 30, 2012.

Future Water Supply

The Water Authority's supply planning strategy was developed and continues to be implemented in cooperation with its member agencies. As part of its strategic supply planning process, the Water Authority produces several long-range planning documents. The Water Authority's Urban Water Management Plan ("UWMP"), is a comprehensive document that includes long-term water demand projections for the San Diego region and a preferred mix of future supplies necessary to meet those demands through the year 2035. This preferred mix reflects the Water Authority Board policy to diversify supplies required to meet future water needs and increase supply reliability through local agency control. The 2010 draft was released for public review on May 6, 2011 and approved by the Water Authority's Board in June 2011. Individual components of the projected water supply mix contained in the 2010 UWMP include: supplies from MWD, long-term water transfers from conserved IID agricultural water, water savings from the lining of the All-American Canal and Coachella Canal, proposed local seawater desalination, surface water, and continued development of recycled water and groundwater. Additionally, the Water Authority will continue to support water conservation as an important part of its supply diversification strategy. The Water Authority's conservation efforts are intended to reduce demand for imported water, demonstrate a continued commitment to the conservation Best Management Practices, and assist member agencies in complying with the per-capita water use reduction required under the 2009 State Water Legislation. See **MEMBER AGENCY WATER USAGE - Per Capita Water Use**.

Supply Diversification. To ensure a reliable supply of water to meet growing water demands, the Water Authority and its member agencies are implementing long-term strategies designed to diversify the region's supply portfolio and reduce reliance on a single water supplier. These strategies are outlined in the draft 2010 UWMP and can only be achieved through a collaborative partnership between the Water Authority and its member agencies.

As stated in the 2010 UWMP, development of local supplies plays a critical role in meeting future demands. The Water Authority and its member agencies are taking steps to develop and manage local surface water, groundwater, recycled water and seawater desalination supplies that are projected to account for roughly 20 percent of total supplies by the year 2035. In addition to these efforts, continuation of the region's conservation measures will help to offset the need for more expensive water supplies by maximizing efficient use of existing water resources.

Seawater desalination is a key component of the Water Authority's supply diversification strategy. Development of seawater desalination in San Diego County will assist the region in diversifying its water resources, reduce dependence on imported supplies, and provide a new drought-proof, locally treated water supply. The Water

Authority's seawater desalination efforts include the Carlsbad Desalination Project, the potential Camp Pendleton Seawater Desalination Project and the potential Rosarito Beach Desalination Plant.

The Carlsbad Desalination Project (the "Carlsbad Project") is a fully-permitted seawater desalination plant and conveyance pipeline currently being developed by Poseidon Resources Corporation ("Poseidon"), a private investor–owned company that develops water and wastewater infrastructure. The Carlsbad Project, located at the Encina Power Station in Carlsbad, has been in development since 1998 and has been incorporated into the Water Authority's supply and facility planning documents including the 2003 Water Facilities Master Plan and the 2005 and draft 2010 Urban Water Management Plans. The Carlsbad Project has obtained all required permits and environmental clearances and, when completed, will provide a highly reliable local supply of 56,000 acre-feet per year for the region. IDE Technologies, a worldwide leader in the design, construction, and operation of desalination plants, was selected by Poseidon to be the desalination process contractor for the Carlsbad Project.

In July 2010, the Water Authority Board approved a term sheet between the Water Authority and Poseidon and directed staff to prepare a Water Purchase Agreement based on its provisions. Prior to the negotiation of the term sheet, Poseidon was pursuing a project structure where nine local water agencies had signed water purchase agreements. Because of financial challenges in meeting the pricing requirements of the nine member agencies, a request was made by the agencies that the Water Authority consider stepping in as the single purchaser of the desalinated water for the region. Because of the importance of the supply to regional reliability, especially in light of supply shortages and uncertainties, as well as the rising cost of imported water, the Water Authority Board of Directors agreed to negotiate a Water Purchase Agreement with Poseidon.

Activity on the Water Purchase Agreement has been temporarily suspended due to a condition precedent provision in the term sheet related to the commencement of negotiations with Poseidon. This condition precedent calls for the cancellation of all existing water purchase agreements between Poseidon and the nine member agencies. Of the nine agencies, only Carlsbad has not agreed to cancel its agreement with Poseidon. Carlsbad has asked for guarantees of certain community enhancements and tax revenue resulting from private ownership of the project. Poseidon is also working with its selected Engineering, Procurement and Construction (EPC) contractor team to finalize the price for water from the project. The Water Authority Board is expected to consider the Water Purchase Agreement by late 2011. As shown in the Water Authority's adopted Multi-Year Budget for the fiscal years ending June 30, 2012 and 2013, the Water Authority's current financial commitment for the Carlsbad Project is limited to $2.08 million for Carlsbad desalination aqueduct improvements. Potential future Water Authority financial commitment levels for the Carlsbad Project will be based on the final Water Purchase Agreement with Poseidon. The Carlsbad Project is expected to be completed and online by early 2016. See **FINANCIAL OPERATIONS - Cost of Seawater Desalination Water from Carlsbad Facility**.

The Water Authority, in collaboration with Marine Corps Base Camp Pendleton, recently completed a feasibility study for a potential 50 to 150 million gallons-per-day ("MGD") (56,050 to 168,150 acre-feet per year) regional seawater desalination project on Camp Pendleton focusing on two possible seawater desalination plant sites in the southwest corner of the base near the mouth of the Santa Margarita River. The feasibility study provided an analysis on new facilities, environmental and permitting requirements, cost estimates, and implementation issues. Based on the feasibility study, further technical studies are being initiated to investigate and refine key components of the potential project including intake and discharge, site configuration and product water conveyance and distribution.

A Memorandum of Understanding ("MOU") between the Water Authority and the Marine Corps Base Camp Pendleton was executed in April 2010. The MOU covers further study and planning for the potential project. The MOU facilitates base access and defines the roles and responsibilities of the base, the Water Authority, and its consultants in conducting various technical studies for the project.

These various technical and planning studies on the project are all underway and are expected to be complete by the end of 2012. Results from the studies will be used to refine the capital and operating costs for the project and will be incorporated into the Water Authority's 2012 Regional Water Facilities Optimization and Master Plan Update. The earliest on-line date for a potential Camp Pendleton desalination project is late 2020.

The Water Authority is participating with U.S. and Mexican agencies in a review of potential water management and water supply programs that could benefit Colorado River water users of both countries. As part of

this effort, the evaluation and preliminary design of an initial 25 MGD (expandable to 50 MGD) seawater desalination plant that would be located at Rosarito Beach in Baja California, Mexico is being pursued. U.S. water agencies, including the Water Authority, MWD, Southern Nevada Water Authority, and the Central Arizona Water Conservation District, along with the Republic of Mexico are funding and collaborating on a feasibility evaluation and preliminary design of the plant. The Water Authority is serving as the project manager for the project.

The project is scheduled to be implemented in four phases, with a "go" or "no go" decision being made at the end of each phase. The first phase was competed in March 2010. The first phase confirmed that the site and the existing infrastructure were adequate to support up to a 50 MGD seawater desalination facility. The second phase of the project will confirm conceptual treatment process requirements, confirm plant size and physical layout, further assess permitting and regulatory issues, and define full-scale plant costs. The Water Authority's Board approved funding for the second phase of the study in January 2011.

Currently, the Rosarito Beach Desalination Project is considered a conceptual-level project. If built, product water from the plant would be available to both U.S. and Mexican water users. For U.S. water users, the water could be delivered either directly to the San Diego region, using a cross-border pipeline, or possibly by exchange, with Mexican users taking delivery of the product water and leaving an equivalent amount of Colorado River water available for U.S. users.

The Water Authority will continue to pursue other cost competitive supply diversification opportunities. The Water Authority and its member agencies' projected water supply mix for 2035 is listed as follows:

WATER AUTHORITY SERVICE AREA
2035 WATER SUPPLY MIX

Resource	Percentage Goal
MWD	36%
IID Transfer	22%
Conservation	13%
Seawater Desalination	6%
Canal Lining Transfer	9%
Local Surface Water	5%
Groundwater	3%
Recycled Water	6%
	100%

Source: Water Authority 2010 Urban Water Management Plan

Climate Change. Long-range water supply planning is facing new challenges associated with climate change uncertainties. Although not currently required under the Urban Water Management Planning Act, the Water Authority's 2010 UWMP includes a qualitative assessment of potential supply and demand impacts associated with climate change. This assessment is based primarily on the DWR's October 2008 Report entitled "Managing an Uncertain Future; Climate Change Adaptation Strategies for California's Water." When evaluating the effects of climate change on long-term water supply planning, a distinction should be made between climate and weather. Weather consists of the short-term (minutes to months) changes in the atmosphere. Climate is how the atmosphere "behaves" over relatively long periods of time (decades to centuries).

Research sponsored by the Intergovernmental Panel on Climate Change has concluded that increasing atmospheric concentrations of greenhouse gases, such as carbon dioxide, are causing the Earth's air temperature to rise. While uncertainties remain regarding the exact timing, magnitude, and regional impacts of the temperature and potential precipitation changes due to climate change, researchers have identified several areas of concern that could influence long-term water supply reliability. These potential areas are listed below:

POTENTIAL CLIMATE CHANGE IMPACTS

Potential Impact	Description
Loss of Natural Snowpack Storage	Rising temperatures reduce snowpack in the Sierra Nevada because more precipitation falls as rain and snowmelt occurs sooner. The DWR projects that the Sierra snowpack will experience a 25 to 40 percent reduction from its historic average by 2050.
Changes in Average Precipitation and Runoff Volume	The yield from local surface water resources could potentially be reduced, if annual runoff volumes are reduced due to a decline in precipitation or there is an increase in evapotranspiration in reservoirs. Research is still highly unclear on how precipitation levels may be impacted by climate change.
Change in Frequency and Intensity of Droughts	Warming temperatures, combined with potential changes in rainfall and runoff patterns, could exacerbate the frequency and intensity of droughts.
Demands Levels	Climate change could also gradually affect water demands in the future. Warmer temperatures increase evapotranspiration rates and growing season, which are likely to increase outdoor consumptive water use for landscaping.

All four areas discussed above focus on the potential effect climate change could have on future reliability. Potential long-term effects include a possible decrease in the availability of imported supplies from MWD and local supplies, causing a shortfall between supply and demands. Although the impacts from climate change will just start to be experienced within the 25-year planning horizon of the 2010 UWMP, it should be considered in establishing strategies that provide water supply benefits within this planning horizon, while increasing the ability to manage potential climate change impacts in the future. Changes to the region's climate will be gradual and prolonged, providing water supply agencies the ability to adapt planning strategies to manage for the supply uncertainties. The future climate change related affects on supply and demand and adaptation measures employed by the Water Authority and its member agencies will be captured in each five-year update to the UWMP.

Water Quality. As the largest single component of the Water Authority's supply portfolio, the water quality of the Colorado River has a substantial impact on the region's overall water quality. In recent history, the Water Authority has received about 50-65 percent of its imported supply from the Colorado River and the remaining 35-50 percent from the SWP. Colorado River supplies are relatively high in salts, in the form of total dissolved solids, which pose potential additional treatment costs. A variety of sources bring such dissolved salts into the river. However, the majority of salts run naturally off of soils and rocks. While SWP supplies have lower salt levels, water from the Bay-Delta can be high in organic compounds that react with chlorine to form various disinfection by-products, including trihalomethanes, such as chloroform. Higher water treatment costs are incurred to eliminate these potentially harmful compounds. In order to control the total organic carbon and bromide concentrations in MWD's water supply, SWP water is blended with Colorado River water, which is lower in disinfection by-products and higher in salinity than SWP water. The blending results in a reduction in disinfection by products and reduction in salinity.

Federal and state regulatory agencies continually monitor and establish new water quality standards. The Federal Safe Drinking Water Act ("SDWA") establishes drinking water quality standards, monitoring, public notification and enforcement requirements for public water systems. The U.S. Environmental Protection Agency

("USEPA"), as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for states to assume primary enforcement responsibilities. The California Department of Public Health ("CDPH") has lead authority over California water agencies.

Two water quality issues of concern in Colorado River water are perchlorate and chromium-6. 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 MWD's Colorado River water supplies. A chemical manufacturing facility near Lake Mead in Nevada is the 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. The maximum contaminant level ("MCL") for perchlorate is six parts per billion ("ppb") and discharges have been reduced to less than four ppb. Through water blending, perchlorate is non-detectable in the water supply. Chromium-6 is found in trace amounts in MWD's source water. The California Office of Environmental Health Hazard Assessment proposed a public health goal ("PHG") for chromium-6 of 0.02 ppb. Once the chromium-6 PHG process is complete, CDPH can proceed with the final development of an MCL for chromium-6. Presently, the Water Authority is participating with MWD in its effort to monitor and influence the clean-up of the groundwater at Pacific Gas & Electric Company's natural gas compressor station in Topock, Arizona, near Needles, California. The historical waste practices at the Topock facility have resulted in a chromium-6 plume in the groundwater that has the potential to enter the Colorado River. The current corrective action process will result in a remediation alternative for cleanup.

Local Supply Development Coordination. In 2007, the Water Authority Board approved the first San Diego Region Integrated Regional Water Management Plan (the "IRWM Plan"). The IRWM Plan was developed by the Regional Water Management Group ("RWMG"), which comprises staff from the Water Authority, the City of San Diego and the County of San Diego. The IRWM Plan represents an unprecedented effort in the area of coordinated water management across a wide spectrum of agencies and non-governmental organizations in the San Diego area. It reflects a comprehensive approach to water resource planning, and integrates ongoing local planning efforts to maximize water management benefits. The IRWM Plan identifies programs and projects that best achieve the region's goals to optimize water supply reliability and protect and enhance water quality while providing stewardship of natural resources.

In 2008, the San Diego IRWM region was awarded a $25 million grant from DWR to support implementation of 19 projects designed to improve the reliability of the San Diego region's water supply, protect and enhance water quality, and manage natural resources. All of the projects in the San Diego area grant involve local, rather than imported, water resources, and will help to accomplish the water supply goals established in the Water Authority's UWMP. Funding for the projects resulted from voter passage of Proposition 50 in 2002. The Water Authority, acting as grant administrator on behalf of the RWMG, began distributing grant funds to the project proponents in 2009.

Further IRWM bond funding from the state became available when the voters approved Proposition 84 in 2006. Proposition 84 allocates $91 million for the San Diego Funding Area, which includes the IRWM planning regions in San Diego, southern Riverside and southern Orange counties. Under an agreement between the three planning regions, approximately $71 million in Proposition 84 funds will be distributed in the San Diego Region. The first portion of this money will come to the San Diego Region in 2011, after DWR awarded the RWMG a $1 million planning grant to support an update of the IRWM Plan. A funding agreement between DWR and the Water Authority, acting on behalf of the RWMG, is expected to be finalized by June 30, 2011.

The San Diego RWMG also has applied for $7.9 million in project implementation funds through DWR's Proposition 84 IRWM grant program. This money would support implementation of 11 projects designed to improve water supply reliability and water quality, manage stormwater runoff and protect watersheds in the region. DWR has not announced grant awards for this program.

MEMBER AGENCY WATER USAGE

Water Use by Member Agencies

The term "water use" describes the quantity of water a member agency obtains from all sources to meet its consumers' needs. These sources presently include impounding surface water reservoirs, groundwater, desalinated groundwater, recycled water and imported supplies via the Water Authority's transportation system.

It is the policy and responsibility of the Water Authority to provide all supplemental water required by its member agencies to meet their consumers' needs. The level of dependence varies widely across the Water Authority's 24 member agencies. Some member agencies are totally dependent on imported water supplies. Other member agencies' dependence on Water Authority water supplies varies from about 90 percent to a complete roll-off of the imported system during above normal rainfall cycles.

Annual water use of the member agencies for fiscal years ended June 30, 2006 to June 30, 2010 and a class of service breakdown of imported agricultural and M&I water use for fiscal year ended June 30, 2010 are listed in the following tables:

WATER USE OF MEMBER AGENCIES – FISCAL YEARS ENDED JUNE 30, 2006 TO JUNE 30, 2010

(All Figures in Acre-Feet)

	2006			2007			2008			2009			2010		
	Local Production[1]	Water Authority Supplies[2]	Total	Local Production[1]	Water Authority Supplies[2]	Total	Local Production[1]	Water Authority Supplies[2]	Total	Local Production[1]	Water Authority Supplies[2]	Total	Local Production[1]	Water Authority Supplies[2]	Total
Carlsbad M.W.D.	1,613	21,206	22,818	2,554	22,099	24,653	3,321	21,471	24,791	3,944	19,620	23,564	3,935	17,234	21,169
Del Mar, City of	81	1,312	1,393	80	1,443	1,523	86	1,234	1,320	75	1,202	1,277	73	1,129	1,202
Escondido, City of	9,870	23,129	32,999	6,049	30,252	36,301	3,657	26,736	30,393	6,682	21,107	27,789	4,080	20,768	24,848
Fallbrook P.U.D.	582	18,012	18,594	681	21,917	22,597	600	17,316	17,916	663	15,148	15,811	544	13,322	13,866
Helix W.D.	10,906	29,284	40,190	4,263	37,826	42,088	3,257	37,186	40,443	1,261	36,396	37,657	2,866	30,345	33,211
Lakeside W.D.	N/A	N/A	N/A	543	1,995	2,538	937	4,361	5,298	925	3,883	4,808	675	3,375	4,050
National City, City of	5,077	1,598	6,674	4,503	2,575	7,078	4,015	2,381	6,395	3,920	2,673	6,593	3,305	3,023	6,328
Oceanside, City of	2,171	30,972	33,143	2,620	34,236	36,856	1,965	32,573	34,538	1,700	30,397	32,097	3,833	24,897	28,730
Olivenhain M.W.D.	944	22,561	23,505	1,296	24,613	25,909	1,321	24,891	26,211	1,534	23,455	24,989	2,672	19,992	22,664
Otay W.D.	1,122	41,427	42,549	1,783	41,946	43,730	4,593	38,045	42,638	4,459	34,971	39,430	4,070	31,175	35,245
Padre Dam M.W.D.	782	20,397	21,179	850	19,232	20,082	831	16,162	16,993	823	14,656	15,479	663	12,485	13,148
Pendleton Military Reservation [3]	9,179	810	9,989	11,255	837	12,092	10,488	931	11,419	10,240	943	11,183	8,731	832	9,563
Poway, City of	343	15,525	15,868	327	15,959	16,286	355	14,934	15,289	290	13,386	13,676	326	11,111	11,437
Rainbow M.W.D.	0	30,459	30,459	0	33,305	33,305	0	27,045	27,045	0	26,420	26,420	0	22,357	22,357
Ramona M.W.D.	950	11,726	12,676	894	20,359	21,253	848	10,141	10,989	743	7,814	8,557	729	6,124	6,853
Rincon del Diablo M.W.D.	1,080	8,369	9,449	3,094	8,610	11,704	3,074	8,116	11,190	3,291	7,471	10,762	3,279	6,280	9,559
San Diego, City of [4]	35,959	196,940	232,898	17,770	222,496	240,266	24,155	215,791	239,946	22,845	202,794	225,639	12,486	187,304	199,790
San Dieguito W.D.	3,387	5,094	8,481	3,523	5,740	9,263	4,433	4,003	8,436	4,561	3,369	7,930	4,989	2,156	7,145
Santa Fe I.D.	4,849	9,878	14,727	4,953	11,532	16,485	6,104	9,116	15,220	6,529	8,048	14,577	6,209	5,680	11,889
South Bay I.D.	10,519	6,756	17,275	6,843	9,411	16,253	5,566	11,547	17,113	5,907	10,191	16,098	2,943	11,523	14,466
Vallecitos W.D.	0	19,573	19,573	0	21,825	21,825	0	20,468	20,468	0	19,051	19,051	0	16,468	16,468
Valley Center M.W.D.	387	44,767	45,153	381	50,511	50,892	419	39,500	39,919	393	34,781	35,174	400	29,522	29,922
Vista I.D. [5]	9,856	13,493	23,349	5,062	18,967	24,030	2,245	21,280	23,525	6,296	15,668	21,964	3,899	15,336	19,235
Yuima M.W.D. [6]	980	3,334	4,314	1,262	3,625	4,887	760	3,676	4,437	1,031	2,345	3,376	779	2,519	3,298
Totals [7]	110,633	576,620	687,253	80,584	661,309	741,893	83,029	608,903	691,931	88,111	555,789	643,900	71,486	494,957	566,443

[1] Includes surface, recycled and groundwater supplies; does not reflect conserved water.
[2] Water use in a given year may differ from Water Authority sales due to storage.
[3] Includes Water Authority deliveries via South Coast Water District System.
[4] Excludes City of San Diego local surface water use outside of Water Authority service area.
[5] Excludes land outside of Water Authority service area.
[6] Excludes local supplies developed beyond Yuima's master meters.
[7] Numbers may not total due to rounding.

Due to the aggregated level of data provided by its member agencies, the Water Authority tracks local and imported water use under two class of service categories: the agricultural class and municipal and industrial ("M&I") class. Water tracked as agricultural is purchased either through the MWD sponsored Interim Agricultural Water Program ("IAWP") or the Water Authority's Special Agricultural Water Rate ("SAWR"). All remaining non-agricultural consumptive use reported by Water Authority member agencies is deemed M&I water use.

Water use in the San Diego region is closely linked to the local economy, population, and weather. In the late-2000s, the combination of economic recession, MWD supply allocations, implementation of member agency mandatory water use restrictions, and mild local weather conditions culminated in a dramatic multi-year decrease in total water demand. In fiscal year 2007, water demand in the Water Authority's service area reached a record level of 741,893 acre-feet, only to drop roughly 24 percent to 566,443 acre-feet by the end of fiscal year 2010. The 175,450 acre-foot reduction in demand represents the largest volumetric decline over a three-year period in the Water Authority's history.

WATER AUTHORITY DELIVERIES TO MEMBER AGENCIES
FISCAL YEAR ENDED JUNE 30, 2010

	2010	
Member Agency	Agricultural Use Acre-Feet [1]	M&I Use Acre-Feet
Carlsbad M.W.D.	29	17,205
Del Mar, City of	0	1,129
Escondido, City of	3,281	17,487
Fallbrook P.U.D.	4,434	8,888
Helix W.D.	0	30,345
Lakeside W.D.	0	3,375
National City, City of	0	3,023
Oceanside, City of	684	24,213
Olivenhain M.W.D.	287	19,706
Otay W.D.	17	31,158
Padre Dam M.W.D.	776	11,709
Pendleton Military Reservation	0	832
Poway, City of	27	11,085
Rainbow M.W.D.	8,309	14,049
Ramona M.W.D.	1,726	4,399
Rincon del Diablo M.W.D.	265	6,014
San Diego, City of	118	187,186
San Dieguito W.D.	0	2,156
Santa Fe I.D.	43	5,637
South Bay I.D.	0	11,523
Vallecitos W.D.	1,076	15,392
Valley Center M.W.D.	19,918	9,605
Vista I.D.	67	15,269
Yuima M.W.D.	2,461	58
Total	43,515	451,442

Note: Totals may not add due to rounding
[1] Includes only amounts certified through the IAWP and SAWR agricultural water use programs.

Per Capita Water Use

The table below sets forth the estimated daily per capita M&I water use within the Water Authority's service area for the fiscal years ended June 30, 1989 to June 30, 2010.

WATER AUTHORITY SERVICE AREA DAILY PER CAPITA M&I WATER USE[1]

Fiscal Year	Local Production (af)	Water Authority Supplied (af)	Total (af)[2]	Total Agricultural Water Use (af)[3]	M&I Water Use (af)	Population	Daily Per Capita M&I Use (gallons)
1989	51,722	574,780	626,502	115,175	511,327	2,346,208	195
1990	33,201	613,444	646,645	122,297	534,348	2,435,903	192
1991	33,178	552,441	585,619	113,046	472,573	2,485,692	170
1992	47,254	455,954	503,208	92,571	410,637	2,520,763	179
1993	99,187	449,486	548,673	89,051	459,622	2,572,002	160
1994	123,759	413,148	536,907	78,916	457,991	2,604,483	157
1995	116,544	409,509	526,053	56,069	469,985	2,622,948	160
1996	139,503	468,165	607,667	70,738	536,929	2,629,879	182
1997	126,723	481,121	607,844	66,404	541,439	2,640,861	183
1998	126,606	435,563	562,169	52,474	509,695	2,689,493	165
1999	152,524	466,884	619,409	84,991	534,418	2,733,035	175
2000	114,877	580,118	694,995	105,819	589,176	2,814,481	187
2001	82,247	564,140	646,387	96,571	549,816	2,813,278	175
2002	70,957	615,572	686,530	110,867	575,663	2,825,574	182
2003	62,773	586,849	649,622	96,183	553,439	2,843,697	174
2004	49,755	666,008	715,763	113,959	601,803	2,867,237	187
2005	71,797	573,048	644,845	85,575	559,270	2,977,337	168
2006	110,633	576,620	687,253	98,011	589,243	3,035,858	173
2007	80,584	661,309	741,893	108,836	633,058	3,051,729	185
2008	83,029	608,903	691,931	81,925	610,636	3,054,819	178
2009	88,111	555,789	643,900	65,424	568,600	3,102,625	164
2010	71,486	494,957	566,443	53,286	504,086	3,149,018	143

[1] Water use data provided by member agencies.
[2] Totals may not foot due to rounding.
[3] Total Agricultural Water Program Use equals IAWP and SAWR use plus estimated local water utilized for agricultural purposes. See **Agricultural Water Use** below.

The 2009 State Water Legislation seeks to achieve a 20 percent statewide reduction in urban per capita water use in California (relative to 2005 baseline use) by December 31, 2020. The law requires each urban retail water supplier to develop urban water use targets to help meet the 20 percent goal by 2020, and an interim water reduction target by 2015. Although compliance with the legislative mandate rests with retail water agencies, the law requires that the Water Authority, as the wholesale supplier, support its retail member agencies' efforts to comply with the 2009 State Water Legislation through a combination of regionally and locally administered active and passive water conservation measures, programs and policies, as well as the use of recycled water.

The table below shows estimated regional per-capita potable targets under the 2009 State Water Legislation. These estimates were calculated using retail level per-capita targets provided by Water Authority member agencies and SANDAG population projections for each member agency.

2009 STATE WATER LEGISLATION
ESTIMATED REGIONAL POTABLE PER-CAPITA TARGETS (GAL/DAY)

	2015	2020
Estimated Regional Potable Gallons Per–Capita Per Day Target	173	167

Agricultural Water Use

San Diego County has a well-established agricultural sector with an estimated 307,292 acres of farmland and a reported annual value for all agricultural commodities totaling over $1.55 billion in 2009. Nursery crops represent approximately $1.05 billion of output, with fruits and nuts and vegetable production contributing an additional combined $400 million. Estimated total agricultural water consumption by Water Authority member agencies during the fiscal year ended June 30, 2010 was 53,286 acre-feet, about nine percent of total water use for the year.

Historically, much of the County's agricultural acreage was enrolled in MWD's IAWP. The IAWP is a voluntary program that offers agricultural customers a discounted water rate in exchange for being the first to be cutback up to 30 percent during MWD supply shortages. On January 1, 2008, MWD implemented, for the first time in the history of the program, a full 30 percent cut to agricultural customers in the IAWP. These mandatory reductions continued until April 2011, when MWD's Board took action to terminate the cutbacks as a result of the current supply outlook and improved storage conditions.

Additionally, MWD also initiated a phase-out of the IAWP, with the program termination date set for December 31, 2012. As part of the phase-out process, the MWD agricultural rate discount will be reduced annually along with a commensurate reduction in cutback obligation. Included in the IAWP phase-out guidelines is an opt-out provision that allows customers to exit the program on January 1 of each year.

In consideration of the IAWP phase-out, the Water Authority Board adopted a transitional Special Agricultural Water Rate ("Transitional SAWR") for agricultural customers exiting the IAWP. In exchange for receiving the Transitional SAWR rate, agricultural customers forego the additional supply reliability associated with the Water Authority's QSA supplies and receive a higher cutback set at the MWD municipal and industrial reduction level. As of January 1, 2010, over 3,643 accounts, representing 52,979 acre-feet, on a calendar year basis, exited the IAWP and enrolled in the Transitional SAWR.

Since the Transitional SAWR was scheduled to sunset on December 31, 2010, a member agency workgroup was formed to evaluate future agriculture rate options. Based on the workgroup recommendations, the Transitional SAWR will be continued through December 31, 2012, and the SAWR program will be revised effective January 1, 2013 (concurrent with termination of MWD's IAWP), to only exclude SAWR customers from the Water Authority's storage charge. These customers will be subject to all other rates and charges. The rate impact of exempting SAWR deliveries from storage charges is less than one percent of the total M&I rate.

Water Reclamation, Reuse and Groundwater Recovery

Since the late 1980s, the Water Authority has assisted its member agencies to plan, develop, and finance water recycling and groundwater recovery projects throughout the Water Authority's service area. The Water Authority has also provided assistance to its member agencies to enhance and expand existing facilities. This support has been made through technical assistance and financial aid for project planning and study phases traditionally funded by the individual local agencies. The Water Authority currently provides a financial incentive of up to $200 per acre-foot for the beneficial reuse of recycled water and groundwater recovery. To date, the Water Authority has expended cumulatively over $22 million towards this effort. MWD also offers a variable recycling credit, based on project financial need, of up to $250 per acre-foot. In its 2010 UWMP, the Water Authority, through its member agencies, identified almost 50,000 acre-feet per year of recycled water and over 28,000 acre-feet per year of groundwater supplies to be developed by 2035. Member agency recycled water development through the fiscal year ended June 30, 2010 totaled close to 30,000 acre-feet of beneficial reuse, more than half-way to meeting the region's 2035 recycled water use goal.

WATER AUTHORITY WATER FACILITIES

To meet the demands of its member agencies, the Water Authority requires water conveyance facilities, water storage facilities and water treatment facilities. Certain of these facilities are owned and operated by the Water Authority and others are owned and operated by MWD or by member agencies.

Water Conveyance Facilities

Water from the Colorado River is transported from Lake Havasu through MWD's Colorado River Aqueduct. Supplies for the Water Authority are diverted from the Colorado River Aqueduct near the west portal of the San Jacinto Tunnel into the Casa Loma Siphon No. 2 and Canal. A few miles to the southwest, MWD's San Diego Canal takes water from the Casa Loma Canal and delivers it into Diamond Valley Lake and further south into Lake Skinner. Both storage reservoirs of MWD are located in Riverside County and both are able to supply water to San Diego County.

SWP water is delivered to MWD at Lake Perris, the terminus of the 444-mile California Aqueduct. From there, it flows through the Lakeview Pipeline of MWD to the San Diego Canal where it is blended with Colorado River water.

While Diamond Valley Lake, with a maximum capacity of 800,000 acre-feet, is much larger, Lake Skinner is the primary storage facility for the Second San Diego Aqueduct, with a maximum capacity of 44,264 acre-feet. The maximum water elevation for storage is 1,479 feet above sea level. Water from Lake Skinner flows directly into Pipelines 3 and 5 while Pipelines 1, 2 and 4 receive treated water from the Skinner Filtration Plant.

The Water Authority takes delivery of imported water from MWD in the five pipelines within the two San Diego Aqueducts, approximately six miles south of the Riverside-San Diego County line. The following table provides information relating to the principal pipelines owned and operated by the Water Authority:

PRINCIPAL WATER CONVEYANCE FACILITIES IN SERVICE

Pipeline	Length (miles)	Diameter (inches)
First San Diego Aqueduct		
Pipeline 1 and Pipeline 2	68.1	72-48
La Mesa-Sweetwater	16.5	42-18
Moreno-Lakeside Pipeline	4.8	60-54
Second San Diego Aqueduct		
Pipeline 3	59.2	75-66
Pipeline 4	44.9	96-69
Pipeline 4B	9.9	108-96
Pipeline 4E	19.6	108-72
Pipeline 5	11.2	96
Pipeline 5E	21.8	108
Crossover Pipeline:		
San Marcos at Twin Oaks to Escondido at Hubbard Hill	7.6	66
Ramona Pipeline	7.9	57-36
Tri-Agencies Branch		
San Marcos to Oceanside	4.4	42-21
North County Distribution Pipeline	3.5	72
Valley Center Pipeline	4.1	66
Olivenhain Pipeline	2.6	78
Olivenhain Hodges Interconnect Pipeline	1.2	121
San Vicente Pipeline and Aqueduct Interconnect	12.7	102
Total	300.0	

Maps in the front portion of this Official Statement provide the location of certain of the facilities referenced in the above table.

The two pipelines of the First San Diego Aqueduct share common tunnels and inverted siphons and are operated as a single unit. The La Mesa-Sweetwater Extension of the First San Diego Aqueduct extends from the First San Diego Aqueduct at Slaughterhouse Canyon near San Vicente Reservoir to Sweetwater Reservoir. The Moreno-Lakeside Pipeline also delivers water from the First and Second Aqueduct to the Helix Water District's R.M. Levy Water Treatment Plant. San Vicente Reservoir, which is owned and operated by the City of San Diego, is the terminus of the First San Diego Aqueduct.

The three pipelines of the Second San Diego Aqueduct (Pipelines 3, 4 and 5) share a common right of way for most of their length. Pipeline 3 terminates at the Lower Otay Reservoir, Pipeline 4 terminates at the City of San Diego's Alvarado Water Treatment Plant and Pipeline 5 terminates at Miramar Hill northwest of Lake Miramar in the City of San Diego. Pipeline 4B extends from north of the City of San Diego's Miramar Water Treatment Plant to the San Diego River. Pipeline 4E extends from the San Diego River to the Lower Otay Reservoir. The Tri-Agencies Pipeline delivers treated water to service areas of Carlsbad Municipal Water District, Vista Irrigation District, and the City of Oceanside. A portion of Pipeline 3 near Lake Murray has been operating at reduced capacity pending implementation of a relining project. The North County Distribution Pipeline extends west from the Second San Diego Aqueduct to serve areas of the City of Oceanside, Vista Irrigation District, Rainbow Municipal Water District, and Vallecitos Water District. Pipeline 5 extends south from San Marcos to Rancho Penasquitos. The Ramona Pipeline extends east from the Second San Diego Aqueduct serving the Olivenhain Municipal Water District, the City of San Diego, and the Ramona Municipal Water District. The Valley Center Pipeline conveys treated water between the northern reaches of the First and Second San Diego Aqueducts. The Olivenhain Pipeline conveys untreated water between the Second San Diego Aqueduct and the Olivenhain Reservoir. The San Vicente Pipeline and Aqueduct Interconnect connects the San Vicente Reservoir to the Second Aqueduct at the Rancho Penasquitos Hydroelectric Facility.

The Water Authority controls the operations of its water delivery system from a central operations center. The operations center uses a Supervisory Control and Data Acquisition ("SCADA") system to monitor and control the flows in each of the pipelines and to each member agency. The SCADA system, separate from the business system, with redundant equipment, checks each remote facility every 30 seconds to monitor status and send commands for changes in operations. The communications occur through fiber optics, a leased phone line system, and microwave radio to each of the 98 locations controlling over 106 facilities.

The quagga mussel, an aquatic invasive species, was first found in the lower Colorado River system in January 2007. The rapid propagation of this species, if unchecked, has the potential to disrupt operations at the Water Authority's delivery system and facilities. Since that time, the mussel has established its presence in the San Diego Region. The Water Authority, its member agencies, and other regional partners formed the San Diego Regional Quagga Mussel Working Group in 2007 to aid in information sharing. In June 2008, this group released the draft Regional Quagga Mussel Response and Control Plan as a guide to water agencies preparing an agency specific response and control plan. The Water Authority has also implemented its own system specific monitoring and control plan in 2011 to more specifically address issues related to the Water Authority's delivery system and facilities. The Water Authority is working closely with the DFG as well as other industry leaders to ensure continued process improvement. Program cost estimates are currently under development.

Water Storage

Reservoirs. The Water Authority has storage capacity both leased and owned within the region. Total storage capacity is currently approximately 96,000 acre-feet between leased capacity in the City of San Diego and Sweetwater Authority reservoirs and owned capacity in Olivenhain reservoir. When the Water Authority's Emergency Storage Project (the "ESP") is completed in 2013, the Water Authority's in-region storage capacity will increase to more than 196,000 acre-feet (it will take approximately five years to fill the added capacity). When complete, the ESP will allow the Water Authority to convey water throughout the County during an emergency or drought condition. The ESP is being constructed in a phased manner. Components of the Water Authority's surface storage capacity, including those in development, are:

The Olivenhain Reservoir was completed in 2003 as part of the first phase of the ESP. The Olivenhain Reservoir has a storage capacity of 24,300 acre-feet of water. In 2008, the Water Authority constructed an interconnect pipeline to connect Lake Hodges to the Olivenhain Reservoir, allowing for additional stored water transfer within the region. The pipeline will become active upon completion of the Lake Hodges Pump Station and

40 megawatt hydroelectric facility which is currently being constructed. The Water Authority also owns and operates a 4.5 megawatt hydroelectric generating facility along the Second Aqueduct in the Rancho Peñasquitos area.

Construction of a Water Authority project to raise the City of San Diego's San Vicente Dam began in 2009 and is expected to be completed in 2013. Agreements with the City of San Diego regarding the ESP have extended the Water Authority's ability to store up to 60,000 acre-feet in City of San Diego-owned reservoirs. The storage capacity lease rate in City of San Diego reservoirs is $17.53 per acre-foot for the maximum amount of water in storage each year. The City receives a credit of $13.76 per acre-foot for Water Authority water pumped to the City from the Water Authority's storage account in Lower Otay Reservoir. The Water Authority's stored water is subject to evaporation, seepage and spill losses.

The Water Authority also has an agreement with Sweetwater Authority to lease storage capacity in Sweetwater Reservoir. The storage capacity lease rate in Sweetwater Reservoir is $22.00 per acre-foot for the maximum amount of water in storage each year. Sweetwater receives a credit of $21.00 per acre-foot for Water Authority water pumped from Sweetwater Reservoir. The Water Authority's stored water is subject to evaporation, seepage and spill losses.

In 1929, the California Legislature enacted legislation providing for supervision over non-federal dams in the State. The statutes place the supervision of the safety of non-federal dams and reservoirs under the jurisdiction of the California Department of Water Resources' Division of Safety of Dams ("DSOD"). Dams under jurisdiction are artificial barriers, together with appurtenant work, including outlet towers, which are twenty-five feet or more in height or have an impounding capacity of fifty acre-feet or more. Any artificial barrier not in excess of six feet in height, regardless of storage, or that has a capacity not in excess of fifteen acre-feet, regardless of height, is not considered jurisdictional. The DSOD reviews plans and specifications for the construction of new dams or for the enlargement, alteration, repair or removal of existing dams, and must grant written approval before the owner can proceed with construction. The DSOD routinely inspects operating dams to assure that they are adequately maintained. The DSOD also conducts investigations of selected dams and directs the owners to additional investigations and detailed safety evaluations when necessary. DSOD may impose operating restrictions on dams and reservoirs that reduce storage capacity or otherwise adversely affect the operation of water facilities. There are currently no operating or storage restrictions imposed on the Water Authority by DSOD.

Groundwater Storage. As part of the QSA, the Water Authority became the recipient of groundwater conjunctive use funds appropriated through Senate Bill 1765 (1998), which originally were designated to MWD. Approximately $35 million was made available to the Water Authority for use in its groundwater program. A demand and supply analysis utilizing data from the Water Authority's 2005 Urban Water Management Plan identified a maximum potential need for approximately up to 95,000 acre-feet of additional carryover storage beyond the 100,000 acre-feet of carryover storage in the Water Authority's Capital Improvement Program. This evaluation examined a three-year dry cycle scenario during which demands are high and imported supplies are constrained by preferential rights. Based on that scenario, the Water Authority distributed a Request for Proposal in November 2005 to partner with agencies overlying a groundwater basin for a conjunctive use project. The project would allow water to be delivered and stored during above normal hydrology and extracted from the basin and delivered to the Water Authority either by wheeling through various facilities, exchanges, or a reduction in demands on the Water Authority.

In June 2008, the Water Authority executed an agreement with Vidler Water Company, Inc. ("Vidler") for 30,000 acre-feet of storage and capacity rights in the Semitropic Water Bank in the southern part of the San Joaquin Valley in Kern County. The cost to purchase Vidler's Semitropic Program was approximately $11.75 million. In August 2008, the Water Authority acquired 10,000 units (which equates to 40,000 acre-feet of storage together with rights to certain capacities) in the Semitropic-Rosamond Water Bank Authority ("Semitropic-Rosamond"). The cost to acquire storage and recovery rights in Semitropic-Rosamond was $15 million. In 2008, the Water Authority purchased approximately 23,077 acre-feet of water from Butte Water District and Sutter Extension Water District at $200/acre-feet -- $4.6 million – anticipating storing the water in the Groundwater Program as "initial fill." The Water Authority has been reimbursed $30.48 million for these acquisitions.

In 1998, the State Legislature, through Senate Bill 1765, appropriated $235 million from the State's general fund to implement California's Colorado River Water Use Plan. The legislation provided $200 million for the lining

of the All-American and Coachella canals and $35 million to fund groundwater conjunctive use facilities. As part of the QSA, the Water Authority became the recipient of these funds, previously assigned to MWD. Approximately $30.48 million of the $35 million remained available for Water Authority use on the Vidler and Semitropic-Rosamond Water Bank programs. In August of 2010, the Water Authority was reimbursed by DWR the entire $30.48 million in remaining Senate Bill 1765 funds.

Local Storage Agreements. With the drawdown of San Vicente Reservoir, required to complete construction of the San Vicente Dam Raise Project, and recent drought conditions, the Water Authority has been working with its member agencies to optimize local storage opportunities. Working collaboratively, the Water Authority and its member agencies have optimized local facilities to move supplies into local storage. Current total carryover storage held by the Water Authority in the region is approximately 27,000 acre-feet. Carryover storage is water stored over and above emergency storage targets. The Water Authority's carryover storage target is 60,000 acre-feet until the San Vicente Dam Raise project is complete at which time 100,000 acre-feet of capacity will be available for carryover storage.

Water Treatment Facilities

The Water Authority purchases treated water from MWD and purchases treatment from member agencies with treatment facilities. Based on a two-year average, approximately 42 percent of the water sold by the Water Authority is treated water.

MWD delivers treated water to the Water Authority's service area from its Skinner Filtration Plant, which is located at Lake Skinner and has a treatment capacity of 630 MGD. Treated water is delivered to the Water Authority through three pipelines, only one of which stretches the length of the county. From Lake Skinner in Riverside County, untreated water is currently conveyed south to the Water Authority in two pipelines. At a point near the City of San Marcos, the Crossover Pipeline extends to the east and connects to the two pipelines of the First San Diego Aqueduct that carry untreated water south to San Vicente Reservoir. From this point near San Marcos, another untreated water pipeline delivers water south for treatment at a number of water filtration plants owned and operated by several of the Water Authority's member agencies.

Approximately half of San Diego County's treated water supply is provided by the Skinner Filtration Plant. As early as 2001, the Skinner Filtration Plant began to operate above its rated capacity to meet the treated water demands of both Riverside and San Diego Counties during long, hot, and dry periods. During these same periods, the Water Authority's member agency water filtration plants operated near capacity to meet San Diego County demands as well. As a result, the Water Authority's Regional Water Facilities Master Plan recommended creation of additional regional treatment capacity. Upon approval of the Master Plan in June 2004, the Water Authority began design and construction of the Twin Oaks Valley Water Treatment Plant ("TOVWTP") to provide 100 MGD of high quality drinking water capacity in northern San Diego County.

The Water Authority utilized the Design-Build-Operate ("DBO") procurement method for the TOVWTP. This method of procurement includes retaining a single entity to design, construct, and operate the TOVWTP. The contract provides that the DBO entity will operate the plant for an initial period of 15 years, with an option to extend that term by an additional five years. The Water Authority awarded the DBO contract in September 2005 to CH2M HILL OMI and the TOVWTP came online in April 2008.

In addition to the TOVWTP, the Water Authority purchased 36 MGD of treatment capacity in 2002 at the Helix Water District's R.M. Levy Water Treatment Plant. Water produced at the Levy plant supplements treated water services in eastern San Diego County.

Seismic and Wildfire Considerations

Water conveyance facilities are designed to withstand earthquakes with minimal damage. Earthquake loads have been taken into consideration in the design of project structures such as pumping plants and hydroelectric plants. All known faults are crossed by pipelines at very shallow depths to facilitate repair in case of damage from movement along a fault. To date, no Water Authority facilities have suffered any material earthquake damage. The Water Authority's ESP is being designed to allow continued water service to its member agencies at a 75 percent level of service or better in the event of a complete interruption of water deliveries from MWD, such as might result

from a severe earthquake along a fault traversing pipelines connecting with MWD, for a period of up to two months while pipelines and facilities are being repaired.

Water conveyance facilities for the most part consist of pipelines and connections, flow control facilities, and pumping stations. The three hundred miles of pipeline that are underground are not vulnerable to damage by wildfires. The above-ground facilities are designed to be tolerant to damage by wildfires as the facilities are constructed of poured concrete or slump block, and the rights of way near the building are landscaped with drought tolerant plants making the structures less vulnerable to damage by wildfires. The Water Authority's Emergency Operations Center ("EOC") in Escondido, California, is activated during wildfires. An alternate EOC can be activated at the San Diego Headquarters office, should the primary EOC be compromised. While activated, the wildfires are monitored and operations and maintenance crews are dispatched to ensure that all above-ground facilities are safe and remain operational. The Water Authority is also represented at the County's Operational Area EOC to best manage water interests during a major event. The last major wildfire in San Diego occurred in October 2007 and caused only minor damage to the Water Authority's assets, facilities and projects.

The Water Authority has long maintained a focus on emergency preparedness and response. In 2007, the Water Authority updated its emergency management program by publishing an Integrated Contingency Plan, which complies with the National Incident Management System. In order to prepare for a major emergency, the Water Authority regularly activates its EOC for planned event control, coordinates with member agencies on emergency preparedness issues, and participates in County of San Diego Operational Area exercises.

Safety and Security

The Water Authority conducted two separate vulnerability analyses for its water delivery system in 2001 and 2003. The latter was required as part of the 2002 Bioterrorism Act. Since that time, the Water Authority has implemented security improvements throughout the system including improved security procedures, redundant communication systems, hardening facilities against physical attack, improving facility lighting, real time water quality monitoring, and adding video surveillance capabilities. The Water Authority considers additional improvements as technology advances, new threats are highlighted, and as each new facility is constructed. Physical inspection by field staff is also performed regularly to aid in protection of Water Authority facilities and rights of way. In addition, the Water Authority conducts periodic analyses of potential risks or vulnerabilities within the SCADA and business system computer networks.

Although the Water Authority has undertaken many emergency preparedness and security improvements, a terrorist attack or significant natural disaster could materially impair system operations, water deliveries and revenues.

Insurance

The Water Authority is a participant in the Special District Risk Management Authority pooled insurance program and obtains coverage for general liability, errors and omissions, employment practices liability, auto, property, boiler and machinery, and crime and fidelity coverage through the program. The Water Authority also maintains workers' compensation coverage. See **APPENDIX A - WATER AUTHORITY FINANCIAL STATEMENTS**.

Energy

Over the last several years, in addition to identifying climate change adaptation strategies, the Water Authority has implemented mitigation strategies to reduce greenhouse gas emissions from its operations. Fourteen vehicles have been removed from the Water Authority's fleet, and an additional three vehicles have been replaced with hybrids. As vehicles are scheduled for replacement in the future, each will be evaluated for necessity and potential replacement with hybrid or other alternative fuel vehicles. Photovoltaic solar panels are being installed at the Water Authority's three major facilities. The three solar projects combined are expected to produce approximately 2.8 million kilowatt-hours annually and prevent the release of more than 70 million pounds of greenhouse gas emissions over the 20-year term of the solar projects contract. In addition, based on current energy costs, the solar projects are projected to result in a savings of nearly $1.7 million over the life of the contract. The Water Authority's 4.5 megawatt Rancho Penasquitos in-line hydroelectric facility began operation in 2006. The

facility provides clean renewable energy to the local grid through a ten-year contract with the local investor-owned utility, while providing a revenue stream for Water Authority operations. The Water Authority continues to pursue energy efficiency options in all areas of its operations and to investigate additional potential for implementation of in-line hydroelectric and emerging energy generation technologies such as floatovoltaics and/or wind.

THE CAPITAL IMPROVEMENT PROGRAM

The Water Authority's Capital Improvement Program (the "CIP") is designed to meet the mission of the Water Authority to provide a safe and reliable supply of water to its member agencies serving the San Diego region. A map in the front portion of this Official Statement provides the location of major components of the CIP.

In August 1989, the Board approved "The Water Distribution Plan, A Capital Improvement Program Through the Year 2010." The resolution the Board adopted stated in part that "in order to meet the existing and future needs of its member agencies and the over three million people whom they serve, it is necessary that existing pipeline capacities and filtration facilities be significantly improved." The Water Distribution Plan contained ten projects designed to meet the objectives of:

- increasing the capacity of the aqueduct system
- increasing the yield from existing water filtration plants
- obtaining additional water supplies from MWD
- increasing the reliability and flexibility of the aqueduct system

In annual reports to the Board since June 1991, the Water Authority has made modifications to the original list of projects included in the Water Distribution Plan. New projects have also been added as needs have been identified for a service area of more than three million inhabitants. When a project has been completed and placed in service it is no longer included in the CIP budget. See **Projects in the Capital Improvement Program**. Through June 30, 2010, $2.55 billion has been spent to complete various capital projects since 1989.

The present CIP budget is $3.52 billion for 49 projects that are in various stages of planning, design, and construction. Of such amount, approximately $1.36 billion has been expended with respect to projects that have not been completed and placed in service and are remaining in the CIP budget, leaving an unspent balance in the CIP budget of approximately $2.16 billion. The Water Authority expects to spend approximately $670.5 million over the next five years on capital improvement projects. Approximately half of that amount, $321 million, is budgeted to be spent in the budget period for the fiscal years ending June 30, 2012 and June 20, 2013. Of this amount, approximately 85 percent of that will be spent on five construction projects.

SAN DIEGO COUNTY WATER AUTHORITY
CAPITAL IMPROVEMENT PROGRAM BUDGET
(dollars in millions)

Project Category	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total
Asset Management	33.4	46.6	6.5	63.2	57.4	207.1
New Facilities	25.6	19.1	17.1	31.1	33.1	126.0
Emergency Storage Program	144.0	37.5	71.1	42.6	8.1	303.3
Master Planning	1.8	2.0	0.5	4.9	6.9	16.1
Other	6.7	4.5	1.7	2.7	2.4	18.0
Total	211.5	109.7	96.9	144.5	107.9	670.5

The Water Authority plans to use a combination of funds to pay for the CIP, including proceeds derived from the sale of long-term fixed rate debt, variable rate debt and cash generated from Water Authority operations. Overall, the Water Authority plans to fund approximately 23 percent of its $3.52 billion CIP with cash and the balance from a combination of long-term fixed rate debt, short-term debt and variable rate debt. The financial projections included in this Official Statement reflect a long-term adherence to the overall funding ratio, rather than an attempt to maintain this ratio of funding in individual years. See **PROJECTED OPERATING RESULTS**.

Projects in the Capital Improvement Program

The current CIP contains 49 projects. The projects are a mix of water transportation, storage, treatment, flow control facilities, and pipeline relining and replacement projects.

- The largest single aggregation of projects is the $1.2 billion ESP. The ESP is a mix of pipelines, dams, reservoirs and pump stations to enhance the supply of emergency water within the Water Authority service area. The majority of that work has been completed with only the San Vicente Dam Raise project remaining as a substantial project that is currently under construction.

- A substantial amount of future facilities work will be in the Water Authority's Asset Management Program. The Water Authority's Asset Management Program includes all activities required to derive the most value from an asset through its life cycle. The primary goal of the program is for the planning, design, construction, operation, maintenance, or surplus of assets to be completed at the optimal time to ensure water delivery system reliability at the lowest cost and with the least impact to member agencies. To ensure this, Water Authority staff developed, and the Water Authority's Board approved, the Asset Management Plan in January 2009 and the Asset Management Program Funding Policy in January 2010. One of the largest components of the Asset Management Program is the relining and replacement of aging pipelines. Expenditures in support of these activities are forecast to average $50 million per year over the next ten years.

- The balance of projects over the next 20 years beyond the ESP and relining/replacement of pipelines is forecast to be in the construction of additional pipelines and flow control facilities and the pursuit of an asset management program. The roadmap for future capital infrastructure will be determined by the Facilities Master Plan Update scheduled to be completed in late calendar year 2012.

- Fiscal year ended June 30, 2007 marked the peak of CIP expenditures at $290 million. Since that time, the majority of the Water Authority's large projects have either been completed or are in final stages of construction. The San Vicente Dam Raise ($450 million) is moving forward with construction and is forecast to be completed in fiscal year ending June 30, 2013. The pipeline replacement and relining project ($786 million) will continue to expend funds as noted above. Two new pipelines ($815 million) are currently planned to begin construction in about ten years. The Camp Pendleton planning phase desalination project has the potential to become a significant expenditure in the future.

Cost Management Strategy

As construction costs began to spiral upward in the 2005 time frame, the Water Authority adopted a variety of strategies to deal with the problem. Internally, the Water Authority examined the basis of its cost estimating process and hired an economist to develop a model that would allow the Water Authority to forecast future project costs more accurately based on the unique mix of projects, materials, and skills required by the CIP. This action was combined with a look at the portfolio and timing of the CIP projects to ensure the best balance between reliability of water supply and costs.

At the same time, the Water Authority accelerated its efforts to pursue CIP best management practices. In 2004, the Water Authority joined MWD in a regional benchmarking effort involving a dozen water agencies in the Western United States. The purpose of the regional organization was to develop key capital improvement program performance measures and benchmarks. This has yielded a body of knowledge on best capital improvement program management practices that has been incorporated into the Water Authority's CIP management practices. Within the San Diego area the Water Authority is a member of a regional procurement committee consisting of large public sector organizations with substantial capital improvement programs. The purpose of this multi-agency group is to

create a more competitive construction environment in San Diego County by creating uniform contracting and procurement practices, simplifying contracting processes, and coordinating the timing of agency facility construction contracts, making more bidders available for the same types of projects. This has led to several cost savings strategies that are focused on making the regional construction market more competitive.

The Water Authority works with the regional construction community to enhance relationships and improve bid outcomes. The Water Authority has involved itself in a variety of industry forums as speakers on topics of interest, building relationships with contractors through personal contacts, open houses, and direct marketing techniques. Success has been achieved by using pre-advertisement open houses to hear potential concerns of contractors and craft bid packages, where possible, to create bidder friendly outcomes. Subsequent contractor bids on these projects have been very competitive.

In the current economy, the Water Authority has experienced contractor bids significantly below forecast costs. If this trend continues, the Water Authority's savings are passed on to rate payers.

FINANCIAL OPERATIONS

The Water Authority's principal source of revenue is net revenues from the sale of water by the Water Authority to its member agencies. The Water Authority's rates and charges to member agencies for delivered water are set to equal the cost of water to the Water Authority plus additional components (e.g., debt service costs, QSA commitments). The Water Authority also levies Water Standby Availability Charges, capacity charges and IAC and receives hydroelectric power sales revenues, property tax revenues and Build America Bonds interest subsidy payments. The Water Authority's ability to generate revenue may be limited by certain provisions of the State Constitution. See **CONSTITUTIONAL LIMITATIONS**.

Water Authority Water Rates and Charges

Water rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. The Water Authority bills member agencies for water deliveries by the tenth business day of every month for water purchased during the prior month. Payments are due from the member agencies by the last business day of the month and are delinquent if not paid by the tenth business day of the following month.

Under the General Resolution, the Water Authority is required to fix rates which are reasonably fair and nondiscriminatory and which will be at least sufficient for the payment of all amounts payable from Net Water Revenues in each fiscal year and at least equal to 120 percent of Debt Service on all Bonds and Contracts constituting Prior Obligations. Effective January 1, 2003, the Water Authority's Board implemented a rate structure designed to more effectively allocate the cost of service to its customers and to increase the proportion of revenues collected by fixed charges. During the projection period ending June 30, 2015, the Water Authority projects that fixed revenues will be approximately equal to 76 percent of fixed expenditures and will constitute approximately 64 percent of all revenues. The new rate categories include fixed Storage and Customer Service Charges, and variable Transportation, Melded M&I Treatment and Melded M&I Supply Rates. The Customer Service and Storage Charges are fixed charges that enable the Water Authority to increase its coverage of fixed expenditures by fixed revenues. Agricultural customers pay the Transportation Rate and the Customer Service Charge while M&I customers pay the Transportation Rate, the Customer Service Charge, and the Storage Charge, which funds the ESP. Agricultural water users have elected to receive a reduced level of service during an emergency, in return for excluding the cost of the ESP from their water rate, and pay MWD's Interim Agricultural Water Program rate instead of the Water Authority's melded supply rate. In 2008 MWD initiated a five-year phase-out of the IAWP, with a program termination date set for December 31, 2012. In consideration of the IAWP phase-out, the Water Authority Board adopted the Transitional SAWR for agricultural customers exiting the IAWP.

Rates effective January 1, 2011 through December 31, 2011 are as follows:

Customer Service Charge: The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and to implement programs that benefit the region as a whole. The Customer Service Charge is allocated among the member agencies on the basis of each

agency's three-year rolling average of all deliveries (excludes member agency wheeled water). The aggregate Customer Service Charge is currently $23,200,000.

Storage Charge: The Storage Charge is set to recover costs associated with the ESP. Allocation of the Storage Charge is based on all non-agricultural water deliveries and is allocated among the member agencies using a pro rata share of each agency's three-year rolling average of non-agricultural deliveries (including all users, member agencies, and third-party wheeling throughput). The aggregate Storage Charge is currently $44,300,000.

Transportation Rate: The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority's aqueduct system including all facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water as delivered by the Water Authority through Water Authority facilities. All users of Water Authority pipeline facilities, whether member agencies or third-party wheelers, pay the Transportation Rate. The Transportation Rate is currently $75 per acre-foot.

Melded Untreated M&I Supply Rate: The Water Authority has a melded supply rate which recovers the cost of water supply incurred by the Water Authority. These costs include the purchase of water from MWD, IID, the Coachella Canal Lining Project and the All-American Canal Lining Project, costs of MWD wheeling for non-MWD water supplies, and certain other costs associated with the QSA. The Melded Untreated M&I Supply Rate is currently $597 per acre-foot.

Melded M&I Treatment Rate: The Water Authority has a melded treatment rate, which recovers the costs of providing treated water. The melded treatment rate includes costs associated with MWD, Helix, and Olivenhain treatment facilities, as well as the costs associated with the Water Authority's treatment plant's operations. The Melded M&I Treatment Rate is currently $215 per acre-foot.

Transitional Special Agricultural Water Rate: The untreated Transitional SAWR rate effective January 1, 2011 is $527 per acre-foot. The treated Transitional SAWR rate effective January 1, 2011 is $742 per acre-foot. The Transitional SAWR is scheduled to sunset on December 31, 2012. Effective January 1, 2013, agricultural water customers will be able to opt-in to the Water Authority's permanent agricultural water program.

Other Water Authority Charges

Other Water Authority rates and charges include the IAC, the Water Standby Availability Charge, the System Capacity Charge and the Treatment Capacity Charge. These charges are defined as follows:

Infrastructure Access Charge: In June 1998, the IAC was adopted as an additional source of fixed revenue to improve coverage of the Water Authority's projected fixed expenditures. The IAC is charged to each member agency based on the number and size of retail water meters within the member agency's service area. On January 1, 1999, the Water Authority began charging its member agencies an IAC based upon the total household water meter equivalents within each member agency service area as of December 31st of the previous year. The intent of the IAC is to provide the Water Authority with the balance of "fixed" revenues required to generate a minimum 25 percent ratio of fixed revenues to fixed expenditures after taking into account the Water Authority's existing fixed revenues produced by the Water Standby Availability Charge and property taxes and excluding revenues from the fixed Customer Service Charge and Storage Charge from the calculation. The Infrastructure Access Charge effective January 1, 2011 is $2.49 per meter equivalent per month.

Water Standby Availability Charge: The Water Authority obtained legislative authorization in 1988 to levy and collect annual Water Standby Availability Charges of up to $10 per acre (and on each parcel less than an acre). The Water Authority implemented these $10 Water Standby Availability Charges in the fiscal year beginning July 1, 1989. It is the policy of the Board that revenues from this source will be restricted to payment of construction expenditures under the CIP and to debt service. The Water Standby Availability Charge is deemed an assessment under Article XIIID of the California Constitution. See **CONSTITUTIONAL LIMITATIONS - Article XIIIC and XIIID**. Since November 6, 1996, the Water Authority has levied the Water Standby Availability Charge at the maximum permitted level.

System Capacity Charge: In May 1990, the Water Authority's Board of Directors adopted a System Capacity Charge on all new or larger retail water meters installed. The charge is designed to recover a proportionate share of the capital costs associated with providing services to new connections in the Water Authority's service area. In May 2005, the Board of Directors of the Water Authority approved a change in the System Capacity Charge calculation methodology, which balances the extra capacity present in the system financed by existing customers with the benefits of use by future customers. The System Capacity Charge is currently $4,326 per meter equivalent.

Treatment Capacity Charge: In May 2005, the Board of Directors of the Water Authority also approved the creation of a Treatment Capacity Charge to help fund the Water Authority's regional water treatment facility. The charge recovers a portion of the capital costs from the future users of the facility. Like the System Capacity Charge, the fee is based upon the size of the meter installed. The Treatment Capacity Charge is currently $166 per meter equivalent.

Revenues from System Capacity Charges and Treatment Capacity Charges are related directly to development activity in the Water Authority service area. Reductions in building activity such as those experienced in recent years may result in the receipt by the Water Authority of significantly lower System Capacity Charge and Treatment Capacity Charge revenues. See **APPENDIX B – ECONOMY OF SAN DIEGO COUNTY – Building Activity**.

Bankruptcy or Financial Failure of a Member Agency

The financial failure or bankruptcy of a member agency could adversely affect the ability of such member agency to honor its obligations to the Water Authority (including its obligation to pay the purchase price of water delivered by the Water Authority to such member agency). The Water Authority is not aware of the existing or impending financial failure or bankruptcy of any member agency, but there can be no assurance that a financial failure or bankruptcy of a member agency will not occur. If a member agency were to become bankrupt, the Water Authority's right to receive payment for water delivered prior to bankruptcy but not invoiced or invoiced but not paid, for example, may be limited to the rights of an unsecured creditor of the bankrupt entity. Further, there can be no assurance that the Water Authority will be physically able or legally permitted to cease or interrupt deliveries of water to a non-paying member agency. The Water Authority believes that any reduction in Water Revenues as a result of the inability to collect payment for water delivered to a bankrupt member agency or as a result of any temporary interruption or reduction of water deliveries will not be material. The Water Authority further believes that, following such bankruptcy, the amount of water delivered for the service area currently served by such member agency will not be reduced and that the Water Authority will be able to obtain payment for such water.

Other Water Authority Sources of Funds

The Water Authority receives hydroelectric power sales revenues, property tax revenues and subsidy payments from the United States Treasury relating to Build America Bonds.

Hydroelectric Power Sales Revenues. The Water Authority derives small amounts of operating revenue from hydroelectric sales and from miscellaneous fees and charges. The Water Authority currently sells energy to SDG&E from its Rancho Penasquitos Pressure Control Facility. The Water Authority's Lake Hodges facility is anticipated to be in service after fiscal year ending June 30, 2012.

Property Tax Revenues. The Water Authority receives a portion of the one percent ad valorem property tax levied and collected by the County of San Diego pursuant to Article XIIIA of the California Constitution. Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. The Water Authority's share of ad valorem tax revenues allocated by the County that is not used to pay voter-approved indebtedness is available to pay Maintenance and Operation Costs. There is currently no voter-approved indebtedness outstanding. The Water Authority is expressly empowered under the Act to levy taxes on all taxable property within its boundaries for the purpose of paying its voter-approved indebtedness and, subject to certain limitations in the Act, the California Revenue and Taxation Code and the California Constitution, for other Water Authority purposes. See **CONSTITUTIONAL LIMITATIONS**.

Proposition 1A, enacted by California voters in 2004 as an amendment to the State Constitution, is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 1A allows the State to divert up to eight percent of local property tax revenues for State purposes only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency; (ii) two-thirds of both houses of the Legislature approve the action; (iii) the amount diverted is required by statute to be repaid within three years; (iv) the State does not owe any repayment to local agencies for past property tax or Vehicle License Fee diversions to local agencies; and (v) such property tax diversions do not occur in more than two of any ten consecutive fiscal years.

The amended fiscal year 2009-2010 State Budget included a Proposition 1A diversion of $1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. Property tax revenues in the amount of approximately $644,000 that would have been received by the Water Authority in the fiscal year ending June 30, 2010 were so diverted.

Build America Bond Interest Subsidy Payments. The Water Authority is entitled to receive Interest Subsidy Payments in connection with the payment by the Water Authority of interest on the 2010B Bonds.

Cost of MWD Water

The water rates charged by MWD for delivered water are the principal cost to the Water Authority of MWD water. However, the Water Authority is also obligated to pay MWD's Readiness-to-Serve ("RTS") Charge and Capacity Reservation Charge ("CRC"), which are described below. The Water Authority's policy is to pass through all of MWD's charges to the Water Authority's member agencies. Currently, MWD has three 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 sales are expected to remain the major component of MWD water sales in the future. Full service water sales are subject to the applicable Supply Rate (Tier 1 or Tier 2), Delta Supply Surcharge, System Access Rate, System Power Rate and the Water Stewardship Rate, which are discussed below. Effective January 1, 2011, the combined rate is $527 per acre-foot for untreated Tier 1 deliveries and $744 per acre-foot for treated Tier 1 deliveries.

Interim Agricultural Water Program. This program, adopted in 1994, provides a discounted rate for agricultural water users that are permitted to receive only surplus water not needed for domestic or municipal purposes. Effective January 1, 2011, the agricultural water rate for treated water is $687 per acre-foot and the rate for untreated agricultural water is $482 per acre-foot. The maximum amount of agricultural water that MWD may deliver to the Water Authority on an annual basis under this program is 100,459 acre-feet. Should a water shortage occur, MWD may reduce deliveries of agricultural water under the program by 30 percent before imposing supply cutbacks on full service deliveries. In January 2008, MWD cut agricultural water deliveries by the full 30 percent to manage demand. Beginning in 2010, this program is being phased out over a three-year period and will be completely phased out by December 31, 2012.

Replenishment. Replenishment water is sold when surplus water is available for delivery, to be used by the purchasing member agency to offset demands on MWD in times of shortage. Effective January 1, 2011, the rate for treated replenishment water is $601 per acre-foot and the rate for untreated replenishment water is $409 per acre-foot. MWD discontinued replenishment deliveries in mid-2007 due to limited supplies. In May 2011, replenishment deliveries resumed on a limited basis for the remainder of calendar year 2011.

Full Service Water Rates and Charges. MWD's water rates are established by majority vote of the MWD Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. Rates must, subject to certain provisions of the MWD Act, be uniform for any class of service, and no water may be provided free of charge. Under the MWD Act, MWD is required, so far as is practicable, to fix such rate or rates for water as will result in revenue which will pay the operating expenses of MWD, provide for repairs and maintenance, provide for payment of the purchase

price or other charges for property or services or other rights acquired by MWD and provide for the payment of the interest and principal of the bonded debt of MWD, subject to the applicable provisions of the MWD Act authorizing the issuance and retirement of such bonds. The same water rate is charged for water provided from the Colorado River and the SWP.

The current rate structure unbundles MWD's water rate into separate rates and charges to reflect the different services (System Power Rate, Treatment Surcharge, System Access Rate, and Water Stewardship Rate) provided by MWD. The rate structure also includes a two-tiered block pricing structure for water supply and a Delta Supply Surcharge to account for expenses related to obtaining additional supplies due to Delta pumping restrictions.

The two-tiered block pricing structure is based upon MWD member agencies' commitment to purchase water from MWD by means of a voluntary purchase order. 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 MWD water in any fiscal year from 1989-1990 through 2001-2002 multiplied by ten. MWD member agencies are allowed to vary their purchases from year to year, but an MWD 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. In consideration of its purchase order, an MWD member agency that executed a purchase order is entitled to purchase a greater amount of water at the lower Tier 1 Water Supply Rate than a member agency not executing a purchase order.

Each MWD 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 MWD water in any fiscal year from 1989-1990 through 2001-2002 or (2) its ten-year rolling average of firm demand of MWD water. The Water Authority has executed a purchase order for a minimum of 3,342,571 acre-feet of water over the ten years ending December 31, 2012. As of June 30, 2010, the Water Authority had purchased a total of 3,423,379 acre-feet, 80,808 acre-feet above the purchase commitment. As a result, the Water Authority has successfully met its purchase order obligation.

In April 2009, the MWD Board approved implementing the Water Supply Allocation Plan at a Regional Shortage Level 2. The implementation of the allocation plan, effective July 1, 2009 through June 30, 2010, limits member agencies' access to MWD supplies without penalty. Data used to determine a member agency's allocation includes historical deliveries by MWD, local supply production within the member agency, and actual local supply production during the allocation year. An agency that exceeds its allocation will be assessed a penalty and billed at the end of the allocation year. As MWD staff presents monthly implementation reports to the board, member agencies will continue to have the opportunity to appeal their respective allocations. The Water Authority's total allocation under Level 2 is 446,239 acre-feet, including 410,381 acre-feet for M&I and 35,858 acre-feet for IAWP.

In April 2010, the MWD Board approved a 7.5 percent rate increase that took effect January 1, 2011. That increase assumed water sales of 1.9 million acre-feet, and a $1.796 billion budget, including $412 million for capital projects. This sales assumption took into account continued replenishment sales curtailment, a 30 percent reduction in the interim agricultural water sales, and 1.9 million acre-feet of firm sales.

The following adopted MWD rates and charges became effective January 1, 2011 and will remain in effect until December 31, 2011:

Tier 1 and Tier 2 Water Supply Rates: The Tier 1 and Tier 2 Water Supply Rates are designed to recover MWD's water supply costs. The Tier 2 Water Supply Rate is designed to reflect MWD's costs of acquiring new supplies. MWD member agencies will be charged the Tier 1 or Tier 2 Water Supply Rate for water purchases, as described above. Effective January 1, 2011, the Tier 1 Water Supply Rate is $104 per acre-foot and the Tier 2 Water Supply Rate is $280 per acre-foot.

Delta Supply Surcharge: This new charge, which began in 2010, was created to reflect the impact of Delta pumping restrictions on MWD's financing. It is designed to recover the costs of additional supply that MWD faces as a result of the pumping restrictions (such as purchases from the Drought Bank, additional purchases from PVID, Yuma Desalter, etc.), lost value in supplies available from the SWP, and the cost of personnel and consultants working to develop improved supply and ecological conditions in the Delta. This surcharge will be added on all

Tier 1 sales, as well as included as part of the cost of water purchased under the replenishment and interim agricultural water programs. It is envisioned that the charge would be phased out as interim Delta improvements ease pumping restrictions. Effective January 1, 2011, the Delta Supply Surcharge is $51 per acre-foot.

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 wheeling entities) of the MWD system will pay the System Access Rate. Effective January 1, 2011, the System Access Rate is $204 per acre-foot.

Water Stewardship Rate: The Water Stewardship Rate will be charged on a dollar per acre-foot basis to collect revenues to support MWD's financial commitment to conservation, water recycling, groundwater recovery and other water management programs approved by MWD. The Water Stewardship Rate will be charged for every acre-foot of water conveyed by MWD. Effective January 1, 2011, the Water Stewardship Rate is $41 per acre-foot.

System Power Rate: The System Power Rate will be charged on a dollar per acre-foot basis to recover the cost of power necessary to pump water from the SWP and Colorado River through the conveyance and distribution system for MWD's member agencies. The System Power Rate will be charged for all MWD supplies. Entities wheeling water will continue to pay the actual cost of power to convey water on the State Water Project, the Colorado River Aqueduct or the MWD distribution system, whichever is applicable. Effective January 1, 2011, the System Power Rate is $127 per acre-foot.

Treatment Surcharge: MWD will continue to charge a treatment surcharge on a dollar per acre-foot basis on treated deliveries. The treatment surcharge is set to recover the cost of providing treated water service, including capital and operating costs. Effective January 1, 2011, the Treatment Surcharge is $217 per acre-foot.

MWD Fixed Charges. In addition to the rates and charges discussed above, MWD also levies fixed charges on its member agencies. The Water Authority treats these charges as direct pass-through costs and allocates them to member agencies based upon water deliveries.

Capacity Reservation Charge: The CRC is a fixed charge levied on the maximum per day demand placed with the system by the member agency. Effective January 1, 2011, the CRC is $7,200 per cubic foot per second of maximum daily flow requested. The Water Authority's Board has directed that the CRC will be recovered proportionately based on a five-year rolling average of member agency flows during coincidental peak weeks. For the calendar year 2011 the charge is $9,204,480.

Readiness-to-Serve Charge: MWD's RTS charge is designed to recover the principal and interest payments on non-tax supported debt service issued to fund capital improvements necessary to meet continuing reliability and water quality needs associated with current demands. For fiscal year ended June 30, 2011 the Water Authority's RTS charge was $31,291,362.

MWD member agencies have the option to utilize MWD's existing standby charge as a means to collect their RTS charge. Standby charge collections are credited against the member agencies' RTS charges. The Water Authority has elected to collect a portion of its RTS charge through standby charges. The standby charge levied within the Water Authority's service area to finance the Water Authority's RTS obligation is presently $11.51 per parcel. These charges generated $12,745,381 in the fiscal year ended June 30, 2011. Standby charges are classified as assessments by the terms of Article XIIID of the California Constitution. See **CONSTITUTIONAL LIMITATIONS**.

The net RTS charge to the Water Authority for the fiscal year ended June 30, 2011 was $18,596,491, which included MWD's administrative fees, and was passed through to the Water Authority's member agencies. The net RTS charge is allocated among MWD member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation is revised each year.

Other MWD Levies and Impositions. MWD also levies ad valorem taxes on property within the Water Authority's service area, which MWD collects directly from San Diego County.

MWD Water Rate Challenge. On June 11, 2010, the Water Authority filed a lawsuit challenging MWD's water rates for 2011 and 2012. The litigation is currently pending in Superior Court in the County of San Francisco, California, Case No. CPF-10-510830. The suit alleges that MWD improperly overcharges for the transportation of water. The Water Authority is the single largest user of MWD transportation services. The Water Authority uses MWD facilities to transport conserved Colorado River water from IID and the lining of portions of the All□American and Coachella canals. The Water Authority has formally protested payment of MWD's rates after January 1, 2011 and has demanded that MWD escrow approximately $38 million pursuant to the agreement between the Water Authority and MWD for the transportation of the conserved Colorado River water. A trial date has not been set, but it is anticipated to occur in 2011.

Cost of IID Water

The rate charged for untreated IID water for calendar year 2011 is $818 per acre-foot inclusive of the MWD wheeling charge. The cost of the IID water consists of (1) the price paid to IID, and (2) the MWD charge for exchanging the transfer water at Lake Havasu for a like amount delivered to the Water Authority in its service area. On December 21, 2009 the Water Authority and IID settled a dispute over the price per acre-foot for conserved water and executed a Fifth Amendment to the Water Transfer Agreement. Pursuant to the amendment, the price per acre-foot for IID water (exclusive of MWD transportation charge) for calendar years 2012 through 2015 is as follows:

Calendar Year	Price per Acre-Foot
2012	$491
2013	540
2014	594
2015	624

For calendar years 2016 through 2034, the price per acre-foot will be based on the annual increase in the Gross Domestic Product Implicit Price Deflator as published by the Bureau of Economic Analysis of the United States Department of Commerce in the Survey of Current Business applied to the prior year price per acre-foot. Under the Fifth Amendment to the Water Transfer Agreement, the Water Authority paid IID $6,000,000 on December 31, 2009 and $50,000,000 on October 1, 2010. If a transfer stoppage occurs as a result of pending QSA litigation after the fifty million dollar payment is made, IID shall pay to the Water Authority the following amount, as identified on the table set forth below.

Transfer Stoppage Date	Amount of IID Repayment
2011	$32,000,000
2012	25,000,000
2013	20,000,000
2014	15,000,000
2015	12,000,000
2016	9,000,000
2017	6,000,000
2018	5,000,000
2019	5,000,000
2020	5,000,000
2021-2034	0

See **WATER AUTHORITY WATER SUPPLY – Quantification Settlement Agreement - Quantification Settlement Agreement Related Litigation**. Beginning in 2035, either the Water Authority or IID can, if certain criteria are met, elect a market rate price through a formula described in the Water Transfer Agreement. The 2011 adopted cost for MWD's exchange of water, or the wheeling rate, is $372 per acre-foot from January 1 through December 31, 2011. The adopted rate for 2012 is $396 per acre-foot from January 1 through December 31, 2012.

Future wheeling rates shall be equal to the charge set by MWD pursuant to applicable law and regulation generally applicable to the conveyance of water by MWD on behalf of its member agencies. See **Cost of MWD Water**.

See **INFORMATION CONCERNING THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA.**

Cost of Water Conserved from Canal Lining Projects

The Water Authority will not pay a supply cost for water received from the AACLP and CCLP; however, an estimated $10 per acre-foot will be necessary for operations and maintenance expenses at the canals. Any construction cost that exceeds State funding will be recovered in the Melded M&I Supply Rate. The total project cost of the CCLP was $129 million of which $84 million was available from the State General Fund and Proposition 50 funds. The total project cost for the AACLP was $319 million of which was $170 million was available from the State General Fund, Proposition 50 funds, and Proposition 84 funds. The Water Authority financed the costs that exceeded State funding on both canal lining projects. The Water Authority will pay MWD the same wheeling rate for this water as it will pay for the IID transfer water. See **WATER AUTHORITY WATER SUPPLY - Quantification Settlement Agreement.**

Cost of Seawater Desalination Water from Carlsbad Facility

In July 2010, the Water Authority and Poseidon agreed to a term-sheet that will serve as the foundation of a future water purchase agreement between the Water Authority and Poseidon. Contained within the term-sheet is a commitment by Poseidon to a unit cost for water from the facility at a price calculated to be $1,661 per acre-foot, in 2010 dollars. This price is subject to finalization of construction, operating, and financing costs and completion of the water purchase agreement. See **WATER AUTHORITY WATER SUPPLY – Future Water Supply – Supply Diversification.**

Fixed Rate Debt

The Water Authority has no voter-authorized general obligation water bonds and there are no authorized but unissued general obligation bonds of the Water Authority.

Prior Obligations comprised of 1997A Certificates, 1998A Certificates, 2002A Certificates, 2004A Certificates, 2005A Certificates, 2008A Certificates, 2010A Bonds and 2010B Bonds in aggregate principal amounts of $6,110,000, $11,685,000, $236,750,000, $425,000,000, $107,455,000, $558,015,000, $98,495,000, and $526,135,000, respectively, are currently outstanding. The 2011S-1 Bonds are Subordinate Obligations payable from Net Water Revenues on a basis subordinate to all outstanding fixed rate debt. See **WATER AUTHORITY DEBT**.

The Water Authority also expects to issue additional bonds in August 2011 that will constitute Prior Obligations payable from Net Water Revenues on a senior basis to the 2011S-1 Bonds for the purpose of refunding the Water Authority's obligations under certain of the outstanding Prior Obligations listed above. Such bonds are only to be issued to achieve debt service savings and not offered hereby.

Commercial Paper Program

The Water Authority's only form of variable rate debt outstanding consists of commercial paper notes, which were issued in an initial aggregate principal amount of $40,000,000 in November 1995 and are currently outstanding in the amount of $460,000,000, $360,000,000 aggregate principal amount of which will remain outstanding following the issuance of the 2011S-1 Bonds. The commercial paper notes are Subordinate Obligations under the General Resolution and are payable from Net Water Revenues on a basis subordinate to payment of the Prior Obligations. The Water Authority currently projects to commence the reduction of the amount of outstanding commercial paper in 2020.

The Water Authority has no interest rate exposure relating to auction rate securities. The Water Authority has not entered into any interest rate swap agreements or similar hedging arrangements with respect to its outstanding debt obligations, nor is it permitted to do so under its current debt management policy.

The following table sets forth the series of commercial paper notes to remain outstanding following issuance of the 2011S-1 Bonds, the provider of each line of credit supporting such series, the facility expiration date, and the principal component supported by each facility.

Series	Line of Credit Provider	Facility Expiration Date	Principal Amount of Notes Supported
1	Bayerische Landesbank, acting through its New York Branch	June 30, 2013	$110,000,000
4	Barclays Bank PLC	June 28, 2013	100,000,000
5	Wells Fargo Bank, National Association	June 27, 2014	100,000,000
6	Citibank, N.A.	June 27, 2014	50,000,000
Total			$360,000,000

The 2011S-1 Bonds are payable from Net Water Revenues on a parity with commercial paper notes and any obligations payable to the liquidity providers with respect thereto.

Future Financial Commitments Related to the QSA

The following future financial commitments of the Water Authority related to the QSA are all payable from Net Water Revenues on a subordinate basis to debt service on the 2011S-1 Bonds.

Socioeconomic Mitigation Payments. On May 8, 2007 the Water Authority and IID executed an agreement that settled all disputes related to the payment by the Water Authority for potential third-party socioeconomic impacts from the water transfer. The value of the settlement was $50 million, of which the Water Authority agreed to pay $40 million. The Water Authority has already paid $19.4 million into a fund for potential socioeconomic impacts and the remaining $20.6 million will be paid in equal annual installments of $2.94 million between 2011 and 2017. IID and the Water Authority recognize that in exchange for the commitments in the settlement agreement between the two parties, IID will remain solely responsible for any additional socioeconomic mitigation funding necessary to mitigate the impacts of the IID fallowing program for transfer of conserved water to the Water Authority and to mitigate impacts on the Salton Sea in connection with the water transfer should the SWRCB, the California Legislature, or any court order additional funding for such purpose.

Water Authority Prepayment for Water. Pursuant to the Revised Fourth Amendment to the Conserved Water Transfer Agreement between IID and the Water Authority, in December 2007 the Water Authority made a payment of $10 million to IID for future deliveries of water. Beginning in 2018 through the end of 2033, if not repaid sooner, IID will credit the Water Authority's monthly invoice $55,555.56 plus interest accrued after 2018.

QSA JPA Environmental Mitigation Payments. Pursuant to the QSA Funding Agreement, the Water Authority is scheduled to make annual payments through 2025 in support of the environmental mitigation requirements related to the QSA. See **WATER AUTHORITY WATER SUPPLY – Quantification Settlement Agreement**.

Financial Management Policies

In August 2006, the Board adopted two enhancements to the Water Authority's financial management policies. These policy enhancements are being phased-in over a three year period. The adopted enhancements include setting a 1.50x coverage target for senior lien debt service (1.00x coverage excluding capacity charges) and setting a new target and maximum fund balance for the Rate Stabilization Fund.

The new target for debt service coverage is designed to both enhance the Water Authority's credit ratings and increase the cash funding of the CIP. As a result of the increased cash funding of the CIP, the Water Authority anticipates cash will be used to fund approximately 23 percent of the projected CIP expenditures. Due to short term volatility in water sales, the Water Authority does not expect to return to the target level of 1.50x until fiscal year ended June 30, 2014.

The Rate Stabilization Fund is designed to mitigate the negative financial impacts of decreased water sales resulting from wet weather. The enhanced Rate Stabilization Fund target balance is equal to the negative financial impact of 2.5 years of wet weather and the maximum fund balance is set equal to the negative financial impact of 3.5 years of wet weather. The Rate Stabilization Fund is also available to be used to mitigate the impact of extraordinary conservation efforts. As of June 30, 2010, the Water Authority had approximately $43.43 million on deposit in the Rate Stabilization Fund and had a target Rate Stabilization Fund balance of approximately $55.1 million. A draw of approximately $5.4 million is anticipated for the fiscal year ended June 30, 2011, reducing the projected fund balance to approximately $38.1 million. The Rate Stabilization Fund provides financial protection against drought-induced reductions in water sales as well. While the Water Authority is not obligated to maintain any funds in the Rate Stabilization Fund, achieving the target level is a long-term goal.

Cash and Investments

The Water Authority's cash and investments are segregated by restricted and unrestricted amounts. Restricted cash and investments include the Pay-as-You-Go, Bond and Debt Service Reserve funds. At June 30, 2010, the breakdown between restricted and unrestricted amounts is as follows:

Current assets:	
Cash and investments	$ 96,667,087
Restricted cash and investments	565,858,310
Total current assets	$ 662,525,397
Noncurrent assets:	
Cash and investments	$ 37,678,064
Restricted cash and investments	216,097,708
Total noncurrent assets	$ 253,775,772
Total cash and investments	$ 916,301,169

See **APPENDIX A - WATER AUTHORITY FINANCIAL STATEMENTS.**

Investment Policy

The investment policies and practices of the Board of Directors and the Treasurer of the Water Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

1. To assure compliance with all Federal, State and local laws governing the investment of monies under the control of the Treasurer.

2. To protect the principal monies entrusted to the Water Authority.

3. To generate the maximum amount of investment income within the parameters of the Water Authority's Annual Statement of Investment Policy.

The primary objectives of the Water Authority's investment policy are:

- Safety
- Liquidity
- Yield (after the basic requirements of safety and liquidity have been met)
- Public trust (participants in the investment process are custodians of the public trust)

The Board of Directors reviews and amends the Water Authority's investment policy from time-to-time.

HISTORICAL OPERATING RESULTS

Water Authority Revenues

Water Sales Revenues. The following table provides the total water sales by the Water Authority during the fiscal years ended June 30, 2006 through June 30, 2010 that resulted in the water sales revenue in the "Gross Receipts from Water Authority Water Sales" table.

HISTORICAL WATER AUTHORITY WATER SALES

Fiscal Years Ended June 30	Water Authority Water Sales (af)
2006	581,214
2007	660,455
2008	613,095
2009	557,762
2010	490,829

The following table provides a summary of the Water Authority's gross receipts from water deliveries to member agencies for the fiscal years ended June 30, 2006 through June 30, 2010.

GROSS RECEIPTS
FROM WATER AUTHORITY WATER SALES[1]
Fiscal Years Ended June 30
(In Thousand Dollars)

MEMBER AGENCY	2006	2007	2008	2009	2010
Carlsbad M.W.D.	$ 12,520	$ 13,862	$ 11,751	$14,281	$ 16,194
Del Mar, City of	679	760	738	740	838
Escondido, City of	11,322	13,764	15,250	12,810	14,811
Fallbrook P.U.D.	8,418	9,499	8,153	9,738	10,972
Helix W.D.	16,286	20,062	21,163	27,076	21,472
Lakeside W.D.[2]	0	1,331	2,511	2,953	3,135
Oceanside, City of	16,056	18,001	18,253	18,984	19,668
Olivenhain M.W.D.	11,212	12,083	15,923	14,157	14,279
Otay W.D.	24,327	25,709	21,129	26,211	29,330
Padre Dam M.W.D.[2]	11,848	11,694	9,243	10,670	11,555
Pendleton Military Reservation	44	59	38	63	63
Poway, City of	7,297	7,962	8,090	8,431	7,733
Rainbow M.W.D.	14,003	15,986	14,149	16,989	18,823
Ramona M.W.D.	5,932	5,933	6,124	5,367	6,155
Rincon del Diablo M.W.D.	4,771	5,191	3,973	5,478	5,809
San Diego, City of	100,761	117,018	124,187	121,901	140,194
San Dieguito W.D.	2,985	2,990	2,644	2,356	1,958
Santa Fe I.D.	5,397	5,822	5,135	5,060	4,746
Sweetwater Authority [3]	2,869	4,490	6,605	6,430	9,900
Vallecitos W.D.	11,307	13,212	13,155	14,081	15,114
Valley Center M.W.D.	20,860	24,276	20,670	22,441	25,505
Vista I.D.	8,390	11,402	12,314	11,250	13,145
Yuima M.W.D.	1,358	1,552	1,849	1,311	2,041
Total [4]	$ 298,642	$ 342,658	$ 343,047	$ 358,778	$ 393,440

[1] Gross sales represent total water sales invoiced less adjustments for certain items such as agricultural and reclaimed water, treatment credits, and infrastructure access charges,

[2] Padre Dam M.W.D. was reorganized into Padre Dam M.W.D. and Lakeside W.D. in 2007.

[3] Represents sales to the City of National City and South Bay I.D. for which Sweetwater Authority acts as purchasing agent.

[4] In addition to the total water sales revenue shown, in some years the Water Authority has also received a minor amount of revenues from adjacent water districts that provide water to customers within the Water Authority's service area under operating agreements. These revenues are not included in this chart.

Water Standby Availability Charges. Total revenues from Water Standby Availability Charges for fiscal years ended June 30, 2009 and June 30, 2010 were $11,311,384 and $11,240,386, respectively.

System Capacity Charges. In 1989, the Act was amended to give the Water Authority the power to fix and impose capacity charges upon each member agency within the Water Authority or upon the ultimate users of water delivered by the Water Authority to the member agency. It is the policy of the Board that revenues from this source will be restricted to pay construction expenditures under the CIP and to pay debt service. The current capacity charge is $4,326 per connection under one inch. A factor, depending on the size of the larger meter, is applied to such base charge to determine the cost of each larger meter. Total revenues from Treatment Capacity Charges collected for fiscal years ended June 30, 2009 and June 30, 2010 were $12,805,268 and $9,909,451, respectively.

Treatment Capacity Charges. In May 2005, the Board also approved the creation of a Treatment Capacity Charge to help fund the Water Authority's regional water treatment facility. The charge recovers a portion of the capital costs from the future users of the facility. Total revenues from treatment capacity charges collected for fiscal years ended June 30, 2009 and June 30, 2010 were $460,340 and $389,477, respectively.

Infrastructure Access Charges. The IAC charges collected for fiscal years ended June 30, 2009 and June 30, 2010 were $19,389,790 and $21,241,060, respectively.

Non-Operating Revenues. Total revenues from hydroelectric sales for the fiscal years ended June 30, 2009 and June 30, 2010 were $1,012,373 and $1,208,178, respectively. Other operating revenues from fiscal years ended June 30, 2009 and June 30, 2010 totaled $1,736,181 and $950,738, respectively.

Property Tax Revenues. Ad valorem tax revenues allocated to the Water Authority by the County, net of payments to the State's Educational Revenue Augmentation Fund and refunds for the fiscal years ended June 30, 2009 and June 30, 2010 totaled $8,760,552 and $8,341,559, respectively. In-lieu revenue for the fiscal years ended June 30, 2009 and June 30, 2010 totaled $1,706,932 and $1,630,065, respectively.

Operating Expenses and Depreciation and Amortization

The primary component of the Water Authority's operating expenses consists of the cost of water sales. The cost of water sales primarily consists of water purchases from MWD and IID. For the fiscal years ended June 30, 2009 and June 30, 2010, the cost of water sales was $269,835,859 and $291,385,187, respectively. The balance of operating expenses consists of operations and maintenance, planning and reclamation and general and administrative costs. For the fiscal years ended June 30, 2009 and June 30, 2010, these costs totaled $42,723,519 and $39,395,044, respectively. Depreciation and amortization charges for the years ended June 30, 2009 and June 30, 2010 totaled $30,038,388 and $30,657,250, respectively.

Summary of Historical Operating Results

The following table summarizes the Water Authority's operating revenues, operating expenses and net revenues for the five fiscal years ended June 30, 2006 through June 30, 2010. Depreciation and amortization expenses are neither operating expenses nor debt service and are not reflected in the table. The operating revenues, operating expenses and net water revenues in each of said fiscal years shown are derived from the Financial Statements of the Water Authority. The Financial Statements of the Water Authority for the years ended June 30, 2010 and June 30, 2009 and the report thereon of Lance, Soll & Lunghard L.L.P., Independent Auditors, are included as Appendix A to this Official Statement. The following table should be read in conjunction with such Financial Statements. Lance, Soll & Lunghard L.L.P. have not reviewed the following table.

The Water Authority experienced a dramatic decrease in the volume of water sales during the fiscal year ended June 30, 2010 relative to the fiscal year ended June 30, 2009, as a result of extraordinary regional water conservation efforts. Nevertheless, water sales revenues increased by $27.9 million or 8% during the same period, as a combined result of increases in rates and charges, including a mid-year rate increase in September 2009, and a significant level of fixed charges that result in a revenue stream that is less sensitive to changes in sales volumes. Operating expenses increased by $18.2 million or 6% during the same period, primarily as a result in the increase in the cost of water, which was offset by $2.4 million in operating budget reductions and eliminating purchases of dry-year transfer water. These actions enabled the Water Authority to achieve the Board's target senior lien debt service coverage of 1.50x.

Debt Service Coverage has been calculated in accordance with the provisions of the General Resolution, which excludes deposits to the RSF from Water Revenues and includes withdrawals from the RSF as Water Revenues. In fiscal years ended June 30, 2009 and June 30, 2010 no transfers were made from the RSF. The Debt Service Coverage ratios for fiscal years ended June 30, 2009 and June 30, 2010 were 1.50x and 1.50x, respectively.

HISTORICAL OPERATING RESULTS
(In Thousand Dollars)*
(Fiscal Years Ended June 30)

	2006	2007	2008	2009	2010
Operating Revenue					
Water Sales [1]	$299,084	$343,082	$343,456	$359,952	$387,871
Water Standby Availability Charge	10,942	11,140	11,256	11,311	11,240
Capacity Charges	33,870	31,081	23,884	13,266	10,299
Infrastructure Access Charges [2]	13,864	16,188	17,458	19,390	21,241
Total Operating Revenue	**357,760**	**401,491**	**396,054**	**403,919**	**430,651**
Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund	3,762	(5,680)	3,866	—	—
BABs Interest Rate Subsidy [3]	—	—	—	—	4,615
Non-Operating Revenue [4]	12,521	14,301	14,084	8,268	4,372
Total Revenues [5]	**374,043**	**410,112**	**414,004**	**412,187**	**439,638**
Operating Expenses [6]					
Costs of Sales	233,690	266,349	262,538	269,836	291,385
Other Maintenance & Operations Costs [7]	29,635	34,524	36,919	42,724	39,395
Total Operating Expenses	**263,325**	**300,873**	**299,457**	**312,560**	**330,780**
Application of Net Tax Receipts	4,054	8,590	10,303	10,467	9,972
Net Operating Expenses	259,271	292,283	289,154	302,093	320,808
Net Water Revenue Available for Debt Service	**114,772**	**117,829**	**124,850**	**110,094**	**118,830**
Revenue Supported Debt Service [8]					
1993A Certificates	14,344	14,393	14,395	14,352	—
1997A Certificates	21,221	21,692	20,864	1,358	1,358
1998A Certificates	2,930	2,930	2,930	2,732	1,347
2002A Certificates	18,347	18,343	18,345	18,343	18,342
2004A Certificates	20,929	20,929	20,929	20,929	20,929
2005A Certificates	5,581	5,581	5,581	5,581	5,581
2008A Certificates	—	—	—	9,767[9]	26,291[10]
2010A&B Bonds	—	—	—	—	5,585[10]
Total Prior Obligation Debt Service	**83,352**	**83,868**	**83,044**	**73,062**	**79,433**
Subordinate Obligation Payments [11]	3,514	4,402[12]	3,536[13]	7,071	3,197
Balance Available After Debt Service and Subordinate Obligation Payments	**27,906**	**29,559**	**38,270**	**29,961**	**36,200**
Prior Obligation Debt Service Coverage Ratio (Per General Resolution)	1.38x	1.40x	1.50x	1.50x	1.50x
Prior Obligation Debt Service Coverage Ratio (Build America Bonds adjustment)[14]	1.38x	1.40x	1.50x	1.50x	1.53x
Prior Obligation Debt Service and Subordinate Obligation Coverage Ratio [15]	1.32x	1.33x	1.44x	1.36x	1.44x

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* Some amounts are prepared on a basis other than the generally accepted accounting principles.

1 Water sales represent accrued sales to member agencies, as well as a small amount of revenues from the treatment of raw water and certain miscellaneous income items. See **Water Sales Revenue**.

2 Infrastructure access charge was implemented January 1999 and is levied on retail water meters within the service area. See **Infrastructure Access Charge**.

3 Build America Bonds receive a 35 percent subsidy of interest payable from the United States Treasury.

4 Non-operating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds and the Rate Stabilization Fund) and other revenues (hydroelectric sales, penalties, etc.).

5 Total revenues include amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property taxes, contributions in aid of capital assets, and CIP grant reimbursements.

6 Operating expenses exclude depreciation and amortization expenses.

7 Includes operations, maintenance, planning, and general and administrative costs; excludes capital equipment purchases.

8 Includes only debt service on Water Authority indebtedness payable from net water revenues. Senior lien debt service does not include trust fees.

9 Excludes $18,023,409 interest payment on 2008A COPs which was paid with bond proceeds.

10 Excludes $1,500,000 interest payment on the 2008A COPs and $9,530,000 interest payment on the 2010A & B Bonds, which was paid with bond proceeds.

11 Includes the commercial paper (CP) program interest costs and program fees. No other subordinate debt was outstanding.

12 Excludes $7,995,111 interest payment on 2006 CP which was paid with commercial paper proceeds.

13 Excludes $9,783,772 interest payment on 2006 CP which was paid with commercial paper proceeds.

14 Adjusted to treat federal interest subsidy payments for Build America Bonds as a reduction in Debt Service rather than as an addition to Other Revenues. See **SECURITY AND SOURCES OF PAYMENT – Rate Covenant**.

15 Coverage ratios do not include program fees.

PROJECTED OPERATING RESULTS

The Water Authority's Long-Range Financing Plan ("LRFP") serves as the financial foundation supporting the long-term strategic objectives of the Water Authority to deliver a safe and reliable water supply to member agencies. The development and update of the LRFP is a collaborative process involving significant member agency input and review at both the staff and Board levels. The LRFP is based upon the Water Authority's Facilities Master Plan and provides long-term forecasts of revenues and expenditures for both operating and capital investment activities. It also contains detailed discussions of fund policies and investment objectives, capital financing sources and strategies, reserve policies, and sensitivity analyses. The LRFP was last updated and adopted by the Board in April 2008 and serves as the foundation for the capital financing plan incorporated into the projections presented herein. The LRFP is not part of this Official Statement and is not incorporated by reference herein.

In addition to the LRFP, the Water Authority has a long history of financial planning activities. In January 2007, the Water Authority's Board of Directors created the Comprehensive Reliability and Cost Assessment Ad-Hoc ("CRACA") Committee to review the CIP and analyze the impact of CIP changes on water supply reliability and rates and charges. The CRACA Committee evaluated each CIP project based upon its contribution to system reliability and cost. Projects identified with a low impact on reliability and a high cost were considered for re-prioritization, deferral or removal from the CIP. The CRACA Committee also developed a comprehensive set of assumptions to be used for planning purposes. These assumptions include conservation, development of local supplies, water sales, population and others. The Committee's findings and recommended CIP scenario was adopted by the Water Authority's Board of Directors in March 2007.

In mid-2008, in response to the extraordinary water supply and economic conditions facing the Water Authority, the CRACA Committee reconvened to develop early guidance on future rate and charge levels to support Water Authority and member agency financial planning. Since the 2004 Master Plan was validated during the 2007 CRACA process, the CRACA "Lite" scope was narrowed to focus on supply related issues, re-costing major CIP projects, project scheduling and updating the other foundational assumptions, specifically MWD's rates and charges. At the time this process was initiated, there was significant uncertainty regarding water supply and MWD rates and charges. Therefore, the CRACA Committee developed a high and a low rate scenario to bookend the potential outcomes. In February 2009, the Board adopted the Committee's recommendation for using the high rate scenario for the development of the fiscal years 2010 and 2011 Recommended Budget and calendar year 2010 rates and charges.

In late 2010, in response to the continued economic downturn, prolonged drought, water supply challenges facing the region and significant reductions in water demands, the CRACA Committee was reconvened to review the CIP program again. The focus of this review was on the impact water demand may have on the need to construct certain new facilities and to identify any that could be re-prioritized. Based upon their review, the Committee recommended that 14 projects or approximately $150 million in CIP expenditures be delayed so as to better align construction with the need for the project.

In addition to the latest CRACA activities, high/low rate and charge forecasts were developed in February 2011 to support member agency financial planning efforts. The high/low rate and charge forecasts were based upon varying CIP expenditure and water sales levels and MWD rate and charge increases. The projections presented here include the deferral of the 14 CIP projects and a combination of the high/low rate and charge assumptions. The projections also reflect the Water Authority's budget for fiscal years ending June 30, 2012 and June 30, 2013, adopted in June 2011.

The following table showing the projection of Water Authority revenues, expenses and debt service coverage for the five-year period ending June 30, 2015, to reflect the terms of the 2011S-1 Bonds and the refunding described in **FINANCING PLAN,** has been prepared by the Water Authority and reflects certain significant assumptions. It is based upon the Water Authority's judgment of the most probable occurrence of certain important future events and upon certain information provided to it. The assumptions described below are material in the development of the Water Authority's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the projection and such variations may be material. The Water Authority's independent auditors, Lance, Soll & Lunghard, L.L.P., have not examined, reviewed, or compiled the accompanying projections and accordingly, they assume no responsibility for such projections.

PROJECTED OPERATING RESULTS
(In Thousand Dollars)
(Fiscal Years Ending June 30)

	2011	2012	2013	2014	2015
Operating Revenue					
Water Sales[1]	$ 366,677	$ 434,684	$ 509,118	$ 607,676	$ 663,807
Water Standby Availability Charge	11,170	11,105	11,128	11,162	11,196
Capacity Charges[2]	10,363	10,576	10,789	11,005	11,225
Infrastructure Access Charges[3]	24,508	27,700	29,278	31,526	34,017
Total Operating Revenue	**412,718**	**484,065**	**560,313**	**661,369**	**720,245**
Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund	5,350	-	-	(8,710)	(24,554)
BABs Interest Rate Subsidy[4]	11,303	11,303	11,303	11,303	11,303
Non-Operating Revenue[5]	5,441	4,993	6,422	10,377	14,998
Total Revenues[6]	**434,812**	**500,361**	**578,038**	**674,339**	**721,992**
Operating Expenses[7]					
Cost of Sales[8]	261,211	308,237	358,631	436,080	480,522
Other Maintenance & Operations Costs[9]	43,217	45,909	47,112	48,526	50,341
Total Operating Expenses	**304,428**	**354,146**	**405,743**	**484,606**	**530,863**
Application of Net Tax Receipts	10,423	10,374	10,582	10,794	11,009
Net Operating Expenses	294,005	343,772	395,161	473,812	519,854
Net Water Revenue Available for Debt Service	**140,807**	**156,589**	**182,877**	**200,527**	**202,138**
Revenue Supported Debt Service[10]					
1997A Certificates	18,690	6,403	-	-	-
1998A Certificates	555	555	555	555	555
2002A Certificates	18,341	18,339	18,335	18,332	18,326
2004A Certificates	20,929	20,929	20,929	20,929	20,929
2005A Certificates	5,581	17,208	17,127	16,852	17,113
2008A Certificates	26,291	29,643	36,776	38,181	38,071
2010A&B Bonds	13,807	16,227	37,017	38,587	39,514
Additional Prior Obligations	-	-	-	-	-
Total Prior Obligation Debt Service	**104,194**	**109,304**	**130,739**	**133,436**	**134,508**
Subordinate Obligation Payments[11]	8,362	8,325	11,200	14,075	18,098
Balance Available After Debt Service and Subordinate Obligation Payments	**28,251**	**38,960**	**40,938**	**53,016**	**49,532**
Prior Obligation Debt Service Coverage Ratio (Per General Resolution)	1.35x	1.43x	1.40x	1.50x	1.50x
Prior Obligation Debt Service Coverage Ratio (Build America Bonds adjustment)[12]	1.39x	1.48x	1.44x	1.55x	1.55x
Prior Obligation Debt Service and Subordinate Obligation Coverage Ratio[13]	1.31x	1.37x	1.32x	1.39x	1.36x

[1] See **Water Sales Revenue** for water-sales and water-rate projects.
[2] Includes System Capacity Charge and Treatment Capacity Charge revenues.
[3] See **Infrastructure Access Charge** for an explanation of this charge.
[4] Build America Bonds receive a 35 percent subsidy of interest payable from the United States Treasury.
[5] Non-operating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds and the Rate Stabilization Fund) and other revenues (hydroelectric sales, penalties, etc.).
[6] Total revenues include amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property taxes, contributions in aid of capital assets and CIP grant reimbursements.
[7] Operating expenses exclude depreciation and amortization expenses.
[8] Reflects the Water Authority's MWD rate estimates and includes the operating costs of the Water Authority's Twin Oaks Valley Water Treatment Plant.
[9] Excludes the operating costs of the Water Authority's Twin Oaks Valley Water Treatment Plant and minor capital equipment purchases.
[10] Excludes trustee fees and capitalized interest on 2010A&B Bonds and Additional Prior Obligations..
[11] Includes debt service on 2011S-1 Bonds and assumed debt service on Commercial Paper Notes, including interest on Commercial Paper Notes and program fees.
[12] Adjusted to treat federal interest subsidy payments for Build America Bonds as a reduction in Debt Service rather than as an addition to Other Revenues. See **SECURITY AND SOURCES OF PAYMENT – Rate Covenant.**
[13] Includes assumed debt service on 2011S-1 Bonds and Commercial Paper Notes in accordance with the Water Authority's current financial projections. Coverage ratios do not include program fees.

Projected Operating Revenue

Water Sales Revenue. Projected water sales revenue is based on the amount of water projected to be purchased by member agencies from the Water Authority and the prices charged by the Water Authority for such water. The forecast of water sales has taken into consideration estimates made by MWD about the availability of water supplies for delivery to its member agencies, including the Water Authority, and considers the water available through the contractual commitments of the QSA. See **WATER AUTHORITY WATER SUPPLY – Quantification Settlement Agreement – Quantification Settlement Agreement Related Litigation**.

Fiscal year ended June 30, 2011 proved to be a challenging year. Having recorded the 5th coolest July since the 1930's and the 9th wettest December since 1850, water sales have significantly lagged projections. Water sales for fiscal year 2011 are projected to be 410,320 acre-feet, which marks a 16 percent decrease in total sales from the fiscal year ended June 30, 2010. In an effort to mitigate the financial impact of the reduced water sales in fiscal year ended June 30, 2011, the Water Authority has executed cost saving measures. The financial projections are based upon the updated fiscal year ended June 30, 2011 water sales projections.

On April 12, 2011, the MWD Board of Directors determined that supply allocation was no longer warranted for fiscal year ended June 30, 2011 and the fiscal year ending June 30, 2012 and elected to terminate, effective April 13, 2011, implementation of the 2010/2011 Water Supply Allocation Plan Level 2 and the Condition 3 – Water Supply Allocation declaration. In addition, the 2011 IAWP reductions were lifted. These actions ended the longest period of water allocation in MWD's long history.

While the region's water supply picture has brightened due to the removal of drought restrictions and above average snowfall in California and the Colorado River Basin, the long term impact of the region's recent water conservation efforts is unclear. Because it is unlikely that water demands will immediately rebound to their pre-drought levels, water sales projections incorporate gradual recovery in water sales. The projections also include a structural change in the region's water demands as a result of behavioral changes that resulted in response to the conservation efforts. This recalibrates the water sales projections to fiscal year ended June 30, 2010 sales, which is seen as the new baseline for the future average water demands.

On June 23, 2011, the Water Authority's Board of Directors approved a 7.7% increase in the cost of treated water purchased by member agencies in calendar year 2012. Rates and charges for calendar year 2013 will be in spring 2012.

The largest determinant of the Water Authority's long-term projected water sales is expected demand from its member agencies. The demand forecast includes both M&I water demand and agricultural water demand. For M&I demand, which accounts for approximately 90 percent of total water demand within the Water Authority's service area, the Water Authority uses a computer model developed by Planning and Management Consultants, Ltd. ("PMCL"), to forecast sectorial based regional water demands. The "CWA-MAIN," model utilizes data from the SANDAG's 2030 Regional Forecast, including number of persons per household by housing type, housing density, household income and employment counts by major industry group. This demographic and economic data are used by the model to compute water demand trends anticipated to occur in the Water Authority's service area over the next 20 years. The model also includes assumptions concerning pricing and water conservation in the post-1990 period. The Water Authority anticipates below normal demands in the fiscal year ended June 30, 2011 and the fiscal year ending June 30, 2012 as a result of (1) above average local supplies due to above average rainfall and (2) the residual impacts of the recent conservation efforts and rate increases on residential water demand.

Agricultural water demand accounts for approximately ten percent of total water demand within the Water Authority's service area. See **MEMBER AGENCY WATER USAGE – Agricultural Water Usage**. Since the early 1990s, agricultural demands have ranged from a low of 43,515 acre-feet in fiscal year ended June 30, 2010, to over 100,000 acre-feet in fiscal year ended June 30, 2004. Agricultural water demand projections for the Water Authority's service area were developed by PMCL. Forecast estimates were based on SANDAG land use projections, crop-type distribution data from DWR, and regional crop water use coefficients. In addition, MWD implemented a 30 percent cutback on IAWP deliveries on January 1, 2008. Subsequent to the cutbacks, MWD began to the phase-out of the IAWP. As part of the phase-out, IAWP customers are able to opt out of the program at the start of each calendar year and become M&I customers. The Water Authority's Tier 1 allocation was modified to reflect the IAWP opt outs. IAWP customers that opt out of the program may enter the Water Authority's

Transitional SAWR program. Although the IAWP cutbacks were eliminated as part of MWD's April actions, the projected agricultural water demands through December 30, 2012 include reductions in demand as a result of conservation efforts. All agricultural projected water demands include the cutbacks through 2010 and are projected to remain stable through 2020.

The following table provides the total water demand forecast used to project water sales revenue in the "**Projected Operating Results**" table above. The projected decrease between actual fiscal year ended June 30, 2010 and forecasted fiscal year ended June 30, 2011 Water Authority sales is attributable to both weather and conservation efforts. In January 2011, the water sales forecast was updated to reflect the impact of both demand and weather on fiscal year 2011 water sales. The revised sales forecast is shown in the table below and incorporated into the financial projections provided above.

PROJECTED WATER AUTHORITY WATER SALES[1]

Fiscal Years Ended June 30	Water Authority Water Sales (af)
2011	410,320
2012	434,785
2013	465,956
2014	486,704
2015	504,959

[1] Water sales projections shown are those used in most recent rate setting analyses.

The water sales revenue projection is also based on Water Authority water rates charged per acre-foot and through fixed charges by the Water Authority for each fiscal year of the projection period. The Water Authority melds the cost of water purchases from MWD and IID and adds an additional component to provide the balance of revenues not provided through other rates and charges to finance its operating and capital costs. The charges for water purchased from MWD have varied over recent years, and the current charges are $527 per acre-foot for untreated non-interruptible water and $744 per acre-foot for treated non-interruptible water. The projection assumes the MWD rate structure beginning in calendar year 2011 and assumes an annual increase that reflects supply and future infrastructure investments (e.g. Bay-Delta improvements). Current indications are that the Water Authority will be able to purchase the majority of its water at MWD's Tier 1 rate. Projections assume that approximately 50 percent of the water sold is treated water sales. Furthermore, with the Water Authority's Twin Oaks Valley Water Treatment Plant in operation, treated water purchases from MWD are projected to be significantly lower than in the past. The Water Authority expects that it will also pay $8.8 million as an MWD Capacity Charge annually.

The Water Authority's Transportation Rate for calendar year 2011 is set at $75 per acre-foot, and its fixed Customer Service and Storage Charges are set at $23.2 million and $44.3 million respectively, for calendar year 2011. By the end of the projection period, the Transportation Rate is projected to be $110 per acre-foot, and the Customer Service and Storage Charges are projected at $32.3 million and $77.6 million, respectively.

If water sales, or other expected revenues, should be less than required to meet the Water Authority's financial obligations, the Water Authority expects to use monies in the Rate Stabilization Fund and, if necessary, to increase its water rates.

Water Standby Availability Charges. The number of acres or parcels to which the Water Standby Availability Charges apply is projected based upon fiscal year ended June 30, 2010 collections and the SANDAG 2020 population forecast, indicating housing units and non-residential developed acres. Water standby availability charge collections for the fiscal year ended June 30, 2010 were $11.2 million. Water standby availability charges are projected to be relatively flat through fiscal year ending June 30, 2015.

Capacity Charges. In fiscal year ended June 30, 2006, the capacity charge revenue, which includes the System Capacity and the Treatment Capacity charges revenue, peaked at $33.9 million and subsequently has plummeted. For fiscal year ending June 30, 2010 capacity charge revenue was $10.3 million. Capacity charge

revenue is projected to stabilize in the fiscal year ended June 30, 2011 at $10.3 million. Capacity charge revenues are then projected to slowly recover and generate approximately $11.2 million in the fiscal year ending June 30, 2015. The capacity charges are expected to be administratively adjusted annually for regional inflation.

Infrastructure Access Charge. The IAC is based upon the total household meter equivalents within each member agency service area as of December 31st of the previous year. The intent of the IAC is to provide the Water Authority with the balance of "fixed" revenues required to generate a 25 percent ratio of fixed revenues to fixed expenditures, taking into account the Water Authority's existing fixed revenues produced by the Water Standby Availability Charge and property taxes. The Water Authority's Infrastructure Access Charge was set at $1.00 per meter equivalent per month at its inception on January 1, 1999. The IAC is currently set at $2.49 per meter equivalent and is expected to generate approximately $24.5 million in the fiscal year ended June 30, 2011, and is expected to increase to $34.0 million by the end of the forecast period in the fiscal year ending June 30, 2015. Increasing debt service and operating expenses will increase the amount of revenues required to be generated by the IAC, increasing this charge to approximately $3.22 per meter equivalent per month by the end of the forecast period.

Other Operating Revenues. An additional hydroelectric facility is expected to come on line in early fiscal year ending June 30, 2012. The facilities will generate additional revenue, bringing the total hydroelectric revenues to $2.8 million by the fiscal year ending June 30, 2015. Total Other Operating Revenues is projected to reach $4.0 million by the fiscal year ending June 30, 2015.

Non-Operating Revenue. Non-operating revenue consists of revenues derived from the investment of Water Authority funds, including the proceeds of debt issuances. This revenue is based upon conservative investment earnings rates and projected fund balances during the projection period.

Property Tax Revenues. Tax revenues are used to offset certain operating expenditures of the Water Authority. The net tax revenues and in-lieu charges were $10 million for the fiscal year ended June 30, 2010 and are expected to grow to $11.0 million by the fiscal year ending June 30, 2015.

Rate Stabilization Fund Transfers. The Rate Stabilization Fund ("RSF") was established for the purpose of avoiding fluctuations in the water rate. A $5.4 million draw on the RSF is planned for the fiscal year ended June 30, 2011, reducing the projected balance to $38.1 million. Beginning in the fiscal year ending June 30, 2014, the Water Authority is projecting deposits to replenish the fund balances.

Projected Operating Expenses

MWD Water Purchases. The Water Authority purchases its water from MWD at rates set by MWD. The Water Authority passes MWD water costs through to member agencies and adds its additional water supply rate component. MWD's calendar year 2011 rate is $527 per acre-foot of untreated non-interruptible water and $744 per acre-foot of treated non-interruptible water. The MWD water purchases reflect the calendar year 2012 average rate increase of 7.5% adopted by MWD's Board in April 2010.

The Water Authority assumes in its projections that approximately one half of the water sold is treated water. With the commissioning of the Water Authority's Twin Oaks Valley Water Treatment Plant, treated water purchases from MWD are projected to decrease significantly. Historically, 90 percent of the Water Authority's treated water was supplied by MWD. Looking forward, more untreated water will be purchased from MWD and treated at the Water Authority's new treatment facility. This lowers the percent of treated water supplied by MWD to 44 percent in calendar year 2015. This reduction in MWD treated water purchases lowers the projected cost of MWD water but increases the Water Authority's costs, which includes the cost of operating the new treatment facility. Because of the MWD's recent rate volatility, only limited rate and charge projections data is available from MWD. As a result, the Water Authority Water projects MWD's rates and charges based upon supply and infrastructure cost projections.

In addition to the cost of water based upon MWD water rates, MWD also charges its member agencies a Readiness-to-Serve Charge and a Capacity Charge.

The Readiness-to-Serve Charge ("RTS Charge") is a fixed charge based upon average historical water purchases by MWD member agencies. The charge is offset each year by the amount of MWD standby charge

collected within the Water Authority's service area to produce a "net" RTS Charge payable by the Water Authority as part of purchased water costs. The Water Authority also passes this charge through to its member agencies based upon the identical calculation methodology used by MWD to apportion the charge among its member agencies. The table provided below provides a projection of the RTS Charge payable by the Water Authority over the next five fiscal years. The net RTS Charge also includes administrative costs imposed by MWD.

PROJECTED MWD READINESS-TO-SERVE CHARGE
PAYABLE BY THE WATER AUTHORITY

Fiscal Years Ending June 30	Gross RTS	MWD Assessed Standby Credit	Net RTS Charge
2011	$31,291,362	$(12,694,871)	$18,596,491
2012	34,608,890	(12,678,803)	21,930,087
2013	35,647,157	(12,805,591)	22,841,566
2014	36,716,571	(12,933,647)	23,782,924
2015	37,818,069	(13,062,983)	24,755,086

Cost of IID Water. The cost of IID water is projected to be $1,128 per acre-foot by the fiscal year ending June 30, 2015, including MWD wheeling charges.

Cost of All-American Canal Lining Project and Coachella Canal Lining Project Water. The cost of water from the canal lining projects is projected to be $516 per acre-foot by the fiscal year ending June 30, 2015, including MWD wheeling charges.

Other Maintenance and Operations Costs. Other Water Authority operating expenses, consisting of system operations and maintenance, planning and general and administrative costs are projected to be approximately $43.2 million in the fiscal year ended June 30, 2011, which includes $3.6 million in programmatic and short-term operational cost saving measures to mitigate the impact from reduced water sales. Costs are expected to increase to $45.9 million in the fiscal year ending June 30, 2012 adopted budget due to the operating costs associated with the Lake Hodges Pumped Storage facility. Future increases due to inflation and the operation of the Water Authority's ESP are projected increasing other operating expenditures to $50.3 million in fiscal year ending June 30, 2015.

Debt Service. During the five-year projection period, the Water Authority plans on utilizing the remaining proceeds of the 2008A Certificates, the 2010A Bonds and the 2010B Bonds to fund the majority of CIP expenditures. Over the projection period, long and short term debt (including existing debt) are expected to fund approximately $580.5 million and $31.5 million of capital over the projection period, respectively. The "Projected Operating Results" table reflects the debt service impact of anticipated new long-term debt issuance. Interest on the anticipated long-term debt issues is projected to be fully capitalized during construction periods to levelize annual debt service.

In addition to the projections provided in this section, the Water Authority expects to continue the financing of its CIP, including the ESP, through a combination of funds, including proceeds derived from the sale of long-term fixed rate debt, variable rate debt and cash generated from Water Authority operations. Overall, the Water Authority plans to fund approximately 23 percent of its $3.52 billion CIP with cash and the balance from a combination of long-term fixed rate debt, short-term debt and variable rate debt. The financial projections included in this Official Statement reflect a long-term adherence to the overall funding ratio, rather than an attempt to maintain this ratio of funding in individual years.

CONSTITUTIONAL LIMITATIONS

Article XIIIA

The taxing powers of California public agencies are limited by Article XIIIA of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIIIA limits the maximum ad valorem tax on real property to one percent of "full cash value," which is defined as "the County Assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2 percent per year, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to ad valorem taxes to pay the debt service on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIIIA and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum ad valorem tax permitted by Article XIIIA and to distribute the proceeds to local agencies, including special districts such as the Water Authority. The allocation of property tax revenues among special districts, while subject to certain statutory procedures and criteria, is largely discretionary with each county.

Assessed valuation growth allowed under Article XIIIA (new construction, change of ownership and 2 percent annual value growth) is allocated on the basis of sites among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenues from tax bases to such entities may be affected by the establishment of redevelopment agencies that, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged may be considered a "special tax," which under Article XIIIA must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the Water Authority's water user rates or capacity charges were determined by a court to exceed the reasonable cost of providing service, the Water Authority would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. If the Water Authority were unable to obtain such a two-thirds majority vote, such failure could adversely affect the Water Authority's ability to pay the debt service with respect to the 2011S-1 Bonds. However, the reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as capacity charges will not be special taxes if they approximate the reasonable cost of constructing the water system improvements contemplated by the local agency imposing the fee.

The United States Supreme Court has upheld Article XIIIA against a challenge alleging violation of equal protection under the Fourteenth Amendment to the United States Constitution.

Articles XIIIC and XIIID

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996. The initiative added Articles XIIIC and XIIID to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." The Water Authority and its members are local governments within the meaning of Articles XIIIC and XIIID. Articles XIIIC and XIIID became effective, pursuant to their terms, as of November 6, 1996, although compliance with some of the provisions was deferred until July 1, 1997, and certain of the provisions purport to apply to any tax imposed for general governmental purposes (i.e., "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIIID imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIIID includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed

fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. In the view of the Water Authority, rates for water usage charged by the Water Authority to its member agencies are not fees or charges under Article XIIID, although no assurance may be given by the Water Authority that a court would not determine otherwise.

The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal. 4th 409 (2004) ("*Richmond*"), and *Bighorn-Desert View Water Authority vs. Verjil* (published July 24, 2006) ("*Bighorn*") have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIIID because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. Under this reasoning the Water Authority's capacity charge is not subject to Article XIIID. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIIID, rejecting, in *Bighorn*, the Water Authority's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

Article XIIID also provides that "standby charges" are considered "assessments" and must follow the procedures required for "assessments" under Article XIIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that "majority protest" exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity "separate the general benefits from the special benefits conferred on a parcel" of land. The Water Authority has not increased its Water Standby Availability Charge since the enactment of Article XIIID. Any increase to the Water Authority's current standby charge 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. Article XIIID also precludes standby charges for services that are not immediately available to the parcel being charged. This could adversely impact the ability of the Water Authority and its member agencies to collect standby charges on undeveloped land.

Article XIIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and "imposed exclusively to finance the capital costs or maintenance and operations expenses for water" are exempted from some of the provisions of Article XIIID applicable to assessments. The Water Authority has authorized and imposed water standby charges since 1989.

Article XIIIC 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 XIIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIIC local voters by initiative may reduce a public agency water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, … provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

No assurance may be given that Articles XIIIC and XIIID will not have a material adverse impact on the Water Authority's revenues.

Proposition 26

On November 2, 2010, the California voters approved Proposition 26, an initiative measure amending Article XIIIC of the California Constitution. Proposition 26 adds a new definition of "tax" applicable to local government agencies to include any levy, charge, or exaction imposed by a local government, except: charges imposed for benefits or privileges or for services or products granted or provided to the payor (and not 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; fees imposed as a condition of property development; and assessments and property-related fees imposed under Article XIIID of the California Constitution. California local taxes are subject to voter approval. The Water Authority believes its water rates and charges are not taxes as defined by California Constitution Article XIIIC, Section 1(e), added by Proposition 26.

Other Initiative Measures

Article XIIIA, Articles XIIIC and XIIID and Proposition 26 were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Water Authority to increase revenues.

TAX STATUS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2011S-1 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is further of the opinion that interest on the 2011S-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that interest on the 2011S-1 Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix F hereto.

The difference between the issue price of any maturity of the 2011S-1 Bonds with an issue price less than par and the amount to be paid at maturity of such 2011S-1 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2011S-1 Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2011S-1 Bonds is the first price at which a substantial amount of such maturity of the 2011S-1 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2011S-1 Bonds accrues daily over the term to maturity of such 2011S-1 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2011S-1 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2011S-1 Bonds. Owners of the 2011S-1 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2011S-1 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2011S-1 Bonds in the original offering to the public at the first price at which a substantial amount of such 2011S-1 Bonds are sold to the public.

2011S-1 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the 2011S-1 Bonds. The Water Authority has made certain representations and has covenanted to comply with certain restrictions designed to assure that the interest on the 2011S-1 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest on the 2011S-1 Bonds being included in federal gross income, possibly from the date of issuance of the 2011S-1 Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2011S-1 Bonds may affect the tax status of the interest on the 2011S-1 Bonds or the value of the 2011S-1 Bonds.

Although Bond Counsel has rendered an opinion that the interest portion on the 2011S-1 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of the 2011S-1 Bonds and the accrual or receipt of the interest thereto may otherwise affect a 2011S-1 Bond owner's tax liability. The nature and extent of these other tax consequences will depend upon each 2011S-1 Bond owner's particular tax status and the 2011S-1 Bond owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2011S-1 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent 2011S-1 Bond owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2011S-1 Bonds. Prospective purchasers of the 2011S-1 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2011S-1 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Water Authority, or about the effect of future changes in the Code, the applicable regulations the interpretation thereof or the enforcement thereof by the IRS. The Water Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2011S-1 Bonds ends with the issuance of the 2011S-1 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Water Authority or the owners of the 2011S-1 Bonds regarding the tax-exempt status of the 2011S-1 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Water Authority, and its appointed counsel, including the owners of the 2011S-1 Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Water Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2011S-1 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2011S-1 Bonds, and may cause the Water Authority or the owners of the 2011S-1 Bonds to incur significant expense.

CONTINUING DISCLOSURE

The Water Authority has covenanted for the benefit of the owners and beneficial owners of the 2011S-1 Bonds to provide certain financial information and operating data relating to the 2011S-1 Bonds and the Water Authority by not later than 270 days after the end of the Water Authority's fiscal year (presently June 30) commencing with the report for the Water Authority's 2010-11 fiscal year (the "Annual Disclosure Reports"), and to provide notices of the occurrence of certain enumerated events. The Annual Disclosure Reports and notices of material events will be filed by the Digital Assurance Certification, L.L.C., as Dissemination Agent on behalf of the Water Authority, with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Disclosure Reports or the notices of material events is set forth in **APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT**. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange

Commission (the "Rule"). The Water Authority has never failed to comply in any material respect with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

RATINGS

The 2011S-1 Bonds have been rated "AA" by Fitch, Inc. ("Fitch"), One State Street Plaza, New York, New York, "Aa3" by Moody's Investors Service, Inc. ("Moody's"), 7 World Trade Center, 250 Greenwich Street, New York, New York, and "AA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, 55 Water Street, New York, New York ("Standard & Poor's"). The ratings assigned by Fitch, Moody's and Standard & Poor's express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Fitch, Moody's and Standard & Poor's, respectively. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2011S-1 Bonds.

UNDERWRITING

The 2011S-1 Bonds are to be purchased by the Underwriters at a price which includes an underwriting discount of $314,692.05. The Underwriters are committed to purchase all the 2011S-1 Bonds if any are purchased. The Underwriters may offer and sell 2011S-1 Bonds to certain dealers (including dealers depositing 2011S-1 Bonds into investment trusts) and others at prices lower than the offering prices stated on the cover of this Official Statement. After the initial public offering, the public offering prices of the 2011S-1 Bonds may be changed from time to time by the Underwriters.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the 2011S-1 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 2011S-1 Bonds.

LITIGATION

No litigation is pending or threatened concerning the validity or enforceability of the 2011S-1 Bonds or the Indenture.

The Water Authority is subject to lawsuits and claims which arise out of the normal course of business. The Water Authority believes the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operation or liquidity of the Water Authority.

CERTAIN LEGAL MATTERS

Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, will render an opinion with respect to the 2011S-1 Bonds substantially in the form set forth in Appendix F hereto. Orrick, Herrington & Sutcliffe LLP is also acting as Disclosure Counsel. Certain legal matters will be passed upon for the Water Authority by Daniel S. Hentschke, its General Counsel. The Underwriters are being represented by Fulbright & Jaworski, L.L.P., Los Angeles, California.

FINANCIAL ADVISOR

The Water Authority has retained Montague DeRose and Associates, LLC ("Montague DeRose"), as financial advisor with respect to the issuance and delivery of the 2011S-1 Bonds. Montague DeRose is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

INFORMATION CONCERNING THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MWD periodically files official statements and disclosure reports with the MSRB in connection with its publicly offered bonds. Such official statements and disclosure reports contain, among other things, information on MWD, MWD's water supply and MWD's rates and charges. Such official statements and disclosure reports are available from the MSRB but are not incorporated by reference herein and neither the Water Authority nor the Underwriters assume any responsibility for the completeness or accuracy thereof. MWD is not obligated in any manner for the payment of principal of or interest on the 2011S-1 Bonds and has not provided and will not provide any certifications regarding this Official Statement, nor has MWD made any undertaking for the benefit of the owners and beneficial owners of the 2011S-1 Bonds to file any information with the MSRB.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the Water Authority. Copies of this Official Statement may be obtained from the Water Authority at 4677 Overland Avenue, San Diego, California 92123.

Financial statements of the Water Authority, summaries of the principal legal documents to be executed and delivered in connection with the offering of the 2011S-1 Bonds, the form of the opinion to be delivered by Bond Counsel, the form of the Continuing Disclosure Agreement, information on the economy of San Diego County and a description of DTC's book-entry system are attached hereto as Appendices. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

Insofar as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

The delivery of this Official Statement, including the Appendices and other information herein, has been duly authorized by the Water Authority.

SAN DIEGO COUNTY WATER AUTHORITY

By: /s/ Michael T. Hogan
Chair of the Board of Directors

By: /s/ Maureen A. Stapleton
General Manager

By: /s/ Eric L. Sandler
Director of Finance/Treasurer

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WATER AUTHORITY FINANCIAL STATEMENTS

LSL
CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
- David E. Hale, CPA, CFP
  A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Diego County Water Authority
San Diego, California

We have audited the statements of net assets of the San Diego County Water Authority (the "Water Authority"), San Diego, California, as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Water Authority, as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010, on our consideration of the Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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LSL
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Diego County Water Authority
San Diego, California

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, supplemental information and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

Lance, Soll & Lunghard, LLP

October 18, 2010

Management's Discussion & Analysis

This section of the Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ended June 30, 2010. Please read it in conjunction with the Letter of Transmittal located at the beginning of this report, and the Water Authority's Basic Financial Statements, which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The Basic Financial Statements are designed to provide readers with a broad overview of the finances of the Water Authority in a manner similar to a private-sector business. The components to the basic financial statements include financial statements and notes to the financial statements.

The Statements of Net Assets present information on all of the Water Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the Water Authority's net assets changed during the fiscal year. All changes in net assets are reported on the accrual basis of accounting, meaning all revenues are realized when earned and expenses are recognized when incurred.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities for the fiscal year.

The Notes to the Financial Statements (Notes) provide additional information that is essential for a full understanding of the data provided in the financial statements. The Notes are located immediately following the financial statements.

Other Information

The financial statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997. The accounts of this entity are blended into the Water Authority's financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14. See Note 1(a) for further information regarding this entity.

The financial statements include the accounts of the San Diego County Water Authority Financing Agency, a separate legal entity established in December 2009. The accounts of this entity are blended into the Water Authority's financial statements in accordance with GASB Statement Number 14. See Note 1(a) for further information regarding this entity.

This report also contains a Supplemental Section (unaudited), which includes a Budgetary Comparison Schedule, and a Statistical Section (unaudited), which presents detailed information to assist the reader in assessing the economic condition of the Water Authority.

The Water Authority implemented GASB Statement Number 51 for the fiscal year ended June 30, 2010. This statement provides accounting and reporting rules for intangible assets including easements, computer systems software, and participation and capacity rights.

Condensed Financial Information

San Diego County Water Authority Net Assets, in Millions ($)

	June 30,		
	2010	2009	2008
Assets:			
Capital assets	$ 2,835.1	$ 2,605.2	$ 2,315.4
Other assets	1,073.8	690.0	930.7
Total assets	3,908.9	3,295.2	3,246.1
Liabilities:			
Long-term liabilities	2,102.1	1,535.1	1,555.6
Other liabilities	551.2	552.8	559.5
Total liabilities	2,653.3	2,087.9	2,115.1
Net assets:			
Invested in capital assets, net of related debt	954.0	964.2	873.1
Restricted	116.1	80.4	98.1
Unrestricted	185.5	162.7	159.8
Total net assets	**$ 1,255.6**	**$ 1,207.3** [1]	**$ 1,131.0** [1]

Notes:
(1) Net Assets at June 30, 2008 were restated by $6,388,823 to reflect the cancellation of the Groundwater Storage and Recovery Project which had been capitalized as construction in progress in prior years; and also were restated by $79,846,618 to reflect the capitalization of the Coachella Valley Canal Lining Project. Net Assets at June 30, 2009 were restated by $827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.

Capital Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Capital assets include land, construction in progress, work in progress, plant and equipment, and intangible assets (net of accumulated depreciation and amortization). At June 30, 2010, capital assets total $2.8 billion, or 72.5 percent of total assets. Capital assets increased $229.9 million, or 8.8 percent compared to the prior fiscal year primarily due to the increase in intangible assets related to participation rights and the increase in plant and equipment related to pumping plants and facilities, and partially offset by depreciation and amortization expense. Capital Improvement Program (CIP) expenditures for the fiscal year ended June 30, 2010 are $261.5 million, which include capitalized interest of $51.6 million. CIP activities for the fiscal year ended June 30, 2010 are described in the Capital Assets and Capital Improvement Program section on page 22. More detailed information about the Water Authority's capital assets is presented in Note 6 to the Financial Statements.

Fiscal Year 2009 Compared to Fiscal Year 2008

Capital assets include land, construction in progress, work in progress, plant and equipment net of depreciation, and intangible assets net of amortization. At June 30, 2009, capital assets total $2.6 billion, or 79.1 percent of total assets. This represents an increase of $289.8 million, or 12.5 percent compared to the prior fiscal year primarily due to continued expenditures on the CIP and the addition of $26.7 million in intangible assets related to participation rights, partially offset by depreciation and amortization expense. CIP expenditures for the fiscal year ended June 30, 2009 are $292.3 million, which include capitalized interest of $40.6 million.

Other Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Other assets include unrestricted and restricted cash and investments; water, interest, taxes, other, retention, and long-term loan receivables; inventories, prepaid water, deferred charges, advances to other agencies, and unamortized bond issuance costs. Other assets total $1.1 billion at June 30, 2010, an increase of $383.8 million, or 55.6 percent from the prior fiscal year. Restricted cash and investments increased $364.8 million primarily due to the issuance of the Water Revenue Bonds, Series 2010 A&B, which also resulted in an increase in unamortized bond issuance costs of $5.0 million. Other receivables increased $3.3 million, primarily due to the federal subsidy from the U.S. Treasury for the Taxable Build America Bond Series 2010B debt service payment, which provides for a federal subsidy in an amount equal to 35 percent of the total interest payable. Advances to other agencies decreased $19.4 million as expenditures were incurred to fund the All-American Canal Lining project.

Fiscal Year 2009 Compared to Fiscal Year 2008

Other assets include unrestricted and restricted cash and investments; water, interest, taxes, other, retention, and long-term loan receivables; inventories, prepaid water, advances to other agencies and unamortized bond issuance costs. Other assets total $690.0 million at June 30, 2009, a decrease of $240.7 million, or 25.9 percent from the prior fiscal year. The unspent bond proceeds balance accounts for the majority of the decrease in restricted cash and investments or $234.0 million compared to the prior fiscal year. The Water Authority also had a related decrease in interest receivable of $0.5 million due to the decreased cash and investment balances. Advances to other agencies decreased $18.1 million as expenditures were incurred to fund the All-American Canal Lining project, which were partially offset by additional advances made to Imperial Irrigation District (IID) and are to be repaid when the project-related retention is released from the State of California's Department of Water Resources. There is a $13.4 million increase in inventories primarily due to increasing water in storage for dry years and a related increase in water receivables of $3.7 million.

Long-term Liabilities

Fiscal Year 2010 Compared to Fiscal Year 2009

Long-term liabilities consist of bonds used to fund the Water Authority's CIP, contributions payable, compensated absences, Other Post-Employment Benefits (OPEB) liability, arbitrage rebate, unamortized bond discounts/premiums, and deferred loss on refunding. At June 30, 2010, total long-term liabilities are $2.1 billion, or 79.2 percent of total liabilities. Long-term liabilities increased $567.0 million primarily due to the issuance of $624.6 million of new debt in February 2010, partially offset by maturities and the defeasance of $51.0 million on the outstanding 1998A certificates in March 2010. More detailed information about the Water Authority's long-term liabilities is presented in Note 9 to the Financial Statements.

Fiscal Year 2009 Compared to Fiscal Year 2008

Long-term liabilities consist of bonds used to fund the Water Authority's CIP, contributions payable, compensated absences, OPEB liability, arbitrage rebate, unamortized bond discounts/premiums, and a deferred loss on refunding. At June 30, 2009, total long-term liabilities were $1.5 billion, or 73.5 percent of total liabilities. Total long-term liabilities were $20.5 million lower than the prior fiscal year due to principal maturities on outstanding certificates of participation.

Other Liabilities

Fiscal Year 2010 Compared to Fiscal Year 2009

Included in other liabilities are accounts and interest payable, construction deposits, and other short-term liabilities. Other liabilities are $551.2 million at June 30, 2010, or 20.8 percent of total liabilities. Other liabilities decreased $1.6 million primarily due to the decrease in construction deposits of $2.1 million as a result of reduced housing development.

Fiscal Year 2009 Compared to Fiscal Year 2008

Included in other liabilities are accounts and interest payable, construction deposits, and other short-term liabilities. Other liabilities were $552.8 million at June 30, 2009, or 26.5 percent of total liabilities. This is a decrease of $6.7 million compared to the prior fiscal year primarily due to the reduction in accounts payable and other liabilities of $9.3 million due to the timing of significant CIP expenses.

Net Assets

Fiscal Year 2010 Compared to Fiscal Year 2009

Net assets total $1.26 billion at June 30, 2010, an increase of $48.3 million compared to the prior fiscal year. Net assets consist of investments in capital assets, net of related debt, restricted, and unrestricted net assets. Investment in capital assets, net of related debt is capital assets (net of accumulated depreciation and amortization) less any outstanding debt used to acquire those assets and amounted to $954.0 million, or 76.0 percent of total net assets in fiscal year 2010. The decrease of $10.2 million from the prior fiscal year is due to more capital related debt outstanding from the issuance of new bonds from the prior fiscal year. Restricted nets assets are $116.1 million, or 9.2 percent of total net assets, and are those assets that are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation. Restricted net assets increased $35.7 million primarily due to an increase in the cash and investments balance for construction funds, in addition to increased accrued interest on unspent debt proceeds restricted for construction projects. Unrestricted net assets include the balances not otherwise classified in the other categories. Unrestricted net assets are $185.5 million, or 14.8 percent of total net assets. Unrestricted net assets increased $22.8 million from the prior fiscal year primarily due to an increase in water sales of $27.9 million.

Fiscal Year 2009 Compared to Fiscal Year 2008

Net assets total $1.21 billion at June 30, 2009, an increase of $76.3 million compared to the prior fiscal year. Net assets consist of investments in capital assets, net of related debt, restricted, and unrestricted net assets. Net assets invested in capital assets net of related debt is the difference between capital assets (net of accumulated depreciation/amortization) and the liabilities attributable to the acquisition, construction or improvement of those assets. Net assets invested in capital assets net of related debt were $964.2 million, or 79.9 percent of total net assets. This is an increase of $91.1 million from the prior fiscal year as restated primarily due to construction in progress. Restricted net assets are $80.4 million, or 6.7 percent of total net assets and are those assets that are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation, which for the Water Authority includes primarily the cash and investment balances in the 2008A Water Revenue Certificates of Participation, the Pay-As-You-Go funds, and the Debt Service Reserve funds. Unrestricted net assets include the balances not otherwise classified in the other categories. Unrestricted net assets are $162.7 million, or 13.5 percent of total net assets.

San Diego County Water Authority Changes in Net Assets, in Millions ($)

	June 30,		
	2010	2009	2008
Operating revenues:			
Water sales	$ 387.9	$ 360.0	$ 343.5
Other revenues	5.0	3.6	9.5
Total operating revenues	392.9	363.6	353.0
Nonoperating revenues:			
Property taxes and in-lieu charges	10.0	10.5	10.3
Infrastructure access charges	21.2	19.4	17.5
Investment income	5.2	18.5	22.2
Other income	1.3	5.3	-
Intergovernmental	5.8	-	-
Gain on sale/retirement of capital assets	0.1	-	0.3
Total nonoperating revenues	43.6	53.7	50.3
Total revenues	436.5	417.3	403.3
Operating expenses:			
Cost of sales	291.4	269.8	262.5
Operations and maintenance	15.5	17.5	14.5
Planning	8.6	10.0	8.9
General and administrative	15.3	15.3	13.6
Depreciation and amortization	30.7	30.0	28.5
Total operating expenses	361.5	342.6	328.0
Nonoperating expenses:			
Interest expense	39.0	40.8	52.2
Other expenses	13.3	7.2	7.0
Total nonoperating expenses	52.3	48.0	59.2
Total expenses	413.8	390.6	387.2
Income before capital contributions	22.7	26.7	16.1
Capital contributions:			
Capacity charges	10.3	13.3	23.9
Water standby availability charges	11.2	11.3	11.3
Contributions in aid of capital assets	4.1	25.0	4.0
Total capital contributions	25.6	49.6	39.2
Changes in net assets	48.3	76.3	55.3
Net assets at beginning of year, as restated (Note 10)	1,207.3	1,131.0	1,075.7
Net assets at end of year	$ 1,255.6	$ 1,207.3 (1)	$ 1,131.0 (1)

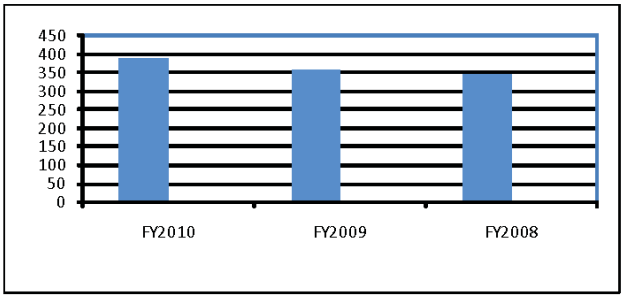
Notes:
(1) Amounts have been restated.

Revenues by Source

Fiscal Year 2010 Compared to Fiscal Year 2009

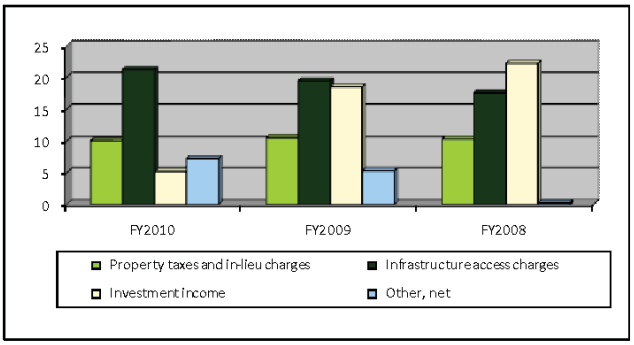
Total revenues and capital contributions for the fiscal year ended June 30, 2010 are $462.1 million, a decrease of $4.8 million over the prior fiscal year.

Water Sales, in Millions ($)



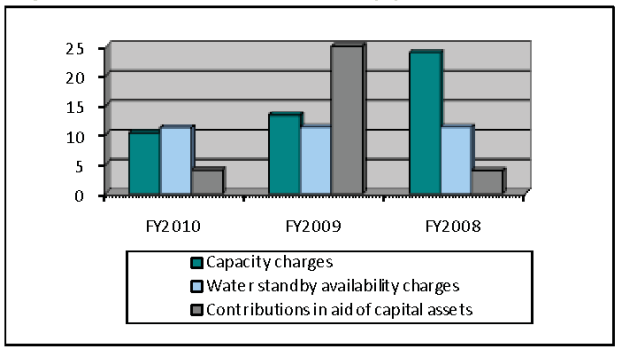
The Water Authority's principal source of revenue is from water sales. Water sales are $387.9 million, or 83.9 percent of total revenues and capital contributions. Water deliveries decreased by 86,242 acre-feet, or 14.9 percent primarily due to mandatory use restrictions within the service area, cooler weather, and difficult economic conditions. However, water sales revenues increased $27.9 million, or 7.7 percent when compared to the prior fiscal year due to increased rates and charges.

Nonoperating Revenues, in Millions ($)



Nonoperating revenues are comprised of property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues totaled $43.6 million, or 9.4 percent of total revenues and capital contributions for the fiscal year ended June 30, 2010. Nonoperating revenues decreased $10.1 million, or 18.8 percent when compared to the prior fiscal year primarily due to a decrease in investment income of $13.3 million.

Capital Contributions, in Millions ($)



Capital contributions consist of capacity charges, water standby availability charges, and contributions in aid of capital assets. Capital contributions totaled $25.6 million, or 5.5 percent of total revenues and capital contributions. Total capital contributions decreased $24.0 million when compared to the prior fiscal year. Capacity charges decreased $3.0 million, or 22.6 percent due to the continued slow down of new construction. Water standby availability charges are fairly consistent at $11.2 million based on a fixed amount charged on each parcel of land within the boundaries of the Water Authority in order to recover some of the capital costs associated with maintaining the system. Contributions in aid of capital assets decreased $20.9 million from the prior fiscal year due to grant revenue from the State of California's Department of Water Resources that was earned in fiscal year 2009.

Fiscal Year 2009 Compared to Fiscal Year 2008

Total revenues and capital contributions for the fiscal year ended June 30, 2009 were $466.9 million, an increase of $24.4 million over the prior fiscal year.

Operating revenues or water sales were $360.0 million, or 77.1 percent of total revenues and capital contributions. Water deliveries decreased by 55,333 acre-feet primarily due to the impact of the Interim Agricultural Water Program cutback and 20-Gallon Challenge. However, water sales revenues increased $16.5 million, or 4.8 percent when compared to the prior fiscal year due to increased rates and the mix of treated versus untreated water sold. Other revenue is $3.6 million, a decrease of $5.9 million, and includes miscellaneous, grants, and hydroelectric power revenues.

Nonoperating revenues are comprised of property taxes and in-lieu charges, IAC, investment income, intergovernmental, gain on sale/retirement of capital assets, and other income. Nonoperating revenues totaled $53.7 million, or 11.5 percent of total revenues and capital contributions for the fiscal year ended June 30, 2009. This was an increase of $3.4 million, or 6.8 percent when compared to the prior fiscal year. Investment income was $18.5 million, a $3.7 million decrease due primarily to an unfavorable interest rate environment. Property taxes and in-lieu charges were $10.5 million, an increase of $0.2 million. Revenue from IAC was $19.4 million, an increase of $1.9 million due to a planned, mid-year rate increase from $1.70 to $1.90 per equivalent meter per month. Other, net was $5.3 million, an increase of $5.0 million, and includes miscellaneous reimbursements, intergovernmental, and proceeds from sale of assets.

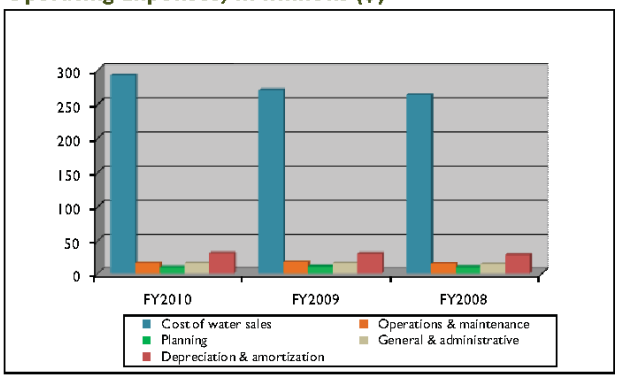
Capital contributions consist of capacity charges, water standby availability charges, and contributions in aid of capital assets. Capital contributions totaled $49.6 million, or 10.6 percent of total revenues and capital contributions. This was an increase of $10.4 million compared to the prior fiscal year. System capacity charges apply to all new or larger retail water meters installed and are designed to recover a proportionate share of the capital costs associated with providing services to new connections in the Water Authority's service area. Capacity charges were $13.3 million, a decrease of $10.6 million when compared to the prior fiscal year. This 44.4 percent decrease was due to the continued slow down for new housing in the county. At $11.3 million, water standby availability charges were fairly consistent with the prior fiscal year and these revenues are intended to recover some of the capital costs associated with maintaining the system. Contributions in aid of capital assets were $25.0 million and the substantial increase of $21.0 million from the previous fiscal year was due to a grant from the State of California's Department of Water Resources for Vidler Water Company and Semitropic Water Storage related to the Groundwater Conjunctive Use Program.

Expenses by Function

Fiscal Year 2010 Compared to Fiscal Year 2009

Total expenses for the fiscal year ended June 30, 2010 are $413.8 million, an increase of $23.2 million, or 5.9 percent, over the prior fiscal year.

Operating Expenses, in Millions ($)



Operating expenses include the cost of water sales, operating departmental/programmatic expenses, and depreciation and amortization expenses. Operating expenses are $361.5 million, or 87.4 percent of total expenses. Operating expenses increased $18.9 million, or 5.5 percent when compared to the prior fiscal year primarily due to increased costs of water purchases from the Water Authority's two main suppliers, Metropolitan Water District and IID. The operating departmental/programmatic expenses include operations and maintenance, planning, and general and administrative expenses and are $39.4 million, which represent 9.5 percent of total expenses. This is a decrease of $3.4 million from the prior fiscal year primarily due to programmatic budget reductions in the Water Resources Department and Water Conservation Program. More detailed information about expenses by department/program is presented in the Budgetary Comparison Schedule located in the Supplemental Section. Depreciation and amortization expenses are $30.7 million, which represent 7.4 percent of total expenses. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

Nonoperating expenses are $52.3 million, or 12.6 percent of total expenses and consist of interest and other expenses. Interest expense is $39.0 million, net of $51.6 million of capitalized interest and represents 9.4 percent of total expenses. Other expenses increased $6.1 million due to a payment in settlement to IID.

Fiscal Year 2009 Compared to Fiscal Year 2008

Total expenses for the fiscal year ended June 30, 2009 were $390.6 million, an increase of $3.4 million, or 0.9 percent over the prior fiscal year.

Operating expenses include the cost of water sales, depreciation and amortization expenses, and operating departmental/programmatic expenses. Operating expenses were $342.6 million, or 87.7 percent of total expenses. This was an increase of $14.6 million, or 4.5 percent when compared to the prior fiscal year. The cost of water sales was $269.8 million, or 69.1 percent of total expenses. Depreciation and amortization expenses were $30.0 million, which represent 7.7 percent of total expenses. As the Water Authority continues to construct capital assets, depreciation expense increases as these new assets are subsequently depreciated.

The operating departmental/programmatic expenses include operations and maintenance, planning, and general and administrative expenses. The operating departmental/programmatic expenses were $42.8 million, which was an increase of $5.8 million due to the timing of expenditures in the second half of the two-year budget cycle.

Nonoperating expenses were $48.0 million, or 12.3 percent of total expenses and include interest and other expenses. Interest expense was $40.8 million, net of $40.6 million of interest expense incurred during construction (capitalized interest) and represents 10.4 percent of total expenses. The decrease in interest expense of $11.4 million, or 21.8 percent, from the prior fiscal year was primarily due to increased capitalized interest. Other expenses were $7.2 million and include conservation reimbursement programs and other miscellaneous expenses.

Capital Assets and Capital Improvement Program

San Diego County Water Authority Capital Assets (Net of Accumulated Depreciation and Amortization), in Millions ($)

	June 30,		
	2010	2009	2008
Land	$ 19.1	$ 13.1	$ 13.3
Construction in progress	1,199.7	1,302.9	1,051.6
Work in progress	0.6	0.8	0.6
Plant and equipment	1,371.4	1,166.2	1,150.4
Intangible assets	244.3	122.2	99.5
Total	**$ 2,835.1**	**$ 2,605.2 (1)**	**$ 2,315.4 (1)**

Notes:
(1) Amounts have been restated.

The Water Authority's capital assets are $2.8 billion (net of accumulated depreciation and amortization). The total CIP budget as of June 30, 2010 consists of 50 projects at a cost of approximately $3.8 billion. The CIP is being financed by the proceeds from long-term and short-term debt issuances, water standby availability charge revenues, and capital contributions from capacity charges. The CIP is also financed from operating revenues as needed.

For the fiscal year ended June 30, 2010, the Water Authority maintained a service area of approximately 951,000 acres including 300 miles of pipelines ranging in size from 27 inches to 120 inches in diameter, rights-of-way, roads, mechanical equipment, buildings, and grounds, including nearly 1,400 line structures and 131 metering and control buildings. The preventative maintenance program consists of regularly scheduled inspections and maintenance. The Water Authority has an Aqueduct Protection Program as part of the CIP that ensures the structural integrity of pipeline assets, performs pipeline condition assessments, and extends the service life of the existing pipelines. This program includes internal inspection schedules and corrosion monitoring on the pipelines. Additional information on the Water Authority's capital assets can be found in Note 6 to the Financial Statements.

Highlights of Fiscal Year 2010 Capital Improvement Expenditures

The major capital improvement activities for the current fiscal year include the following:

$31.6 million for the Emergency Storage Project (ESP) - San Vicente Pipeline and Aqueduct Interconnect. This is a major component of the ESP comprised of an eleven-mile tunnel that will stretch from the San Vicente reservoir northwest to just west of Interstate-15 at Mercy Road.

$5.3 million for the ESP - San Vicente Pumping Facilities. The pump station and surge control facility's primary function is to move water from the San Vicente Reservoir to the Second Aqueduct during emergencies. Additional benefits include the ability to add and remove water from the San Vicente Reservoir on an annual basis to maximize seasonal storage and provide water to the Helix Water District's Levy Water Treatment Plant. Operation of the pump station will not be integrated into the aqueduct system until the San Vicente Pipeline is completed in late 2010.

$30.8 million for the Colorado River Canal Linings. This project includes the lining of the All-American Canal, which calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, provides 56,200 acre feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining was administered by IID. The All-American Canal construction was completed in fiscal year 2010.

$25.0 million for the Lake Hodges projects which include the ESP - Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP - Lake Hodges to Olivenhain Pipeline. These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs which will allow 20,000 acre-feet of water in the Lake Hodges reservoir to be available for emergency use. Also, when the water is transferred downstream from Olivenhain to the Lake Hodges reservoir, it will generate 40 megawatts of electricity sufficient to supply electricity for nearly 26,000 homes.

$49.7 million for the ESP – San Vicente Dam Raise and Carryover Storage. This project is the raising of the San Vicente dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente reservoir would be approximately 242,000 acre-feet. The construction for the excavation and foundation preparation is near completion. The construction package for raising the dam was awarded in April 2010 and is expected to be completed in early 2013.

$20.7 million for the Mission Trails Pipeline Tunnel. This pipeline tunnel project is critical to meet untreated water demands in the central and south county. This project, in conjunction with the Mission Trails Flow Regulatory Structure II Project, will relieve hydraulic constraints along the Second Aqueduct.

$3.3 million for the East County Regional Treated Water Improvements. This is a joint program of the Water Authority and several member agencies to improve the use of the Helix Water District's Levy Water Treatment Plant. The member agencies include Helix Water District, Padre Dam Municipal Water District, Otay Water District, and Lakeside Water District. This program includes additional flow control facilities, as well as increased participation rights.

Highlights of Fiscal Year 2009 Capital Improvement Expenditures

The major capital improvement activities for the prior fiscal year include the following:

$68.6 million for the Colorado River Canal Linings. This includes the lining of the All-American Canal with water beginning to flow in June 2008 and March 2009. Construction of the remainder of the project is expected to be completed in spring 2010. The All-American Canal calls for approximately 23 miles of lined canal to be built next to the existing canal and, when complete, will provide 56,200 acre feet of water per year to San Diego County for the next 110 years. Construction for the All-American Canal Lining is being administered by IID.

$36.1 million for the ESP - San Vicente Pipeline and Aqueduct Interconnect. This pipeline will connect the San Vicente Reservoir to the Second Aqueduct in the vicinity of Mercy Road and Interstate-15. It will transport water in either direction to meet member agency needs and to achieve storage requirements in the San Vicente Reservoir. Through the end of fiscal year 2009 the project is over 80 percent complete.

$33.6 million for the ESP - San Vicente Pumping Facilities. The pump station and surge control facility's primary function is to move water from the San Vicente Reservoir to the Second Aqueduct during emergencies. Additional benefits include the ability to add and remove water from the San Vicente Reservoir on an annual basis to maximize seasonal storage and provide water to the Helix Water District's Levy Water Treatment Plant.

$31.6 million for the Relining and Pipe Replacement Program. Nearly five miles of Pipelines 3, 4, and 4A were relined in the southern portion of the system and several urgent/emergency repairs were accomplished.

$27.8 million for the Lake Hodges projects which include the ESP - Lake Hodges Pump Station Inlet/Outlet, the Olivenhain Pumped Storage, and the ESP - Lake Hodges to Olivenhain Pipeline. These combined projects will allow water to be pumped back and forth between the Lake Hodges and Olivenhain reservoirs which will allow 20,000 acre-feet of water in the Lake Hodges reservoir to be available for emergency use. Also, when the water is transferred downstream from Olivenhain to the Lake Hodges reservoir, it will generate 40 megawatts of electricity sufficient to supply electricity for nearly 26,000 homes.

$26.7 million for the Groundwater Conjunctive Use Program. Incident to Board guidance to pursue supply and storage opportunities in the region, two agreements for groundwater storage and supply were approved in the Central Valley of California with Vidler Water Company and Semitropic-Rosamond Water Bank. The agreements entitle the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

$22.1 million for the ESP – San Vicente Dam Raise and Carryover Storage. This project is the raising of the San Vicente dam by 117 feet by using roller compacted concrete to accommodate an additional 152,000 acre-feet of combined emergency and carryover storage. The total capacity of the expanded San Vicente reservoir would be approximately 242,000 acre-feet.

$13.5 million for the Mission Trails Pipeline Tunnel. The project is critical to meet untreated water demands in the central and south county. The project consists of a 96 inch diameter 4,800 foot pipeline tunnel from the north of Elliot Vent Number 1 to south of Elliot Vent Number 4.

Debt Administration

Short-term Debt

As of June 30, 2010 the Water Authority had $460 million in tax-exempt commercial paper outstanding. More detailed information about the Water Authority's short-term debt is presented in Note 8 to the Financial Statements.

Long-term Debt

San Diego County Water Authority Outstanding Long-Term Debt, in Millions ($)

	June 30,		
	2010	2009	2008
Revenue Bonds	$ 624.6	$ -	$ -
Certificates of Participation	1,369.2	1,426.5	1,446.3
Total	**$ 1,993.8**	**$ 1,426.5**	**$ 1,446.3**

As of June 30, 2010 the Water Authority had $2.0 billion in bonds outstanding. More detailed information about the Water Authority's long-term debt is presented in Note 9 to the Financial Statements including information that the Water Authority is in compliance with bond covenants and its debt service coverage ratio requirement.

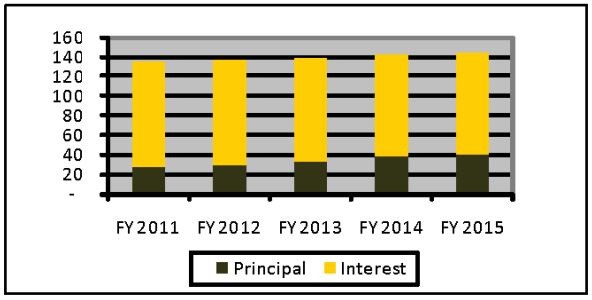
Credit Ratings

In April 2010, the Water Authority's long-term debt credit rating was upgraded to AA+ from Fitch Ratings and upgraded to Aa2 from Moody's Investors Service. Standard & Poor's affirmed the Water Authority's long-term debt underlying credit rating of AA+. These high ratings are enjoyed by only a few water agencies in California.

Future Long-term Debt Service

The table below shows the Water Authority's estimated future long-term debt service requirements through June 30, 2015.

Long-Term Debt Service Requirements, in Millions ($)



Contacting the Water Authority's Financial Management Division

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123.

San Diego County Water Authority
Statements of Net Assets, June 30, 2010 and 2009

	2010	2009
Assets:		
Current assets:		
Cash and investments (Notes 1d and 2)	$ 96,667,087	$ 104,094,605
Restricted cash and investments (Notes 1d and 2)	565,858,310	381,242,365
Water receivables	77,450,758	68,436,955
Interest receivable	2,940,382	3,502,437
Taxes receivable	1,824,080	1,829,617
Other receivables	7,105,549	3,814,700
Inventories (Notes 1e and 3)	25,398,574	27,102,945
Prepaid water (Note 4)	4,615,500	5,713,500
Total current assets	781,860,240	595,737,124
Noncurrent assets:		
Cash and investments (Notes 1d and 2)	37,678,064	2,694,225
Restricted cash and investments (Notes 1d and 2)	216,097,708	35,926,935
Deferred charges	159,240	-
Advances to other agencies	-	19,446,844
Retention receivable	-	4,007,308
Long-term loan receivables (Note 5)	20,688,268	20,000,000
Unamortized bond issuance costs (Note 9)	17,282,596	12,263,098
Capital assets (Notes 1f and 6):		
Land	19,065,447	13,128,344
Construction in progress	1,199,690,241	1,302,928,098
Work in progress	641,065	749,017
Plant and equipment, net	1,371,349,004	1,166,190,126
Intangible assets, net	244,339,340	122,196,758
Total noncurrent assets	3,126,990,973	2,699,530,753
Total assets	3,908,851,213	3,295,267,877
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	71,836,072	78,392,621
Interest payable	19,035,842	12,077,179
Construction deposits	302,657	2,364,089
Short-term liabilities (Note 8)	460,000,000	460,000,000
Current portion of long-term liabilities (Note 9)	31,658,450	10,691,961
Total current liabilities	582,833,021	563,525,850
Noncurrent liabilities:		
Long-term liabilities (Note 9)	2,070,416,397	1,524,401,978
Total noncurrent liabilities	2,070,416,397	1,524,401,978
Total liabilities	2,653,249,418	2,087,927,828
Net assets:		
Invested in capital assets, net of related debt	954,037,294	964,225,706
Restricted for construction projects	115,506,824	79,790,128
Restricted for debt service	597,315	614,622
Unrestricted (Note 1i)	185,460,362	162,709,593
Total net assets	**$ 1,255,601,795**	**$ 1,207,340,049**

See accompanying notes to the financial statements.

San Diego County Water Authority

Statements of Revenues, Expenses, and Changes in Net Assets for the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Water sales	$ 387,871,218	$ 359,951,622
Other revenues	4,965,060	3,608,350
Total operating revenues	392,836,278	363,559,972
Operating expenses:		
Cost of sales	291,385,187	269,835,859
Operations and maintenance	15,482,609	17,409,496
Planning	8,642,260	10,004,616
General and administrative	15,270,175	15,309,407
Depreciation and amortization	30,657,250	30,038,388
Total operating expenses	361,437,481	342,597,766
Operating income	31,398,797	20,962,206
Nonoperating revenues (expenses):		
Property taxes and in-lieu charges (Notes 1k and 1l)	9,971,624	10,467,484
Infrastructure access charges (Note 1j)	21,241,060	19,389,790
Investment income	5,217,031	18,507,476
Other income	1,256,746	5,377,897
Intergovernmental	5,791,292	-
Gain on sale/retirement of capital assets	52,598	18,695
Interest expense	(38,982,442)	(40,828,498)
Other expenses	(13,311,285)	(7,202,845)
Total nonoperating revenues (expenses)	(8,763,376)	5,729,999
Income before capital contributions	22,635,421	26,692,205
Capital contributions (Note 1n):		
Capacity charges	10,298,928	13,265,608
Water standby availability charges	11,240,386	11,311,384
Contributions in aid of capital assets	4,087,011	25,027,314
Total capital contributions	25,626,325	49,604,306
Changes in net assets	48,261,746	76,296,511
Net assets at beginning of year, as restated (Note 10)	**1,207,340,049**	**1,131,043,538**
Net assets at end of year	**$ 1,255,601,795**	**$ 1,207,340,049**

See accompanying notes to the financial statements.

San Diego County Water Authority
Statements of Cash Flows, For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 380,531,626	$ 364,328,714
Cash paid to suppliers for purchases of water	(294,570,887)	(293,690,865)
Cash paid to suppliers for goods and services	(7,453,261)	(3,551,420)
Cash paid to employees for services	(42,895,846)	(40,692,090)
Net cash provided by (used for) operating activities	35,611,632	26,394,339
Cash flows from noncapital financing activities:		
Property taxes and in-lieu charges received	9,977,161	10,258,751
Infrastructure access charges received	21,241,060	19,389,790
Intergovernmental	5,791,292	-
Net cash provided by (used for) noncapital financing activities	37,009,513	29,648,541
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	(189,457,004)	(261,089,069)
Contributions and capital related revenues received from other governments	25,626,325	49,604,306
Cash paid for deferred charges	(159,240)	-
Proceeds of short-term debt issuance	460,000,000	460,000,000
Proceeds of long-term debt issuance	624,630,000	3,140,012
Cost of debt issuance	(5,639,216)	-
Principal paid on short-term debt	(460,000,000)	(460,000,000)
Principal paid on long-term debt	(65,321,650)	(24,650,275)
Interest paid on debt	(75,736,407)	(79,984,725)
Net cash provided by (used for) capital and related financing activities	313,942,808	(312,979,751)
Cash flows from investing activities:		
Interest received on investments	5,779,086	19,016,648
Net cash provided by (used for) investing activities	5,779,086	19,016,648
Net increase (decrease) in cash and cash equivalents	392,343,039	(237,920,223)
Cash and investments at beginning of year	523,958,130	761,878,353
Cash and investments at end of year	$ 916,301,169	$ 523,958,130
Reconciliation of cash and investments at the end of the year:		
Current assets:		
Cash and investments	$ 96,667,087	$ 104,094,605
Restricted cash and investments	565,858,310	381,242,365
Noncurrent assets:		
Cash and investments	37,678,064	2,694,225
Restricted cash and investments	216,097,708	35,926,935
Cash and investments at the end of the year	**$ 916,301,169**	**$ 523,958,130**

See accompanying notes to the financial statements.

San Diego County Water Authority
Statement of Cash Flows For the Fiscal Years Ended June 30, 2010 and 2009, (continued)

	2010	2009
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	$ 31,398,797	$ 20,962,206
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation and amortization	30,657,250	30,038,388
Other expenses	(13,311,285)	(7,202,845)
Other income	1,256,746	5,377,897
(Increase) decrease in water receivables	(9,013,803)	(3,706,195)
(Increase) decrease in other receivables	(3,290,849)	4,474,937
(Increase) decrease in inventories	1,704,371	(13,431,043)
(Increase) decrease in prepaid water	1,098,000	(1,098,000)
Increase (decrease) in long-term loan receivables	(688,268)	-
Increase (decrease) in retention receivable	4,007,308	(2,675,364)
Increase (decrease) in accounts payable and other liabilities	(6,556,549)	(9,325,963)
Increase (decrease) in construction deposits	(2,061,432)	1,836,104
Increase (decrease) in compensated absences	132,346	959,217
Increase (decrease) in OPEB liability	279,000	185,000
Total adjustments	4,212,835	5,432,133
Net cash provided by (used for) operating activities	$ 35,611,632	$ 26,394,339
Noncash capital financing and investing activities:		
Amortization of discounts/premiums and deferred loss on refundings	$ (1,177,913)	$ (156,565)
Discounts/premiums on debt issued	8,439,125	-
Amortization of cost of issuance	619,718	718,609

See accompanying notes to the financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (the Water Authority) was organized on June 9, 1944 under the County Water Authority Act (the Act). The Water Authority's primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority's Board of Directors. The Water Authority is a member of the Metropolitan Water District of Southern California (MWD) and historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies. The Water Authority is in the process of diversifying its supply. Pursuant to the Quantification Settlement Agreement (QSA) and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and will also receive water conserved by lining of the All-American and Coachella Canals. The QSA was signed on October 10, 2003. The Water Authority also adopted a Regional Water Facilities Master Plan in 2004, which calls for further supply diversification.

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula and based upon such formula, the Water Authority has a statutory preferential right to approximately 17.47 percent of MWD's total supply. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCWAFC) was incorporated on December 29, 1997. The SDCWAFC is a California nonprofit public benefit corporation formed to assist the Water Authority as a financing entity. The SDCWAFC is administered by a governing board which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Water Authority, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCWAFA) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority and to finance working capital for the Water Authority. The SDCWAFA is a Joint Powers Agreement (JPA) with statutory authority to issue revenue bonds and was formed by agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into many such JPAs. Under the JPA agreement the Water Authority has control over all finance matters.

The SDCWAFA's sole purpose is to be a financing entity for the Water Authority and the SDCWAFA is administered by a governing board which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Water Authority, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFA because its activities are blended with those of the Water Authority for financial reporting purposes.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Water Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

(c) Budgets and Budgetary Accounting

The Water Authority Board of Directors adopts two-year budgets for operations, debt service, and capital expenditures. The Board of Directors, by resolution, has established budgetary controls and made a total appropriation for expenditures consistent with the adopted budget. The total appropriation adopted by the Board of Directors establishes the legal expenditure limit for the Water Authority. The Board of Directors, by resolution, has delegated to the General Manager authority to make budget adjustments as necessary within a limit of $150,000 subject to the total appropriation limit. Budget adjustments in excess of $150,000 or increases in the total appropriation limit must be approved by the Board of Directors. The Water Authority adhered to the budget policies and budgetary controls adopted by the Board of Directors for the fiscal years ended June 30, 2010 and 2009.

(d) Cash and Investments

The Water Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are shown as both restricted and unrestricted cash and investments.

Investments are reported at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(e) Inventories

Inventories consist of water, valves, and materials in storage and are valued using the average cost method.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(f) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Water Authority capitalizes all assets with a historical cost of at least $5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Dams	100 years
Water transportation pipelines	25 to 100 years
Plants and facilities	25 to 40 years
Automobiles and equipment	3 to 10 years

Intangible Assets

The Water Authority also participates in various storage and water management programs, or builds capital assets that by agreement entitle it to certain participation or capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for capacity rights, software, and easements or life of the agreement in the case of participation rights.

Capitalized Interest

The Water Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest costs of the borrowings less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use.

(g) Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. Employees may elect to receive cash for accumulated sick leave depending on the prevailing rules at the time of termination or retirement. All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(h) Arbitrage Rebate

Arbitrage is the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds at higher yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage and so amounts are accumulated in order to make arbitrage rebate payments to the federal government under the Internal Revenue Code.

(i) Unrestricted Net Assets

The unrestricted net assets of the Water Authority are restricted by state law for sole use by the Water Authority for water operations. They are reported as unrestricted net assets in the accompanying financial statements because this restriction corresponds to the general purpose for which the Water Authority was established. They are unavailable for other government uses and are committed to the ongoing operations of the Water Authority, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(j) Revenue Policies

The principal source of the Water Authority's revenues is provided by water sales, which include all charges for the sale and availability of water, including water supply rates, customer service, storage charges, and transportation/exchange transactions. Water is delivered to member agencies on demand and revenue is recognized at the time of delivery.

In fiscal year 1999 the Infrastructure Access Charge (IAC) was adopted by the Board of Directors as an additional source of fixed revenue to provide better coverage of the Water Authority's projected fixed expenditures. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and within the Water Authority's service area. The fixed charge is levied against each member agency for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenditures of 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process. Beginning on January 1, 2010, the IAC increased from $1.90 to $2.02 per meter equivalent per month.

(k) Property Taxes

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution.

Property taxes are levied annually by the Water Authority's Board of Directors as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments, which are due by December 10 and April 10. The taxes levied are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year.

(l) In-Lieu Charges

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the city of San Diego pays the in-lieu charge directly to the Water Authority.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(m) Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, hydroelectric sales, intergovernmental, and other miscellaneous income.

(n) Capital Contributions

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program (CIP). A Water Standby Availability Charge was put into effect in fiscal year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In fiscal year 1991 a Capacity Charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in Capital Contributions in Aid of Capital Assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenditures. Examples of capital projects where grants are received include regional water use and efficiency improvements, and water storage programs.

(o) Classification of Expenses

Operating expenses for enterprise funds include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, bond discounts/premiums, deferred loss on refunding, and other miscellaneous expenses.

(p) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Management believes that the estimates are reasonable.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform within current year presentation.

2. Cash and Investments

Cash and investments are classified in the accompanying Statements of Net Assets at June 30 as follows:

	2010	2009
Current assets:		
Cash and investments	$ 96,667,087	$ 104,094,605
Restricted cash and investments	565,858,310	381,242,365
Total current assets	662,525,397	485,336,970
Noncurrent assets:		
Cash and investments	37,678,064	2,694,225
Restricted cash and investments	216,097,708	35,926,935
Total noncurrent assets	253,775,772	38,621,160
Total cash and investments	**$ 916,301,169**	**$ 523,958,130**

The carrying value of cash and investments held by the Water Authority consisted of the following:

	2010	2009
Petty cash	$ 2,500	$ 2,500
Deposits	363,010	186,437
Investments	915,935,659	523,769,193
Total cash and investments	**$ 916,301,169**	**$ 523,958,130**

2. Cash and Investments, (continued)

(a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy

The table below identifies the investment types that are authorized for the Water Authority by the California Government Code and the Water Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Water Authority's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Water Authority rather than the general provisions of the California Government Code or the Water Authority's investment policy.

Investment Type Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio (1)	Maximum Investment in One Issuer (1)
Local agency bonds	Yes	5 years	20%	None
U.S. Treasury securities	Yes	5 years	None	None
Federal agency securities	Yes	5 years	85%	None
Bankers' acceptances	Yes	180 days	20%	5%
Commercial paper	Yes	270 days	25%	5%
Certificates of deposit	Yes	12/31/2013	15%	None
Placement service certificates of deposit	Yes	12/31/2013	15% (2)	None
Negotiable certificates of deposit	Yes	12/31/2013	15% (2)	None
Repurchase agreements	Yes	1 year	20%	None
Reverse repurchase agreements	Yes	92 days	20% of base value	None
Medium-term notes	Yes	5 years	30%	5%
Mutual funds	No	n/a	20%	10%
Money market funds	Yes	n/a	15%	10%
Mortgage pass-through securities	No	5 years	20%	None
County pooled investment funds	No	n/a	None	None
Local agency investment fund (LAIF)	Yes	n/a	$50 Million	None
JPA pools (other investment pools)	Yes	n/a	25%	None

Notes:
(1) Based on state law requirements or investment policy requirements, whichever is more restrictive.
(2) The combined maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 15 percent.

2. Cash and Investments, (continued)

(b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Water Authority's investment policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contacts with a maximum maturity that is limited to the final maturity of the bonds being issued.

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Water Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Water Authority's investments by terms to maturity:

		Remaining Term to Maturity			
Investment Type	Fair Value	12 months or less	13 to 36 months	37 to 60 months	More than 60 months
U.S. Treasury securities	$ 72,445,944	$ 54,319,386	$ 18,126,558	$ -	$ -
Federal agency securities	380,524,045	215,197,571	165,326,474	-	-
Commercial paper	45,212,733	45,212,733	-	-	-
Certificates of deposit	17,095,944	17,095,944	-	-	-
LAIF	245,522,345	245,522,345	-	-	-
JPA pools	84,887,198	84,887,198	-	-	-
Money market funds	1,177,370	1,177,370	-	-	-
Held by bond trustees:					
Money market funds	450,382	450,382	-	-	-
U.S. Treasury securities	37,993,173	37,993,173	-	-	-
Investment contracts	30,626,525	-	-	-	30,626,525
Total	$ 915,935,659	$ 701,856,102	$ 183,453,032	$ -	$ 30,626,525

2. Cash and Investments, (continued)

(d) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by the California Government Code, the Water Authority's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

				Rating as of Year-End		
Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	AAA	A1	Not Rated
U.S. Treasury securities	$ 72,445,944	n/a	$ 72,445,944	$ -	$ -	$ -
Federal agency securities	380,524,045	n/a	-	380,524,045	-	
Commercial paper	45,212,733	A1	-	-	45,212,733	-
Certificates of deposit	17,095,944	n/a	-	-	-	17,095,944
Local agency investment fund	245,522,345	n/a	-	-	-	245,522,345
JPA pools	84,887,198	AAAm	-	84,887,198	-	-
Money market funds	1,177,370	AAAm	-	1,177,370	-	-
Held by bond trustees:						
Money market funds	450,382	AAAm	-	450,382	-	-
U.S. Treasury securities	37,993,173	n/a	37,993,173	-	-	-
Investment contracts	30,626,525	n/a	-	-	-	30,626,525
Total	$915,935,659		$110,439,117	$467,038,995	$45,212,733	$293,244,814

(e) Concentration of Credit Risk

The investment policy of the Water Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments are as follows:

Issuer	Investment Type	Reported Amount	% of Total Investments
Federal Home Loan Bank	*Federal agency securities*	*$164,734,614*	*18.0%*
Federal National Mortgage Association	*Federal agency securities*	*137,988,191*	*15.1%*
Federal Home Loan Mortgage Corporation	*Federal agency securities*	*46,163,241*	*5.0%*

2. Cash and Investments, (continued)

(f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Water Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Water Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

(g) Investment in State Investment Pool

The Water Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Water Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Water Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. Inventories

The Water Authority inventories are valued using the average cost method. Components of inventories at June 30 are as follows:

	2010	2009
Water in storage	$ 24,103,433	$ 25,646,989
Valves in storage	860,040	1,250,975
Materials in storage	435,101	204,981
Total inventories	**$ 25,398,574**	**$ 27,102,945**

4. Prepaid water

In March 2008, the Water Authority executed an agreement with Butte Water District and Sutter Extension Water District to purchase 10,006 and 13,071 acre-feet of transfer water. In March 2009, the Water Authority executed an agreement with Placer County Water Agency and prepaid for rights to purchase 20,000 acre-feet of transfer water. The Water Authority bought and sold the water in fiscal year 2010.

Since this water is currently outside the Water Authority's service area, it is classified as Prepaid Water on the Statements of Net Assets. The balance as of June 30, 2010 and 2009 was $4,615,500 and $5,713,500, respectively.

5. Long-Term Receivables

(a) Proposition 1A State Borrowing

Under the provisions of Proposition 1A Borrowing by the State of California and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed eight percent of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Water Authority was $688,268.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. The tax revenues were recognized in the fiscal year for which they were levied.

(b) Imperial Irrigation District

In October 2003, the Water Authority amended the Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments of $10,000,000 in four installments. These funds will be used to pay for the initial administrative costs and estimated and annual cumulative socioeconomic impact costs.

Beginning in calendar year 2019, the Water Authority will begin receiving credits from the IID to be applied against any payments due and shall continue until calendar year 2048 or until the agreement is terminated, whichever comes first. If the agreement terminates before calendar year 2048, the IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007 the Water Authority paid IID $10,000,000 for future deliveries of water. Interest on the prepayment shall begin to accrue December 31, 2019 using the Water Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority's annual financial report for each fiscal year ending June 30th. If not repaid sooner, beginning December 31, 2019 through December 31, 2033, IID shall credit the Water Authority's monthly invoice for conserved water in 180 equal monthly installments of $55,556 plus accrued interest.

For the fiscal years ended June 30, 2010 and 2009, the total long-term loan receivables balance was $20,688,268 and $20,000,000, respectively.

6. Capital Assets

Capital asset activity for the fiscal years ended June 30, 2010 and 2009:

	Balance at June 30, 2008, as Restated	Additions	Deletions	Transfers
Capital assets not depreciated:				
Land	$ 13,283,900	$ -	$ -	$ (155,556)
Construction in progress	1,051,556,553 [1]	292,277,469	(573,570)	(40,332,354)
Work in progress	612,973	136,044	-	-
Total capital assets not depreciated	**1,065,453,426**	**292,413,513**	**(573,570)**	**(40,487,910)**
Other capital assets:				
Olivenhain Dam	175,971,199	-	-	-
Water transportation pipelines	960,401,118	6,310	(9,229)	33,815,563
Pumping plants and facilities	171,651,588	-	-	2,054,668
Treatment plants and facilities	25,620,355	-	-	-
Automobiles	6,214,680	89,803	(185,472)	(3,160)
Miscellaneous	49,885,451	1,181,050	(3,319,056)	1,205,384
Intangible assets (Note 1f):				
Easements	-	-	-	155,556
Computer systems software	-	-	-	3,253,579
Participation and capacity rights (Note 7)	105,829,841	26,749,900	-	-
Total other capital assets and intangible assets	**1,495,574,232**	**28,027,063**	**(3,513,757)**	**40,481,590**
Accumulated depreciation (Note 1f):				
Olivenhain Dam	(8,798,560)	-	-	-
Water transportation pipelines	(170,296,844)	(15,541,813)	9,229	-
Pumping plants and facilities	(24,323,529)	(4,032,250)	-	-
Treatment plants and facilities	(3,827,207)	(640,975)	-	-
Automobiles	(5,080,038)	(367,420)	185,472	-
Miscellaneous	(27,030,947)	(4,233,772)	3,312,654	2,275,874
Accumulated amortization (Note 1f):				
Computer systems software	-	(67,783)	-	(2,275,874)
Participation and capacity rights (Note 7)	(6,294,087)	(5,154,374)	-	-
Total accumulated depreciation and amortization	**(245,651,212)**	**(30,038,387)**	**3,507,355**	**-**
Other capital assets, net	**1,249,923,020**	**(2,011,324)**	**(6,402)**	**40,481,590**
Total capital assets, net	**$ 2,315,376,446**	**$ 290,402,189**	**$ (579,972)**	**$ (6,320)**

Notes:
(1) Net assets at June 30, 2008 were restated by $6,388,823 to reflect the cancellation of the Groundwater Storage and Recovery Project. The project costs had been capitalized as construction in progress in prior years; and also were restated by $79,846,618 to reflect the capitalization of the Coachella Valley Canal Lining Project. Net assets at June 30, 2009 were restated by $827,976 to reflect the capitalization of delay damages related to the Olivenhain-Hodges Pumped Storage Facility.

6. Capital Assets, (continued)

Balance at June 30, 2009, as Restated	Additions	Deletions	Transfers	Balance at June 30, 2010
$ 13,128,344	$ -	$ (6,248)	$ 5,943,351	$ 19,065,447
1,302,928,098 [1]	261,452,590	(1,207)	(364,689,240)	1,199,690,241
749,017	-	-	(107,952)	641,065
1,316,805,459	**261,452,590**	**(7,455)**	**(358,853,841)**	**1,219,396,753**
175,971,199	-	-	-	175,971,199
994,213,762	25,944	(1,160,323)	59,236,422	1,052,315,805
173,706,256	-	(143,227)	162,803,773	336,366,802
25,620,355	-	-	-	25,620,355
6,115,851	-	(357,468)	107,952	5,866,335
48,952,829	338,045	(4,300,891)	8,525,763	53,515,746
155,556	-	(1,368)	869,699	1,023,887
3,253,579	-	-	-	3,253,579
132,579,741	-	(1,211,343)	127,310,232	258,678,630
1,560,569,128	**363,989**	**(7,174,620)**	**358,853,841**	**1,912,612,338**
(8,798,560)	(1,759,712)	-	-	(10,558,272)
(185,829,428)	(13,896,046)	984,221	-	(198,741,253)
(28,355,779)	(4,668,756)	118,846	-	(32,905,689)
(4,468,182)	(640,975)	-	-	(5,109,157)
(5,261,986)	(351,274)	338,320	-	(5,274,940)
(25,676,191)	(3,356,944)	3,258,730	56,478	(25,717,927)
(2,343,657)	(758,474)	-	-	(3,102,131)
(11,448,461)	(5,221,029)	1,211,343	(56,478)	(15,514,625)
(272,182,244)	**(30,653,210)**	**5,911,460**	**-**	**(296,923,994)**
1,288,386,884	**(30,289,221)**	**(1,263,160)**	**358,853,841**	**1,615,688,344**
$ 2,605,192,343	**$ 231,163,369**	**$ (1,270,615)**	**$ -**	**$ 2,835,085,097**

7. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were $243,164,005 as of June 30, 2010.

(a) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority Creation and Funding Agreement (the Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority was $52,220,859. Amortization is computed using the acre-feet assigned per calendar year over the life of the agreement, which is 75 years.

In addition, the Agreement required the Water Authority to pay $11,779,141 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the life of the agreement, which is 45 years.

(b) Imperial Irrigation District Socioeconomic Participation Rights

IID and the Water Authority resolved a dispute concerning the nature and extent of the obligations and covenants under Section 14.5 of the Revised Fourth Amendment to the Agreement between IID and the Water Authority for the Transfer of Conserved Water by agreeing to additional annual payments to be made to IID totaling $29,520,000 over the period of ten years.

(c) Canal Relining Participation Rights

On October 10, 2003 the Water Authority assumed MWD's rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation Agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement required payment of $4,321,185 to the IID for MWD's outstanding obligations.

The Agreement specifically assigned the project of lining the Coachella Canal, which is a branch from the Colorado River and is owned by the U.S. Bureau of Reclamation, to the Water Authority. The lining of the canal was in order to control water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for $79,447,974. Participation rights for this project totaled $116,652,602 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

7. Participation and Capacity Rights, (continued)

(d) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler's 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District's underground basin in Kern County. The Water Authority also invested in the Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet.

Storage and recovery rights for this program totaled $11,749,900 for Vidler and $15,000,000 for Semitropic as of June 30, 2010. These rights are amortized using the straight-line method over the life of the agreement, which ends in 2035.

(e) Moreno-Lakeside Pipeline Capacity Rights

In April 1997, the Water Authority entered into an agreement with Helix Water District for installation of a raw water transmission pipeline, a flow control facility and expansion of the R.M. Levy Water Treatment Plant. Helix owns, operates, and maintains the R.M. Levy Water Treatment Plant and agreed to its phased expansion. The design capacity shall be 106 million gallons per day (mgd) with the Water Authority having capacity rights to 26 mgd. In April 2006, a third amendment to the agreement with Helix Water District transferred to the Water Authority 10 mgd capacity in the R.M. Levy Water Treatment Plant, for total capacity rights of 36 mgd. Capacity rights for this project totaled $6,777,313 as of June 30, 2010 and are being amortized using the straight-line method over ten years.

(f) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix Water District regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the R.M. Levy Water Treatment Plant to provide additional capacity to Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to 12 mgd. Capacity rights for Los Coches Pump Station totaled $5,625,153 and for Helix Flume Pipeline totaled $5,032,477 as of June 30, 2010, and are being amortized using the straight-line method over 10 years.

8. Short-Term Liabilities

Short-term liabilities activity for the fiscal years ended June 30, 2010 and 2009:

	Balance at June 30, 2008	Additions	Deletions
Short-term debt:			
Commercial Paper - Series 1	$ 110,000,000	$ 1,220,650,000	$ (1,220,650,000)
Commercial Paper - Series 2	175,000,000	701,500,000	(701,500,000)
Commercial Paper - Series 3	175,000,000	3,344,305,000	(3,344,305,000)
Total short-term debt	**$ 460,000,000**	**$ 5,266,455,000**	**$ (5,266,455,000)**

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority's capital improvement program. The TECP program is comprised of three separate series with a total maximum authorized amount of $460,000,000.

The Water Authority has remarketing agreements with five separate broker-dealers: Banc of America Securities LLC/Merrill Lynch, JPMorgan Chase & Co., Citigroup Global Markets Inc., Barclays Capital Inc., and Goldman, Sachs and Co. The remarketing fees for the various dealer agreements range from 0.035 percent to 0.100 percent per annum on the par amount of TECP outstanding. No advances have been made under any of the revolving-credit and term-loan agreements during the fiscal year ended June 30, 2010.

The TECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COPs). At June 30, 2010 and 2009, the Water Authority had $460,000,000 of commercial paper outstanding.

8. Short-Term Liabilities, (continued)

Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Amounts Due Within One Year
$ 110,000,000	$ 934,570,000	$ (934,570,000)	$ 110,000,000	$ 110,000,000
175,000,000	904,750,000	(904,750,000)	175,000,000	175,000,000
175,000,000	3,029,675,000	(3,029,675,000)	175,000,000	175,000,000
$ 460,000,000	**$ 4,868,995,000**	**$ (4,868,995,000)**	**$ 460,000,000**	**$ 460,000,000**

(a) Commercial Paper Series 1

The total maximum authorized amount of Series 1 is $110,000,000. Series 1 has liquidity support in the form of revolving-credit and term-loan agreements with Bayerische Landesbank, and unless otherwise extended, will terminate on June 30, 2013. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.70 percent.

(b) Commercial Paper Series 2

Series 2 has a total maximum authorized amount of $175,000,000 and was issued on November 15, 2006. Series 2 has liquidity support in the form of revolving-credit and term-loan agreements with BNP Paribas, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.

(c) Commercial Paper Series 3

The total maximum authorized amount of Series 3 is $175,000,000 and the TECP was issued on November 15, 2006. Series 3 has liquidity support in the form of revolving-credit and term-loan agreements with Dexia Credit Local, and unless otherwise extended, will terminate on November 15, 2011. During the term of the agreement the Water Authority pays annual commitment fees based on the par amount of the commitment or 0.095 percent.

9. Long-Term Liabilities

Long-term liabilities activity for the fiscal years ended June 30, 2010 and 2009:

	Balance at June 30, 2008	Additions	Deletions
Long-term debt:			
2010A Water Revenue Non-AMT Tax-Exempt Bonds (Note 9a)	$ -	$ -	$ -
2010B Water Revenue BABs (Note 9b)	-	-	-
2008A Water Revenue COPs (Note 9c)	558,015,000	-	-
2005A Water Revenue Refunding COPs (Note 9d)	107,455,000	-	-
2004A Water Revenue COPs (Note 9e)	425,000,000	-	-
2002A Water Revenue COPs (Note 9f)	255,855,000	-	(6,120,000)
1998A Water Revenue COPs (Note 9g)	62,690,000	-	-
1997A Water Revenue COPs (Note 9h)	23,610,000	-	-
1993A Water Revenue Refunding COPs (Note 9i)	13,700,000	-	(13,700,000)
Total long-term debt	1,446,325,000	-	(19,820,000)
Other liabilities:			
Contributions payable (Note 9j)	76,913,801	3,140,012	(4,363,369)
Compensated absences (Note 1g)	5,232,786	4,131,546	(3,172,329)
OPEB liability (Note 12)	179,000	324,000	(139,000)
Arbitrage rebate (Note 1h)	874,731	-	(466,906)
Total long-term liabilities	1,529,525,318	**$ 7,595,558**	**$ (27,961,604)**
Unamortized bond discounts/premiums, deferred loss on refunding	26,091,232		
Total long-term liabilities, net	**$ 1,555,616,550**		

9. Long-Term Liabilities, (continued)

Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Amounts Due Within One Year
$ -	$ 98,495,000	$ -	$ 98,495,000	$ -
-	526,135,000	-	526,135,000	-
558,015,000	-	-	558,015,000	-
107,455,000	-	-	107,455,000	-
425,000,000	-	-	425,000,000	-
249,735,000	-	(6,365,000)	243,370,000	6,620,000
62,690,000	-	(51,005,000)	11,685,000	-
23,610,000	-	-	23,610,000	17,500,000
-	-	-	-	-
1,426,505,000	624,630,000	(57,370,000)	1,993,765,000	24,120,000
75,690,444	-	(7,951,649)	67,738,795	2,940,000
6,192,003	3,971,547	(3,839,201)	6,324,349	4,174,070
364,000	436,000	(157,000)	643,000	424,380
407,825	-	(1)	407,824	-
1,509,159,272	**$ 629,037,547**	**$ (69,317,851)**	2,068,878,968	**$ 31,658,450**
25,934,667			33,195,879	
$ 1,535,093,939			**$ 2,102,074,847**	

9. Long-Term Liabilities, (continued)

(a) 2010A Water Revenue Non-AMT Tax-Exempt Bonds

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the San Diego County WAFA issued 2010A Water Revenue Tax Exempt Bonds on February 4, 2010 in the aggregate principal amount of $98,495,000. A portion of the proceeds were used to refund $51,005,000 of the outstanding 1998A COPs on March 8, 2010. The balance of proceeds will be used to finance CIP projects, including interest incurred during construction. At June 30, 2010, $11,685,000 of 1998A COPs remains outstanding.

The tax-exempt bonds, with an aggregate principal amount of $98,495,000, have stated interest rates ranging from 4.00 percent to 5.25 percent payable semi-annually on May 1 and November 1.

The 2010A bonds are limited obligations of the WAFA and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010A bonds. No debt service reserve fund was created to secure the 2010A bonds.

The 2010A Water Revenue Tax-Exempt Bonds were issued at a premium of $8,439,125 with issuance costs of $648,183. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $834,620. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2027 using the life of the new debt, which was shorter than the remaining life of the old debt. This transaction resulted in an economic gain of $1,984,683. In addition, the refunding resulted in a cash flow savings (difference in cash flows between the refunded bonds and the new bonds) of $3,626,860.

Included in the interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of $206,841 and for loss on refunding of $20,455. The principal balance of outstanding bonds at June 30, 2010 was $98,495,000 or $105,913,119, net of unamortized premium of $8,232,284 and unamortized loss on refunding of $814,165.

The total debt service payment requirements with respect to the above bonds are as follows:

2010A Water Revenue Non-AMT Tax-Exempt Bonds

Year	Principal	Interest	Total
2011	$ -	$ 4,722,425	$ 4,722,425
2012	-	4,722,425	4,722,425
2013	-	4,722,425	4,722,425
2014	1,570,000	4,722,425	6,292,425
2015	2,560,000	4,659,625	7,219,625
2016-2020	21,565,000	21,087,425	42,652,425
2021-2025	52,375,000	14,303,025	66,678,025
2026-2027	20,425,000	1,494,250	21,919,250
Total	**$ 98,495,000**	**$ 60,434,025**	**$ 158,929,025**

9. Long-Term Liabilities, (continued)

(b) 2010B Water Revenue Taxable Build America Bonds

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the San Diego County WAFA issued 2010B Water Revenue Taxable Build America Bonds (BABs) on February 4, 2010 in the aggregate principal amount of $526,135,000.

The taxable bonds, with an aggregate principal amount of $526,135,000, have a stated interest rate of 6.138 percent payable semi-annually on May 1 and November 1.

The 2010B bonds were designated as BABs under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority will receive interest subsidy payments from the United States Treasury equal to 35 percent of the interest payable.

The 2010B bonds are limited obligations of the WAFA and are payable solely from revenues and the other assets pledged therefore under the Trust Agreement. The Water Authority is obligated to make contract payments, solely from net water revenues, the combined totals of which equal the principal of and interest on the 2010B bonds. No debt service reserve fund was created to secure the 2010B bonds.

The 2010B Water Revenue BABs were issued at par for $526,135,000 with issuance costs of $4,991,033. The principal balance of outstanding bonds at June 30, 2010 was $526,135,000.

The total debt service payment requirements with respect to the above bonds are as follows:

2010B Water Revenue Taxable BABs

Year	Principal	Interest	Total
2011	$ -	$ 32,294,166	$ 32,294,166
2012	-	32,294,166	32,294,166
2013	-	32,294,166	32,294,166
2014	-	32,294,166	32,294,166
2015	-	32,294,166	32,294,166
2016-2020	-	161,470,832	161,470,832
2021-2025	1,735,000	161,470,832	163,205,832
2026-2030	33,715,000	156,961,243	190,676,243
2031-2035	73,375,000	143,961,266	217,336,266
2036-2040	123,625,000	113,488,858	237,113,858
2041-2045	150,340,000	72,397,403	222,737,403
2046-2049	143,345,000	22,426,411	165,771,411
Total	**$ 526,135,000**	**$ 993,647,675**	**$ 1,519,782,675**

9. Long-Term Liabilities, (continued)

(c) 2008A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the Water Authority issued 2008A Water Revenue COPs on May 1, 2008 in the aggregate principal amount of $558,015,000. A portion of the proceeds were used to make an early payment of $64,238,181 on the outstanding 1997A COPs on June 23, 2008.

The Serial Certificates, with an aggregate principal amount of $558,015,000, have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1.

The certificates require that a reserve be maintained in an amount equal to the lesser of $23,670,625 or one-half of maximum annual debt service of the 2008A Certificates. At June 30, 2010 and 2009 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by Financial Security Assurance, Inc. (FSA). The certificates are also insured by FSA.

The 2008A Water Revenue Certificates were issued at a premium of $19,063,710 with issuance costs of $7,147,600. Included in the interest expense for the fiscal year ended June 30, 2010 is an annual premium amortization of $614,400. The principal balance of outstanding certificates at June 30, 2010 was $558,015,000 or $575,167,058, net of unamortized premium of $17,152,058.

The total debt service payment requirements with respect to the above COPs are as follows:

2008A Water Revenue COPs

Year	Principal	Interest	Total
2011	$ -	$ 27,790,900	$ 27,790,900
2012	1,865,000	27,790,900	29,655,900
2013	9,120,000	27,716,300	36,836,300
2014	10,920,000	27,351,500	38,271,500
2015	11,360,000	27,351,500	38,711,500
2016-2020	78,130,000	124,403,500	202,533,500
2021-2025	56,615,000	105,996,000	162,611,000
2026-2030	93,985,000	89,783,750	183,768,750
2031-2035	167,100,000	58,912,250	226,012,250
2036-2038	128,920,000	13,101,500	142,021,500
Total	$ 558,015,000	$ 530,198,100	$ 1,088,213,100

9. Long-Term Liabilities, (continued)

(d) 2005A Water Revenue Refunding Certificates of Participation

On February 1, 2005 the Water Authority issued 2005A Water Revenue Refunding COPs in the amount of $107,455,000 to refund, in advance, $117,310,000 of the 1998A COPs with stated interest rates between 4.75 percent and 5.25 percent.

The Serial Certificates, with an aggregate principal amount of $107,455,000, have stated interest rates ranging from 5.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2022.

The certificates require that a reserve be maintained in an amount equal to the lesser of $10,745,500 or maximum annual debt service on the 2005A Certificates. At June 30, 2010 and 2009 the reserve requirement was fully satisfied by a Reserve Surety Policy issued by Financial Guaranty Insurance Company (FGIC). FGIC also insures the certificates.

The 2005A Water Revenue Refunding Certificates were issued at a premium of $14,343,160 with issuance costs of $1,152,055. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9,890,822. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through fiscal year 2022. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of $835,524 and for loss on refunding of $581,808. The principal balance of outstanding certificates at June 30, 2010 was $107,455,000 or $110,554,208, net of unamortized premium of $9,887,032 and unamortized loss on refunding of $6,787,824.

The total debt service payment requirements with respect to the above COPs are as follows:

2005A Water Revenue Refunding COPs

Year	Principal	Interest	Total
2011	$ -	$ 5,580,563	$ 5,580,563
2012	11,725,000	5,580,563	17,305,563
2013	12,240,000	4,994,313	17,234,313
2014	12,605,000	4,351,713	16,956,713
2015	13,510,000	4,351,713	17,861,713
2016-2020	43,575,000	8,949,675	52,524,675
2021-2022	13,800,000	1,095,935	14,895,935
Total	$ 107,455,000	$ 34,904,475	$ 142,359,475

9. Long-Term Liabilities, (continued)

(e) 2004A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP, the Water Authority issued 2004A Water Revenue Certificates of Participation on September 1, 2004 in the aggregate principal amount of $425,000,000. A portion of the proceeds were used to make an early payment of $56,700,000 on the 1991B Certificates of Participation on December 1, 2004.

The Serial Certificates with an aggregate principal amount of $318,295,000 have stated interest rates between 4.00 percent and 5.25 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2031. The Term Certificates with an aggregate principal amount of $106,705,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. These certificates are due May 1, 2034.

The certificates require that a reserve be maintained in an amount equal to the lesser of $38,568,617 or maximum annual debt service on the 2004A Certificates. At June 30, 2010 and 2009 the reserve was fully funded. The certificates are insured by FSA.

The 2004A Water Revenue Certificates were issued at a premium of $11,438,625 and issuance costs of $2,837,544. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6,200,156. This difference, reported in the accompanying financial statements as a decrease in bonds payable, is being charged to operations through the year 2011. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for premium of $386,653 and for loss on refunding of $966,265. The principal balance of outstanding certificates at June 30, 2010 was $425,000,000 or, $433,410,501 net of unamortized premium of $9,215,709 and unamortized loss from refunding of $805,208.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

2004A Water Revenue COPs

Year	Principal	Interest	Total
2011	$ -	$ 20,929,425	$ 20,929,425
2012	-	20,929,425	20,929,425
2013	-	20,929,425	20,929,425
2014	-	20,929,425	20,929,425
2015	-	20,929,425	20,929,425
2016-2020	37,240,000	103,916,925	141,156,925
2021-2025	109,260,000	86,657,650	195,917,650
2026-2030	139,560,000	56,349,500	195,909,500
2031-2034	138,940,000	17,790,750	156,730,750
Total	**$ 425,000,000**	**$ 369,361,950**	**$ 794,361,950**

9. Long-Term Liabilities, (continued)

(f) 2002A Water Revenue Certificates of Participation

To provide funds for a portion of the design, acquisition, and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP, the Water Authority issued 2002A Water Revenue Certificates of Participation on May 1, 2002 in the aggregate principal amount of $300,000,000. A portion of the proceeds were used to make an early payment of $12,300,000 on the 1991A Certificates of Participation on July 15, 2002.

The Serial Certificates with an aggregate principal amount of $249,935,000 have stated interest rates ranging from 3.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. These certificates mature annually through May 1, 2029, subject to optional prepayments beginning May 1, 2012.

The Term Certificates with an aggregate principal amount of $50,065,000 have a stated interest rate of 5.00 percent payable semi-annually on May 1 and November 1. An amount of $15,880,000 of these certificates is due May 1, 2030, $16,675,000 is due May 1, 2031, and $17,510,000 is due May 1, 2032.

The certificates require that a reserve be maintained in an amount equal to the lesser of $18,385,750 or maximum annual debt service on the 2002A Certificates. At June 30, 2010 and 2009 the reserve was fully funded. The certificates are insured by Municipal Bond Insurance Association, Inc. (MBIA).

The 2002A Water Revenue Certificates were issued at a discount of $3,948,000 and issuance costs of $2,271,000. Included in interest expense for the fiscal year ended June 30, 2010 is an annual amortization for discount of $131,593. The principal balance of outstanding certificates at June 30, 2010 was $243,370,000 or, $240,485,993 net of unamortized discount of $2,884,007.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

2002A Water Revenue COPs

Year	Principal	Interest	Total
2011	$ 6,620,000	$ 11,764,878	$ 18,384,878
2012	6,885,000	11,500,078	18,385,078
2013	7,160,000	11,224,678	18,384,678
2014	7,455,000	10,929,328	18,384,328
2015	7,770,000	10,612,490	18,382,490
2016-2020	44,540,000	47,377,443	91,917,443
2021-2025	56,560,000	35,354,500	91,914,500
2026-2030	72,195,000	19,727,250	91,922,250
2031-2032	34,185,000	2,584,748	36,769,748
Total	$ 243,370,000	$ 161,075,393	$ 404,445,393

9. Long-Term Liabilities, (continued)

(g) 1998A Water Revenue Certificates of Participation

To provide funds for the design and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP, the Water Authority issued 1998A Water Revenue Certificates of Participation on October 15, 1998 in the aggregate principal amount of $180,000,000.

During fiscal year 2010, $51,005,000 of the 1998A Certificates were refunded by the 2010A Water Revenue Tax Exempt Bonds. During fiscal year 2006, $117,310,000 of the 1998A Certificates were refunded by the 2005A Certificates. The principal balance of outstanding certificates at June 30, 2010 and 2009 was $11,685,000 and $62,690,000.

The Term Certificates with an aggregate principal amount of $11,685,000 have stated interest rates ranging from 4.50 percent to 5.25 percent payable semi-annually on May 1 and November 1. An amount of $11,685,000 is due May 1, 2028. The certificates are insured by FGIC.

The 1998A Water Revenue Certificates were issued at a discount of $1,202,000 and issuance costs of $965,000. The certificates required that a reserve be maintained in an amount equal to the lesser of $15,392,000 or maximum annual debt service on the 1998A Certificates. After refunding, the reserve requirement was reduced to $12,240,775. At June 30, 2010 and 2009 the reserve was fully funded.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

1998A Water Revenue COPs

Year	Principal	Interest	Total
2011	$ -	$ 555,038	$ 555,038
2012	-	555,038	555,038
2013	-	555,038	555,038
2014	-	555,038	555,038
2015	-	555,038	555,038
2016-2020	-	2,775,188	2,775,188
2021-2025	-	2,775,188	2,775,188
2026-2028	11,685,000	1,665,109	13,350,109
Total	$ 11,685,000	$ 9,990,675	$ 21,675,675

9. Long-Term Liabilities, (continued)

(h) 1997A Water Revenue Certificates of Participation

On December 1, 1997 the Water Authority issued 1997A Water Revenue Refunding Certificates of Participation in the amount of $162,315,000 with stated interest rates between 4.00 percent and 5.75 percent to refund, in advance, $74,035,000 of the 1991A Certificates of Participation with stated interest rates between 6.25 percent and 6.40 percent and $80,000,000 of the 1991B Certificates of Participation with interest payable at rates determined by auction every fifth week, not to exceed a blended rate of 6.30 percent.

On May 1, 2008 the Water Authority issued 2008A Water Revenue Certificates of Participation and executed a current refunding of the 1997A Certificates eligible for optional prepayment. Under this option, the Water Authority may call certificates on or after May 1, 2008 that have a Certificate Payment Date on or after May 1, 2013. On June 23, 2008, $64,238,181 of the outstanding 1997A Certificates were refunded. The principal balance of outstanding certificates at June 30, 2010 and 2009 was $23,610,000.

The outstanding Serial Certificates with an aggregate principal amount of $23,610,000 have stated interest rate of 5.75 percent payable semi-annually on May 1 and November 1. The two remaining certificates mature serially May 1, 2011 and May 1, 2012.

The Certificates require that a reserve be maintained in an amount equal to the lesser of 10 percent of the principal amount, 100 percent of the maximum annual debt service, or 125 percent of the average annual debt service. A surety bond issued by FSA in the amount of $15,197,000 has been obtained by the Water Authority and issued in satisfaction of the requirement.

The 1997A Certificates were issued at a premium of $2,958,000 with issuance costs of $1,342,000. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $17,184,000.

The total debt service payment requirements with respect to the above certificates of participation are as follows:

1997A Water Revenue COPs

Year	Principal	Interest	Total
2011	$ 17,500,000	$ 1,357,575	$ 18,857,575
2012	6,110,000	351,325	6,461,325
Total	$ 23,610,000	$ 1,708,900	$ 25,318,900

9. Long-Term Liabilities, (continued)

(i) 1993A Water Revenue Refunding Certificates of Participation

To provide funds for the refunding of the 1989A Water Revenue Certificates of Participation, the Water Authority issued the 1993A Certificates of Participation in February 1993 in the aggregate principal amount of $135,650,000.

The Series 1993A Current Interest Certificates, with an aggregate principal amount of $85,050,000, have stated interest rates ranging from 3.50 percent to 5.50 percent payable semi-annually on May 1 and November 1. These certificates mature serially through May 1, 2007 and are not subject to prepayment. The Series 1993A Floating Auction Tax Exempts (FLOATS) with an aggregate principal amount of $25,300,000 carry an interest rate determined by auction every 28 days. The FLOATS are due April 22, 2009, subject to mandatory prepayments beginning in 2007. The Series 1993A Residual Interest Tax Exempt Securities (RITES) with an aggregate principal amount of $25,300,000 carry interest rates determined by a fixed component and an auction rate component payable every 28 days, not to exceed 5.75 percent in aggregate. The RITES mature serially between April 26, 2007 and April 22, 2009 and are not subject to mandatory prepayment. Interest rates are subject to minimum and maximum limits and may be fixed by the holder.

The Certificates require that a reserve be maintained in an amount equal to the lesser of $13,565,000, 100 percent of the maximum annual installment payments, or 125 percent of average annual installment payments. A surety bond issued by FGIC has been obtained by the Water Authority and issued in satisfaction of this requirement. The certificates were paid in full at June 30, 2009.

(j) Contributions Payable

Contributions Payable concern the Water Authority's payment obligations for environmental and socioeconomic impacts related to the Quantification Settlement and other connected Agreements. These payments include contributions to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement, and payments to the IID on behalf of the Imperial Valley Socioeconomic Improvement Committee, the Local Entity, to mitigate third-party socioeconomic impacts of the Conserved Water Transfer Agreement.

9. Long-Term Liabilities, (continued)

(j) Contributions Payable, (continued)

(i) On April 25, 2007 the QSA JPA approved an agreement to modify the schedule of contributions payable pursuant to the QSA JPA Creation and Funding Agreement in order to more appropriately match environmental mitigation funding obligations. Contributions payable at June 30, 2010 was $47,158,795.

The total contributions payable with respect to the QSA JPA Creation and Funding Agreement are as follows:

QSA JPA

Year	Principal	Interest	Total
2011	$ -	$ 2,770,483	$ 2,770,483
2012	192,687	2,892,116	3,084,803
2013	678,281	2,817,966	3,496,247
2014	2,467,932	2,777,269	5,245,201
2015	2,662,795	2,629,194	5,291,989
2016-2020	21,437,233	9,183,033	30,620,266
2021-2025	17,778,982	4,756,701	22,535,683
2026	1,940,885	116,453	2,057,338
Total	$ 47,158,795	$ 27,943,215	$ 75,102,010

(ii) On May 14, 2007 the Water Authority and the IID executed the Settlement Agreement Resolving Present and Future Disputes under Sections 14.5 and 18.1 of the Revised Fourth Amendment to the IID/Water Authority Conserved Water Transfer Agreement pursuant to which the Water Authority will pay $40 million according to a payment schedule in the Agreement for third-party socioeconomic impacts as a result of the Conserved Water Transfer Agreement by and between the two agencies. The outstanding balance of the payment obligation on June 30, 2010 was $20,580,000.

The remaining total contributions payable are as follows:

IID Socioeconomic

Year	Principal	Interest	Total
2011	$ 2,940,000	$ -	$ 2,940,000
2012	2,940,000	-	2,940,000
2013	2,940,000	-	2,940,000
2014	2,940,000	-	2,940,000
2015	2,940,000	-	2,940,000
2016-2017	5,880,000	-	5,880,000
Total	$ 20,580,000	$ -	$ 20,580,000

9. Long-Term Liabilities, (continued)

(k) Rate Covenants

The General Resolution requires the Water Authority to set rates and charges to provide a minimum level of net revenue. Exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues as defined by the agreement must equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate covenants under the General Resolution.

In fiscal year 1990 the Water Authority established a water Rate Stabilization Fund (RSF) for the purpose of identifying amounts available to mitigate future water rate increases. The Water Authority will transfer portions of its net water revenues as defined, which exceed its debt service ratio requirement, into the RSF and from time to time transfer amounts from its RSF into net water revenues to meet its debt service coverage ratio requirements. No transfer was made during the fiscal year ended June 30, 2010 and 2009.

(l) Unamortized Bond Issuance Costs

Included in noncurrent assets at June 30, 2010 and 2009 are deferred financing costs of $17,282,596 and $12,263,098 respectively. The deferred financing costs are being amortized over the life of the related obligations.

10. Net Assets

Net assets as of June 30, 2009 have been restated as follows:

Beginning Net Assets, as previously reported	**$ 1,051,196,920**
Restatements to record capital assets not capitalized in prior years	79,846,618
Beginning Net Assets, as restated	**1,131,043,538**
Changes in net assets, as previously reported	75,468,535
Reduction of expenses to capitalize delay damages	827,976
Net Assets at End of Year, as restated	**$ 1,207,340,049**

Net assets as of June 30, 2009 were restated by $79,846,618 to properly capitalize the Coachella Valley Canal Lining project which was understated by the amount of funding received from grant revenues. The resulting adjustment was an increase in Construction in Progress and an increase in Net Assets.

In fiscal year 2009, the Water Authority expensed delay damages related to the Olivenhain-Hodges Pumped Storage Facility that should have been capitalized. The resulting adjustment was an increase in Construction in Progress and decrease in Operations and Maintenance expenses, resulting in an overall increase in Net Assets.

11. Defined Benefit Pension Plans

(a) California Public Employees Retirement System

Plan Description

The Water Authority contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employee's Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Copies of CalPERS' annual financial report may be obtained from their executive office at: Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Participants are required to contribute eight percent of their annual covered salary. Effective July 1, 2006, the Water Authority pays seven percent of the employees required contribution and the employee pays the remaining one percent required contribution. For the fiscal years ended June 30, 2010 and 2009, the amount contributed by the Water Authority on behalf of the employees was $2,047,687 and $1,967,727, respectively. Benefit provisions and all other requirements are established by state statute and contracts with employee bargaining groups.

Effective July 1, 2010, Technical/Support, Professional/Administrative, and Managerial/ Supervisory employees will increase the amount they pay toward their retirement plan (PERS) by one percent and an additional 2.5 percent effective July 1, 2011, for a total contribution of 4.5 percent. Executive, Senior Management, and Confidential employees will increase their contributions by 3.5 percent, effective July 1, 2010.

Annual Pension Cost and Net Pension Obligation

Under Governmental Accounting Standards Board Statement Number 27 for Pensions by State and Local Government Employees, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 is determined by an actuarial valuation of the plan as of June 30, 2007. The contribution rate indicated for the period is 16.204 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, this contribution rate was multiplied by the payroll of covered employees that was actually paid during the period July 1, 2009 to June 30, 2010.

Three-Year Trend Information			
Fiscal Year	Annual Pension Cost (APC)	% of APC Contribution	Net Pension Obligation
6/30/08	$ 4,086,199	100%	$ -
6/30/09	4,526,549	100%	-
6/30/10	4,771,669	100%	-

11. Defined Benefit Pension Plans, (continued)

(a) California Public Employees Retirement System, (continued)

Annual Pension Cost and Net Pension Obligation

A summary of principal assumptions and methods is shown below.

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	26 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75 percent (net of administrative expenses)
Projected Salary Increases	3.25 percent to 14.45 percent depending on age, service, and type of employment
Inflation	3.00 percent
Payroll Growth	3.25 percent
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00 percent and an annual production growth of 0.25 percent

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of six percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability (UAAL) to payroll.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios (AVA) (b)/(a)	Funded Ratios Market Value	Annual Covered Payroll (c)	UL as a % of Payroll [(a)-(b)]/(c)
6/30/06	$ 87,662,740	$ 64,402,460	$ 23,260,280	73.5%	77.4%	$ 23,460,216	99.1%
6/30/07	100,612,025	74,904,585	25,707,440	74.4%	85.0%	25,262,078	101.8%
6/30/08	111,911,416	84,191,512	27,719,904	75.2%	75.5%	26,399,083	105.0%

11. Defined Benefit Pension Plans, (continued)

(b) Terminal Pay Plan

Plan Description

The Water Authority established a Terminal Pay Plan (TPP) effective December 10, 2007, which is administered by the Water Authority's Controller who also serves as trustee. The TPP is a defined benefit pension plan established and governed under the Internal Revenue Code Section 401(a) that provides retirement benefits to participants. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant terminates employment with the Water Authority on or after reaching the age of 55.

Employees may elect benefits from the TPP be received in a lump sum or in monthly installments over a 60 month period (with no interest). Also, an employee has the right to elect that all or a portion of benefits be rolled over or transferred to an individual retirement account (IRA), a tax sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

Funding Policy

Contributions are made by the Water Authority to the TPP for eligible employees who terminate employment after age 55, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who separates from Water Authority service or retires are fully vested once they are accrued and the value of TPP benefits is the amount of an employee's terminal pay. No employee contributions are permitted.

Distribution

If the value of benefits is over $5,000, a distribution will only be made if the employee consents before April 1st following the calendar year in which they reach age 70½. If the value of an employee's vested benefit is $5,000 or less on the date of termination, benefits will be distributed in a single lump sum.

Changes or Termination of Plan

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

Fiscal Year Ended	Annual Required Contribution	Contributions Made	Percentage of Required Contributions Made
6/30/2008	$786,895	$786,895	100%
6/30/2009	273,335	273,335	100%
6/30/2010	123,716	123,716	100%

12. Other Post-Employment Benefits (OPEB)

Plan Description

The Water Authority has established a Retiree Healthcare Plan (the Plan), a single-employer defined benefit retiree healthcare plan. The Plan, which is administered by the Water Authority, provides employees who retire directly from the Water Authority at age 55 with five years of service a cash subsidy for monthly medical insurance premiums up to a cap of $200 per employee or $320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of $160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit. The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreement between the Water Authority and the bargaining units.

Employees who retire directly from the Water Authority at age 55 with five years of service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the Plan.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal years ended June 30, 2010 and 2009, the Water Authority's cash contributions were $72,133 and $59,268 in current premiums which covered 27 and 30 retirees or their spouses, respectively. The implied subsidy was provided to 33 and 35 retired Water Authority employees or spouses at June 30, 2010 and 2009, respectively.

Annual OPEB Cost and Net OPEB Obligation

The Water Authority's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation at June 30 is as follows:

	2010	2009
Annual required contribution	$ 446,000	$ 323,000
Interest on net OPEB obligation	18,000	9,000
Adjustment to annual required contribution	-	-
Amortization of net OPEB obligation	(28,000)	(8,000)
Annual OPEB cost	436,000	324,000
Contributions made	(157,000)	(139,000)
Increase in net OPEB obligation	279,000	185,000
Net OPEB obligation, beginning of year	364,000	179,000
Net OPEB obligation, end of year	**$ 643,000**	**$ 364,000**

12. Other Post-Employment Benefits (OPEB), (continued)

Annual OPEB Cost and Net OPEB Obligation, (continued)

The Water Authority's annual OPEB cost, the annual OPEB cost contributed to the Plan, and the net obligation for the fiscal year ended June 30, 2010 and the two preceding fiscal years were as follows:

Three-Year Trend Information			
Fiscal Year	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/08	$ 313,000	$ 134,000	$ 179,000
6/30/09	324,000	139,000	364,000
6/30/10	436,000	157,000	643,000

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress found below presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Type of Valuation	Actuarial Valuation Date	Actuarial Accrued Liability	Value of Assets	Unfunded Liability	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll	Interest Rate	Aggregate Payroll Growth
Actual	1/1/2007	$2,316,000	$ -	$2,316,000	0.00%	$22,985,000	10.08%	5.00%	3.25%
Actual	1/1/2009	2,997,000	-	2,997,000	0.00%	23,732,000	12.63%	5.00%	3.25%

Note: Based on the most current information available.

12. Other Post-Employment Benefits (OPEB), (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included (a) a five percent investment rate of return, net of administrative expenses, (b) a three percent general inflation rate, and (c) annual healthcare cost trend rates as follows: (i) HMO 9.1 percent, (ii) PPO 9.8 percent, and (iii) reduced by increments to an ultimate rate of 4.5 percent after ten years, and a payroll increase rate of 3.25 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30-year period. The UAAL is being amortized as a level percent of payroll over 30 years on a closed basis effective June 30, 2007. The remaining amortization period at June 30, 2010 was 27 years. The number of active plan participants was 272.

13. Deferred Compensation Plans & Defined Contribution Plans

The Water Authority has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. Generally, all eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. At June 30, 2010 and 2009 assets of the Plans totaled $22,999,765 and $20,411,340 respectively.

14. Insurance

The Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Authority is a participant in the Special District Risk Management Authority (SDRMA) pooled insurance program and obtains coverage for general liability, errors and omissions, employment practices liability, auto, property, boiler and machinery, and crime and fidelity coverage through the program. SDRMA liability coverage is $45.0 million per occurrence with a $50,000 deductible per occurrence. Property coverage is provided with a $1.0 billion per occurrence and aggregate coverage limit and a sub-limit of $100.0 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a $25,000 deductible per occurrence.

Liberty Mutual, formerly Wausau Insurance, provides workers' compensation coverage per California statutory limits with $1.0 million per occurrence employer's liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three years for all coverage types, individually and collectively.

In 1999, the Water Authority entered into an Owner Controlled Insurance Program (OCIP) to provide workers' compensation and general liability insurance to the contractors, and professional liability, pollution liability, and builders risk for the Emergency Storage Program, the Water Authority's long-term capital plan to increase water storage. In fiscal year 2009, the Water Authority obtained an extension of the OCIP at a cost of $15.0 million to cover the San Vicente Dam raise through fiscal year 2013. The OCIP also maintains a loss deduct account that is adjusted annually based upon loss experience and is capped at $9.1 million. Payments to the loss account are adjusted annually based on loss experience. The general liability deductible is $250,000 per occurrence. The primary policy coverage limit is $2.0 million per occurrence and $4.0 million in aggregate with excess liability coverage to $100.0 million aggregate and total coverage limit. The workers' compensation program provides full statutory coverage with a $250,000 deductible for each occurrence. The builders risk insurance has a variable deductible depending on the construction type and has a $50.0 million per occurrence maximum coverage limit.

15. Jointly Governed Organization

The Water Authority's payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenditures for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California's Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity.

16. Commitments and Contingencies

(a) Construction Projects

At June 30, 2010, the Water Authority had material commitments under construction contracts as follows:

Project Name		
Emergency Storage Projects (ESP) San Vicente Pipeline & Interconnect	$	8,500,000
Olivenhain-Hodges Pumped Storage		7,050,000
Mission Trails Tunnel		1,000,000
San Vicente Dam Raise (Foundation Excavation)		2,176,000
San Vicente Dam Raise (Roller-Compacted Concrete Dam & Facilities)		130,424,000
ESP San Vicente Pumping Facilities		1,520,000
Total	**$**	**150,670,000**

(b) Other Commitments

A "Base Contract Price Dispute Settlement Agreement" between IID and the Water Authority was entered into as of December 21, 2009. Previously, IID and the Water Authority had executed an April 29, 1998 agreement for the transfer of conserved water, and subsequent disagreements arose concerning the meaning, purpose and implementation of the base contract price formula for calendar years 2008 and 2009. Pursuant to the 1998 Transfer Agreement, disputes were to be resolved by procedures that included consensual settlement agreements and binding arbitration decisions. Prior to the commencement of arbitration, IID and the Water Authority agreed to settle the dispute and reached a compromise resolving the formula dispute as reflected in the 2009 settlement agreement, which became formally incorporated into the original 1998 Transfer Agreement as an amendment. The amendment included additional definitions and price modifications.

In December 2009 the Water Authority paid IID $6.0 million in partial satisfaction of the terms of the settlement agreement which represented the additional amount owed to IID for calendar years 2008 and 2009. A final settlement payment to IID for $50.0 million was due on October 1, 2010 per the amendment which stipulates that it is to be used for the exclusive purpose of paying for capital expenses.

(c) Litigation

The Water Authority is subject to lawsuits and claims which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operations, or liquidity of the Water Authority.

APPENDIX B

ECONOMY OF SAN DIEGO COUNTY

The Water Authority serves the foothill and coastal areas of the westerly third of San Diego County, sometimes referred to herein as "the County." Approximately 97% of the total population of the County lives within the service area of the Water Authority. Due to the close correspondence between the Water Authority service area and the County, a brief description of the economy of San Diego County is provided below.

General

San Diego County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the California-Mexico border north to Orange County, and inland 75 miles east to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains to fertile inland valleys and mountain ranges to the east, rising to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. Average annual rainfall in the coastal region is approximately ten inches.

In addition to the City of San Diego, other principal cities are Chula Vista, Carlsbad, Oceanside, El Cajon, Escondido, La Mesa, National City, San Marcos, Poway, Santee and Vista. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted with avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

Population

There are 18 incorporated cities and a number of unincorporated communities in the County. The County's population was estimated to be 3,239,223 as of July 1, 2010.

The following table shows changes in the population in the County, the State of California and the United States for the years 2000 to 2010.

POPULATION ESTIMATES[(1)]
(In thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States	Percent Change
2000	2,836	--	34,095	--	282,165	--
2001	2,892	1.98	34,766	1.97	285,049	1.02
2002	2,948	1.94	35,361	1.71	287,745	.94
2003	2,994	1.55	35,944	1.65	290,242	.86
2004	3,025	1.04	36,454	1.42	292,936	.92
2005	3,053	.91	36,899	1.22	295,618	.91
2006	3,077	.79	37,274	1.02	298,431	.95
2007	3,116	1.28	37,655	1.02	301,393	.99
2008	3,172	1.78	38,155	1.33	304,177	.92
2009	3,208	1.15	38,476	.84	306,656	.81
2010	3,239	.95	38,826	.91	308,745[(2)]	--[(2)]

Sources: State of California Department of Finance for County and State; U.S. Bureau of the Census for United States.
(1) As of July 1 of the year shown. All County and State data, and United States data for 2000-2009, have not been updated to reflect 2010 Census results.
(2) 2010 Census result; percent change not shown as data are not directly comparable.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,558,200 in 2010, while the number of employed workers in the labor force averaged approximately 1,393,900. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 2006 through 2010.

LABOR FORCE - EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 2006-2010
By Place of Residence
(In Thousands)

	2006	2007	2008	2009	2010
County of San Diego					
Labor Force	1,499.9	1,518.3	1,547.3	1,554.1	1,558.2
Employment	1,440.4	1,449.5	1,455.1	1,404.5	1,393.9
Unemployment Rate	4.0%	4.5%	6.0%	9.6%	10.5%
State of California					
Labor Force	17,686.7	17,928.7	18,191.0	18,204.2	18,176.2
Employment	16,821.3	16,970.2	16,883.4	16,141.5	15,916.3
Unemployment Rate	4.9%	5.3%	7.2%	11.3%	12.4%
United States					
Labor Force	151,428.0	153,124.0	154,287.0	154,142.0	153,889.0
Employment	144,427.0	146,047.0	145,362.0	139,877.0	139,064.0
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.6%

Sources: State Data - California Employment Development Department; National Data - U.S. Department of Labor, Bureau of Labor Statistics.
* Data not seasonally adjusted.

The following table sets forth the annual average employment within the County, by employment sector, for Fiscal Year 2006-07 through Fiscal Year 2009-10.

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
FISCAL YEAR ANNUAL AVERAGES
2007-2010
(In Thousands)

	Fiscal Year Ended June 30,			
Employment Sector	**2007**	**2008**	**2009**	**2010**
Mining	0.4	0.4	0.4	0.4
Construction	87.0	76.1	61.1	55.5
Manufacturing	102.5	102.8	95.3	92.4
Wholesale and Retail Trade	193.6	186.9	172.2	169.2
Transportation, Warehousing and Utilities	28.8	29.0	27.4	27.5
Services				
Information	31.3	31.4	28.2	25.2
Financial Activities	80.3	75.2	69.8	67.1
Professional and Business Services	223.2	222.3	206.8	208.0
Educational and Health Services	129.5	137.3	144.3	147.1
Leisure and Hospitality	161.8	164.0	154.8	154.6
Other Services	48.3	48.4	46.8	47.2
Government	22.4	225.1	224.5	226.0
Total, All Non-Farm Industries	1,308.8	1,298.7	1,231.4	1,220.2

Source: California Employment Development Department.

Regional Economy

In recent years, the County has enjoyed economic stability, outpacing the State economy. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

The County Gross Domestic Product ("GDP") for 2010 was estimated at $174.8 billion. The GDP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GDP from 2006 through 2010.

COUNTY OF SAN DIEGO
GROSS DOMESTIC PRODUCT
2006-2010

Year	**Gross Domestic Product (In Billions)**	**Annual Percent Change**
2006	$155.5	--
2007	162.1	4.3%
2008	169.3	4.4
2009	168.8	(0.3)
2010*	174.8	3.6

Source: National University System Institute for Policy Research.
* Estimate

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. According to a Military Economic Impact Study by the San Diego Military Advisory Council, the U.S. Department of Defense contributes approximately $30.5 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The following table presents the top ten employers in the County in 2010.

COUNTY OF SAN DIEGO
TOP TEN EMPLOYERS
2010

Employer	Rank	Number of Employees
Marine Corps Base, Camp Pendleton	1	46,000
Federal Government	2	44,800
State of California	3	42,800
University of California, San Diego	4	26,000
United States Navy	5	26,000
County of San Diego	6	19,000
City of San Diego	7	17,900
San Diego Unified School District	8	15,924
Sharp HealthCare	9	14,564
Scripps Health	10	12,700

Source: The Daily Transcript.

Building Activity

In recent years, building activity in the County has slowed due to general economic conditions and measures limiting new housing in effect in areas throughout the County. Building permit valuation for both residential and non-residential construction in the County in 2010 increased over 2009 levels by approximately 12% and in 2009 decreased from 2008 levels by approximately 39%.

Annual total building permit valuation and the annual unit total of new residential permits from 2006 through 2010 are shown in the following table.

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
(in Thousands)

	2006	2007	2008	2009	2010
Valuation					
Residential	$2,470,685	$1,852,381	$1,339,245	$878,700	$974,490
Non-Residential	1,621,608	1,416,823	1,061,802	583,969	658,867
Total	$4,092,293	$3,269,204	$2,401,047	$1,462,669	$1,633,357
New Housing Units					
Single Family	4,753	3,503	2,352	1,786	2,254
Multiple Family	6,024	3,942	2,802	1,204	1,092
Total	10,777	7,445	5,154	2,990	3,346

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for 2009 resulted in approximately $39,728,657,000 in taxable sales in the County. The following table sets forth information regarding taxable sales in the County from 2005 to 2009.

COUNTY OF SAN DIEGO
TAXABLE SALES
2005-2009
(000's Omitted)

Type of Business	2005	2006	2007	2008	2009[2]
Apparel Stores	$ 1,798,104	$ 1,909,011	$ 2,034,512	$ 2,205,568	$ 2,560,683
General Merchandise	5,406,091	5,594,621	5,673,538	5,305,252	4,254,037
Specialty stores	4,728,028	4,926,656	N/A[1]	N/A[1]	--
Food Stores	1,858,152	1,928,274	1,994,237	1,868,466	1,934,812
Home Furnishings/Appliances	1,566,046	1,511,389	1,420,933	1,590,329	2,024,448
Eating and Drinking Establishments	4,267,302	4,521,392	4,784,500	4,869,497	4,717,292
Building Materials and Group	3,376,009	3,331,161	2,768,385	2,183,006	1,841,740
Automotive	9,739,136	9,819,932	10,077,108	9,164,549	7,349,346
Sporting Goods, Hobbies, Books and Music	--	--	--	--	989,236
Health and Personal Care	--	--	--	--	732,221
All Other Retail Stores	1,045,927	1,076,631	5,285,332	4,529,006	1,554,705
Business and Personal Services	2,239,304	2,302,057	2,298,265	2,255,309	--
All Other Outlets	10,655,372	10,914,390	11,149,178	11,358,155	11,770,139
TOTAL ALL OUTLETS	$46,679,471	$47,835,514	$47,485,988	$45,329,136	$39,728,657

Source: California State Board of Equalization, Taxable Sales in California.

[1] In 2007 and 2008, specialty stores are included in the "All Other Retail Stores" category.

[2] In 2009, various "Type of Business" categories were regrouped and renamed, so data other than total sales may not be directly comparable to prior years.

Transportation

Surface, sea, and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and eight general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $7.08 billion in 2010, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately $122 million from the prior year. San Diego County hosted 64 conventions and trade shows in 2010, attended by approximately 544,000 delegates.

Education

Forty-four independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are five types of school districts: elementary, union high, unified, county office of education and statewide benefit charter. Elementary school districts educate elementary students, union high school districts educate for the most part secondary students, and unified school districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts, one county office of education and one statewide benefit charter in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California at San Diego, National University, the University of San Diego, Point Loma College, California State University – San Marcos, Alliant International University, and the University of Phoenix.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

CERTAIN DEFINITIONS

The following are definitions of certain terms as used in this Official Statement.

"Accreted Value" means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates, as of the date of calculation, the initial amount thereof plus the interest owed thereon to such date of calculation, compounded from the date of initial delivery at the appropriate interest rate thereof on each semiannual date specified with respect thereto, as determined in accordance with the table of accreted values for any Capital Appreciation Bonds or Capital Appreciation Certificates prepared by the Water Authority at the time of sale thereof, assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of three hundred sixty (360) days composed of twelve (12) months of thirty (30) days each.

"Accreted Value Payment Date" means any Installment Payment Date on which Accreted Value is payable.

"Bond or Contract Reserve Fund" means any debt service reserve fund established to secure the payment of Bond Payments or Installment Payments.

"Bond Payments" means the principal and interest payments scheduled to be paid by the Water Authority on Bonds.

"Bonds" means all revenue bonds of the Water Authority authorized, executed, issued and delivered by the Water Authority under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Bonds and Contracts.

"Business Day" means any day (other than a Saturday or a Sunday) on which banks in New York, New York, are open for business and on which the Trustee is open for business at its Principal Corporate Trust Office.

"Capital Appreciation Bonds" means any Bonds described as such when issued.

"Capital Appreciation Certificates" means any certificates of participation in Installment Payments described as such when issued.

"Certificate of the Water Authority" means an instrument in writing signed by the Chair, the Vice Chair, the General Manager or the Director of Finance/Treasurer of the Water Authority, or by any other officer of the Water Authority duly authorized by the Board of Directors for that purpose.

"Code" means the Internal Revenue Code of 1986 and all then applicable regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

"Contracts" means Installment Sale Agreements, Leases and Contracts of Indebtedness.

"Contracts of Indebtedness" means contracts of indebtedness or similar obligations of the Water Authority authorized and executed by the Water Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with all other Contracts and Bonds.

"Current Water Revenues" means all gross income and revenue received or receivable by the Water Authority from the ownership or operation of the Water System, determined in accordance with Generally Accepted

Accounting Principles, including all rates, fees and charges (including connection fees and charges and standby charges) received by the Water Authority for the Water Service and the other services of the Water System and all other income and revenue howsoever derived by the Water Authority from the ownership or operation of the Water System or arising from the Water System, and also including (1) all income from the deposit or investment of any money in the Water Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, and (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract Reserve Fund or other fund established pursuant to a Trust Agreement to the extent such income will be available to pay Bond Payments or Installment Payments, but excluding any Interest Subsidy Payments, any proceeds of taxes and any refundable deposits made to establish credit and advances or contributions in aid of construction.

"Debt Service" means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amount of all outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, and (4) that portion of the Installment Payments required to be made at the times provided in the Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Payment Date of interest or principal or the date of the pertinent Contract, as the case may be; *provided*, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value payment shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate; (b) if any of such Bonds or if the Installment Payments due under such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (1) the current interest rate calculated pursuant to the provisions of the terms of such Bonds or Contracts (with respect to the issuance of Bonds or the execution of Contracts pursuant to the General Resolution, the initial interest rate on such Bonds or Contracts), or, (2) if available, the average interest rate on such Bonds or Contracts during the thirty-six (36) months preceding the date of calculation or, (3) if such Bonds or Contracts have not been outstanding for such thirty-six month period (or with respect to the issuance of Bonds or the execution of Contracts pursuant to the General Resolution), such average interest rate on comparable debt of a state or political subdivision of a state which debt is then rated by the rating agencies rating such Bonds or Contracts in a rating category equivalent to the rating on such Bonds or Contracts; and (c) if 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the Water Authority, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Contracts or twenty (20) years, whichever is greater; *provided further*, that "Debt Service" shall not include (1) payments due on voter-approved general obligation bonds and other voter-approved general obligation debts for which taxes are then being levied and collected, (2) interest on Bonds or Contracts which is to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement or (3) interest on Bonds or Contracts which is to be paid from Interest Subsidy Payments.

"Federal Securities" means non-callable direct obligations of the United States of America ("Treasuries") or evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Generally Accepted Accounting Principles" means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other

generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

"Independent Certified Public Accountant" means any firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the Water Authority, and each of whom --

(1) is in fact independent and not under the domination of the Water Authority;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the Water Authority; and

(3) is not connected with the Water Authority as a member of the Board of Directors or an officer or employee of the Water Authority, but may be regularly retained to audit the accounting records of and make reports thereon to the Water Authority.

"Installment Payment Date" means any date on which Bond Payments or Installment Payments are scheduled to be paid by the Water Authority under and pursuant to any Contract or Bonds.

"Installment Payments" means Contract Payments, Installment Sale Payments or Lease Payments.

"Interest Subsidy Payments" means cash subsidy payments entitled to be received by the Water Authority from the United States Treasury with respect to Bonds issued and Contracts executed by the Water Authority, including, but not limited to, "Build America Bonds" issued as contemplated by the American Recovery and Reinvestment Act of 2009.

"Law" means the County Water Authority Act, being California Water Code Appendix, Sections 45-1 *et seq.,* and all laws amendatory thereof or supplemental thereto.

"Lease Payments" means the rental payments scheduled to be paid by the Water Authority under and pursuant to Leases.

"Leases" means capital leases or similar obligations of the Water Authority authorized and executed by the Water Authority under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues on a parity with the payment of all other Contracts and Bonds.

"Maintenance and Operation Costs" means all costs paid or incurred by the Water Authority for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased by the Water Authority for resale, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water Authority, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the Water Authority or charges required to be paid by it to comply with the terms of the General Resolution or of any resolution authorizing the execution of any Contract or of such Contract or of any resolution authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Contracts or Bonds and fees and expenses of independent certified public accountants, but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of *ad valorem* property taxes).

"Monthly Accrued Debt Service" means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts accrued and to accrue to the end of such month; provided, in calculating the amount of Monthly Accrued Debt Service (i) Accreted Value with respect to Capital Appreciation Bonds and Capital Appreciation Certificates shall be deemed to accrue over the twelve-month period immediately preceding the scheduled redemption or prepayment date of such Capital Appreciation Bond or Capital Appreciation

Certificate, (ii) the adjustment to principal described in provision (c) of the definition of Debt Service shall not be made and (iii) if the interest on any Bonds or Installment Payments due under any Contract bear interest payable pursuant to a variable rate formula, the amount of interest deemed to accrue during any period shall be the actual interest borne by such Bonds or Installment Payments during such period.

"Net Water Revenues" means, for any Fiscal Year or other period, the Water Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period.

"Obligation" means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debts, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operations Costs.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Water Authority.

"Outstanding," when used as of any particular time with reference to Series 2011S-1 Bonds, means (subject to the provisions of respecting disqualified bonds) all Series 2011S-1 Bonds executed, authenticated and delivered hereunder except --

(1) Series 2011S-1 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Series 2011S-1 Bonds paid or deemed to have been paid; and

(3) Series 2011S-1 Bonds in lieu of or in substitution for which other Series 2011S-1 Bonds shall have been executed by the Water Authority and authenticated and delivered by the Trustee.

"Owner" means the registered owner of any Outstanding Series 2011S-1 Bond, as shown in the registration books maintained by the Trustee.

"Permitted Investments" means any of the following to the extent then permitted by law:

(1) Federal Securities;

(2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board or the Tennessee Valley Authority, or obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association, or guaranteed portions of Small Business Administration notes, or obligations, participations or other instruments of or issued by a federal agency or a United States of America government-sponsored enterprise;

(3) Any obligations which are then legal investments for moneys of the Water Authority under the laws of the State; provided, that if such investments are not required to be collateralized or insured such investments shall be issued by entities the debt securities of which are rated in one of the three highest short-term or long-term rating categories by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("Standard & Poor's"); provided further, that any repurchase agreements must be fully secured by collateral security described in clauses (1) and (2) of this definition, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement and in which collateral the Trustee has a perfected first security interest, (b) has a market value determined on a daily basis at least equal to 102% of the amount so invested, and (c) which collateral may be liquidated within seven days if the market value of such collateral is at any time less than the amount so invested;

(4) Guaranteed investment contracts with entities the long-term, unsecured debt obligations of which are rated (1) in one of the two highest long-term rating categories by Moody's and Standard & Poor's (or whose payment obligations under such guaranteed investment contract are insured or guaranteed by an entity the unsecured obligations of which are so rated) or (2) in one of the three highest long-term rating categories by Moody's and Standard & Poor's (or whose payment obligations under such guaranteed investment contract are insured or guaranteed by an entity the unsecured obligations of which are so rated) if fully collateralized by collateral described in clauses (1) and (2) marked to market at least weekly;

(5) Units of a money-market fund portfolio composed of or collateralized by obligations guaranteed by the full faith and credit of the United States of America, and, with respect to investments of less than one hundred thousand dollars ($100,000), money market funds which are maintained by a banking department of the Trustee so long as the Trustee or its parent has a combined capital and surplus of at least fifty million dollars ($50,000,000);

(6) Tax-exempt obligations of a state or a political subdivision thereof which are rated in one of the two highest short-term or long-term rating categories by Moody's and Standard & Poor's;

(7) Tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions with Federal Securities and which are rated in the highest rating category by Moody's and Standard & Poor's;

(8) The Local Agency Investment Fund administered by the State of California; and

(9) Shares in the California Asset Management Program (CAMP).

"Principal Corporate Trust Office" means the corporate trust office of the Trustee in Los Angeles, California; provided, that for the purposes of the transfer, registration, exchange, payment and surrender of the Series 2011S-1 Bonds, the term "Principal Corporate Trust Office" shall mean the corporate trust office of the Trustee in St. Paul, Minnesota, or such other office designated by the Trustee from time to time.

"Reimbursement Agreement" means an agreement between the Water Authority and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments and requiring the Water Authority to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water Revenues on a parity with all Contracts and Bonds.

"Reimbursement Payments" means amounts payable by the Water Authority as compensation or reimbursement for a draw on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments in accordance with any Reimbursement Agreement.

"State" means the State of California.

"Subordinate Obligations" means obligations of the Water Authority authorized and executed by the Water Authority under applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Bond Payments and Installment Payments.

"Supplemental Indenture" means any indenture then in full force and effect which has been executed by the Water Authority and the Trustee, amendatory hereof or supplemental hereto; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Tax Certificate" means the Amended and Restated Tax Certificate delivered by the Water Authority at the time of the issuance and delivery of the Series 2011S-1 Bonds, as the same may be amended or supplemented in accordance with its terms.

"Trust Agreement" means any indenture or trust agreement providing for the issuance of Bonds or Certificates.

"Water Service" means the water service furnished, made available or provided by the Water System.

"Water System" means all property rights, contractual rights and facilities of the Water Authority, including all facilities for the conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith now owned by the Water Authority and all other properties, structures or works for the conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith hereafter acquired and constructed by or for the Water Authority and determined by the Water Authority to be a part of the Water System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

"Written Request of the Water Authority" means an instrument in writing signed by the Chair, the Vice Chair, the General Manager or the Director of Finance/Treasurer of the Water Authority, or by any other officer of the Water Authority duly authorized by the Board of Directors for that purpose.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The following is a summary of certain provisions of the General Resolution. This summary does not purport to be complete or definitive and it is qualified in its entirety by reference to provisions of the General Resolution.

Establishment of Funds

The Water Authority establishes and agrees to maintain, so long as any Bonds, Certificates or Subordinate Obligations remain outstanding, a Rate Stabilization Fund, a Water Revenue Fund, an Installment Payment Fund, a Subordinate Obligation Payment Fund and a General Reserve Fund. Each of these funds will be held by the Director of Finance of the Water Authority. Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes set forth in the General Resolution and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Water Authority. The Water Authority will only have such beneficial right or interest in money as is provided in the General Resolution.

Deposits and Withdrawals from the Rate Stabilization Fund

From time to time the Water Authority may deposit in the Rate Stabilization Fund from Current Water Revenues such amounts as the Water Authority shall determine. All amounts transferred by the Water Authority from the Rate Stabilization Fund to the Water Revenue Fund shall be used by the Water Authority solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water Revenues.

Use of Other Funds

The Water Authority may withdraw amounts from the Installment Payment Fund solely for the purpose of paying Bond Payments, Installment Payments and Reimbursement Payments at the times and in the amounts required by applicable Bonds, Contracts, Trust Agreements and Reimbursement Agreements.

The Water Authority may withdraw amounts from the Subordinate Obligation Fund solely for the purpose of paying payments to be made under or pursuant to Subordinate Obligations at times and in the amounts required by applicable Subordinate Obligations or trust agreements or indentures securing such Subordinate Obligations.

The Water Authority may withdraw money in the General Reserve Fund for any lawful purpose of the Water Authority, except to make transfers to the Rate Stabilization Fund.

Additional Covenants of the Water Authority

Against Encumbrances. The Water Authority will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the Water Authority in, upon, about or relating to the Water System and will keep the Water System free of any and all liens against any portion of the Water System. In the event any such lien attaches to or is filed against any portion of the Water System, the Water Authority will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the Water Authority desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Water Authority will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The Water Authority will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Water Revenues, and will not enter into any agreement or lease which would impair the operation of the Water System or any part thereof necessary to secure adequate Net Water Revenues for the payment of Bond Payments, Installment Payments or Subordinate Obligation Payments, or which would otherwise impair the

rights of the holders of Bonds or certificates of participation evidencing interests in Installment Payments with respect to the Net Water Revenues or the operation of the Water System; *provided*, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water Revenues below the requirements of the Water Authority's rate covenant.

Maintenance and Operation of the Water System. The Water Authority will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

Compliance with Contracts. The Water Authority will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the Water Authority is a party thereto.

No Superior Liens. The Water Authority will not create or allow any lien on or payment from the Net Water Revenues or any part thereof prior or superior to the obligation to make the Bond Payments or Installment Payments as provided in the General Resolution or which might impair the security of the Bond Payments or Installment Payments other than Subordinate Obligations.

Insurance. The Water Authority will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water System; provided, the Water Authority shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided, further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities, properties, structures and works similar to the Water System.

Payment of Taxes and Compliance with Governmental Regulations. The Water Authority will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof when the same shall become due. The Water Authority will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the Water Authority shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates, Fees and Charges. The Water Authority will charge and collect or cause to be collected the rates, fees and charges applicable to the Water Service and will not permit any part of the Water System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof); *provided*, that the Water Authority may without charge use the Water Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, or if the Water Authority receives any insurance proceeds resulting from a casualty loss to the Water System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed components of the Water System.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Pledge of Net Water Revenues

The Series 2011S-1 Bonds shall constitute "Subordinate Obligations" under the General Resolution secured by a pledge of Net Water Revenues as provided therein. The Owners shall be beneficiaries of all of the obligations assumed by the Water Authority and the covenants made by the Water Authority in the General Resolution. In addition, all amounts (including proceeds of the sale of the Series 2011S-1 Bonds) held by the Trustee in any fund or account established under the Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of the Series 2011S-1 Bonds as provided in the Indenture and shall not be used for any other purpose while any of the Series 2011S-1 Bonds remain Outstanding; provided, however, that out of such moneys there may be applied such sums for such purposes as are permitted under the Indenture.

Payment of Series 2011S-1 Bonds

In order to carry out and effectuate the pledge and lien contained in the Indenture, the Water Authority agrees and covenants that on or before the Business Day immediately preceding January 1 and July 1 of each year, beginning January 1, 2012, the Water Authority shall, from amounts in the Subordinate Obligation Payment Fund (on a parity with the payment of other Subordinate Obligations), transfer to the Trustee for deposit in the Debt Service Fund a sum equal to the amount of interest and principal becoming due on the next succeeding January 1 or July 1, as the case may be; provided, no such transfer need be made if the amount on deposit in the Debt Service Fund is at least equal to the amount of interest and principal becoming due and payable on the Series 2011S-1 Bonds on such January 1 or July 1, as the case may be. All money on deposit in the Debt Service Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on and principal of the Series 2011S-1 Bonds as such interest and principal become due and payable.

The Water Authority shall, on or before the date of redemption of any Series 2011S-1 Bonds, transfer or cause to be transferred to the Trustee for deposit in the Redemption Fund, a sum equal to the redemption price of the Series 2011S-1 Bonds to be redeemed on such date. All money in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the redemption price of Series 2011S-1 Bonds called for redemption.

Deposit and Investments of Money in Accounts and Funds

Subject to the Water Authority's tax covenants, all money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Permitted Investments at the Written Request of the Water Authority. Such investments shall mature on or before the dates on which such money is anticipated to be needed for disbursement hereunder. Subject to the Water Authority's tax covenants, all interest or profits received shall be deposited in the Debt Service Fund.

Covenants of the Water Authority

Punctual Payment. The Water Authority will punctually pay the interest on and principal of the Series 2011S-1 Bonds in strict conformity with the terms of the Indenture and of the Series 2011S-1 Bonds, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture and in the Series 2011S-1 Bonds required to be observed and performed by it.

Compliance with the General Resolution. The Water Authority shall perform all the obligations assumed by the Water Authority under, and shall comply with all the covenants made by the Water Authority in, the General Resolution. The Water Authority shall not modify, amend or supplement the General Resolution except with the written consent of the Trustee, which consent shall be given only if the Trustee has been furnished an Opinion of Counsel or a Certificate of the Water Authority to the effect that such amendment or supplement is not materially

adverse to the interests of the Owners, including, but not limited to, modifications, amendments or supplements (i) to add to the agreements and covenants of the Water Authority other agreements and covenants to be observed, or to surrender any right or power therein reserved to the Water Authority, or (ii) to cure, correct or supplement any ambiguous or defective provision contained therein, or (iii) to resolve questions arising thereunder as the Water Authority may deem necessary or desirable, and which do not adversely affect the interests of the Owners; provided, that the Trustee may consent to any modification or amendment of or supplement to the General Resolution if it first obtains the written consent of the Owners of at least a majority in aggregate principal amount of the Series 2011S-1 Bonds then Outstanding to such modification, amendment or supplement.

By its purchase of Series 2011S-1 Bonds, each Owner consents to the amendment to the General Resolution proposed to be effected by Resolution 2009-23 adopted by the Board of Directors of the Water Authority on December 17, 2009.

Accounting Records and Reports**.** The Water Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Water Revenues, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. The Water Authority shall also keep or cause to be kept such other information as required under the Tax Certificate.

Tax Covenants and Matters; Rebate Fund**.** The Water Authority agrees and covenants to establish and maintain with the Trustee a fund separate from any other fund established and maintained hereunder to be known as the Rebate Fund. Upon receipt of a Written Request of the Water Authority, there shall be deposited in the Rebate Fund such amounts furnished by the Water Authority as are required to be deposited therein pursuant to the Tax Certificate, and all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as that term is defined in the Tax Certificate), for payment to the United States of America. All amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this section and by the Tax Certificate and by all Written Requests of the Water Authority related thereto filed with the Trustee, and the Trustee shall follow all such Written Requests of the Water Authority, and shall have no liability or responsibility to enforce compliance by the Water Authority with the terms of the Tax Certificate; *provided*, that if the Water Authority shall provide to the Trustee an Opinion of Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest with respect to the Series 2011S-1 Bonds, the Water Authority and the Trustee may conclusively rely on such opinion in complying with the requirements of this section, and, notwithstanding anything to the contrary contained herein, the agreements and covenants hereunder shall be deemed to be modified to that extent.

Issuance of Refunding Bonds. Unless the Series 2011S-1 Bonds have been paid or defeased pursuant the provisions of the Indenture, the Water Authority shall use commercially reasonable efforts to issue, not less than 30 days prior to the Maturity Date, refunding bonds or other debt instruments to refund the 2011S-1 Bonds in the manner and upon terms determined by the Board of Directors of the Water Authority.

Further Assurances**.** The Water Authority will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Indenture.

The Trustee

U.S. Bank National Association, shall serve as the Trustee for the Series 2011S-1 Bonds for the purpose of receiving all money which the Water Authority is required to deposit with the Trustee thereunder and for the purpose of allocating, applying and using such money as provided therein.

The Water Authority may at any time, unless there exists any Event of Default, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a principal corporate trust office in the United States of America, having a combined capital (exclusive of borrowed capital) and surplus

of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state agency. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Water Authority and by mailing to the Owners notice of such resignation. Upon receiving such notice of resignation, the Water Authority shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required by the Indenture.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company for which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the Indenture, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default that may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied duties or obligations shall be read into this Indenture. The Trustee shall, during the existence of any Event of Default (that has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

Protection of the Trustee

The Trustee shall be protected and indemnified by the Water Authority, and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the Water Authority or pursuant to any of the provisions of the Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the Water Authority, with regard to legal questions arising under the Indenture, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Indenture, and shall not be deemed to have knowledge of any Event of Default unless and until it shall have actual knowledge thereof or have received written notice thereof at its Principal Corporate Trust Office. All recitals, warranties or representations contained therein are statements of the Water Authority, and the Trustee assumes no responsibility for their correctness, and the Trustee shall not be accountable for the use or application by the Water Authority, or any other party, of any funds which the Trustee properly releases to the Water Authority or which the Water Authority may otherwise receive from time to time. The Trustee makes no representation concerning, and has no responsibility for, the validity, genuineness, sufficiency, or performance by parties other than the Trustee of the Indenture, any Series 2011S-1 Bond, or of any other paper or document, or for taking any action on them (except as specifically and expressly stated for the Trustee in the Indenture), or with respect to any obligation of the Water Authority hereunder or for the sufficiency of any insurance on the Water System.

Whenever in the observance or performance of its rights and obligations under the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Water Authority, and such certificate shall be full

warrant to the Trustee for any action taken or suffered under the provisions hereof upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee shall not be answerable for the exercise of any of its rights under the Indenture or for the performance of any of its obligations thereunder or for anything whatsoever in connection with the funds established thereunder, except only for its own willful misconduct or negligence.

No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial or other liability or risk in the performance of any of its obligations thereunder, or in the exercise of any of its rights thereunder, and before taking any action hereunder the Trustee may require that indemnity satisfactory to it be furnished for all expenses to which it may be put and to protect it from all liability thereunder.

The Trustee shall not be liable with respect to any action taken or not taken by it in accordance with the direction of the Owners of a majority (or other percentage provided for herein) in aggregate principal amount of the Series 2011S-1 Bonds at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Indenture or any other trust or power conferred upon the Trustee.

Under no circumstances shall the Trustee be liable in its individual or personal capacity for the Series 2011S-1 Bonds.

The Trustee is not responsible for any statements in any official statement or other offering material prepared with respect to the Series 2011S-1 Bonds.

Amendment of the Indenture

The Indenture and the rights and obligations of the Water Authority, the Trustee and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Series 2011S-1 Bonds then Outstanding, exclusive of disqualified Series 2011S-1 Bonds, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of any Series 2011S-1 Bond without the express written consent of the Owner of such Series 2011S-1 Bond, (2) reduce the percentage of Series 2011S-1 Bonds required for the written consent to any such amendment, or (3) modify any rights or obligations of the Trustee or the Water Authority without their prior written assent thereto, respectively.

The Indenture and the rights and obligations of the Water Authority and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery without the consent of the Owners, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Owners, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required in the Indenture to be performed by the Water Authority other agreements and covenants thereafter to be performed by the Water Authority, or to surrender any right or power reserved herein to or conferred herein on the Water Authority;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising under the Indenture which the Water Authority may deem desirable or necessary and not inconsistent therewith; or

(c) to add to the agreements and covenants required herein, such agreements and covenants as may be necessary to qualify the Indenture under the Trust Indenture Act of 1939.

The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Series 2011S-1 Bonds held by such Owner, provided that due notation thereof is made on such Series 2011S-1 Bonds.

Events of Default and Remedies

Events of Default and Acceleration of Maturities**.** If one or more of the following events (herein an "Event of Default") shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the interest on any Series 2011S-1 Bond when and as the same shall become due and payable;

(b) If default shall be made in the due and punctual payment of the principal of or the redemption premium, if any, on any Series 2011S-1 Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(c) If default shall be made by the Water Authority in the observance or performance of any of the other agreements, conditions, covenants or terms on its part contained herein or in the Series 2011S-1 Bonds, and such default shall have continued for a period of thirty (30) days after the Water Authority shall have been given notice in writing of such default by the Trustee; *provided*, that such default shall not constitute an Event of Default hereunder if the Water Authority shall commence to cure such default within such thirty (30)-day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time; or

(d) If the Water Authority shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America or the State, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Water Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or the State, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Water Authority or of the whole or any substantial part of its property; then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of a majority in aggregate principal amount of the Series 2011S-1 Bonds at the time Outstanding shall, by notice in writing to the Water Authority, declare the principal of all of the Series 2011S-1 Bonds then Outstanding and the interest accrued thereon to be immediately due and payable, and upon any such declaration the same shall become due and payable, anything contained herein or in the Series 2011S-1 Bonds to the contrary notwithstanding; *provided*, that if at any time after the principal of the Series 2011S-1 Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due thereunder shall have been obtained or entered, the Water Authority shall deposit with the Trustee a sum sufficient to pay all principal on the Series 2011S-1 Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Series 2011S-1 Bonds, with interest at the rate of twelve per cent (12%) per annum on such overdue installments of interest and principal, and all expenses of the Trustee, including attorneys' fees, together with interest on any amounts advanced as provided herein, and any and all other defaults known to the Trustee (other than in the payment of interest and principal on the Series 2011S-1 Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee (or provision deemed by the Trustee to be adequate shall have been made therefor), then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Series 2011S-1 Bonds then Outstanding, by written notice to the Water Authority and to the Trustee, may (on behalf of the Owners of all the Series 2011S-1 Bonds) rescind and annul such declaration and its consequences; except that no such rescission or annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right consequent thereon.

Application of Funds Upon Acceleration**.** All money in the funds provided in the Indenture (except the Rebate Fund) upon the date of the declaration of acceleration by the Trustee, shall be applied by the Trustee in the following order:

First, to the payment of the costs, fees and expenses of the Trustee, if any, in carrying out the provisions of the Indenture relating to the exercise of remedies, including reasonable compensation to its agents, attorneys and counsel, and thereafter to the payment of the costs and expenses of the Owners in providing for the declaration of such Event of Default, including reasonable compensation to their agents, attorneys and counsel;

Second, upon presentation of the several Series 2011S-1 Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount

then owing and unpaid upon the Series 2011S-1 Bonds for interest and principal, with interest on the overdue interest and principal at the rate of twelve per cent (12%) per annum, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Series 2011S-1 Bonds, then to the payment of such interest, principal and interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal, ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Institution of Legal Proceedings by Trustee**.** If one or more of the events of default shall happen and be continuing, the Trustee may, and upon the written request of the Owners of a majority in principal amount of the Series 2011S-1 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Series 2011S-1 Bonds under the Indenture by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties hereunder.

Non-Waiver**.** Nothing in the Indenture, or in the Series 2011S-1 Bonds, shall affect or impair the obligation of the Water Authority, which is absolute and unconditional, to pay the interest on and the principal of the Series 2011S-1 Bonds to the respective Owners of the Series 2011S-1 Bonds at the scheduled dates of maturity or upon prior redemption as herein provided out of the funds provided herein pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Series 2011S-1 Bonds and herein.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach, and no delay or omission by any Owner to exercise any right accruing upon any default hereunder shall impair any such right or shall be construed to be a waiver of any such default or an acquiescence therein, and every remedy conferred upon the Owners by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the Water Authority, the Trustee and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Actions by Trustee as Attorney-in-Fact**.** Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners, and the Trustee is hereby appointed (and the successive respective Owners of the Series 2011S-1 Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the Owners as a class or classes as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact; provided, that the Trustee shall have no duty or obligation to enforce any right or remedy unless it has been indemnified by the Owners from any liability or expense, including without limitation fees and expenses of its attorneys

Limitation on Owners' Right to Sue. No Owner of any Series 2011S-1 Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon this Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of at least a majority in aggregate principal amount of all the Series 2011S-1 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Discharge of Series 2011S-1 Bonds

If the Water Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Series 2011S-1 Bonds the interest thereon and the principal thereof at the times and in the manner stipulated therein and in the Indenture, then the Owners of such Series 2011S-1 Bonds shall cease to be entitled to the pledge of Net Water Revenues and the other funds provided herein, and all agreements, covenants and other obligations of the Water Authority to the Owners of such Series 2011S-1 Bonds hereunder shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Outstanding Series 2011S-1 Bonds shall prior to the scheduled maturity dates thereof be deemed to have been paid within the meaning of and with the effect expressed in the first paragraph of this section (except that the Water Authority shall remain liable for the payment of such Series 2011S-1 Bonds, but only from the money deposited with the Trustee as herein provided) if there shall have been deposited with the Trustee money to be held in trust by the Trustee sufficient for such payment at the maturity dates thereof or the redemption dates thereof.

Any Outstanding Series 2011S-1 Bonds shall prior to the scheduled maturity dates thereof be deemed to have been paid within the meaning of and with the effect expressed in the first paragraph of this section (except that the Water Authority shall remain liable for the payment of such Series 2011S-1 Bonds, but only from the money or Federal Securities deposited with the Trustee as herein provided) if (1) there shall have been deposited with the Trustee either money in an amount which shall be sufficient or Federal Securities which are not subject to redemption prior to maturity (including any Federal Securities issued or held in book-entry form on the books of the Department of Treasury of the United States of America) the interest on and the principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant obtained by the Water Authority and filed with the Trustee) to pay when due the interest to become due on such Series 2011S-1 Bonds on and prior to the maturity dates thereof or the redemption dates thereof and the principal of such Series 2011S-1 Bonds on the maturity dates thereof or the redemption dates thereof, and (2) the Water Authority shall have given the Trustee (in form satisfactory to the Trustee) irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Series 2011S-1 Bonds that the deposit required by clause (1) of this paragraph has been made with the Trustee and that such Series 2011S-1 Bonds are deemed to have been paid in accordance with this section, and stating the maturity dates thereof or the redemption dates thereof upon which money is to be available for the payment of the principal of such Series 2011S-1 Bonds; provided, that no Federal Securities or money deposited with the Trustee pursuant to this section (nor any interest on or principal payments of such Federal Securities) shall be withdrawn or used for any purpose other than, and such Federal Securities and money shall be held in trust for, the payment of the interest on and the principal of such Series 2011S-1 Bonds as provided in the Indenture, except that any money received from such interest on or principal payments of such Federal Securities deposited with the Trustee which is not then needed for the foregoing purpose shall, to the extent practicable, be reinvested as specified in a Written Request of the Water Authority filed with the Trustee in Federal Securities maturing at the times and in the amounts sufficient to pay when due the interest on and the principal of such Series 2011S-1 Bonds on and prior to such maturity dates thereof or redemption dates thereof.

Liability of Water Authority Limited to Net Water Revenues and Certain Other Funds

Notwithstanding anything contained in the Indenture, the Water Authority shall not be required to advance any money derived from any source of income other than the Net Water Revenues (as "Subordinate Obligations" under the General Resolution) and the other funds provided herein for the payment of the interest on or the principal of the Series 2011S-1 Bonds or for the observance or performance of any agreements, conditions, covenants or terms contained herein; *provided*, that the Water Authority may advance funds for any such payment as long as such funds are derived from a source legally available for such purpose.

The Series 2011S-1 Bonds are limited obligations of the Water Authority and are payable, as to the interest thereon and the principal thereof, solely from the Net Water Revenues and such other funds, and the Water Authority is not obligated to pay them except from the Net Water Revenues and such other funds. All of the Series 2011S-1 Bonds are equally secured by a pledge of, and charge and lien upon, the Net Water Revenues (on a parity with other Subordinate Obligations) and such other funds, and the Net Water Revenues and such other funds constitute a trust fund for the security and payment of the interest on and the principal of the Series 2011S-1 Bonds

as provided herein. The Series 2011S-1 Bonds are not a debt of the Water Authority, the State or any of its political subdivisions, and neither the Water Authority, the State nor any of its political subdivisions is liable therefor, nor in any event shall the Series 2011S-1 Bonds or any interest thereon payable out of any funds or properties other than those of the Water Authority. The Series 2011S-1 Bonds do not constitute an indebtedness of the Water Authority within the meaning of any constitutional or statutory limitation or restriction, and no persons executing the Series 2011S-1 Bonds shall be liable personally on the Series 2011S-1 Bonds by reason of their issuance.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), dated as of July 1, 2011, is executed and delivered by the San Diego County Water Authority (the "Water Authority") and Digital Assurance Certification, L.L.C., as dissemination agent (the "Dissemination Agent"), in connection with the issuance, sale and delivery by the Water Authority of $86,630,000 San Diego County Water Authority Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 (the "Bonds"). The Bonds are being issued pursuant to an Indenture (the "Indenture"), dated as of July 1, 2011, by and between the Water Authority and U.S. Bank National Association, as Trustee. Pursuant to Section 5.07 of the Indenture, the Water Authority and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Water Authority and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Disclosure Report" shall mean any Annual Disclosure Report provided by the Water Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the General Manager of the Water Authority or his or her designee, or such other person as the Water Authority shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean Digital Assurance Certification, L.L.C., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Water Authority.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at *http://emma.msrb.org*.

"Official Statement" shall mean the Official Statement, dated July __, 2011, executed and delivered by the Water Authority in connection with the initial offering of the Bonds.

"Owner" shall mean the person in whose name any Bonds shall be registered.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Water Authority shall, or upon written direction shall cause the Dissemination Agent to, not later than 270 days after the end of the Water Authority's fiscal year (presently June 30), commencing with the report for the Fiscal Year ended June 30, 2011, provide to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Water Authority may be submitted separately from the balance of the Annual Disclosure Report and later than the date required above for the filing of the Annual Disclosure Report if they are not available by that date. If the Water Authority's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Disclosure Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Disclosure Report to the MSRB, the Water Authority shall provide the Annual Disclosure Report to the Dissemination Agent. If by such date the Dissemination Agent has not received a copy of the Annual Disclosure Report, the Dissemination Agent shall contact the Water Authority to inquire if the Water Authority is in compliance with the first sentence of this subsection (b). The Water Authority shall provide a written certification with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Water Authority and shall have no duty or obligation to review such Annual Disclosure Report.

(c) If the Dissemination Agent is unable to confirm that an Annual Disclosure Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall, to the extent the Annual Disclosure Report has been provided to the Dissemination Agent, file a report with the Water Authority certifying that the Annual Disclosure Report has been provided to the MSRB pursuant to this Disclosure Agreement and stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Water Authority's Annual Disclosure Report shall contain or include by reference the following:

(a) the audited financial statements of the Water Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Water Authority's audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

(b) tables setting forth the following information as of the end of such fiscal year:

(i) the aggregate principal amount of each maturity of Bonds Outstanding;

(ii) an update of the information contained in the following tables in the Official Statement:

(A) "Member Agency Voting Entitlement";

(B) "Water Use of Member Agencies – Fiscal Years ended June 30, 2006 to June 30, 2010 ";

(C) "Gross Receipts From Water Authority Water Sales"; and

(D) "Historical Operating Results".

(c) Any or all of the items listed in paragraphs (a) and (b) above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Water Authority is an "obligated person" (as defined by the Rule), which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The Water Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The Water Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the Water Authority.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Water Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Water Authority, or if such jurisdiction has been assumed by leaving the existing governmental 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 the Water Authority.

(b) The Water Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in Section 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving the Water Authority or the sale of all or substantially all of the assets of the Water Authority, 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; or

7. Appointment of a successor or additional trustee or the change of name of a trustee for the Bonds.

(c) Whenever (i) the Water Authority obtains knowledge of the occurrence of a Listed Event described in Section 5(a) or (ii) the Water Authority obtains knowledge of the occurrence of a Listed Event described in Section 5(b) and has determined that knowledge of the occurrence of such a Listed Event would be material under applicable federal securities laws, the Water Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d) of this Section 5.

(d) If the Dissemination Agent has been instructed by the Water Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB, with a copy to the Water Authority. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) or (b)(3) of this Section 5 need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Bonds pursuant to the Indenture.

SECTION 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 7. Additional Disclosure Obligations. The Water Authority 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 the Water Authority, and that the failure of the Dissemination Agent to so advise the Water Authority shall not constitute a breach by the Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Water Authority acknowledges and understands that the duties of the Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 8. Termination of Obligations. The Water Authority's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination or substitution occurs prior to the final maturity of the Bonds, the Water Authority shall give notice of such termination or substitution in a filing with the MSRB.

SECTION 9. Dissemination Agent. The Water Authority hereby appoints Digital Assurance Certification, L.L.C., as the initial Dissemination Agent. The Water Authority may, from time to time, appoint or engage one or more Dissemination Agents to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Water Authority pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the Water Authority. The Dissemination Agent shall have no

duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Water Authority in a timely manner.

SECTION 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Water Authority and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Water Authority, provided that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance, sale and delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Water Authority shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Water Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Water Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Water Authority chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Water Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Listed Event.

SECTION 12. Default. In the event of a failure of the Water Authority to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Water Authority to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Water Authority to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 13. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Water Authority has provided such information to the Dissemination Agent as required by this Disclosure Agreement. The Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Dissemination Agent shall have no duty or obligation to review or verify any information, disclosures or notices provided to it by the Water Authority and shall not be deemed to be acting in any fiduciary capacity for the Water Authority, the Owners, the Beneficial Owners of the Bonds or any other party. The Dissemination Agent shall have no responsibility for the Water Authority's failure to report to the Dissemination Agent any event described in Sections 5(a) and 5(b) or a duty to determine the materiality thereof. The Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Water Authority has complied with this Disclosure Agreement. The Dissemination Agent may conclusively rely on certifications of the Water Authority at all times.

THE WATER AUTHORITY AGREES TO INDEMNIFY AND SAVE THE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISSEMINATION AGENT'S NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Water Authority under this Section shall survive resignation or removal of the Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advise of such legal counsel.

(c) Any Information received by the Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a written notification and all other information required by the terms of this Disclosure Agreement will be filed by the Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a force majeure event, provided that the Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Water Authority:	San Diego County Water Authority 4677 Overland Avenue San Diego, CA 92123 Attention: Director of Finance/Treasurer
To the Dissemination Agent:	Digital Assurance Certification, L.L.C. 390 North Orange Ave., Suite 1750 Orlando, FL 32801 Attention: Client Service Manager

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Water Authority, the Dissemination Agent, the Participating Underwriters, and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SAN DIEGO COUNTY WATER AUTHORITY

By_____
Chair of the Board of Directors

Attest:

_____
Clerk of the Board of Directors

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent

By_____
Authorized Officer

EXHIBIT A

FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Issuer: San Diego County Water Authority

Name of Bond Issue: San Diego County Water Authority Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1

Date of Issuance: July __, 2011

Name of Obligated Party: San Diego County Water Authority

NOTICE IS HEREBY GIVEN that the Water Authority has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of July 1, 2011, by and between the San Diego County Water Authority and Digital Assurance Certification, L.L.C. [The Water Authority anticipates that the Annual Disclosure Report will be filed by _____.]

Dated:_____

DIGITAL ASSURANCE CERTIFICATION, L.L.C., on behalf of the San Diego County Water Authority

By:_____

cc: San Diego County Water Authority

APPENDIX E

BOOK-ENTRY SYSTEM

The following description of The Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the 2011S-1 Bonds, payment of principal, interest and other payments on the 2011S-1 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2011S-1 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the Water Authority nor the Trustee take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2011S-1 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2011S-1 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2011S-1 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current Rules applicable to DTC are on file with the 2011S-1 Bonds and Exchange Commission and the current Procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "2011S-1 Bonds"). The 2011S-1 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 2011S-1 Bond certificate will be issued for the 2011S-1 Bonds, in the aggregate principal amount of such issue, 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 2011S-1 Bonds 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 2011S-1 Bonds 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"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the 2011S-1 Bonds and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2011S-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011S-1 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2011S-1 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 2011S-1 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 2011S-1 Bonds, except in the event that use of the book-entry system for the 2011S-1 Bonds is discontinued.

To facilitate subsequent transfers, all 2011S-1 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 2011S-1 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 2011S-1 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011S-1 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.

Redemption notices shall be sent to DTC. If less than all of the 2011S-1 Bonds within an issue 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 2011S-1 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Water Authority 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 2011S-1 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2011S-1 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 Water Authority or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by 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, Trustee, or Water Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Water Authority or Trustee, 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.

DTC may discontinue providing its services as depository with respect to the 2011S-1 Bonds at any time by giving reasonable notice to Water Authority or Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2011S-1 Bond certificates are required to be printed and delivered.

Water Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2011S-1 Bond certificates will be printed and delivered to DTC.

APPENDIX F

FORM OF APPROVING OPINION OF BOND COUNSEL

[Closing Date]

Board of Directors
San Diego County Water Authority
San Diego, California

San Diego County Water Authority
Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the San Diego County Water Authority (the "Water Authority") in connection with the issuance of $86,630,000 aggregate principal amount of San Diego County Water Authority Revenue Refunding Bonds, Series 2011S-1 (the "Bonds"), issued pursuant to an Indenture, dated as of July 1, 2011 (the "Indenture"), between the Water Authority and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed San Diego County Water Authority Resolution No. 89-21, adopted on May 11, 1989, entitled "A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues", as supplemented by San Diego County Water Authority Resolution No. 97-52, adopted on December 11, 1997, and by San Diego County Water Authority Resolution No. 09-23, adopted on December 17, 2009 (the "General Resolution"), the Indenture, the Tax Certificate of the Water Authority dated the date hereof (the "Tax Certificate"), opinions of counsel to the Water Authority and the Trustee, certificates of the Water Authority, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Water Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county water authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any

opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Water Authority, and are payable solely from the Net Water Revenues and certain other funds held under the Indenture.

2. The General Resolution has been duly adopted by the Board of Directors of the Water Authority and is in full force and effect.

3. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Water Authority.

4. The General Resolution and the Indenture create a valid pledge of Net Water Revenues to secure the payment of the principal of and interest on the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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