

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2008**NEW ISSUE-BOOK-ENTRY-ONLY**

Ratings:
Insured:
Uninsured:
 (See "RATINGS" herein)

In the opinion of Nossaman LLP, Irvine, California, Special Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest with respect to the Certificates is excludable from gross income for federal income tax purposes. Interest with respect to the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxable income, although Special Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. In the further opinion of Special Counsel, interest with respect to the Certificates is, under existing law, exempt from State of California personal income taxes. Special Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "TAX EXEMPTION" herein.

\$17,600,000*

**WATER REPLENISHMENT DISTRICT
 OF SOUTHERN CALIFORNIA
 2008 REVENUE CERTIFICATES OF PARTICIPATION**

Dated: Date of Delivery

Due: August 1, as shown below

The Certificates evidence direct, fractional undivided interests of the Owners thereof in the installment payments (the "Installment Payments"), and the interest thereon, to be made by the Water Replenishment District of Southern California (the "District") pursuant to the Installment Purchase Agreement, dated as of October 1, 2008 (the "Installment Purchase Agreement"), by and between the District and the Southern California Water Replenishment Financing Corporation (the "Corporation"). Pursuant to the Master Agreement for District Obligations, dated as of November 1, 2004 (the "Master Agreement"), by and between the District and the Corporation, the District has established conditions and terms upon which obligations such as the Installment Payments and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues (as more fully described in the Master Agreement, the "Net Revenues") as provided in the Installment Purchase Agreement, remaining after payment of Operation and Maintenance Costs, as further described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein. The Installment Purchase Agreement provides that the obligation of the District to pay the Installment Payments, and payments of interest thereon, and certain other payments required to be made in accordance with the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional. See "SECURITY AND SOURCES OF PAYMENT" herein.

The proceeds of the Certificates will be used to (i) finance the acquisition, construction and installation of certain clean water and replenishment projects and the improvement of the District's administration building (the "Project") (ii) fund a reserve fund for the Certificates, and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates. See "PLAN OF FINANCE" herein.

Interest evidenced by the Certificates is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2009. See "THE CERTIFICATES" herein. The Certificates will be initially delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of Certificates will not receive physical certificates representing their ownership interests in the Certificates purchased. The Certificates will be

* Preliminary, subject to change.

delivered in denominations of \$5,000 and any integral multiple thereof. Payments of principal and interest evidenced by the Certificates are payable directly to DTC by U.S. Bank National Association, as trustee. Upon receipt of payments of such principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See APPENDIX C – “BOOK-ENTRY-ONLY SYSTEM” herein.

The Certificates are subject to prepayment prior to maturity, as described herein. See “THE CERTIFICATES” herein.

[Payment of the principal and interest evidenced by the Certificates when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Certificates by _____.]

The obligation of the District to pay the Installment Payments, and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State of California, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District or the State of California, or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. See “Security and Sources of Payment” herein.

MATURITY SCHEDULE

\$ _____ Serial Certificates

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Maturity (August 1)	Principal Amount	Interest Rate	Yield
------------------------	---------------------	------------------	-------	------------------------	---------------------	------------------	-------

\$ _____ % Term Certificates Due August 1, Yield – ____%
 \$ _____ % Term Certificates Due August 1, Yield – ____%

† CUSIP numbers are provided for convenience of reference only. The District takes no responsibility for the accuracy of such numbers.

This cover page contains information intended for quick reference only. It is **not** a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used in this cover page shall have the meanings given such terms herein.

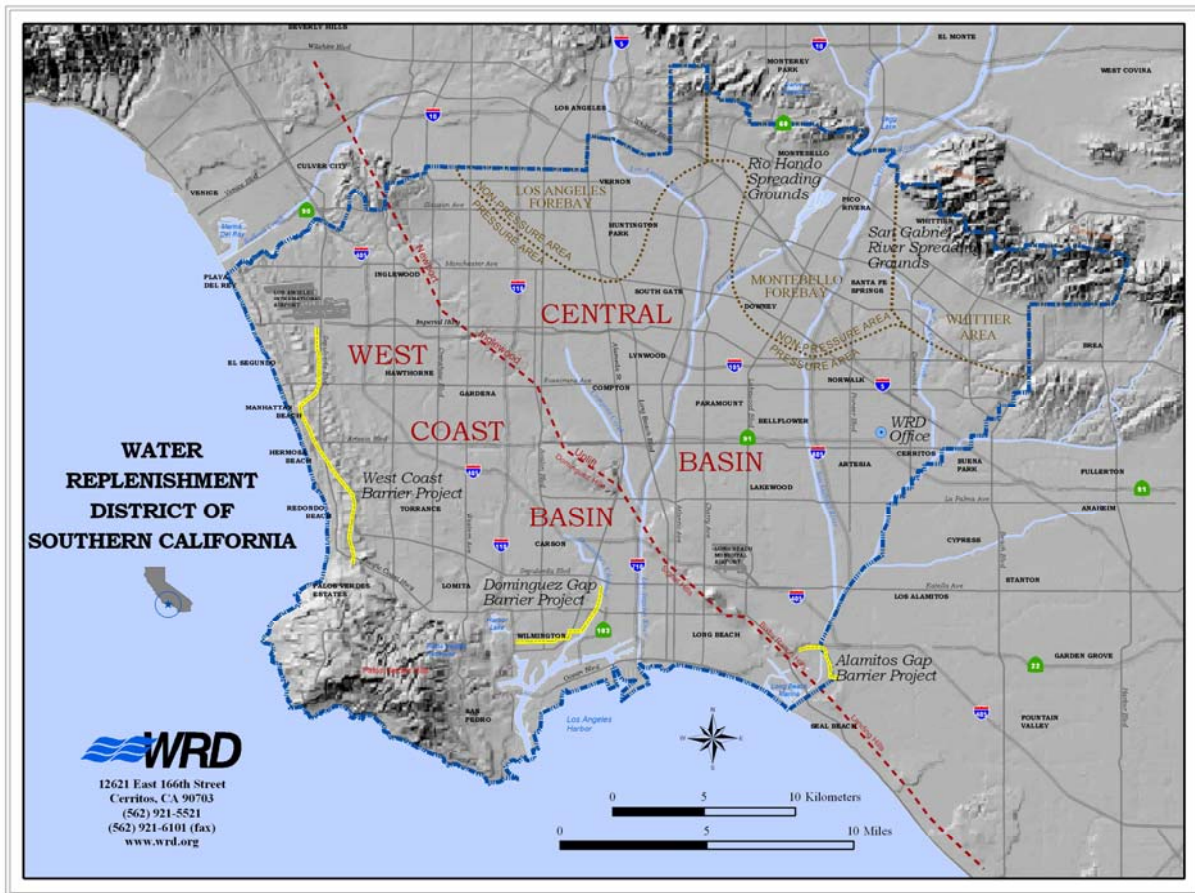
An investment in the Certificates involves certain risks. See “RISK FACTORS” herein for a discussion of factors that should be considered in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates are offered when, as and if executed and delivered and received by the Underwriter, subject to the approval of legality by Nossaman LLP, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by Meyers Nave Riback Silver & Wilson, Los Angeles, California. Certain legal matters will be passed upon for the Underwriter by Squire, Sanders & Dempsey L.L.P., Los Angeles, California, Underwriter’s Counsel. It is anticipated that the Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about _____, 2008.

De La Rosa & Co., Inc.

Dated: _____, 2008

MAP OF THE DISTRICT



WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA

Board of Directors

Rob Katherman, President
Lillian Kawasaki, Vice President
Willard H. Murray, Jr., Secretary
Sergio Calderon, Treasurer
Albert Robles, Director

Executive Management of the District

Robb Whitaker, General Manager
Theodore Johnson, Chief Hydrogeologist
Scott M. Ota, Chief Financial Officer
Robert Siemak, Chief of Engineering and Planning

Special Services

Special Counsel

Nossaman LLP
Irvine, California

District General Counsel

Meyers Nave Riback Silver & Wilson
Los Angeles, California

Pricing Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Trustee

U.S. Bank National Association
Los Angeles, California

SOUTHERN CALIFORNIA WATER REPLENISHMENT FINANCING CORPORATION

Board of Directors

Rob Katherman, President
Lillian Kawasaki, Vice President
Willard H. Murray, Jr., Secretary
Sergio Calderon, Treasurer
Albert Robles, Director

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 the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by the District and other sources that are believed by the District to be reliable. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the Corporation or the Initial Purchaser in connection with any reoffering.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information and expressions of opinion herein are subject to change without notice and neither 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 District or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the District and the Corporation.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Preliminary Official Statement has been deemed final by the District for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

In connection with the offering of the Certificates, the Initial Purchaser in connection with any reoffering may over-allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Initial Purchaser in connection with any reoffering may offer and sell the Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Initial Purchaser.

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OFFICIAL STATEMENT

\$17,600,000*

WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA 2008 REVENUE CERTIFICATES OF PARTICIPATION

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the "State") and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement, the Installment Purchase Agreement and the Master Agreement (each, as hereinafter defined). See APPENDIX B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions" herein.

General

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of \$17,600,000* aggregate principal amount of the Water Replenishment District of Southern California 2008 Certificates of Participation (the "Certificates") evidencing direct, fractional undivided interests in the Installment Payments (the "Installment Payments") and the interest thereon, to be made by the Water Replenishment District of Southern California (the "District") pursuant to the Installment Purchase Agreement, dated as of October 1, 2008 (the "Installment Purchase Agreement"), to be entered into by and between the District and the Water Replenishment District of Southern California Financing Corporation (the "Corporation"). Pursuant to the Master Agreement for District Obligations, dated as of November 1, 2004 (the "Master Agreement"), by and between the District and the Corporation, the District has established and declared the conditions and terms upon which obligations such as the Installment Purchase Agreement, and the Installment Payments and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues (as defined hereinafter) as provided in the Installment Purchase Agreement, consisting primarily of moneys derived by the District from all income, rents, rates, fees, charges, or other moneys derived by the District from the sale, furnishing and supplying of water or other services, facilities and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the District; the proceeds derived by the District's Replenishment Assessments (defined below); any amount received from the levy or collection of the District's share of *ad valorem* property taxes; the earnings on and income derived from the investment of such income, rents, rates, fees, charges and other moneys, including District reserves, but excluding interest earnings on any proceeds invested in an acquisition or construction fund; but excluding therefrom any proceeds of grants received from the United States of America or from the State of California (the "State"), insurance proceeds and condemnation awards and any earnings of a separate utility system acquired and constructed by the District so long as not restricted to capital,, as further described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

The Certificates are to be executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2008 (the "Trust Agreement"), among the District, the Corporation and U.S. Bank National

* Preliminary, subject to change.

Association, as trustee (the “Trustee”). Proceeds from the sale of the Certificates will be used to (i) finance the acquisition, construction and installation of certain clean water and replenishment projects and the improvement of the District’s administration building (the “Project”) (ii) fund a reserve fund for the Certificates, and (iii) pay the costs incurred in connection with the execution and delivery of the Certificates. See “PLAN OF FINANCE” herein. The Certificates will be executed and delivered in the form of fully registered certificates, dated as of the date of initial delivery thereof and will mature on August 1 in each year as set forth on the cover page hereof. Interest evidenced by the Certificates is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2009. See “THE CERTIFICATES” herein. The Certificates will be initially delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. The Certificates will be delivered in denominations of \$5,000 and any integral multiple thereof. So long as the Certificates are in the DTC book-entry system, the interest, principal, purchase price and prepayment premiums, if any, due with respect to the Certificates will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX C – “BOOK – ENTRY SYSTEM” herein.

The District

The District is a water replenishment district formed under the provisions of the Water Replenishment District Act, contained in Sections 60000 *et seq.* of the California Water Code. The District manages the Central and West Coast groundwater basins located in southern Los Angeles County. The District’s service area covers approximately 420 square miles.

Security and Sources of Payment for the Certificates

The Certificates evidence direct, fractional undivided interests in the Installment Payments, and the interest thereon, paid by the District pursuant to the Installment Purchase Agreement. The obligation of the District to pay the Installment Payments and the interest thereon and other payments required to be made by it under the Installment Purchase Agreement is a special, limited obligation of the District payable, in the manner provided under the Installment Purchase Agreement, solely from Net Revenues, and other funds as provided in the Installment Purchase Agreement. Net Revenues are defined in the Master Agreement to mean for any period, the Revenues for such period, less the Operation and Maintenance Costs for such period.

Revenues are defined in the Master Agreement to mean for any period, all income and revenue received by the District during such period, determined in accordance with Generally Accepted Accounting Principles, including Replenishment Assessments, other charges and fees imposed by the District pursuant to the Act, Ad Valorem Taxes, charges and fees received by the District from the sale, furnishing or supplying of water or other commodities sold, furnished or supplied through the facilities of the District or in the conduct of the operations of the District, investment income (but only to the extent that such investment income is generally available to pay costs of the operation of the District and the operation and maintenance of the District’s facilities and other property, including Operation and Maintenance Costs, subsidies received by the District from another governmental entity pursuant to a program established by such governmental entity to promote the use of alternative sources of water or the supply or availability of clean water, Net Proceeds of business interruption insurance, and all other money howsoever derived by the District from the operation of the District or ownership of the District’s facilities and other property or arising from the District’s facilities and other property, but excluding (a) payments received under financial contracts, and (b) restricted grants; provided, however, that Revenues shall be increased by the amounts, if any, transferred during such period from the Rate

Stabilization Fund to the Revenue Fund and shall be decreased by the amounts, if any, transferred during such period from the Revenue Fund to the Rate Stabilization Fund.

Operation and Maintenance Costs are defined as, for any period, the costs paid by the District during such period for the operation of the District and the operation and maintenance of the District's facilities and other property, calculated in accordance with Generally Accepted Accounting Principles, including, among other things, costs of operating the District's facilities and other property, costs of maintaining and preserving the District's facilities and other property in good repair and working order, costs of management and administration of the District and the District's facilities and other property, such as salaries and wages of employees, payments to its employee retirement systems (to the extent paid from Revenues), overhead, taxes (if any), insurance premiums, fees of auditors, accountants, attorneys or engineers, and all Administrative Costs paid by the District during such period, but excluding in all cases (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, (c) costs of capital additions, replacements, betterments, extensions or improvements to the District's facilities or other property which under Generally Accepted Accounting Principles are chargeable to a capital account or to a reserve for depreciation, (d) costs for the payment of debt service on Obligations of the District, and (e) costs of the purchase or delivery of water, costs of availability payments for water and costs of In Lieu Payments.

The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement.

Currently, the District has outstanding its Revenue Certificates of Participation (2004 Capital Improvement Plan) in the principal amount of \$14,785,000, issued in November 2004 under the Master Agreement with a final maturity of August 1, 2034 (the "2004 Certificates"). The 2004 Certificates are payable on a parity with the Installment Payments under the Installment Purchase Agreement. Senior Obligations, together with any Subordinate Obligations payable on a subordinate basis to the Installment Payments executed and delivered as provided in the Master Agreement are referred to collectively as the "Obligations."

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe, levy, impose and collect (a) Replenishment Assessments, (b) other charges and fees imposed by the District pursuant to the Act, and (c) charges and fees charged by the District for the sale, furnishing or supplying of water or other commodities sold, furnished or supplied through the facilities of the District or in the conduct of the operations of the District which will be at least sufficient to yield during each Fiscal Year (i) Net Revenues such that the remainder of (A) Net Revenues, less (B) payments made by the District for the purchase and delivery of water, availability payments for water and In Lieu Payments made during such Fiscal Year is equal to 120% of Debt Service on Senior Obligations for such Fiscal Year, and (ii) Net Operating Revenues such that the remainder of (A) Net Operating Revenues, less (B) payments made by the District for the purchase and delivery of water, availability payments for water and In Lieu Payments made during such Fiscal Year is equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in Replenishment Assessments and in such charges and fees, but shall not reduce the Replenishment Assessments and such charges and fees then in effect unless the Revenues and Net Revenues from such reduced Replenishment Assessments and charges and fees will at all times be sufficient to meet the requirements of this paragraph.

The obligation of the District to pay the Installment Payments and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement,

solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District or the State or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES” herein.

[Bond Insurance

Payment of the principal and interest evidenced by the Certificates when due will guaranteed by a Municipal Bond New Issue Insurance Policy (the “Policy”) issued simultaneously with the delivery of the Certificates by _____, doing business in California as _____ (“_____”). See “BOND INSURANCE” and APPENDIX F - “SPECIMEN BOND INSURANCE POLICY.”]

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of the Certificates (a) to provide certain financial information and operating data (the “Annual Report”) relating to the District and the property in the District not later than eight (8) months after the end of the District’s Fiscal Year (which currently would be March 1), commencing with the report for the 2007-08 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the Continuing Disclosure Agreement. See “CONTINUING DISCLOSURE” and APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Miscellaneous

The descriptions herein of the Trust Agreement, the Master Agreement, the Installment Purchase Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents. Copies of the documents are on file and available for inspection at the corporate trust office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Trust Agreement, the Master Agreement and the Installment Purchase Agreement. See APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions” for definitions of certain words and terms used but not otherwise defined herein.

PLAN OF FINANCE

Proceeds from the sale of the Certificates will be used to (i) finance the acquisition, construction and installation of certain clean water and replenishment projects and the improvement of the District’s administration building (the “Project”), (ii) fund a reserve fund for the Certificates, and (iii) pay costs of issuance of the Certificates. In particular, the Project is expected to include the financing, refinancing or reimbursement of improvements to the following:

- Regional Groundwater Monitoring Program
- Rio Hondo and San Gabriel River Spreading Grounds Interconnection Pipeline
- District Administration Building
- Safe Drinking Water Program

Set forth below is a list of the estimated capital costs over the next 3 years of the projects proposed to be financed with Certificates.

**Table 2
Estimated Capital Costs through Fiscal Year 11/12**

	<u>FY 08/09</u>	<u>FY 09/10</u>	<u>FY 10/11</u>	<u>Total</u>
Administration Building	770,000	775,000	-	1,545,000
New Monitoring Wells	2,490,000	1,200,000	1,200,000	4,890,000
Rio Hondo, San Gabriel Interconnection Pipeline	300,000	3,500,000	-	3,800,000
Total	<u>\$3,560,000</u>	<u>\$5,475,000</u>	<u>\$1,200,000</u>	<u>\$10,235,000</u>

Source: The District

The District will use approximately \$2.9 million of proceeds for reimbursement of costs incurred relating to the District administration building, approximately \$1.8 million of proceeds for reimbursement of costs incurred relating to new monitoring wells and approximately \$1.2 million of proceeds for reimbursement of costs incurred relating to the Safe Drinking Water Program.

From time to time projects which are undertaken are delayed, redesigned or deferred by the District for various reasons and no assurance can be given that a project summarized above or designated in the District’s current Capital Improvement Program will be completed in accordance with its original schedule or that any project will be completed as currently planned.

SOURCES AND USES OF PROCEEDS OF THE CERTIFICATES

The sources and uses of funds with respect to the delivery of the Certificates are shown below.

Sources

Certificate Proceeds	\$ _00,000,000.00
Net Original Issuance Discount	(_____)
Total Sources	_____

Uses

Acquisition Fund	\$
Reserve Fund	
Costs of Issuance ⁽¹⁾	
Total Uses	\$ _____

(1) Costs of issuance include, among other things, underwriter’s discount, fees of rating agencies, initial fees of the Trustee and Special Counsel fees.

THE CERTIFICATES

General

The Certificates will be prepared in the form of fully registered certificates in denominations of \$5,000 and any integral multiple thereof. The Certificates will be dated as of the date of initial delivery thereof and will mature on August 1 in each year as set forth on the cover page hereof. Interest evidenced by the Certificates is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2009. See “THE CERTIFICATES” herein. The Certificates will be initially delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of Certificates will not receive physical certificates representing their ownership interests in the Certificates purchased.

The interest evidenced by the Certificates shall be payable on each Interest Payment Date to and including their respective Principal Payment Dates or prepayment prior thereto, and shall represent the sum of the interest on the Installment Payments coming due on the Interest Payment Dates in each year. The principal evidenced by the Certificates shall be payable on their respective Principal Payment Dates and Mandatory Sinking Account Payment Dates in each year and shall represent the Installment Payments coming due on the Principal Payment Dates and Mandatory Sinking Account Payment Dates in each year. Each Certificate shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after a Record Date and on or prior to the following Interest Payment Date, in which case such Certificate shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to January 15, 2009, in which case such Certificate shall represent interest from its date of initial delivery. Notwithstanding, the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Certificates shall be in default, each Certificate shall evidence interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for. Interest evidenced by the Certificates shall be computed on the basis of a 360-day year consisting of twelve 30-day months. See APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement.”

Payments of principal and interest evidenced by the Certificates are payable directly to DTC by U.S. Bank National Association, as trustee. Upon receipt of payments of such principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. So long as the Certificates are in the DTC book-entry system, the interest, principal, purchase price and prepayment premiums, if any, due with respect to the Certificates will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX C – “BOOK - ENTRY SYSTEM” herein. So long as the Certificates are in the DTC book-entry system, the interest, principal and prepayment premiums, if any, due with respect to the Certificates will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX C – “BOOK - ENTRY SYSTEM” herein.

Prepayment Provisions*

Optional Prepayment. The Certificates are subject to optional prepayment prior to their stated Principal Payment Dates, on any date on or after August 1, 20__, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Installment Payments paid pursuant to the Installment Purchase Agreement or from any other source of available funds, any such prepayment to be at a price equal to the principal evidenced by the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment.

Mandatory Sinking Account Prepayment. The Certificates with a stated Principal Payment Date of August 1, 20__ are subject to prepayment prior to their stated Principal Payment Date, in part, from Mandatory Sinking Account Payments, on each August 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such Certificates to be so prepaid and the dates therefor will be as follows:

<u>Date (August 1)</u>	<u>Mandatory Sinking Fund Amount</u>
†	\$

† Stated Principal Payment Date.

The amount of each such prepayment shall be reduced in the event and to the extent that Installment Payments payable on the corresponding Installment Payment Date are prepaid from any source of funds available to the District pursuant to the Installment Purchase Agreement, and applied to the prepayment of Certificates with a stated Principal Payment Date of August 1, 20__.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates are to be prepaid on any one date pursuant to provisions of the Trust Agreement with respect to optional prepayment of Certificates, the Trustee shall select the Certificates to be prepaid among Certificates with different Principal Payment Dates as directed in a Written Request of the District. Whenever less than all the Outstanding Certificates with the same stated Principal Payment Date are to be prepaid on any one date in accordance with the Trust Agreement, the Trustee shall select the Certificates with such Principal Payment Date to be prepaid by lot in any manner that the Trustee deems fair and appropriate, which decision shall be final and binding upon the District and the Owners. The Trustee shall promptly notify

* Preliminary, subject to change.

the District in writing of the numbers of the Certificates so selected for prepayment on such date. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

Notice of Prepayment; Rescission. When prepayment of Certificates is authorized pursuant to the Trust Agreement, the Trustee shall give notice, at the expense of the District, of the prepayment of the Certificates. The notice of prepayment shall specify (a) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Certificates to be prepaid, (f) the numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the principal evidenced by such Certificate to be prepaid, and (g) the interest rate and stated Principal Payment Date of each Certificate to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Certificate or portion thereof being prepaid the prepayment price and that from and after such date interest evidenced thereby shall cease to accrue and be payable. With respect to any notice of optional prepayment of Certificates, unless at the time such notice is given the Certificates to be prepaid shall be deemed to have been paid within the meaning of the Trust Agreement, such notice shall state that such prepayment is conditional upon receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys sufficient to pay for the prepayment price of the Certificates to be prepaid, and that if such moneys shall not have been so received said notice shall be of no force and effect and the District shall not be required to prepay such Certificates. In the event a notice of prepayment of Certificates contains such a condition and such moneys are not so received, the prepayment of Certificates as described in the conditional notice of prepayment shall not be made and the Trustee shall, within a reasonable time after the date on which such prepayment was to occur, give notice to the persons and in the manner in which the notice of prepayment was given, that such moneys were not so received and that there shall be no prepayment of Certificates pursuant to such notice of prepayment.

The District shall have the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any such notice of optional prepayment shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default under the Trust Agreement. The Trustee shall mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

The Trustee shall, at least 30 but not more than 60 days prior to any prepayment date, give notice of prepayment to the respective Owners of Certificates designated for prepayment by first-class mail, postage prepaid, at their addresses appearing on the registration books maintained by the Trustee as of the close of business on the day before such notice of prepayment is given.

The actual receipt by the Owner of any notice of such prepayment shall not be a condition precedent to prepayment, and neither failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the prepayment of such Certificates or the cessation of interest evidenced thereby on the date fixed for prepayment.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and moneys for the payment of the prepayment price of the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice, the Certificates so called for prepayment shall become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced by the Certificates so called for prepayment shall cease to accrue, such Certificates shall cease to be entitled to any benefit or security hereunder and the Owners of such Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof. The Trustee

shall, upon surrender for payment of any of the Certificates to be prepaid, pay such Certificates at the prepayment price thereof, and such moneys shall be pledged to such payment.

All Certificates prepaid pursuant to the provisions of the Trust Agreement shall be canceled by the Trustee and shall not be redelivered.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Installment Payments

Pursuant to the Installment Purchase Agreement, the Project will be acquired by the District from the Corporation. The District has covenanted to, subject to any rights of prepayment under the Installment Purchase Agreement, pay to the Corporation, solely from Net Revenues and from no other sources, the Purchase Price in Installment Payments, with interest thereon, as provided in the Installment Purchase Agreement. Pursuant to the Master Agreement, the District has established and declared the conditions and terms upon which obligations such as the Installment Purchase Agreement, and the Installment Payments and the interest thereon payable under the Installment Purchase Agreement, will be incurred and secured. The obligation of the District to make the Installment Payments, and payments of interest thereon, and other payments required to be made by it under the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional, and until such time as the Installment Payments, payments of interest thereon, and such other payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the District has covenanted that it will not discontinue or suspend any Installment Payments when due, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments, payments of interest thereon, and other payments shall not be subject to reduction whether offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or any cause whatsoever. The District's obligation to make Installment Payments from Net Revenues is on a parity with the District's obligation to make payments with respect to its Outstanding Senior Obligations. See "Net Revenues" below. Pursuant to the Trust Agreement, the Corporation has assigned to the Trustee for the benefit of the Owners of the Certificates substantially all of its rights, title and interest in the Installment Purchase Agreement, including its right to receive Installment Payments and the interest thereon. Payment of the principal and interest evidenced by the Certificates when due will be guaranteed by the Policy to be issued simultaneously with the delivery of the Certificates by the Insurer. See "BOND INSURANCE" and APPENDIX F - "SPECIMEN BOND INSURANCE POLICY."

The obligation of the District to pay the Installment Payments, and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement and Master Agreement, is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District, the State or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District, the State or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

Net Revenues

The District is obligated to make Installment Payments solely from Net Revenues as provided in the Master Agreement, which consist of Revenues remaining after payment of costs paid by the District for maintaining and operating the clean water and replenishment programs of the District (“Operation and Maintenance Costs”). Revenues are defined in the Master Agreement to mean, for any period, all income and revenue received by the District during such period, determined in accordance with Generally Accepted Accounting Principles, including Replenishment Assessments, other charges and fees imposed by the District pursuant to the Act, Ad Valorem Taxes, charges and fees received by the District from the sale, furnishing or supplying of water or other commodities sold, furnished or supplied through the facilities of the District or in the conduct of the operations of the District, investment income (but only to the extent that such investment income is generally available to pay costs of the operation of the District and the operation and maintenance of the District’s facilities and other property, including Operation and Maintenance Costs), subsidies received by the District from another governmental entity pursuant to a program established by such governmental entity to promote the use of alternative sources of water or the supply or availability of clean water, Net Proceeds of business interruption insurance, and all other money howsoever derived by the District from the operation of the District or ownership of the District’s facilities and other property or arising from the District’s facilities and other property, but excluding (a) payments received under financial contracts, and (b) restricted grants; provided, however, that Revenues shall be increased by the amounts, if any, transferred during such period from the Rate Stabilization Fund to the Revenue Fund and shall be decreased by the amounts, if any, transferred during such period from the Revenue Fund to the Rate Stabilization.

The District’s obligation to make the Installment Payments from its Net Revenues is on a parity with the District’s obligation to make payments with respect to its other obligations described as Senior Obligations (including the 2004 Certificates) and all Reimbursement Obligations with respect to Senior Obligations, as provided in the Master Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. Pursuant to the Master Agreement, the District pledges all Net Revenues to the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations, and the Net Revenues will not be used for any other purpose while any of the Senior Obligations or Reimbursement Obligations with respect to Senior Obligations remain unpaid; provided, however, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Master Agreement. This pledge constitutes a first lien on the Net Revenues for the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations. The term Senior Obligations, generally means all revenue bonds or notes (including bond anticipation notes and commercial paper) of the District authorized, executed, issued and delivered under and pursuant to applicable law, the Installment Purchase Agreement and all other contracts (including financial contracts) or leases of the District authorized and executed by the District under and pursuant to applicable law, the installment, lease or other payments under which are, in accordance with the provisions of the Master Agreement, payable from Net Revenues on a parity with the payments under the Master Agreement.

The District may at any time incur Subordinate Obligations; provided, however, that prior to incurring such Subordinate Obligations, the District will have determined that the incurrence thereof will not materially adversely affect the District’s ability to comply with the requirements of the Master Agreement. The District may at any time incur Reimbursement Obligations with respect to Subordinate Obligations. For a description of the District’s Outstanding Senior Obligations and Subordinate Obligations, see “FINANCIAL OBLIGATIONS – Existing Indebtedness” herein.

The District may, in connection with the incurrence of Subordinate Obligations, pledge Net Revenues to the payment of Subordinate Obligations and Reimbursement Obligations with respect to Subordinate Obligations; provided, however, that such pledge, and any lien created thereby, shall be junior and subordinate to the pledge of, and lien on, Net Revenues for the payment of Senior Obligations and Reimbursement Obligations with respect to Senior Obligations.

Rate Stabilization Fund

In order to avoid fluctuations in its fees and charges of the Replenishment Assessment, from time to time the District may deposit in the Rate Stabilization Fund from Net Revenues such amounts as the District deems necessary or appropriate. From time to time, the District may also transfer moneys from the Rate Stabilization Fund to the Revenue Fund to be used by the District, first to pay all Maintenance and Operations Costs as and when the same shall be due and payable. In addition, any such amount transferred from the Rate Stabilization Fund to the Revenue Fund by the District is included as Revenues for any period, but such transferred amount is excluded from determining Operating Revenues for any period. Revenues will be decreased by the amounts, if any, transferred from the Revenue Fund to the Rate Stabilization Fund. There are presently no funds in the Rate Stabilization Fund.

Allocation of Revenues

In order to carry out and effectuate the pledge of Net Revenues under the Master Agreement as described above, the District agrees and covenants that all Operating Revenues received by the District will be deposited when and as received in the Revenue Fund. Additionally, amounts may, from time to time as the District deems necessary or appropriate, be transferred from the Rate Stabilization Fund and deposited in the Revenue Fund, as described above under “– Rate Stabilization Fund.” The District will pay from the Revenue Fund all Maintenance and Operations Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operations Costs, the payment of which is not immediately required) as and when the same shall be due and payable.

After having paid, or having made provisions for the payment of, Maintenance and Operations Costs, the District shall set aside and deposit or transfer, as the case may be, from the Revenue Fund such amounts at such times as provided in the Master Agreement in the following order of priority:

- (1) Senior Obligation Payment Fund;
- (2) Senior Obligation Reserve Funds;
- (3) Subordinate Obligation Payment Fund;
- (4) Subordinate Obligation Reserve Funds; and
- (5) Rate Stabilization Fund.

Amounts required or permitted to be deposited or transferred as described in items 2, 3, 4 and 5 above, shall not be so deposited or transferred unless the District shall have determined that there will be sufficient Net Revenues available to make the required deposits or transfers on the dates on which such deposits or transfers are required to be made as described above. So long as the District has determined that Net Revenues will be sufficient to make all of the deposits or transfers required to be made pursuant to items 1, 2, 3, 4 and 5 above, on the dates on which such deposits or transfers are required to be made, Net Revenues on deposit in the Revenue Fund may from time to time be used for any purpose for which the District funds may be legally applied. For additional information, see APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS –Master Agreement.”

Rate Covenant

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe, levy, impose and collect (a) Replenishment Assessments, (b) other charges and fees imposed by the District pursuant to the Act, and (c) charges and fees charged by the District for the sale, furnishing or supplying of water or other commodities sold, furnished or supplied through the facilities of the District or in the conduct of the operations of the District which will be at least sufficient to yield during each Fiscal Year (i) Net Revenues such that the remainder of (A) Net Revenues, less (B) payments made by the District for the purchase and delivery of water, availability payments for water and In Lieu Payments made during such Fiscal Year is equal to 120% of Debt Service on Senior Obligations for such Fiscal Year, and (ii) Net Operating Revenues such that the remainder of (A) Net Operating Revenues, less (B) payments made by the District for the purchase and delivery of water, availability payments for water and In Lieu Payments made during such Fiscal Year is equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments annually in Replenishment Assessments and in such charges and fees, but shall not reduce the Replenishment Assessments and such charges and fees then in effect unless the Revenues and Net Revenues from such reduced Replenishment Assessments and charges and fees will at all times be sufficient to meet the requirements of this paragraph. See “FINANCIAL INFORMATION OF THE DISTRICT – Project Operating Results and Debt Service Coverage”.

In addition, the District has covenanted in the Master Agreement to prepare and adopt an annual budget for each Fiscal Year. Such budget will set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year, including, without limitation, the amounts required to pay or provide for the payment of the Obligations during such Fiscal Year, the amounts required to pay or provide for the payment of Maintenance and Operations Costs during such Fiscal Year and the amounts required to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and will show that Revenues and Net Revenues will be at least sufficient to satisfy the requirements of the Master Agreement. On or before September 1 of each Fiscal Year, the District will file with the Trustee a copy of the adopted budget for such Fiscal Year. See APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Agreement” for additional information.

Reserve Fund

The Trust Agreement provides for the funding of the Reserve Fund in an amount equal to the “Reserve Requirement,” which is defined as an amount, as of any date of calculation, equal to the least of (a) 10% of the original aggregate amount of principal evidenced by the Certificates, (b) the maximum amount of remaining Installment Payments, and the interest thereon, coming due in any one Certificate Year, and (c) 125% of the average amount of remaining Installment Payments, and the interest thereon, coming due in each Certificate Year. Amounts in the Reserve Fund may be used to pay principal and interest evidenced by the Certificates to the extent that amounts in the Principal Account and Interest Account are insufficient therefor. The Reserve Fund will be funded with a portion of the net proceeds of the Certificate in the amount of \$_____, which amount is sufficient to satisfy the Reserve Requirement. See “SOURCES AND USES OF PROCEEDS OF THE CERTIFICATES” and APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement.”

Limitations on Issuance of Additional Obligations

Senior Obligations. The District may at any time incur Senior Obligations in addition to the Existing Senior Obligations payable from Net Revenues as provided in the Master Agreement on a parity with all other Senior Obligations theretofore incurred but only subject to the following conditions under the Master Agreement:

- (1) Upon the incurrence of such Senior Obligations, no Event of Default shall be continuing under the Master Agreement; and
- (2) Subject to the provisions of paragraph (3), below, the District shall have delivered to each trustee for obligations of the District a Written Certificate of the District demonstrating that for a 12 consecutive calendar month period during the 18 consecutive calendar month period ending in the calendar month prior to the incurrence of such Senior Obligations (which 12 consecutive calendar month period shall be specified in such certificate or certificates) (i) the remainder of (A) Net Revenues, less (B) payments for the purchase and delivery of water, availability payments for water and In Lieu Payments, as shown by the books of the District, shall have amounted to at least 120% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and (ii) the remainder of (A) Net Operating Revenues, less (B) payments for the purchase and delivery of water, availability payments for water and In Lieu Payments, as shown by the books of the District, shall have amounted to at least 100% of Maximum Annual Debt Service on all Obligations to be outstanding immediately after the incurrence of such Senior Obligations. For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for any changes in (i) Replenishment Assessments, (ii) other charges and fees imposed by the District pursuant to the Act, and (iii) charges and fees charged by the District from the sale, furnishing or supplying of water or other commodities sold, furnished or supplied through the facilities of the District or in the conduct of the operations of the District which have been adopted and are in effect on the date such Senior Obligations are incurred, but which, during all or any part of such 12 consecutive calendar month period, were not in effect. For purposes of preparing the certificate described above, the District may rely upon financial statements prepared by the District that have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available.

The provisions of this paragraph (2) need not be complied with if the Senior Obligations being incurred are Short-Term Obligations excluded from the calculation of Assumed Debt Service pursuant to clause (H) of the definition thereof.

- (3) Notwithstanding the foregoing, if (i) all or a portion of Senior Obligations are incurred for the purpose of providing funds to refund or refinance any Senior Obligations, (ii) upon such refunding or refinancing, debt service on such refunded or refinanced Senior Obligations, or debt service on the Related Bonds of such Senior Obligations, will no longer be included in the calculation of Assumed Debt Service either because such Senior Obligations, or the Related Bonds of such Senior Obligations, will have been paid in full or because such debt service is disregarded pursuant to clause (L) of the definition of Assumed Debt Service, and (iii) Assumed Debt Service in each Fiscal Year for the portion of such Senior Obligations incurred for the purpose of providing funds to refund or refinance such Senior Obligations is less than or equal to 100% of Assumed Debt

Service in such Fiscal Year for such Senior Obligations being refunded or refinanced (assuming for such purposes that debt service on such refunded or refinanced Senior Obligations, or debt service on the Related Bonds of such Senior Obligations, is not disregarded pursuant to clause (L) of the definition of Assumed Debt Service), the provisions of paragraph (2) above, need not be complied with for such portion of such Senior Obligations incurred for the purpose of providing funds to refund or refinance such Senior Obligations.

The District may at any time incur Reimbursement Obligations with respect to Senior Obligations.

Subordinate Obligations. The District may at any time incur Subordinate Obligations upon satisfaction of the conditions provided in the Master Agreement. See APPENDIX B – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Agreement” herein for a description of such conditions.

Installment Payments

Table 1 below sets forth the Installment Payments, together with the estimated interest thereon, assuming the only prepayments made are the mandatory prepayments described under “The Certificates – Prepayment Provisions” herein. See also Table 10 under “Projected Operating Results and Debt Service Coverage” herein for debt service payments on the 2004 Certificates.

Table 1

Estimated Installment Payments of the District

Fiscal Year	Installment Payments		Total
	Ending		
June 30	Principal	Interest	
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	\$ 0.00	\$ 0.00	\$

[BOND INSURANCE

No representation is made by the District as to the accuracy or adequacy of the following information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix F for a specimen of the Policy.]

THE DISTRICT

General

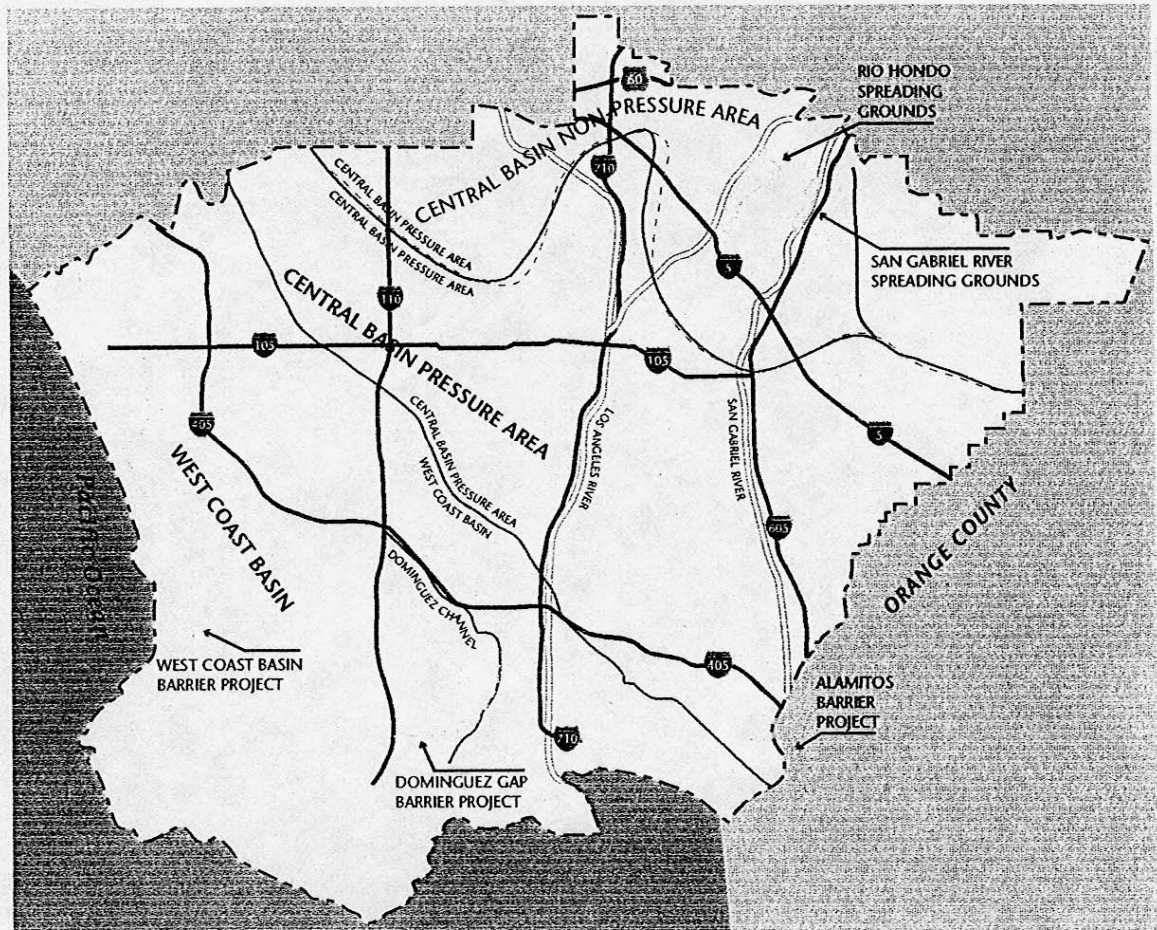
The Water Replenishment District of Southern California (the “District”) is a special water district that was established in 1959 by popular vote to counteract the effects of overpumping of groundwater from two major groundwater basins in Los Angeles County. It is the only replenishment district in California operating under the provisions of the California Water Code, Section 60000 et seq., which specifically governs water replenishment districts.

The District manages the Central and West Coast groundwater basins (collectively, the “Basins”) which provide groundwater for approximately four million residents in 43 cities of southern Los Angeles County (the “County”). The District was formed in response to a history of overpumping of the Basins which caused wells to go dry and seawater to intrude into the potable water aquifers. The District serves as the groundwater manager for the Basins, in accordance with the adjudications of the Basins. See “THE DISTRICT - Adjudications of the Basins - Central Basin Adjudication” and “- West Coast Basin Adjudication” for the history and terms of the adjudications. The District protects the Basins by replenishing the groundwater, deterring sea water intrusion and removing contaminants from the groundwater.

Figure 1 shows the location of the District. The District is bounded by the Baldwin, Whittier, and Merced Hills in the north, the Orange County line to the east, and the Pacific Ocean to the south and west. It lies entirely within Los Angeles County and serves 43 cities, including Los Angeles, Long Beach, Downey, and Torrance. The approximately 420 square mile service area uses about 250,000 acre-feet of groundwater per year.

FIGURE 1

Water Replenishment District of Southern California



Source: Water Replenishment District of Southern California

The District's stated mission is "to provide, protect and preserve high quality groundwater through innovative, cost-effective and environmentally sensitive basin management practices for the benefit of residents and businesses of the Central and West Coast Basins." Although the District does not directly serve consumers, it ensures the health of the groundwater basins so groundwater supplies are available to those with water rights to those basins, such as the cities that supply water to their residents. According to District estimates, nearly 40 percent of the water consumed by the area served by the District comes from groundwater sources. The rest comes from water imported from the Colorado River and Northern California.

The District originally was established to oversee the replenishment of groundwater levels in the West Coast and Central groundwater basins of Los Angeles County. The need for an entity to perform this function had become clear by the 1950s. The increasing population of the Los Angeles area during the early part of this century had overwhelmed the area's limited sources of surface water, so

communities, private water companies, and businesses began pumping water out of the groundwater basins. Since the natural inflow to the groundwater basins relies primarily on rainfall that averages only 14 inches per year, it was not long before the pumping outstripped the basins' ability to recharge themselves through natural means. As the groundwater levels continued to go down, some wells went dry and saltwater intruded into the basins' coastal areas, causing wells to be abandoned.

The West Basin Water Association was formed in 1947, and the Central Basin Water Association was formed in 1952. These associations developed a plan to provide supplemental water to their members, limit groundwater extraction from the basins, and create a means to provide groundwater-pumping rights to users who lacked access to other supplemental water supplies. At about the same time, the entities went to court seeking specific assignments for groundwater rights. In 1961 and 1965, the court awarded varying amounts of groundwater rights to a number of entities. During fiscal year 1997-98, 150 parties to these judgments held a total of 217,367 acre-feet of water rights in the Central Basin, and 68 parties held a total of 64,468 acre-feet of water rights in the West Coast Basin. Since water rights are property rights, they can be bought and sold.

By law, the District has broad authority to carry out its responsibilities, which include the purchase of water to replenish the basins, administering clean water programs and investing in projects intended to improve the reliable supply of clean water at a reasonable cost. The District annually purchases an average of 80,000 acre-feet of water to be added to spreading grounds, where it gradually percolates into the underlying aquifers. The District also purchases an average of 30,000 acre-feet per year of water to be injected into seawater barrier wells along the coastline. Water injected into these barrier wells forms a dam of freshwater that keeps seawater from flowing into the groundwater aquifers in areas where groundwater levels have dropped below sea level. Los Angeles County operates the spreading grounds and barrier wells, using the water the District provides.

In addition, the District operates a number of clean water programs under the authority of 1991 legislation that broadened its mission to include the detection, prevention, and removal of contaminants in the groundwater. In response to this legislation, the District has established programs to monitor water quality, remove contaminants, and mitigate saltwater intrusion.

Statutory Authority

The District is a public body, corporate and politic, existing under and by virtue of the Water Replenishment District Act of the State of California (the "WRD Act"), contained in Sections 60000 et. seq. of the California Water Code. The WRD Act authorizes the District to do any act necessary to replenish the groundwater of the District, including, but only for the purposes of replenishing the groundwater supplies within the District, buying and selling water, exchanging water, distributing water to persons in exchange for ceasing or reducing groundwater extraction, spreading, sinking and injecting water into the underground, storing, transporting, recapturing, recycling, purifying, treating or otherwise managing and controlling water for the beneficial use of persons or property within the District, and building the necessary works to achieve groundwater replenishment.

The WRD Act further provides that for the purpose of protecting and preserving the groundwater supplies within the District for beneficial uses, the District may take any action within the District that its Board of Directors deems necessary or desirable to prevent contaminants from entering the groundwater supplies or removing contaminants from the groundwater supplies of the District. The District is also empowered to take action outside the District to protect its groundwater supply where there is a direct, material relationship between the District's groundwater supply and the groundwater supply where the action is being taken.

The WRD Act empowers the District to fix the rates at which water shall be sold for replenishment purposes, to annually impose a Replenishment Assessment on the production of groundwater from groundwater supplies within the District, to impose other assessments and charges for water, and to cause ad valorem taxes to be levied on District property under certain circumstances. The major portion of the District’s revenues is derived from Replenishment Assessments that are imposed on entities (the “pumpers”) that pump groundwater from the Basins. For further information on the Replenishment Assessments, see “FINANCIAL OPERATIONS - Replenishment Assessments and Other District Revenues” and “- Collection of Replenishment Assessments.”

The powers that are vested in the District by the WRD Act and used to carry out its purpose were confirmed by the courts in recent court decisions regarding the scope of the WRD Act. See “THE DISTRICT-Adjudications of the Basins-Central Basin Adjudication.”

Governance and Management

A five-member board of directors governs the District; each director represents a division of the District. The directors serve four-year terms and are elected at regularly scheduled general elections. The board acts by adopting resolutions. The current Board members and the expiration dates of their terms are set forth below.

<i>Board of Directors Member</i>	<i>Expiration of Term</i>
Rob Katherman	January 2009
Lillian Kawasaki	January 2011
Willard H. Murray, Jr.	January 2011
Sergio Calderon	January 2011
Albert Robles	January 2009

Day-to-day management of the District is delegated to the General Manager. The District has 28 full and part-time employees. Set forth below is a brief resume of the General Manager and principal administrators of District operations and finances:

<u>Officers of the District (management)</u>	<u>Years of Experience</u>
Robb Whitaker, General Manager	23
Theodore Johnson, Chief Hydrogeologist	23
Scott M. Ota, Chief Financial Officer	18
Robert Siemak, Chief of Engineering and Planning	33

Robb Whitaker – General Manager

Mr. Whitaker is a Professional Engineer and has been in the field of water resources engineering for 23 years. He has a wide ranging experience with water distribution infrastructure, water supply forecasting, and basin management. During his tenure at the WRD, Mr. Whitaker has developed the Safe Drinking Water Program that provides treatment facilities for groundwater producers with wells affected by contamination, developed the Balanced Basin Pumping concept which could allow a 20% increase in the use of groundwater in the Central Basin, reducing the demand for expensive water imported from the Sacramento and Colorado Rivers, conceived and developed a concept to utilize water from the CalTrans 105 Freeway that is currently being wasted to the ocean, developed the concept of utilizing physical barrier systems as an alternative to expensive injection wells to deter seawater intrusion, and conceived and developed a plan that is currently being implemented to remove San Gabriel Valley contamination

that migrated into the Central Basin. Mr. Whitaker received a B.S. in Civil Engineering with emphasis in Water Resources from the University of Southern California.

Theodore Johnson – Chief Hydrogeologist

Mr. Johnson is a California Registered Geologist and Certified Hydrogeologist with 23 years experience in Southern California groundwater resources investigations, with the last eight years dedicated exclusively to the Central and West Coast Basins. He manages a group of hydrogeologists, engineers, and technical support specialists in the Basin Management and Water Quality department at the District, focusing on groundwater replenishment, water quality, seawater intrusion, groundwater basin levels, computer modeling, and groundwater banking/conjunctive use opportunities. Mr. Johnson received his B.S. and M.S. degrees from California State University at Fullerton.

Scott M. Ota – Chief Financial Officer

Mr. Ota is a Certified Public Accountant with 18 years of experience working in the public, private and government sectors. While working in these business areas, Mr. Ota specialized in financial, compliance and internal control audits, supervised the accounting function of a multi-million dollar medical practice management company and most recently, led the turnaround and reorganization of several companies. Currently, he is responsible for overseeing all financial aspects of the District, including projecting cash flows, assessing financing arrangements, streamlining financial operations, and investment, expense and profitability analysis. Mr. Ota also works with the District's individual departments, management, and Board of Directors in leading the annual budget and assessment rate setting process.

Robert Siemak – Chief of Engineering and Planning

Mr. Siemak is a Registered Civil Engineer in California with 33 years experience in the design, operation and management of environmental infrastructure working in the public and private sectors. He has comprehensive experience in the water and wastewater industry including: management of large infrastructure projects; contract operations and alternative delivery methods; development and implementation of business strategies; management of multi-agency teams and business units; involvement in urban water issues and technical leadership in the water treatment and reuse area. Currently, he manages a group of engineers, planners and technical support specialist in the District's Engineering and Planning Department focusing on projects and programs that will increase stormwater capture and increased use of reclaimed water for replenishment and barrier injection . He received his Bachelor's of Science in Civil Engineering from Loyola Marymount (Los Angeles, CA) and a Master's in Environmental Engineering from University of California, Berkeley.

Employee Benefits and Employee Relations

The District is a member of the California Public Employees' Retirement System ("PERS"), a multiple employer pension system which provides a contributory defined-benefit pension plan for substantially all District employees. Required contributions, which are paid entirely by the District, are determined from rates established by PERS based upon various actuarial assumptions. The District's normal pension costs are funded currently. The District currently has no unfunded actuarial liability.

District employees, other than management level employees, are represented by the American Federation of State, County and Municipal Employees (AFSCME), Local 1902.

Insurance

The District maintains general liability and property insurance through the Association of California Water Agencies Joint Powers Insurance Authority (the "JPIA"), a pooled non-capitalized self-insurance pool consisting of other public agencies involved in water purveyance. The liability program self-insures for the first \$500,000, and purchases excess insurance up to the \$40,000,000 limit. The property component of such insurance self-insures for the first \$50,000 layer of coverage and purchases excess insurance up to the limit of \$50,000,000. In addition, the District has purchased boiler and machinery coverage as a part of the property program and a public employee fidelity bond.

The Projects

The Certificates are expected to finance certain capital improvement projects and to reimburse the District for expenses previously incurred in the construction of certain capital improvement projects. The following is a description of certain capital improvement projects authorized to be constructed or funded by the District and the related amounts of District funds estimated to be expended:

Administration Building. The District purchased and moved into a 21,250 square foot office building in Lakewood which acts as the District's headquarters in 2007. In order to make the building suitable for WRD needs and functions, tenant improvements are required. Proceeds from the Certificates are expected to pay for approximately \$1,545,000 of these tenant improvement costs.

Regional Groundwater Monitoring Program – New Monitoring Wells. The Regional Groundwater Monitoring Program provides for the collection of basic information used for effective groundwater basin management including groundwater level data and water quality data from District owned monitoring wells. The information generated by this program is stored in the District's GIS and provides the basis to better understand the dynamic changes in the Central and West Coast Basins. WRD staff, comprised of hydrogeologists and engineers provides the in-house capability to collect, analyze and report groundwater data.

During the next four years, the District is planning on constructing 12 new wells to provide a more complete network of monitoring wells throughout the Central and West Coast Basins. Costs for these wells range from approximately \$400,000 per well to \$700,000 per well, depending on the depth to which they are drilled.

The District is planning on constructing the wells over the next four fiscal years as follows: 2 wells in FY08/09, 3 wells in FY09/10, 3 wells in FY10/11 and 4 wells in FY11/12. The total estimated cost for the construction of the new monitoring wells is \$5,500,000. Additionally, approximately \$1,761,000 for new monitoring wells that have been constructed in FY06/07 and FY07/08 is included in this project. Proceeds from the Certificates are expected to pay approximately \$4,890,000 for new monitoring wells.

Rio Hondo and San Gabriel River Spreading Grounds Interconnection Pipeline. The Rio Hondo Spreading Grounds and San Gabriel River Spreading Grounds Interconnection Pipeline project would provide funding assistance for the design and construction of 6,500 linear feet of steel pipe, concrete outlet structures, and two variable speed pumps. The project is estimated to capture and conserve 1,300 acre-feet of stormwater and 5,700 acre-feet per year of recycled water that would otherwise be wasted to the ocean.

The primary benefit of the Rio Hondo Spreading Grounds and San Gabriel River Spreading Grounds Interconnection Pipeline project is the estimated conservation of 7,000 acre-feet per year of local

storm water and recycled water as a result of the construction of the pipeline and pumps. The conservation of this local water may directly offset the District's imported water purchases, which currently cost \$300 per acre foot. The resulting direct benefit to the District, based on 1,300 acre-feet per year of free stormwater and 5,700 acre-feet per year of \$21 per acre-foot recycled water, is projected to be \$2,088,000 per year if the water is used to offset imported water purchases in the Montebello Forebay.

The total estimated cost for the design and construction of the pipeline, pumps and appurtant facilities is \$7,600,000, which includes approximately \$600,000 for design and approximately \$7,000,000 for construction. The Los Angeles County Department of Public Works, as lead agency on this project, is providing in-kind design services of approximately \$300,000 and construction funding of approximately \$3,500,000 for this project and has requested that WRD share in the remaining balance, up to a maximum of \$3,800,000. Proceeds from the Certifications are expected to pay approximately \$3,800,000 for design and construction of the interconnection pipeline.

The following is a description of certain capital improvements the previously incurred expenses of which are authorized to be reimbursed and the related amount to be expended:

Safe Drinking Water Program. The Safe Drinking Water Program provides basin water rights holders with incentives to construct wellhead treatment facilities to extract, treat and put to beneficial use contaminated groundwater that would otherwise be left in the ground. The District is currently managing several Safe Drinking Water Projects in various stages of implementation.

The Safe Drinking Water Program has a total of eleven facilities online, four facilities under design and/or construction, and two sites under preliminary investigation. The capital costs of wellhead treatment facilities range from \$350,000 to over \$1 million per well. Due to budgetary constraints, these initial costs are prohibitive to most pumpers. Through the program, the District offers financial assistance for the design, equipment, and implementation of a project. With this support, the venture is made more economically feasible.

Proceeds of the Certificates are expected to reimburse approximately \$1,193,000 of the costs of these projects.

Adjudications of the Basins

General. The rights to pump groundwater from the Central Basin and the West Coast Basin are governed by two adjudications, as described below, although both Basins are managed by the District as a single groundwater basin pursuant to the WRD Act. Available groundwater resources in the Basins are also affected by the terms of the San Gabriel River adjudication, described below.

Central Basin Adjudication. The Central Basin area was initially developed for agriculture, but was rapidly urbanized in the early to mid 1900s. Because of increased population and urbanization, groundwater production was increased, and the area lost a large amount of return flow. The lining of the Los Angeles River eliminated a major source of recharge for the Central Basin aquifers. Development in the San Gabriel Valley, upstream from the Central Basin, further reduced the amount of water flowing into the Central Basin.

Groundwater extractions rose from slightly more than 150,000 acre feet in the mid-1930's to nearly 300,000 acre feet by the end of the 1950's. The Department of Water Resources of the State of California (the "Department of Water Resources") calculated that Central Basin's annual overdraft in 1957 was about 103,000 acre feet. By 1960, it was 149,200 acre feet. In the Central Basin, water levels

fell 100 feet through the 1940's and 1950's. By 1960, accumulated overdraft in the Central Basin totaled about 1,000,000 acre feet.

The Central Basin Water Association (the "Central Basin Association") was formed in 1950 as a nonprofit association. During that time period the Central Basin Association provided a forum for investigating water conditions within the Central Basin and for solving water supply problems. The District was formed on November 17, 1959, under the WRD Act pursuant to a vote of the electors of the District.

On January 3, 1962, the District sought to adjudicate the water rights in the Central Basin by filing Case No. 786 656, naming more than 700 parties as defendants. The lawsuit sought to quiet title to the right to use groundwater and to regulate withdrawals from the Central Basin to protect the water supply. Members of the Central Basin Association voluntarily agreed to curtail extractions from the Central Basin. Eventually, a stipulated judgment was approved by water pumpers representing over 75% of total water rights within the Central Basin. After trial, the court entered its order on October 11, 1965, and the judgment (the "Central Basin Judgment") became effective on October 1, 1966.

The Central Basin Judgment limits the amount of groundwater each party can extract annually from the Central Basin. This limit is referred to as the "Allowed Pumping Allocation." To provide flexibility in the control of groundwater extractions, the Central Basin Judgment contains provisions allowing the parties to carry over into the succeeding year a portion of their unused water right and in some cases to overextract it. This flexibility is necessary to meet unforeseen emergencies in water demand. The carryover provision is limited to 20% of a party's Allowed Pumping Allocation or 20 acre feet, whichever is greater. Parties are also allowed to overextract their rights by 20% of their Allowed Pumping Allocation or 20 acre feet, whichever is greater. Under certain circumstances, parties may overextract in greater amounts upon prior approval from the Department of Water Resources, which acts as the court appointed Watermaster for the Central Basin. Overextraction must be made up in the following fiscal year unless the Watermaster grants relief due to hardship, which allows the overextraction to be made up over a five-year period. Central Basin water rights are freely transferable, and there are many water right leases and sales between parties each year.

On May 6, 1991, the Central Basin Judgment was amended to fix the total Allowed Pumping Allocation in Central Basin at 217,367 acre feet annually. Demand for water is significantly higher than this amount and imported water is a major component of the area's water supply. Since the date of the Central Basin Judgment, total extractions from the Central Basin have generally been within 90% of the total Allowed Pumping Allocation.

The powers that are held and carried out by the District under the WRD Act were confirmed by the courts in 2001. A limited group of groundwater producers in the Central Basin filed a legal proceeding to change the terms of the Central Basin Judgment in a way that proposed to allocate all of the available groundwater storage space in the Central Basin exclusively among the water right holders under the Central Basin Judgment. The District opposed that proposal on several grounds, including the ground that the proposed allocation was inconsistent with the District's statutory powers under the WRD Act. The Trial Court agreed with the District, finding in part that:

"[A] basin's storage space is a public resource and as such, the Legislature has provided a framework for that public resource to be administered in this region by [the District]; furthermore, [the District] has the statutory authority to replenish and store waters for conjunctive use management."

The Court of Appeal upheld the Trial Court ruling in 2003 and the California Supreme Court declined to consider the case. Therefore, pursuant to the express provisions of the WRD Act and the case law interpreting its scope, the District is authorized to carry out and manage conjunctive use storage projects in the Central and West Coast Groundwater Basins.

West Basin Adjudication. The West Coast Basin area depends on subsurface flow and precipitation for its freshwater replenishment. Its freshwater supplies are easily upset and can be adversely affected by upstream activities miles away. As a coastal basin, it is exposed to seawater intrusion if water levels fall too low.

Seawater intrusion was first identified in the West Coast Basin as early as 1912. By 1933, increased groundwater pumping in the West Coast Basin drove groundwater levels in the center of the West Coast Basin to nearly 20 feet below sea level. As the West Coast Basin area grew in population and development, groundwater pumping increased further. Urbanization of the area reduced return flows as land surfaces were paved over and stream channels were lined with concrete. As underground water elevations continued to be maintained below sea level, large amounts of salt water began to fill the West Coast Basin from the Pacific Ocean.

The total accumulated overdraft in the West Coast Basin through 1957 was estimated at 832,000 acre feet, 630,000 of which was replaced by salt water. During the 1950's about 50,000 acre feet per year of ocean water intruded in the West Coast Basin. By 1962, seawater intrusion was about 2 miles inland all along the Santa Monica Bay. Groundwater levels fell by more than 100 feet in some areas. With more than 600,000 acre feet of salt water underlying thousands of acres of land and advancing toward the center of the West Coast Basin, the groundwater supply to the West Coast Basin was threatened with destruction.

In 1946, the West Basin Water Association was formed as a nonprofit association. The West Basin Water Association studied the deterioration of the West Coast Basin and attempted to secure additional water supplies for the area. On October 24, 1945, California Water Service Co., joined by other plaintiffs, filed a complaint seeking adjudication and limitation of groundwater rights against 151 named and several hundred unnamed defendants in the West Coast Basin. Over the next 16 years, the parties actively negotiated in order to determine the level of pumping which would be allowed in the West Coast Basin. An interim agreement was reached in 1949 which was effective in improving West Coast Basin water conditions.

On August 18, 1961, the Superior Court entered a judgment (the "West Basin Judgment"). The West Basin Judgment gave 99 parties transferable "Adjudicated Rights" totaling 64,064.09 acre feet and appointed the Department of Water Resources as Watermaster for the area. The West Basin Judgment was later amended and total Adjudicated Rights are now 64,468.25 acre feet for the West Coast Basin.

To provide flexibility in the control of groundwater extractions, the West Basin Judgment contains provisions allowing the parties to carry over into the succeeding year a portion of their unused water right and in some cases to overextract it. This flexibility is necessary to meet unforeseen emergencies in water demand. The carryover provision is limited to 20% of a party's adjudication rights or 2 acre feet, whichever is greater. Parties are also allowed to overextract their rights by 10% of their adjudicated rights or 2 acre feet, whichever is greater. The court retains jurisdiction to allow overextraction in greater amounts. West Coast Basin water rights are freely transferable, and there are many water right leases and sales between the parties each year.

San Gabriel River Adjudication. The Whittier Narrows is located at the north end of the Central Basin. Historically, there were significant flows of freshwater from the San Gabriel Valley (upper area)

into the Central Basin (lower area) through the Whittier Narrows. With more active water pumping in the upper area, there was a significant decrease in supply flowing to the Central Basin from the San Gabriel Valley. Water passing from the main San Gabriel Basin to the Central Basin at the Whittier Narrows decreased from an average of 74,557 acre feet per year during the 1940's to an average of 15,164 acre feet per year during the 1950's.

After discussion between parties on either side of the narrows failed to reach a solution that would assure continued supplies to the Central Basin, the Cities of Long Beach and Compton and the Central Basin Municipal Water District filed suit against the upper area pumpers on May 12, 1959. The complaint alleged that increased water pumping by defendants in the upper area had led to the removal of more water from the upper area than was being replenished annually, thereby causing harm to the lower area. The plaintiffs requested a determination of the upper area parties' water rights, and an injunction restraining them from interfering with lower area rights to San Gabriel River system water.

After protracted negotiations, the case was eventually settled. The stipulated judgment (the "San Gabriel Judgment") was entered and ruled valid in the Superior Court on September 24, 1965. The San Gabriel Judgment decrees that the lower area is entitled to a determinable amount of "usable water" each year. The entitlement depends on rainfall conditions in the San Gabriel Valley. The lower area is entitled to a long-term average of 98,415 acre feet of usable water per year, which is keyed to the long-term average annual rainfall in the San Gabriel Valley of 18.5 inches.

The entitlement is compared with the amount actually received across the Whittier Narrows from the upper area. Usable water is calculated from measurements of surface and subsurface flow, water exported to the lower area, replenishment water, reclaimed water, make-up water, estimates of unusable surface flows and recirculation of measured water. The San Gabriel Judgment provides a system of accrued debits and credits to account for differences between the annual entitlements and the amounts of usable water received by the lower area.

When a water year results in an accrued shortfall, the upper area must supply make-up water to the lower area in the following water year. Make-up water must be of usable quality and consists of surface deliveries of supplemental imported water or reclaimed water. The upper area's make-up water obligation for a given water year is either one-third of the accrued shortfall, or enough to reduce the accrued shortfall to no more than 25,000 acre feet, whichever is greater. Because of its low cost and high quality compared with other local or imported water sources, recycled water from the Whittier Narrows or San Jose Creek Reclamation Plants is purchased by the upper area whenever possible for delivery as make-up water to the lower area.

The San Gabriel Judgment also provides for a long-term accounting procedure, which represents an attempt to keep the average amount of usable water supplied to the lower area close to the long-term average of 98,415 acre feet per year. A long-term accounting must be made every 15 to 25 years, depending upon rainfall conditions. The long term accounting compares the total usable water received by the lower area during the accounting period with the lower area's entitlement over that period. If there has been a deficiency in flows of usable water, the upper area is required to deliver additional make-up water over a three year period.

In some circumstances, the delivery of make-up water can be satisfied through a cash payment. Central Basin Municipal Water District acts as trustee of funds paid under the make-up provision, and maintains such accumulated funds in the "Long Beach Trust Fund." These funds are periodically made available to lower area water pumpers as an aid in improving lower area water supplies.

Sources of District Water

The District's sources of water for groundwater replenishment of the Basins consist of natural precipitation, storm water inflow, subsurface inflow, and purchases of water from the Los Angeles County Sanitation District No. 2 (the "County Sanitation District"), the Central Basin Municipal Water District, the West Basin Municipal Water District, the City of Los Angeles Department of Water and Power and the City of Long Beach. In addition, the District has an "in-lieu program" pursuant to which the District pays water pumpers to take imported water instead of pumping groundwater with the effect of replenishing the basins through decreased groundwater pumping. The arrangements under which the District receives or purchases water under each of these options is described below.

Surface and Subsurface Flows. The District obtains the water that flows into the Basins from natural precipitation and local run off at no cost. In the Montebello Forebay portion of the District, where most recharge occurs, during the years 2002-03 through 2006-07, surface flows have ranged from 11,500 acre feet to 148,500 acre feet annually, and subsurface flows have ranged from 21,600 acre feet to 24,300 acre feet annually.

County Sanitation District Water. The District purchases from the County Sanitation District recycled water that the District uses exclusively for spreading and percolation into the Basins.

An agreement, dated May 8, 1968, between the District and the County Sanitation District grants the District the exclusive right to purchase for spreading into the Central Basin all of the recycled water from Stage 1 of the County Sanitation District's San Jose Creek Reclamation Plant and an expansion of the Whittier Narrow Reclamation Plant, which total approximately 37,500 acre feet annually. The purchase price of such reclaimed water is currently \$20.66 per acre foot, and is subject to adjustment every three years. This agreement is in effect for so long as such reclamation plants are operated by the County Sanitation District.

A second agreement, dated April 1, 1975, is an "interim agreement" among the District, the County Sanitation District and County Flood Control. This agreement deals with the sale, spreading, and purchase of recycled water from the original Whittier Narrows Plant, (not the expanded plant described in the 1968 Agreement) as defined in the 1961 Agreement. This agreement commenced on the date that the 1961 Agreement terminated. The Term of this interim agreement is indefinite, subject, however, to the right of any party to terminate upon thirty days written notice. The County Sanitation District agrees to deliver to County Flood Control and County Flood Control agrees to accept for spreading, approximately 10,000,000 gallons per day (or 33 acre feet per day) of recycled water or such additional quantities as may be available. Under this interim agreement the District agrees to pay to the Sanitation District \$7.00 per acre-foot for all recycled water from the Whittier Narrows Plant.

Central Basin Municipal Water District. The District purchases imported water from the Central Basin Municipal Water District, a Metropolitan Water District of Southern California ("MWD") Member Agency for spreading into the basins. The purchase prices of such water are set from time to time by the Central Basin Municipal Water District. See Table 3 below for the purchase prices for such water. The District's price for such water is significantly affected by the water pricing policies of the MWD because Central Basin Municipal Water District purchases all of its water sold for replenishment from MWD.

West Basin Municipal Water District. The District purchases imported and recycled water from the West Basin Municipal Water District ("WBMWD") for injection into the basins. The purchase prices of such water is set from time to time by the West Basin Municipal Water District. See Table 3 below for the purchase prices for such water. The District's price for such imported water is significantly affected

by the water pricing policies of MWD because West Basin Municipal Water District purchases the major portion of its water from MWD. For the recycled water, the District has entered into an agreement with WBMWD which will expire no later than January 27, 2030, in which the District has agreed to purchase each year up to 12,500 acre-feet of recycled water at the current barrier recycled rate of \$458 per acre foot, adjusted annually for inflation. For imported water, the District has entered into an agreement with WBMWD which will expire on December 31, 2012, in which the District has agreed to purchase each year up to 14,000 acre-feet of recycled water at the current barrier imported recycled rate of \$611 per acre foot, adjusted annually based on MWD and WBMWD rate increases.

City of Los Angeles Department of Water and Power. The District purchases imported and recycled water from Los Angeles for injection into the Dominguez Gap Barrier, a seawater barrier in the West Coast Basin.

City of Long Beach. The District purchases imported water from Long Beach for injection into the Alamitos Barrier, a seawater barrier in the Central Basin.

In-Lieu Program. The District has operated an “in-lieu” program, pursuant to which the District offers financial incentives to its water pumpers to forego pumping water on an annual basis in order to preserve the District’s groundwater supply. The amount of the incentive is established so that the cost to the pumpers of purchasing imported water from MWD would be less costly than pumping water from the basins.

Set forth below is Table 3 which shows a 5-year history of the cost and 2-year projected cost to the District of water for replenishment. Set forth below in Table 4 is a 5-year history of the quantity and 2-year projected quantity of water that the District purchased or acquired from surface and subsurface flow. Tables 3 and 4 show water by category of District use rather than by source of purchase.

Table 3

**FIVE-YEAR HISTORY OF THE COST AND TWO-YEAR
PROJECTED COST OF REPLENISHMENT WATER PURCHASED BY THE
WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA
(In dollars)**

Water Year ¹	Imported Spreading Water Cost ²	Recycled Spreading Water Cost	West Coast Barrier Recycled Injection Water	Dominguez Gap Recycled Injection Water	West Coast and Dominguez Gap	Alamitos Barrier Imported Water	Alamitos Barrier Recycled Water	In Lieu	Total Cost of Replenishment Water ³
2002-03	4,393,413	708,990	2,977,535	0	8,719,709	1,923,143	0	1,872,539	20,595,329
2003-04	7,430,238	676,577	1,577,455	0	7,873,533	1,797,778	0	0	19,355,581
2004-05	7,262,418	446,968	1,685,084	0	6,943,286	1,337,513	0	936,432	18,611,701
2005-06	7,908,256	706,196	1,826,554	523,945	7,230,952	447,052	108,103	1,369,781	20,120,839
2006-07	9,571,027	700,000	4,671,276	747,539	5,510,000	745,569	25,677	1,421,150	23,392,238
2007-08*	5,178,000	882,400	4,439,550	2,155,000	5,625,900	694,238	471,900	1,759,583	21,206,571
2008-09*	5,985,000	882,400	5,221,200	1,659,350	5,188,625	792,750	400,400	2,165,097	22,294,822
Total	\$47,728,352	\$5,003,531	\$22,398,654	\$5,085,834	\$47,092,005	\$7,738,043	\$1,006,080	\$9,524,582	\$145,577,081

* Projected.

1. Water year is October 1 through September 30.
2. Disparities relate to availability or deliverability of water due to local conditions.

Source: The District.

Table 4

**FIVE-YEAR HISTORY OF THE QUANTITY AND TWO-YEAR PROJECTED QUANTITY OF
REPLENISHMENT WATER PURCHASED OR ACQUIRED BY THE WATER
REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA
(By acre foot)**

Water Year ¹	Spreading		Injection						In Lieu	Local Water ²	
	Imported Water (AFY)	Reclaimed Water (AFY)	West Coast Barrier Basin (AFY)		Dominguez Gap (AFY)		Alamitos Barrier (AFY)		Central and West Coast Basins (AFY)	Surface Flow (AFY)	Subsurface Flow (AFY)
			Imported	Recycled	Imported	Recycled	Imported	Recycled			
2001-02	42,875	58,668	12,724	7,276	5,459	0	3,961	0	20,720	18,607	27,400
2002-03	22,366	40,476	10,419	6,192	8,056	0	4,511	0	11,205	58,357	27,500
2003-04	27,520	44,924	9,304	3,669	6,089	0	3,876	0	0	47,900	48,480
2004-05	25,296	29,503	4,548	3,920	8,557	0	2,870	0	7,804	47,900	48,480
2005-06	33,229	42,021	5,997	4,249	7,259	1,450	1,042	921	9,889	47,900	48,480
2006-07*	40,214	44,068	4,337	10,941	6,012	1,733	1,473	232	9,263	47,900	48,480
2007-08*	21,000	48,000	3,400	10,200	6,000	5,000	1,650	1,650	10,303	47,900	48,480

* Projected.

1. Water Year is October 1 through September 30.
2. Local water supplies enter the Basins at no cost to the District.

Source: The District

Southern California’s Water Supply

The ability of the District to operate effectively is affected by the overall water supply to southern California. MWD is the major supplier of water to six counties in southern California. The adequacy of MWD’s water supply is affected by the growing population within the southern California area, the increased competition for low-cost supplies, increased environmental regulations for clean and safe water, increased costs of developing new supplies of water, and periodic droughts. The adequacy of MWD’s overall supply in the future may be affected by the ability of the State Water Project operated by the Department of Water Resources (the “SWP”) to meet its contractual obligations to MWD by providing water to MWD via the California Aqueduct, any adjustments in the MWD’s rights to water from the Colorado River, and various other factors. To meet these challenges MWD adopted an Integrated Resources Plan in 1996. The purpose of this plan is to ensure a reliable and high-quality water supply, coordinate planning activities among all of southern California’s water suppliers, avoid redundant investments and provide a flexible and balanced planning framework. The Integrated Resources Plan calls for a water supply mix for southern California consisting of imported water from the State Water Project and the Colorado River Aqueduct, water transfer agreements primarily with agricultural water districts, storing surplus imported water during winter months in local reservoirs and groundwater basins, the use of recycled water for non-potable purposes, and water conservation.

With this and other programs in place, MWD has estimated that it can meet its member agencies’ supplemental demands through the year 2025, even under a repeat of the worst single-year and multiple-year drought events. However, these estimates may be affected by the final determination of certain environmental challenges (see “CERTIFICATE HOLDERS’ RISKS – Environmental Considerations” herein) and other unforeseen events.

MWD has many other ongoing projects and programs aimed at increasing water supply reliability and reducing the vulnerability of droughts. Such programs include funding for local reclaimed and groundwater recovery projects, water transfer projects, conservation projects, and off-river, groundwater, and regional storage projects. MWD faces various serious challenges in the continued supply of imported water to its members, including the District. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated, for the benefit of owners of certain of its outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements with certain information repositories. MWD has not entered into any contractual commitment with the Corporation, the District, the Trustee or the Owners of the Bonds to provide information. MWD has not reviewed this Official Statement and has not made any representations or warranties with respect to the accuracy or completeness of the information contained or incorporated herein, including information with regard to MWD.

MWD’s Internet home page is located at www.mwdh2o.com, and MWD’s most recent audited financial statements are included at this Internet address. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

Seawater Intrusion

The West Coast Basin is a major coastal groundwater basin located in the southwestern portion of Los Angeles County. See “WATER SUPPLY AND WATER PRODUCTION - Adjudications of the Basins - West Basin Adjudication” for additional information on the history of seawater intrusion into the West Coast Basin. The West Coast Barrier was developed to mitigate such seawater intrusion. The project consists of a series of injection wells located along the coastal boundary of the West Coast Basin. Freshwater purchased by the District and injected through these wells prevents further seawater intrusion by creating a hydraulic barrier in the coastal aquifers. The project began in the 1950s and was completed in the 1970s. In addition, the District’s Robert W. Goldsworthy Desalter extracts and treats groundwater in the West Coast Basin contaminated by historical seawater intrusion and delivers it for potable use.

District Water Production

The Central Basin Judgment and the West Basin Judgment limit the amount of groundwater that can be pumped from the Basins. There are 226 entities that have adjudicated rights to pump groundwater from the Basins, of which 134 are active. Over half of the District’s groundwater is pumped by ten of these pumpers; 26 water pumpers account for approximately 95% of the District’s water pumping. Set forth below in Table 5 is the total groundwater pumped from the Basins by all active pumpers for the last five fiscal years. All of such pumpers are assessed a Replenishment Assessment. See “FINANCIAL OPERATIONS – Replenishment Assessments and other Revenues.”

Table 5

**AGGREGATE GROUNDWATER PUMPING IN THE WATER REPLENISHMENT DISTRICT
OF SOUTHERN CALIFORNIA SERVICE AREA
(By acre foot)**

Water Year	Central Basin	West Coast Basin	Total
2002-03	190,268	51,946	242,214
2003-04	200,365	48,013	248,378
2004-05	188,707	41,297	230,004
2005-06	191,030	36,808	227,838
2006-07	198,115	37,655	235,770
2007-08*	193,370	41,630	235,000

* Estimated numbers based on a 5-year average for Water Years 2002-03 through 2006-07.

Source: The District

Table 6

**GROUNDWATER PUMPING BY TOP 20 WATER PUMPERS IN THE WATER
REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA SERVICE AREA¹
(By acre foot)**

PUMPERS	5 YR AVG. FY 02-03 - 06-07*
Golden State Water (So Ca Wtr)	30,954.00
City of Long Beach	24,498.00
City of Downey	17,618.00
California Water Service	14,594.00
City of Los Angeles DWP	12,863.00
City of Cerritos	10,919.00
City of South Gate	10,625.00
City of Lakewood	9,327.00
City of Vernon	8,739.00
City of Compton	6,364.00
City of Pico Rivera	5,574.00
City of Lynwood	5,018.00
Shell/Equilon/Texaco	4,756.00
City of Inglewood	4,686.00
Bellflower-Somerset	4,467.00
City of Paramount	4,237.00
Conoco/Tosco/Union	4,086.00
BP/Atlantic Richfield	3,933.00
City of Santa Fe Springs	3,886.00
San Gabriel Valley	2,098.00

* Actual numbers, unaudited.

¹ Summary of the groundwater pumping of the District's top 20 pumpers, based on a 5-year average for Fiscal Years 2002-03 through 2006-07.

Source: The District.

Comparison of the Cost of Pumping District Water with the Cost of Alternative Sources of Water

Groundwater provided by the District is less expensive for District pumpers than is the cost of either imported water or recycled water. The cost of pumping District groundwater consists of the payment of the Replenishment Assessment plus the energy cost of pumping the groundwater. Table 7 below sets out a comparison between the costs of pumping District groundwater and purchasing imported water from the Central Basin Municipal Water District and the West Basin Municipal Water District.

Table 7

COMPARISON OF THE COSTS OF GROUNDWATER AND IMPORTED WATER (For Fiscal Year 2008-2009)

	Water ¹	Imported Water
Central Basin ²	\$ 223.00	\$ 599.50
West Basin ³	\$ 223.00	\$ 650.00

¹ - The cost of pumping an acre foot of groundwater is comprised of a Replenishment Assessment of \$153 per acre foot and an average energy cost of \$70 per acre foot.

² - Central Basin - Costs from 7/1/08 - 12/31/08 \$564; 1/1/09 - 6/30/09 \$635; average of \$599.50.

³ - West Basin - Costs from 7/1/08 - 12/31/08 \$611.00; 1/1/09 - 6/30/09 \$689.00; average of \$650.00.

Source: The District

Recycled water is used primarily for irrigation and some industrial uses. The use of recycled water requires that a water pumper invest in infrastructure improvements for the distribution of recycled water. The cost of recycled water projects also typically require additional funding from federal, state and local agencies. Recycled water currently represents approximately 4% of total water use in the District service area.

Groundwater Quality Program

In addition to replenishing the basins, WRD's other statutory mandate is to protect and preserve the groundwater quality within the District so that the groundwater can continue to be used as an important water supply. To accomplish this, the District performs numerous projects and programs to investigate, monitor, and clean up contaminated groundwater, and tracks current and emerging rules and regulations that dictate water quality compliance standards.

The Robert W. Goldsworthy Desalter extracts salty groundwater contaminated from seawater intrusion and treats it by reverse osmosis yielding potable water that is distributed to the City of Torrance. This helps remove the remnant saline plume that has contaminated much of the West Coast Basin. The Regional Groundwater Monitoring Program uses a network of over 200 monitoring wells to sample and test the groundwater quality in the District twice per year for a comprehensive series of potential contaminants. The Safe Drinking Water Program is a highly successful program that extracts groundwater from existing water supply wells that have been impacted by industrial and natural pollutants and treats it to drinking water quality for distribution to the local communities, thus removing the contaminants from the basins and restoring the usefulness of the wells. As part of the District's permit compliance requirements for recycled water use for replenishment, the District collects groundwater

samples from monitoring wells 6 times per year and from production wells twice per year and tests the water for an extensive suite of chemicals to ensure that the recycled water remains a safe source of replenishment. The District tracks major contaminated sites in the basins such as Federal Superfund Sites to make sure the contamination does not reach the potable supplies, and if it does, to work with the lead regulatory agencies to expeditiously clean up the contamination. The District participates in the analysis and development of regulatory guidelines on emerging groundwater quality issues such as Notification Levels and new chemicals of concern, such as arsenic, perchlorate, methyl tertiary butyl ether (MTBE), hexavalent chromium, 1,4-Dioxane, and nitrosodimethylamine (NDMA).

FINANCIAL INFORMATION OF THE DISTRICT

Replenishment Assessments and Other District Revenues

Replenishment Assessments. The WRD Act permits the District to levy a Replenishment Assessment on pumpers that pump groundwater from the Basins. Such provisions require that the Board order no later than the second Friday in February of each year an engineering survey and report to be prepared regarding the groundwater supplies in the District. Based on the survey, the Board may declare whether funds shall be raised for the purposes of purchasing water for replenishment or removing contaminants from groundwater supplies during the next ensuing Fiscal Year and whether such funds shall be raised by a water charge, general tax assessment or a Replenishment Assessment or a combination of the foregoing.

If the Board determines that funds shall be raised by the levy of a Replenishment Assessment, the Board must give notice and hold a public hearing to determine whether and to what extent the estimated costs thereof for the ensuing year shall be paid for by a Replenishment Assessment. Upon completion of the hearing, the Board must make certain findings and determine what portion, if any, of the estimated cost of purchasing water for replenishment for the ensuing Fiscal Year (which may include an amount not to exceed 25% of the immediately preceding portion for the purchase of water in the ensuing Fiscal Year which may be unavailable in such Fiscal Year) (“Replenishment Assessment for Replenishment Purposes”) and what portion of the estimated costs of removing contaminants from groundwater supplies and taking other actions related thereto during the ensuing Fiscal Year shall be paid for by a Replenishment Assessment (“Replenishment Assessment for Clean Water Purposes” and collectively with the Replenishment Assessment for Replenishment Purposes, the “Replenishment Assessment”).

The amount of the Replenishment Assessment for Clean Water Purposes, exclusive of District administrative and overhead expenses, that is levied may not exceed 50% of the average assessment levied for the current and four preceding Fiscal Years, exclusive of District administrative and overhead expenses. The Replenishment Assessment for Replenishment Purposes shall not be utilized for the direct costs of prevention and removal of contaminants. Any part of the Replenishment Assessment for Clean Water Purposes that remains unexpended and unobligated for five Fiscal Years after the last obligation thereof or a shorter period as determined by the Board, shall be deemed to have been levied for other costs and expenses for which a Replenishment Assessment is authorized by the WRD Act.

Section 60317 of the WRD Act provides that upon the Board’s making such determinations, the Board shall levy a Replenishment Assessment for Replenishment Purposes commencing on the ensuing July 1. The District has levied a Replenishment Assessment on groundwater pumpers in the District during every Fiscal Year beginning in 1959. The Replenishment Assessment levied by the District includes three components, as permitted by the WRD Act: the Replenishment Assessment for Replenishment Purposes, the Replenishment Assessment for Clean Water Purposes and the administrative assessment. (The component of the Replenishment Assessment allocated for administrative purposes is included within the other two components of the Replenishment Assessment on a pro rata basis for

purposes of the definitions of “Replenishment Assessment for Replenishment Purposes” and “Replenishment Assessment for Clean Water Purposes” under the Installment Purchase Agreement and the Trust Agreement.)

Section 60245 of the WRD Act states the following about the District’s ability to raise the replenishment assessment charged to the District’s customers prior to the beginning of each fiscal year in order to cover all costs associated with performing the duties and responsibilities of the District; “The board shall fix such rate or rates for the sale or exchange of water for replenishment purposes only as will result in revenues which will pay, insofar as practicable, the operating expenses of the district.” As such, the District holds public meetings and sets the replenishment assessment for the ensuing year via board resolution no later than the second Tuesday in May each year. See also the discussion of Proposition 218 under “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.”

Set forth below in Table 8 is the Replenishment Assessment levied by the District during the last five Fiscal Years.

Table 8

**REPLENISHMENT ASSESSMENT
LEVIED BY THE WATER REPLENISHMENT
DISTRICT OF SOUTHERN CALIFORNIA
DURING THE LAST FIVE
FISCAL YEARS**

<u>Fiscal Year</u>	<u>Replenishment</u>	<u>Clean Water</u>	<u>Total</u>
2004-05	\$123.12	\$5.13	\$128.25
2005-06	\$126.58	\$8.08	\$134.66
2006-07	\$129.72	\$8.28	\$138.00
2007-08	\$140.06	\$8.94	\$149.00
2008-09	\$143.82	\$9.18	\$153.00

Source: The District.

Property Taxes. The WRD Act permits the District to levy *ad valorem* taxes on real property and improvements in the District. The County collects such *ad valorem* taxes. The District has levied an *ad valorem* property tax every year beginning in 1959. The District currently collects approximately \$450,000 in *ad valorem* taxes each year.

The Economics of the Water Replenishment District

To fund its operations, the District has statutory authority to set and collect a water replenishment assessment on each acre-foot of groundwater that is pumped from the basins. As part of the rate-setting process, the District conducts an annual engineering survey. It uses this survey to determine the amount of groundwater it must replenish each year. The statutes also allow the District to include in the assessment the amounts it determines necessary to fund its programs that protect groundwater quality and to fund its operating costs. The District is required to hold public hearings on its determination of the replenishment assessment and to have established the assessment by its first meeting in May.

The District’s primary source of income is the water replenishment assessment. This assessment consists of two major components: funds for replenishment and funds for clean water projects. The

replenishment component has accounted for about 94 percent of the assessment over the past five years. See Table 8. It represents the costs of purchasing water to actively replenish the basins, based on the results of the annual engineering survey, and the costs of any capital improvement projects that will augment or improve the District's replenishment activities.

The clean water component of the assessment represents about 6 percent of the assessments levied over the past five years. It is intended to cover the cost of projects that will help remove contaminants from the groundwater supply. Projects range in complexity from wellhead treatment projects to the construction of a desalination facility.

Despite the replenishment assessment, the basins are still a very economical source of water. The cost of imported water can be nearly three times higher than that of groundwater. For fiscal year 2008-09, the District's assessment rate for groundwater is \$153 per acre-foot plus some cost of treatment. In contrast, the price of one acre-foot of treated water was about \$689, a difference of \$536 per acre-foot.

District Budgetary Process

Each year the Board adopts a comprehensive budget for capital expenditures, replenishment water purchases, clean water-related activities and operating expenses. As part of the budgeting process, the Board also orders the preparation of an engineering survey and report (the "Survey"). The WRD Act requires that the Board order a survey no later than the second Tuesday in February of each year. It is the District's current practice to undertake a budget review process concurrently with preparation of the Survey to allow for proper budget reviews by the pumpers and Board committees. The WRD Act requires that the Board adopt a resolution no later than the second Tuesday in March, and provided that a Survey has been made, to declare whether funds shall be raised by a Replenishment Assessment. In connection with the adoption of the District's budget for the Fiscal Year 2007-08, the District held three budget workshops with the pumpers to review the District's proposed budget.

The WRD Act requires that if the Board determines that a portion of its funds shall be raised by a Replenishment Assessment, the Board shall hold a public hearing on the second Tuesday in April to determine whether and to what extent the estimated costs of the District shall be paid for by a Replenishment Assessment. The WRD Act further requires that the Board make certain findings related to the groundwater supply and the Replenishment Assessment no later than the second Tuesday in May of each year. See "FINANCIAL OPERATIONS - Replenishment Assessments and Other District Revenues" for a further description of such findings and the assessment process. At the time of the adoption of such a resolution the Board also adopts its comprehensive budget.

Services

The District owns and operates the Vander Lans facility and desalter facilities for the southern portion of Los Angeles County.

The District's staff is responsible for operating and maintaining the District's infrastructure, although some operations are provided by external contractors.

All supplies, including chemicals which are essential to the operation and maintenance of the facilities of the District, are in plentiful supply. In addition, the District has sufficient standby systems in the event of equipment failures or system outages.

Reserves

The reserves at June 30, 2006 and 2007 for the District were \$14.4 million and \$7.5 million. The change in the District's reserves from \$14,358,187 at the end of 2006 and \$7,544,372 at the end of 2007 is due to the purchase of available excess interruptible spreading water from the Metropolitan Water District (MWD) during fiscal year 2006/07.

- The District purchased about 18,000 acre feet of carryover water outstanding from the prior year's annual overdraft at a cost of about \$4.3 million.
- Additionally, in order to take advantage of the availability of water and to purchase the water prior to the MWD fee increase in January 2008, the District also pre-purchased about 12,000 acre feet of spreading water related to fiscal year 2008 at a cost of about \$2.5 million. (The expenditure related to the 12,000 acre feet of pre-purchase water was re-captured during fiscal year 2007/08 as part of normal revenue collections.)

Financial Statements

A copy of the most recent audited financial statements of the District prepared by Charles Fedak & Company, certified public accountants (the "Auditor") are included as Appendix A hereto (the "Financial Statements"). The Auditor's letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2007, and the results of its operations changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The summary operating results contained under the caption Historic Operating Results and Debt Service Coverage" are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

Historic Operating Results

The following table is a summary of operating results of the District, for the last five fiscal years. These results have been derived from the Financial Statements of the District but exclude certain non-cash items and include certain other adjustments. The Table has not been audited by the District's auditors. See Appendix A attached hereto for the District's most recent audited financial statements.

Table 9

**WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS**

	<u>Unaudited</u> <u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:							
Water replenishment assessment	\$ 36,482,272	31,613,924	30,131,602	30,022,445	27,763,886	29,896,754	27,660,554
Desalter assessment	606,380	904,186	772,067	868,968	964,600	-	-
Water treatment subsidy	676,575	562,977	681,026	520,525	616,344	-	-
Water injection subsidy	-	-	-	-	162,804	-	-
Title 22 Program	122,131	-	-	-	-	-	-
Other Operating Income	<u>1,382,600</u>	<u>1,460,802</u>	<u>1,276,424</u>	<u>-</u>	<u>-</u>	<u>5,273</u>	<u>855,370</u>
Total operating revenues	<u>39,269,958</u>	<u>34,541,889</u>	<u>32,861,119</u>	<u>31,411,938</u>	<u>29,507,634</u>	<u>29,902,027</u>	<u>28,515,924</u>
Operating expenses:							
Water supply management							
Water purchases – injecting	10,819,502	11,514,199	12,521,505	9,173,618	13,106,639	13,850,361	14,424,039
Water purchases – spreading	720,160	13,022,679	7,559,361	9,143,822	5,235,003	5,595,180	11,348,820
Connection fees	1,379,127	1,437,392	520,595	386,788	366,132	298,395	330,000
Groundwater basin management							
In-lieu replenishment	-	1,421,149	1,830,941	475,272	-	1,872,539	3,857,680
General and administrative	<u>12,867,867</u>	<u>12,421,682</u>	<u>11,360,787</u>	<u>9,453,398</u>	<u>8,988,394</u>	<u>7,582,759</u>	<u>6,579,186</u>
Total operating expenses	<u>25,786,656</u>	<u>39,817,101</u>	<u>33,793,189</u>	<u>28,632,898</u>	<u>27,696,168</u>	<u>29,199,234</u>	<u>36,539,725</u>
Operating income before overhead absorption	13,483,302	(5,275,212)	(932,070)	2,779,040	1,811,466	702,793	(8,023,801)
Overhead absorption	<u>1,215,761</u>	<u>958,150</u>	<u>854,305</u>	<u>1,479,030</u>	<u>1,705,618</u>	<u>-</u>	<u>-</u>
Operating income before depreciation and amortization	14,699,063	(4,317,062)	(77,765)	4,258,070	3,517,084	702,793	(8,023,801)
Depreciation and amortization	<u>(2,304,366)</u>	<u>(1,846,275)</u>	<u>(1,800,675)</u>	<u>(1,641,524)</u>	<u>(1,772,637)</u>	<u>(974,132)</u>	<u>(585,241)</u>
Operating Income	<u>12,394,697</u>	<u>(6,163,337)</u>	<u>(1,878,440)</u>	<u>2,616,546</u>	<u>1,744,447</u>	<u>(271,339)</u>	<u>(8,609,042)</u>
Nonoperating revenue (expense)							
Property taxes	456,702	450,001	131,978	64,099	345,034	306,927	326,020
Interest and investment earnings	729,653	1,126,993	479,332	443,237	217,153	389,008	1,079,883
Realized/unrealized losses on investments	-	-	-	(157,594)	(127,179)	-	-
Election costs	570,546	(1,094,665)	-	(729,911)	-	-	-
Other, net	<u>54,846</u>	<u>58,679</u>	<u>11,883</u>	<u>106,840</u>	<u>31,039</u>	<u>(2,323)</u>	<u>-</u>
Total nonoperating revenues, net	<u>1,811,747</u>	<u>541,008</u>	<u>623,193</u>	<u>(273,329)</u>	<u>466,047</u>	<u>693,612</u>	<u>1,405,903</u>
Net income before capital contributions	<u>14,206,444</u>	<u>(5,622,329)*</u>	<u>(1,255,247)</u>	<u>2,343,217</u>	<u>2,210,494</u>	<u>422,273</u>	<u>(7,203,139)</u>
Capital contributions – federal capital grants							
Capital contributions – state capital grants	<u>97,516</u>	<u>148,577</u>	<u>222,601</u>	<u>357,726</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital contributions	<u>97,516</u>	<u>148,577</u>	<u>498,414</u>	<u>357,726</u>	<u>184,242</u>	<u>2,181,340</u>	<u>1,583,021</u>
Change in net assets	14,303,960	(5,473,752)	(756,833)	2,700,943	2,394,736	2,603,613	(5,620,118)
Net assets, beginning of year	<u>50,472,422</u>	<u>55,946,174</u>	<u>56,703,007</u>	<u>54,002,064</u>	<u>51,607,328</u>	<u>49,003,715</u>	<u>54,623,833</u>
Net assets, end of year	<u>\$ 64,776,382</u>	<u>50,472,422</u>	<u>55,946,174</u>	<u>56,703,007</u>	<u>54,002,064</u>	<u>51,607,328</u>	<u>49,003,715</u>

* The negative change of (\$5,622,329) in net assets is due to the purchase of available excess interruptible spreading water from the Metropolitan Water District (MWD) during fiscal year 2006/07. See also "Reserves" above.

Source: The District

Projected Operating Results and Debt Service Coverage

The estimated projected operating results and debt service coverage for the District for the Fiscal Years ending June 30, 2009 through June 30, 2013 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results based on its judgment of the most probable occurrence of future events. The assumptions set forth in the footnotes to the chart are material in the development of the District'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 forecast and such variations may be material.**

While Net Revenues are pledged to the payment of the Installment Payments, and the Installment Payments are payable from Net Revenues before the payment therefrom of payments for the purchase and delivery of water, availability payments for water and In Lieu Payments ("Water Purchase Payments"), Debt Service coverage for purposes of the rate covenant in the Master Agreement is calculated based on Net Revenues remaining after the payment therefrom of Water Purchase Payments. The following table sets forth Debt Service coverage as determined for purposes of the rate covenant in the Master Agreement. Debt Service coverage calculated based on the payment thereof from Net Revenues before the payment therefrom of Water Purchase Payments would be substantially higher. For example, projected Debt Service coverage so calculated for Fiscal Year 2008-09 would be 1.25 times debt service.

Table 10
Water Replenishment
District of Southern California
Projected Operating Results and Debt Service Coverage
Fiscal Year Ended June 30

	Budget 2009	Estimated 2010	Estimated 2011	Estimated 2012	Estimated 2013
Revenues					
Charges for Service	35,955,000	38,074,195	39,220,570	40,381,945	41,933,545
MWD Subsidy for Water Treatment ⁽¹⁾	506,000	519,000	532,000	545,000	558,625
Misc. Operating Revenue ⁽¹⁾	2,785,000	2,855,000	2,926,000	2,999,000	3,148,950
Property Tax & Others	229,000	204,000	204,000	209,000	209,000
Investment Income	1,019,000	963,000	939,000	924,000	105,000
Total Revenues	40,494,000	42,615,195	43,821,570	45,058,945	45,955,120
Operation & Maintenance Costs					
Water Quality Management	10,948,000	11,276,000	11,614,000	11,962,000	12,560,100
Groundwater Basin Management:					
In-Lieu Replenishment		2,230,000	2,297,000	2,366,000	2,484,300
G&A Expenses ⁽²⁾	4,845,000	4,990,000	5,140,000	5,294,000	5,558,700
Total Operation & Maintenance Costs	15,793,000	18,496,000	19,051,000	19,622,000	20,603,100
Net Revenues	24,701,000	24,119,195	24,770,570	25,436,945	25,352,020
Water Purchase Payments ⁽³⁾					
Water Purchases - Injection	12,862,000	13,248,000	13,645,000	14,054,000	14,554,000
Water Purchases - Spreading	6,867,000	7,073,000	7,285,000	7,504,000	7,879,200
Connection Fee	1,194,000	1,230,000	1,267,000	1,305,000	340,000
Total Water Purchase Payments	20,923,000	21,551,000	22,197,000	22,863,000	22,773,200
Net Revenues less Water Purchase Payments	3,778,000	2,568,195	2,573,570	2,573,945	2,578,820
2004 Revenue COPs Debt Service	958,000	954,556	958,856	959,156	963,056
2008 Revenue COPs Debt Service - Estimated	669,000	1,100,000	1,100,000	1,100,000	1,100,000
	1,627,000	2,054,556	2,058,856	2,059,156	2,063,056
Debt Service Coverage	232%	125%	125%	125%	125%

Assumptions:

(1) Revenues increased by 2.5% per year.

(2) General and Administrative expenses increased by 3% per year.

(3) Water Purchase Payments include payments for the purchase and delivery of water, availability payments for water and In Lieu Payments.

Source: The District

Management Discussion and Analysis of Operating Data

This overview and analysis of the District's financial performance during the fiscal year ending June 30, 2008 is provided by management of the District. Please read it in conjunction with the District's final but unaudited financial data presented in Table 9 of this document. The District's audited financial statements for June 30, 2007 are set forth in Appendix A hereto.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. See Table 9 herein. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges. This statement also measures profitability and credit worthiness.

The Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of changes in financial position. As can be seen in Table 9, the change in net assets of \$14,304,000 million in 2008 is the result of an operating gain of \$12,395,000 million, non-operating revenue of \$1,812,000 million, and capital contributions of \$97,000.

The District's operating revenue increased by \$4,868,000 million to \$36,482,000 million in 2008 as a result of the increased assessment rate and increased pumping by our customers.

Operating expenses in 2008 decreased by \$14,030,000 million. This decrease was a direct effect of a decrease in water purchases of \$12,997,000 million and a decrease of \$1,421,000 million in the District's in-lieu program. The remaining offset is an increase in our groundwater basin management expenses (which includes general and administrative, operations and maintenance of programs and projects, and depreciation expense).

The Board of Directors set the replenishment assessment rate required to be levied upon the production of groundwater from the groundwater supplies within the District. The District's water sales have increased due to the rising cost of imported water. Over the past 5 years, the District's replenishment assessment has only increased an average of about 6% per year. The rate charged to District customers in 2008 increased \$4.00 per acre-foot over the 2007 assessment rate to \$153.00. Additionally, over the prior 4 years, the rate charged to District customers increased from \$128.25 per acre-foot to \$149.00 per acre-foot.

Operating revenue increased from \$27,764,000 in fiscal year 2004 to \$36,482,000 in fiscal year 2008. Operating expenses have increased through fiscal year 2007, however decreased significantly in fiscal 2008. This is primarily due to interruptible imported spreading water being unavailable for purchase.

As of June 30, 2006, the District had \$64,776,000 million invested in capital assets.

The District's financial report is designed to provide the District's customers, stakeholders and creditors with a general overview of the District's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer, Water Replenishment District of Southern California, 4040 Paramount Blvd., Lakewood, California 90712.

Due to the storage capacity and operational nature of the West and Central basins, the District can exercise discretion in the amount of water it needs to purchase from year to year. In the long term, the District looks to balance the amount of water being extracted for use with the amount of water needed to

replenish the basin. The specific amount of water purchased in any given year can fluctuate based on the discretion of the District and the amount of natural recharge. This flexibility enhances the ability of the District to meet debt obligations by allowing the District to defer water purchases until such time as the replenishment assessment can be adjusted.

Collection of Replenishment Assessments

The WRD Act requires that after the District levies a Replenishment Assessment, the District shall give notice of the replenishment assessment rate to all operators of water-producing facilities in the District. The WRD Act requires that each water-producing facility in the District shall file with the District on the last day of the month following the statement period, a sworn statement setting forth the total production in acre feet of groundwater from such facility during the applicable month and the method or basis of computation of such groundwater production and such other information as the District may require. The WRD Act requires that each groundwater pumper pay the District the Replenishment Assessment based on the amount of groundwater produced in monthly installments due on the last day for filing the groundwater production statement.

The WRD Act requires that all water producing facilities within the District have a water measuring device affixed which can register the accumulated amount of groundwater produced. The California Water Code permits the District to impose a penalty for late payment, and the WRD Act provides that if any pumper knowingly fails to pay a Replenishment Assessment within 30 days of when due, the delinquency shall bear interest of 1% a month. The WRD Act empowers the District to bring suit against any pumper for the collection of any delinquent Replenishment Assessment, interest or penalties. The District may seek an attachment against the property of any defendant without furnishing a bond or other undertaking. The WRD Act also provides that the Superior Court may issue a temporary restraining order upon the filing by the District of a petition or complaint that payment is delinquent. The Superior Court may issue an injunction restraining the delinquent operator from operation of any water-producing facility when it is established that the defendant is delinquent in the payment of a Replenishment Assessment.

All major water pumpers in the District regularly pay their Replenishment Assessments on a timely basis, and the District has never had to pursue any legal remedies for late payment of Replenishment Assessments.

Investment of District Funds

State statutes authorize the District to invest in obligations of the United States Government, state and local governmental agencies, negotiable certificates of deposits, bankers acceptances, commercial paper, reverse repurchase agreements and a variety of other investment instruments which are allowable under California Government Code Section 53600 *et seq.*

The District's Investment Policy requires that the District invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonable anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds.

FINANCIAL OBLIGATIONS

Existing Indebtedness

Currently, the District has Senior Obligations outstanding in the amount of \$14,785,000 Certificates of Participation, issued in November 2004 under the Master Agreement with a final maturity of August 1, 2034. Such Senior Obligations are payable on a parity with the Installment Payments under the Installment Purchase Agreement.

Anticipated Financings

Over the next three years, certain improvements in the District's capital improvement program may be funded through the issuance of new debt. Payments with respect to any such indebtedness may be executed and delivered as Additional Obligations under the Master Agreement on a parity with the Installment Payments.

THE CORPORATION

The Corporation is a nonprofit public benefit corporation incorporated on March 11, 1999 under the Nonprofit Corporation Law of the State of California. The purpose of the Corporation is to acquire and lease and sell to the District public improvements and related equipment, to obtain financing for the purchase of such public improvements and related equipment through the assignment of rights under an installment purchase agreement with the District and/or the issuance of bonds or the sale of certificates of participation, to enter into contracts for the management and operation of said public improvements and equipment, to obtain insurance with respect to said public improvements and related equipment and to take any and all other actions necessary and appropriate in order to accomplish such public purposes. The Corporation has no taxing power. The Board of Directors of the District serves as the governing body for the Corporation and the District's employees serve as the Corporation's staff.

The District's Director of Finance and other District employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the Water Replenishment District of Southern California office at 4040 Paramount Boulevard, Lakewood, California 90712.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978/79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The District is of the opinion that its charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B.

Proposition 218

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the Authority of local governments to impose taxes and property-related assessments, fees and charges."

Article XIII D. Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership." Article XIII D further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water replenishment services is ultimately determined to be a "fee" or "charge" as defined in Article XIII D, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Court of Appeals decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), it was generally believed that Article XIII D did not apply to charges for metered water, which had been held to be commodity charges related to consumption of the service, not property ownership. In a decision rendered in February, 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* (S105078) upheld a Court of Appeals decision that water connection fees were not property related fees or charges subject to Article XIII D while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In the absence of a California Supreme Court decision overruling the Court of Appeals decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the District believes it is not legally obligated to comply with the notice and public hearing requirements of Article XIII D with respect to its Replenishment Assessments.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” However, the California Court of Appeal for the Fourth Appellate District in the case of *Bighorn Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 890 (2004), held that the initiative power described in Article XIII C applies only to the local taxes, assessments, fees and charges governed by Article XIII D. In any event, the District and its counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce Replenishment Assessments. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Certificates. Remedies available to beneficial owners of the Certificates in the event of a default by The District are 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 specific limitations on remedies contained in the applicable documents themselves, the right and obligation with respect to the Installment Sale Agreement is subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Special Counsel (the form of which is attached as Appendix E), will be similarly qualified.

CERTIFICATE HOLDERS’ RISKS

Clean Water and Loss of Groundwater Supplies

The primary source of revenue for the District to pay Installments Payments is derived from Replenishment Assessments levied on the pumping of groundwater from the Basins. If the Basins or portions thereof were to suffer contamination or other degradation in the quality of the water therein, the groundwater that could be pumped might be reduced and the Replenishment Assessments would correspondingly fall. Such degradation in water quality could result from further intrusion of seawater from the coastal areas, movement of saline plumes, contamination by industrial and other human activities, shifting of the aquifers and other barriers due to earthquakes and other geological activity, migration of contamination from other basins, and other reasons. No assurance can be given that the District’s water quality will not be so adversely affected.

Pricing and Other Policy Changes Adopted by Other Water Pumpers

The price of water for spreading and injection that the District purchases from other sources, including the County Sanitation District, Central Basin Municipal Water District and the West Basin

Municipal Water District, may increase, with a resulting decrease in the Net Revenues available to pay Installment Payments. The willingness of water pumpers in the District to pump groundwater also depends on the amount of the Replenishment Assessment that the District charges compared to the price of water available from other sources. If the price of alternative sources of water were to decrease, relative to the Replenishment Assessment, water pumpers may forego the pumping of District groundwater, with a resulting decrease in Net Revenues to pay Installment Payments.

The pricing policies of MWD could adversely affect the Net Revenues of the District and/or the economic viability of the Project. If MWD were to increase its rates for water sold to the Central Basin Municipal Water District and the West Basin Municipal Water District, then the price of water charged to the District would increase and the District's Net Revenues would decrease. If MWD were to significantly reduce its rates for water sold to the Central Basin Municipal Water District and the West Basin Municipal Water District, such alternative water sources could be less expensive than the cost of the District's water and the pumpers could elect to purchase such other water instead of purchasing District water and the District's Net Revenues would decrease. However, MWD currently forecasts that its water rates will not decrease through the year 2010.

Collection of Replenishment Assessments

As described under "FINANCIAL INFORMATION OF THE DISTRICT - Collection of Replenishment Assessments," the District collects Replenishment Assessments from pumpers in monthly installments based on the pumpers' groundwater production. The WRD Act provides that the District can bring suit against any pumper for the collection of any delinquent Replenishment Assessment. If a pumper refuses to pay or is delinquent in payment of the Replenishment Assessment, no assurances can be given that Net Revenues will not be adversely affected.

Water Supply and Droughts

Possible causes of water supply deficits are droughts and failures of water transmission facilities by agencies that supply the District with water. Due to drought conditions and court-ordered restrictions, which have reduced water deliveries from the State Water Project (see "*—Environmental Considerations*" below), on June 4, 2008, California Governor Arnold Schwarzenegger issued an Executive Order proclaiming a condition of statewide drought. The Executive Order directs the Department of Water Resources to expedite existing conservation grant programs, facilitate water transfers, conduct a water conservation and outreach campaign in cooperation with local water agencies and organizations, and take additional drought response and water conservation actions. The Executive Order recognizes that some communities have worked to improve their drought preparedness and ability to cope with water shortages, but there is wide variation within the State. It orders State and local agencies to identify public water systems at risk of health and safety impacts due to drought and water delivery limitations and to mitigate these impacts. The Executive Order encourages local water agencies and districts to work cooperatively on actions to reduce water consumption locally and regionally.

The Governor followed the Executive Order with a Proclamation of a State of Emergency (the "Proclamation") in nine counties (Sacramento, San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare and Kern) on June 12, 2008, to avert severe impacts to these agricultural areas from drought conditions and from reduced deliveries from the federal Central Valley Project announced by the United States Bureau of Reclamation (the "Bureau of Reclamation"). The Proclamation provides that the Department of Water Resources shall transport groundwater of appropriate quality through the California Aqueduct to benefit farmers in the San Joaquin Valley and, in conjunction with the Bureau of Reclamation, make operational changes to State Water Project facilities that will permit additional water deliveries to the San Joaquin Valley. The Proclamation also directs the Department of Water Resources

and the State Water Resources Control Board to expedite the processing of water transfer requests and water rights urgency change in point of use petitions to facilitate water transfers to the San Joaquin Valley and directs the State Office of Emergency Services to assist public water agencies with drilling of groundwater wells and improvement of wells and water delivery systems.

The State Water Contractors, a California nonprofit corporation formed by agencies contracting with the Department of Water Resources for water from the State Water Project, including MWD, are working with the Department of Water Resources, Bureau of Reclamation and Central Valley Project contractors on actions they may be willing to take to help implement the Executive Order and Proclamation, while protecting water quality in the California Aqueduct, and to shift water deliveries to San Joaquin Valley farmers in the summer months, while providing for the delivery of State Water Project allocations to MWD and other contractors by the end of calendar year 2008. The District is unable at this time to assess all of the impacts of the Proclamation on its MWD and SWP supplies.

Droughts that have had an adverse effect on southern California water supplies occurred in 1976, 1977 and 1987 through 1992. If the current drought were to continue or if water transmission facilities were to fail for a significant period of time, the Basins may not be replenished to levels that would permit water to be pumped from the Basins at a desirable level.

Seismic Risks and Other Events of Force Majeure

The District is located in a seismically active area, and damage from an earthquake can range from total destruction of Project improvements or other District facilities, to destabilization or liquefaction of the soils, to little or no damage at all. The extent of damage and the long-term effects from an earthquake, particularly ongoing earthquake activity, may be difficult to determine immediately.

Construction and operation of the Project and operation of other District facilities are also at risk from other events of force majeure, such as damaging storms, winds and floods, fires and explosions, strikes and lockouts, sabotage, wars, riots and spills or hazardous substances, among other events. Although the District maintains certain insurance policies, such required policies do not cover damage and delay from all events that could interrupt construction or operation of the Project or other District facilities and may not be maintained in amounts that would be sufficient or be paid in sufficient time in all events to pay all of the District's expenses, including Installment Payments. In addition, the District does not currently maintain earthquake insurance with respect to the Project and other District facilities. See "CERTIFICATE HOLDERS' RISKS -Insurance" below. No assurances can be given that the District will be able to complete construction, repair any damage, revise any designs or commence or resume operation of the Project or other District facilities following an event of force majeure.

Environmental Considerations

The listing of several fish species as threatened or endangered under the federal and/or California Endangered Species Acts (respectively, the "Federal ESA" and the "California ESA" and, collectively, the "ESAs") affect SWP operations by reducing the amount of water pumped by the SWP and limiting the flexibility of the SWP. An annual environmental water account established under the CALFED Bay-Delta Program as a means of meeting environmental flow requirements and export limitations has helped to mitigate these impacts. 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, in February 2008 the California Fish and Game Commission listed the longfin smelt as a candidate species for protection under the California ESA. The San Francisco Bay Institute, Center for Biological Diversity and Natural Resources Defense Council have also petitioned to list the longfin

smelt for protection under the Federal ESA. The United States Fish and Wildlife Service announced in May 2008 that it will consider the Delta's longfin smelt population for such listing.

The Federal ESA requires that before any federal agency authorizes, funds or carries out an action, it must consult with the appropriate federal wildlife agency to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to any such species. 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. An incidental take statement may accompany the biological opinion. 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 wildlife agency.

The United States Fish and Wildlife Service and National Marine Fisheries Service have issued biological opinions and incidental take statements that govern operations of the SWP and federal Central Valley Project (the "Central Valley Project") with respect to the Delta smelt, the winter-run and spring-run Chinook salmon and the Central Valley steelhead. An additional biological opinion will be required for the North American green sturgeon, which was listed in April 2006. Several environmental interest groups filed litigation (*NRDC v. Kempthorne*; *Pacific Coast Federation of Fishermen's Association v. Gutierrez*) that is before the United States District Court for the Eastern District of California challenging the legality of these biological opinions and incidental take statements. In litigation respecting the Fish and Wildlife Service's biological opinion, that is, *NRDC v. Kempthorne*, the court ruled in favor of environmental plaintiffs in May 2006. The Bureau of Reclamation initiated consultations with the United States Fish and Wildlife Service and National Marine Fisheries Service for new biological opinions with respect to the coordinated operations of the SWP and Central Valley Project in July 2006, following the filing of these challenges to the biological opinions and incidental take statements. In the meantime, the court in *NRDC v. Kempthorne* issued an order allowing the projects to continue operations under the existing biological opinion, subject to certain additional conditions, until a new biological opinion can be issued. The court also set a deadline of September 12, 2008 for issuance of the new biological opinion. The additional protective conditions will apply until issuance of the new biological opinion. These conditions will likely reduce the level of pumping from the Delta, and therefore reduce the level of water deliveries to the District and other south-of-Delta contractors in 2008. The amount of the delivery reductions will depend on a variety of factors, including hydrological conditions, the estimated abundance of the Delta smelt in 2008, and the movement of the Delta smelt within the Delta.

In addition to this litigation under the Federal ESA, other environmental groups sued the Department of Water Resources on October 4, 2006 in the Superior Court of the State of California for Alameda County alleging that the Department of Water Resources 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*) requests that the Department of Water Resources 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 Alameda County Superior Court issued its Statement of Decision in *Watershed Enforcers v. California Department of Water Resources*. The Statement of Decision finds that the Department of Water Resources is illegally "taking" listed fish through operation of the SWP export facilities. The Court ordered the Department of

Water Resources to “cease and desist from further operation” of those facilities within 60 days unless it obtains take authorization from the California Department of Fish and Game.

The Department of Water Resources appealed the Alameda County Superior Court’s order on May 7, 2007. This appeal automatically stays the order pending the outcome of the appeal, unless the plaintiff obtains an order from the trial or appellate court that the appeal not act as a stay based on a showing of irreparable injury. Watershed Enforcers filed a notice that it would not oppose a stay of the Court’s order pending appeal with the Alameda County Superior Court on May 2, 2007. Also on May 7, 2007, the Department of Water Resources withdrew its application, which was filed on April 9, 2007, to the Department of Fish and Game for a determination that the existing federal biological opinions are consistent with requirements for incidental take under the California ESA and executed a memorandum of understanding (the “MOU”) with the California Department of Fish and Game to assist in reinitiated consultations with the United States Fish and Wildlife Service and National Marine Fisheries Service for new biological opinions on the coordinated operations of the SWP and Central Valley Project as they relate to the listed species of fish. In the MOU, the Department of Water Resources and the California Department of Fish and Game agree that the biological assessment and resulting biological opinions under the Federal ESA should be developed to include SWP operations that are consistent with the California ESA and set goals to facilitate completion of the biological opinions by April 2008. After the new biological opinions and incidental take statements for the listed species of fish are completed, the Department of Water Resources will apply to the Department of Fish and Game for a consistency determination under the California ESA based on the new biological opinions and incidental take statements.

On May 16, 2007, Watershed Enforcers filed another lawsuit seeking an order from the California Superior Court directing the California Department of Fish and Game to act on the application for consistency determination that was submitted by the Department of Water Resources but later withdrawn. This lawsuit contends that the California Department of Fish and Game has a mandatory duty to act on the consistency determination request by the Department of Water Resources notwithstanding the Department of Water Resources’ later withdrawal of that request.

No assurances can be given whether or when new biological opinions or a consistency determination will be issued under the Federal ESA and California ESA or how long the Alameda County Superior Court’s order will be stayed.

The Department of Water Resources has altered the operations of the SWP to accommodate the listed species. This change in project operations has influenced the manner in which water is diverted from the Bay-Delta and SWP deliveries. Additional changes in project operations will result from the interim management measures specified by the court in *NRDC v. Kempthorne*. Additionally, changes could result from the consultation process for new biological opinions for listed species under the Federal ESA or from the California Department of Fish and Game’s actions regarding a consistency determination under the California ESA. The California Fish and Game Commission recently denied emergency listing of the longfin smelt, but it will be considering whether to list the species through its standard process.

On April 16, 2008, the United States District Court for the Eastern District of California upheld a challenge (*Pacific Coast Federation of Fisherman’s Associations v. Gutierrez*) to the biological opinion issued by the National Marine Fisheries Service (NMFS) regarding the impact of the Central Valley Project and the SWP on three salmon and steelhead runs in California. The plaintiffs challenged the October 22, 2004, biological opinion issued by NMFS pursuant to the consultation requirements of the ESA. The biological opinion and accompanying incidental take statement authorize operation of the SWP and the Central Valley Project. Plaintiffs alleged that both NMFS and the U.S. Bureau of

Reclamation violated the Federal ESA. The court concluded that NMFS' finding that the SWP and the Central Valley Project would not cause jeopardy to the Sacramento River winter-run Chinook salmon, Central Valley spring-run Chinook salmon and Central Valley steelhead, nor result in adverse modification of the critical habitat of these species, was arbitrary in light of the facts before NMFS at the time it made its decision. Federal defendants agreed with the court in some respects, for example, admitting that further explanation is needed for the no jeopardy conclusions for the three species. The court also agreed with the plaintiffs that the biological opinion is invalid because NMFS failed to analyze climate change. Federal defendants acknowledged a lack of analysis in the biological opinion. The court also noted a "total failure to address, adequately explain, and analyze the effects of global climate change on the species." On a number of other issues, the court denied plaintiffs' claims. Noteworthy among these is the sufficiency of NMFS' adaptive management plan and mitigation measures. The court noted that the action-mitigation measures are made part of the terms and conditions of the biological opinion and enforceable, contrasting the biological opinion there with the biological opinion reviewed in *Natural Resources Defense Council v. Kempthorne*. The court stated whereas in the latter case the biological opinion had no finite standards which were enforceable through the incidental take statement, in this case the mitigation measures are definite and sufficiently certain to be enforceable. The court has yet to determine the appropriate remedy for the legal violations identified, but it is possible that the remedy will involve further restrictions on water exports from the Delta until NMFS issues a new biological opinion. The opinion is subject to appeal.

Decisions in these cases or future litigation, listings of additional species or new regulatory requirements could 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 District cannot predict the ultimate outcome of any of the litigation or regulatory processes described above at this time or whether such outcome will result in any materially adverse impact on the operation of the SWP pumps or availability or cost of water to the District.

Statutory Changes and Initiatives

The District derives its right and powers from the WRD Act. The California electorate could adopt initiatives or the State Legislature could adopt legislation which would amend the WRD Act or the California Constitution. No assurance can be given that the WRD Act or the California Constitution will not be amended in a manner that would adversely affect the District's rights and powers or impose additional legal responsibilities on the District that could adversely affect its operations and Revenues.

Limitations on District's Ability to Increase Replenishment Assessments

The WRD Act empowers the Board to annually fix and levy Replenishment Assessments for the ensuing Fiscal Year; however, the WRD Act does not allow the Board to increase the Replenishment Assessment rate during such Fiscal Year should new circumstances require increase. In addition, the Board must hold a public hearing prior to levying a Replenishment Assessment, and the pumpers or others may resist an increase. Notwithstanding the rate covenant in the Installment Purchase Agreement, no assurance can be given that the Board will fix the rate for the Replenishment Assessment at a level to fully pay Installment Payments should the District's financial or other circumstances unexpectedly change during a Fiscal Year.

Disincorporation

Should the customers of the Districts (pumpers) become dissatisfied with the District and its policies, the pumpers could initiate a petition to have the District disincorporated. The WRD Act provides that upon disincorporation, the money in the treasury of the District would be transferred to the

County and the County treasurer must place the money in a special fund to be drawn upon as provided in the WRD Act. No assurances can be given that there will be sufficient money in such special fund to pay the Certificates.

Limited Obligations; Limited Sources of Funds

The Certificates are special limited obligations and are secured solely by a pledge of and are payable as to the principal thereof and premiums, if any, and interest thereon, solely from Installment Payments paid by the District from Net Revenues and certain other funds held under the Trust Agreement. The obligation of the District to make Installment Payments does not constitute a debt of liability or the District within the meaning of any constitutional or statutory provision.

Limitations on Default Remedies; Bankruptcy

The enforcement of any remedies provided in the Installment Purchase Agreement and Trust Agreement could prove both expensive and time consuming. Although the Installment Purchase Agreement provides that, if there is a default by the District under the Installment Purchase Agreement, the Corporation may declare the entire unpaid principal amount and accrued interest to be due and payable or to bring suit at law or in equity, due to the essential nature of the governmental function of the Project, it is not certain whether a court would permit the exercise of certain remedies with respect to the Project.

In addition, under the United States Bankruptcy Code, a bankruptcy case may be filed by the Corporation or by the District. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, and in the bankruptcy process, executory contracts such as the Installment Purchase Agreement or the Trust Agreement may be subject to the assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The legal opinions to be delivered concurrently with the Certificates (including Special Counsel's approving opinion) will be qualified as to the enforceability of the Certificate documents, including the Installment Purchase Agreement and the Trust Agreement, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise or judicial discretion.

Insurance

As described under "THE DISTRICT - Insurance," the District maintains liability and property insurance. See "THE DISTRICT - Insurance" for a description of the District's liability and property insurance. This insurance does not cover damage caused by earthquakes nor does the District maintain self-insurance for such purpose. No assurance can be given that such insurance will be adequate to cover any property damage or liability of the District in all circumstances.

LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approving opinion of Nossaman LLP, Special Counsel. A complete copy of the proposed form of Special Counsel opinion is contained in Appendix E hereto. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by its counsel, Meyers Nave Riback Silver & Wilson, Los Angeles, California. Certain legal matters will be passed on for the Underwriters by underwriters counsel, Squire, Sanders & Dempsey L.L.P., Los Angeles, California.

CONJUNCTIVE USE LITIGATION

In 2005, WRD petitioned the State Water Resources Board to review various waste discharge and water recycling requirements that were imposed by the Los Angeles Regional Water Quality Control Board on WRD's Alamitos Barrier Recycled Water Project. WRD was successful in its appeal and the State Board required the Los Angeles Regional Board to eliminate the excessive discharge and recycling requirements. No other litigation is anticipated.

Pursuant to the terms of a court order in *California Water Service, et. al v. City of Compton* a six-month exemption was given to WRD to extract certain contaminated groundwater for treatment. After the lapse of those six months, WRD filed pleadings with the court asking the court to approve an agreement between WRD and the City of Torrance which would allow WRD to use Torrance's groundwater rights long-term to extract and treat the groundwater. Various concerns were raised by the Department of Water Resources and WRD was able to resolve those concerns. As a result, the court approved the agreement between WRD and Torrance and signed an Order vacating all further hearings. No further litigation is anticipated.

WRD received correspondence from the California Department of Transportation ("Caltrans") asserting that WRD bears liability for "rising groundwater" in the vicinity of the I-105 freeway. The freeway was built below grade in an area of historically high groundwater levels. Caltrans asserts that it had to install extraction wells to remove groundwater from the vicinity of the freeway in order to avoid damage to freeway facilities. WRD asserts that Caltrans knew or should have known of the conditions of the underground aquifer at the time that the freeway was constructed. Additionally, WRD is exercising its legitimate governmental functions in replenishing the groundwater basins. Finally, WRD asserts that Caltrans' pumping and disposing of groundwater is in violation of the existing judgment governing groundwater extraction in the area.

The parties entered into a settlement agreement as of April 2003. However, that agreement contains certain contingencies, which may cause the settlement to be terminated. If such termination occurs, the parties may renew the claims described above. WRD has advised its insurance carrier of the claim, and contends that a defense should be provided by the carrier in the event a lawsuit is brought.

WRD is one stakeholder in a multi-stakeholder process looking to amend the court Judgments regarding groundwater storage that govern the Central and West Coast Groundwater Basins. To this date, no litigation has been filed. Until such time as a lawsuit is filed, WRD is unable to ascertain the precise nature of any potential litigation nor to evaluate the likelihood of an unfavorable outcome.

ABSENCE OF LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their offices or seeking to restrain or to enjoin the sale or delivery of the Certificates, the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, the Trust Agreement, the Master Agreement, the Installment Purchase Agreement or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement, or contesting the powers of the District or its authority with respect to the Certificates or any action of the District contemplated by any of said documents, nor, to the knowledge of the District is there any basis therefor.

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which Installment Payments are payable, or which would have a material adverse effect on the District, including the District's ability to make Installment Payments.

FINANCIAL STATEMENTS

The basic financial statements of the District included in Appendix A to this Official Statement have been audited by Charles Fedak & Company, independent certified public accountants. See APPENDIX A – “FINANCIAL STATEMENTS OF THE WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA FOR FISCAL YEAR ENDED JUNE 30, 2007” herein. The audited financial statements, including the footnotes thereto, should be reviewed in their entirety. Charles Fedak & Company has not consented to the inclusion of its report as Appendix A and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Charles Fedak & Company with respect to any event subsequent to its report dated November 8, 2007.

TAX EXEMPTION

General

In the opinion of Nossaman LLP, Special Counsel, based on existing statutes, regulations, rulings and court decisions, the portion of each Installment Payment designated as and representing interest and received by the Owners of the Certificates (the “Interest Portion”) is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A copy of the proposed opinion of Special Counsel is set forth in APPENDIX E hereto.

The Internal Revenue Code of 1986 (the “Code”), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as that represented by the Certificates. The District has covenanted to comply with certain restrictions designed to assure that the Interest Portion will not be includable in federal gross income. Failure to comply with these covenants may result in the Interest Portion being included in federal gross income, possibly from the date of execution and delivery of the Certificates. The opinion of Special Counsel assumes compliance with these covenants. Special 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 execution and delivery of the Certificates may affect the value of, or the tax status of the Interest Portion. Further, no assurance can be given that pending or future legislation or amendments to the Code, will not adversely affect the value of, or the tax status of the Interest Portion of, the Certificates. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Special Counsel is further of the opinion that the Interest Portion is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Special Counsel observes, however, that the Interest Portion is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Prospective purchasers of the Certificates should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest with respect to obligations such as that represented by the Certificates, (ii) interest with respect to obligations such as

those represented by the Certificates earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest with respect to obligations such as those represented by the Certificates, may be subject to federal income taxation under Section 1375 of the Code for subchapter S corporations having subchapter C earnings and profits at the close of the taxable year and gross receipts more than 25% of which constitute passive investment income, and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as those represented by the Certificates.

If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Certificate (other than a purchaser who holds such Certificate as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Certificate constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount is disregarded.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as the Interest Portion on the Certificates. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each such Certificate and the basis of such Certificate acquired at such initial offering price by an initial purchaser of each such Certificate will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the such Certificates who purchase such Certificates after the initial offering of a substantial amount thereof. Owners who do not purchase such Certificates in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Certificates. All holders of such Certificates should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Certificate based on the purchaser’s yield to maturity in such Certificates, except that in the case of such a Certificate callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Certificate. A purchaser of such a Certificate is required to decrease his or her adjusted basis in such Certificate by the amount of bond premium attributable to each taxable year in which such purchaser holds such Certificate. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Certificate, and with respect to the state and local tax consequences of owning and disposing of such a Certificate.

Certain agreements, requirements and procedures contained or referred to in the Installment Purchase Agreement and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Special Counsel

expresses no opinion as to any Certificate or the interest payable with respect thereto if any change occurs or action is taken or omitted upon the advice or approval of counsel other than Special Counsel.

Although Special Counsel has rendered an opinion that the Interest Portion is excludable from federal gross income, and is exempt from State of California personal income taxes, the ownership or disposition of the Certificates, and the accrual or receipt of the Interest Portion may otherwise affect an Owner's state or federal tax liability. The nature and extent of these other tax consequences will depend upon each Owner's particular tax status and the Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code may cause interest on the Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. On May 19, 2008, the United States Supreme Court overruled the decision of the Kentucky state court. There can be no assurance that future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code enacted or proposed after the date of issuance of the Certificates will not have an adverse effect on the tax exempt status or market price of the Certificates.

Information Reporting and Backup Withholding.

Information reporting requirements will apply to interest (including original issue discount) paid after March 31, 2007 on tax-exempt obligations, including the Certificates. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Certificate through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest with respect to the Certificates from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and beneficial owners of the Certificates (a) to provide certain financial information and operating data (the "Annual Report") relating to the District and the property in the Districts not later than eight (8) months after the end of the District's Fiscal Year (which currently would be March 1), commencing with the report for the 2007-08 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Trustee on behalf of the District, with each Nationally Recognized Municipal Securities Information Repository and with each State Repository, if any. The notices of material events

will be filed by the Trustee on behalf of the District with the Municipal Securities Rulemaking Board and with each State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the Continuing Disclosure Agreement. See “APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12(b)(5) (the “Rule”). The District has not failed to comply in all material respects with any previous undertaking with respect to the Rule to provide annual reports or notices of material events.

RATINGS

[The Certificates are rated “_____,” and “_____” by Fitch Ratings and Standard & Poor’s, respectively, with the understanding that, upon delivery of the Bonds the Policy will be delivered by _____.] Fitch Ratings and Standard & Poor’s have also assigned underlying municipal bond ratings of “_____,” and “_____” to the Certificates. Such ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold the Certificates. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Fitch Ratings, One State Street Plaza, New York, New York 10004; and Standard & Poor’s Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

E.J. De La Rosa & Co., Inc. (the “Underwriter”) has purchased the Certificates from the District at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the Certificates, less a net original issue discount of \$_____, less an Underwriter’s discount of \$_____). The public offering prices may be changed from time to time by the Underwriter. The Underwriter may offer and sell Certificates to certain dealers and others at prices lower than the offering prices shown on the cover page hereof.

PRICING ADVISOR

The District has retained Fieldman, Rolapp & Associates, Inc., Irvine, California in the capacity of pricing advisor in connection with the delivery of the Bonds. Fieldman, Rolapp & Associates, Inc. is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the District.

WATER REPLENISHMENT DISTRICT OF
SOUTHERN CALIFORNIA

By: _____
President

By: _____
Secretary

APPENDIX A

**FINANCIAL STATEMENTS OF
THE WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA
FOR FISCAL YEAR ENDED JUNE 30, 2007**

APPENDIX B
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company – Book-Entry Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be executed and delivered 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 Security certificate will be executed and delivered for each maturity of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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. Prepayment notices shall be sent to DTC. If less than all of the Securities within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the Securities 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 the District or the 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 nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment 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 the District or the 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 Securities at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered. Further, the District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

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

Discontinuance of DTC Services

In the event (i) DTC determines not to continue to act as securities depository for the Certificates, (ii) DTC shall no longer act and give notice to the Trustee of such determination or (iii) the District determines that it is in the best interest of the Beneficial Owners that they be able to obtain Certificates and delivers a written certificate to the Trustee to that effect, DTC services will be discontinued. If the District determines to replace DTC with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each of the maturities of the Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace DTC then the

Certificates shall no longer be restricted to being registered in the certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the District, in accordance with the Trust Agreement.

All Certificates may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Indenture, upon surrender of such Certifications for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificates shall be surrendered for transfer, the Trustee shall execute and deliver new Certificates representing the same principal amount in Authorized Denominations. The Trustee shall require the payment of any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Certificates may be presented for exchange at the Principal Office of the Trustee for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to transfer or exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX E

FORM OF APPROVING OPINION OF SPECIAL COUNSEL

Upon the execution and delivery of the Certificates, Nossaman LLP, Irvine, California, proposes to render its final approving opinion with respect to the Certificates in substantially the following form:

APPENDIX F
[SPECIMEN BOND INSURANCE POLICY]