This Supplement dated July 2, 2019 to Remarketing Statement (the “Supplement”) supplements the Remarketing Statement dated June 24, 2019 (the “Remarketing Statement”) of The Metropolitan Water District of Southern California (“Metropolitan”) relating to its $80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Bonds”), $95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Bonds”) and $95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Bonds,” and collectively with the 2017C Bonds and the 2017D Bonds, the “2017 Index Tender Bonds,” and each, a “Series”). This Supplement provides both supplemental information and new information about the 2017 Index Tender Bonds. The Remarketing Statement and the information incorporated therein by specific reference is on file with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. This Supplement is intended to be read in conjunction with the Remarketing Statement. Investors must read both of such documents and the Referenced Appendix A, the Referenced Appendix B and the Referenced Appendix E incorporated therein by specific reference to obtain information essential to the making of an informed investment decision. Capitalized terms used in this Supplement but not defined herein shall have the meanings set forth in the Remarketing Statement.

The Remarketing Statement indicated that Metropolitan expected to issue on June 27, 2019, its $241,530,000 Subordinate Water Revenue Refunding Bonds, 2019 Series A (the “2019A Subordinate Bonds”), which were sold by negotiated sale on June 18, 2019, to refund $291,620,000 principal amount of then outstanding Senior Bonds. The 2019A Subordinate Bonds were subsequently issued and delivered on June 27, 2019.

On July 2, 2019, J.P. Morgan Securities LLC, as remarketing agent for the 2017C Bonds, determined the Index Spread for the New Tender Period applicable to the 2017C Bonds to be equal to –0.06% (minus six basis points). On July 2, 2019, J.P. Morgan Securities LLC, as remarketing agent for the 2017D Bonds, determined the Index Spread for the New Tender Period applicable to the 2017D Bonds to be equal to –0.06% (minus six basis points). On July 2, 2019, BofA Securities, Inc., as remarketing agent for the 2017E Bonds, determined the Index Spread for the New Tender Period applicable to the 2017E Bonds to be equal to –0.06% (minus six basis points). The determination by each Remarketing Agent is conclusive and binding on Metropolitan, the Fiscal Agent, such Remarketing Agent, the Paying Agent and the Owners of the applicable Series of the 2017 Index Tender Bonds.
On July 3, 2017, the day that Metropolitan issued the 2017 Index Tender Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan in connection with such issuance, opined that, under then-existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements by Metropolitan, interest on each Series of the 2017 Index Tender Bonds was excluded from gross income for federal income tax purposes and was exempt from State of California personal income tax. Such opinions spoke only as of their date and have not been updated in connection with this Remarketing. See “TAX MATTERS.”

The Metropolitan Water District of Southern California (“Metropolitan”) is remarketing all of its $80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Bonds”), $95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Bonds”) and $95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Bonds,” and each, a “Series”) on July 3, 2019 in connection with an Index Mode Unscheduled Mandatory Tender of each of such Series of 2017 Index Tender Bonds. In the event that all of the 2017 Index Tender Bonds of any such Series are purchased on July 3, 2019, a new Tender Period with respect to each such Series will commence on such date, during which the 2017 Index Tender Bonds of such Series will bear interest at an Index Tender Rate. The Index Tender Rate in the new Tender Period for each Series of the 2017 Index Tender Bonds will be equal to the sum of (a) the SIFMA Average Index Rate (generally calculated monthly) and (b) the Index Spread for the new Tender Period that the applicable Remarketing Agent for each Series will determine for that Series on or about July 2, 2019. Promptly after the applicable Remarketing Agent for the respective Series of the 2017 Index Tender Bonds determines the Index Spread for each Series, Metropolitan will publish them by supplementing this Remarketing Statement and posting the supplement on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. Capitalized terms not otherwise defined on this cover page are defined herein and in APPENDIX 1—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.”

During the new Tender Period, interest on the 2017 Index Tender Bonds will be payable on the first Business Day of each calendar month, commencing on August 1, 2019 and on any Mandatory Purchase Date. Beneficial interests in the 2017 Index Tender Bonds may be purchased in the remarketing in denominations of $100,000 principal amount or any integral multiple of $5,000 in excess thereof. Investors may purchase the 2017 Index Tender Bonds in book-entry form only. See APPENDIX 3—“BOOK-ENTRY ONLY SYSTEM.”

The 2017 Index Tender Bonds of each Series are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Redemptions of the 2017 Index Tender Bonds.” The 2017 Index Tender Bonds of each Series are subject to mandatory tender for purchase, including on the Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender and on the Scheduled Mandatory Tender Date of each Tender Period for such Series, as described herein. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Tender and Purchase of 2017 Index Tender Bonds.”

Metropolitan may change the Interest Mode for the 2017 Index Tender Bonds to another Interest Mode or may convert the 2017 Index Tender Bonds to a Fixed Interest Rate. This Remarketing Statement only describes the 2017 Index Tender Bonds while bearing interest in the Index Mode in the new Tender Period and is not intended to provide information with respect to such bonds after a change in Interest Mode or conversion to a Fixed Interest Rate.

The 2017 Index Tender Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a pledge of and lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt (which includes Senior Bonds and Senior Obligations) heretofore or hereafter issued or incurred by Metropolitan, and on parity with other Subordinate Bonds and First Tier Parity Obligations heretofore or hereafter issued or incurred by Metropolitan as described herein. The obligation of Metropolitan to pay the purchase price of 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date therefor is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and shall constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of May 1, 2019, Metropolitan had outstanding $3.04 billion aggregate principal amount of Senior Bonds, as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2017 Index Tender Bonds. As of May 1, 2019, Metropolitan had outstanding $1.03 billion aggregate principal amount of Subordinate Bonds (including the 2017 Index Tender Bonds), as well as certain other Subordinate Obligations payable on parity from Net Operating Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.” See also “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan.”

The 2017 Index Tender Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2017 Index Tender Bonds or the interest thereon or the purchase price thereof. The obligation to pay the principal of and interest on the 2017 Index Tender Bonds or the purchase price upon a tender for purchase thereof does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Remarketing Statement.

Metropolitan anticipates that the remarkeated 2017 Index Tender Bonds will be available for delivery through the facilities of The Depository Trust Company on or about July 3, 2019.

2017C and 2017D Bonds

Remarketing Agent

J.P. Morgan

2017E Bonds

Remarketing Agent

BofA Merrill Lynch

Dated: June 24, 2019
### SUMMARY OF CERTAIN TERMS OF THE REMARKETED BONDS

#### $80,000,000
**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**
**SUBORDINATE WATER REVENUE BONDS, 2017 SERIES C**

<table>
<thead>
<tr>
<th>Maturity (July 1)</th>
<th>Principal Amount</th>
<th>Price</th>
<th>Index</th>
<th>Call Protection Date(1)</th>
<th>Scheduled Mandatory Tender Date(2)</th>
<th>CUSIP No.† (Base: 59266T)</th>
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<tbody>
<tr>
<td>2047</td>
<td>$80,000,000</td>
<td>100%</td>
<td>SIFMA</td>
<td>May 2, 2020</td>
<td>July 31, 2020</td>
<td>NH0</td>
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#### $95,630,000
**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**
**SUBORDINATE WATER REVENUE REFUNDING BONDS, 2017 SERIES D**

<table>
<thead>
<tr>
<th>Maturity (July 1)</th>
<th>Principal Amount</th>
<th>Price</th>
<th>Index</th>
<th>Call Protection Date(1)</th>
<th>Scheduled Mandatory Tender Date(2)</th>
<th>CUSIP No.† (Base: 59266T)</th>
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</thead>
<tbody>
<tr>
<td>2037</td>
<td>$95,630,000</td>
<td>100%</td>
<td>SIFMA</td>
<td>May 2, 2020</td>
<td>July 31, 2020</td>
<td>NJ6</td>
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#### $95,625,000
**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**
**SUBORDINATE WATER REVENUE REFUNDING BONDS, 2017 SERIES E**

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<tr>
<th>Maturity (July 1)</th>
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<th>Scheduled Mandatory Tender Date(2)</th>
<th>CUSIP No.† (Base: 59266T)</th>
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<tr>
<td>2037</td>
<td>$95,625,000</td>
<td>100%</td>
<td>SIFMA</td>
<td>May 2, 2020</td>
<td>July 31, 2020</td>
<td>NV9</td>
</tr>
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</table>

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(1) First optional call or Index Mode Unscheduled Mandatory Tender in the new Tender Period.

(2) Owners of the 2017 Index Tender Bonds of a Series must tender for purchase, and Metropolitan must purchase, all of the 2017 Index Tender Bonds of such Series on the applicable Scheduled Mandatory Tender Date for the new Tender Period.

CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with Metropolitan and are included solely for the convenience of the holders of the 2017 Index Tender Bonds. Metropolitan is not responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the 2017 Index Tender Bonds or as indicated above. The CUSIP number for a specific Series or maturity is subject to being changed after the issuance of the 2017 Index Tender Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such Series or maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the 2017 Index Tender Bonds of such Series.
### THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

#### Officers of the Board of Directors

- **Chairwoman**
  - GLORIA D. GRAY

- **Vice Chair**
  - JERRY BUTKIEWICZ

- **Vice Chair**
  - CYNTHIA KURTZ

- **Vice Chair**
  - LORRAINE A. PASKETT

- **Secretary**
  - JUDY ABDO

### REPRESENTATIVES OF MEMBER PUBLIC AGENCIES

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<th>City</th>
<th>Representative</th>
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<tr>
<td>Anaheim</td>
<td>STEPHEN J. FAESSEL</td>
</tr>
<tr>
<td>Beverly Hills</td>
<td>BARRY D. PRESSMAN</td>
</tr>
<tr>
<td>Burbank</td>
<td>MARSHA RAMOS</td>
</tr>
<tr>
<td>Compton</td>
<td>JANNA ZURITA</td>
</tr>
<tr>
<td>Fullerton</td>
<td>ADÁN ORTEGA</td>
</tr>
<tr>
<td>Glendale</td>
<td>ZAREH SINANYAN</td>
</tr>
<tr>
<td>Long Beach</td>
<td>GLORIA CORDERO</td>
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<tr>
<td>Los Angeles</td>
<td>GLEN C. DAKE</td>
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<td></td>
<td>MARK GOLD</td>
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<td>JOHN W. MURRAY JR.</td>
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<td>LORRAINE A. PASKETT</td>
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<td>JESÚS E. QUIÑONEZ</td>
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<td>Pasadena</td>
<td>CYNTHIA KURTZ</td>
</tr>
<tr>
<td>San Fernando</td>
<td>SYLVIA BALLIN</td>
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<td>San Marino</td>
<td>JOHN T. MORRIS</td>
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<td>Santa Ana</td>
<td>JOSE SOLORIO</td>
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<td>Santa Monica</td>
<td>JUDY ABDO</td>
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<td>Torrance</td>
<td>RUSSELL LEFEVRE</td>
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<td>Calleguas Municipal Water District</td>
<td>STEVE BLOIS</td>
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<td>Central Basin Municipal Water District</td>
<td>ROBERT O. APODACA</td>
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<td></td>
<td>FRANK HELDMAN</td>
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<tr>
<td>Eastern Municipal Water District</td>
<td>RANDY A. RECORD</td>
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<td>Foothill Municipal Water District</td>
<td>RICHARD W. ATWATER</td>
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<tr>
<td>Inland Empire Utilities Agency</td>
<td>JASMIN A. HALL</td>
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<td>Las Virgenes Municipal Water District</td>
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<td>Municipal Water District of Orange County</td>
<td>LINDA ACKERMAN</td>
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<td>BRETT R. BARBRE</td>
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<td>LARRY D. DICK</td>
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<td>LARRY MCKENNEY</td>
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<td>San Diego County Water Authority</td>
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<td>GAIL S. GOLDBERG</td>
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<td>TIM SMITH</td>
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<td>Three Valleys Municipal Water District</td>
<td>DAVID D. DE JESUS</td>
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<td>Upper San Gabriel Valley Municipal Water District</td>
<td>CHARLES M. TREVIÑO</td>
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<td>West Basin Municipal Water District</td>
<td>GLORIA D. GRAY</td>
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<td>HAROLD WILLIAMS</td>
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<tr>
<td>Western Municipal Water District of Riverside County</td>
<td>DONALD GALLEANO</td>
</tr>
</tbody>
</table>
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER
General Manager

MARCIA SCULLY
General Counsel

GERALD C. RISS
General Auditor and Acting Ethics Officer

DEVEN UPADHYAY
Assistant General Manager/Chief Operating Officer

SHANE CHAPMAN
Assistant General Manager/Chief Administrative Officer

JUNE SKILLMAN
Interim Assistant General Manager/Chief Financial Officer

ROGER K. PATTERSON
Assistant General Manager/Strategic Water Initiatives

DEE ZINKE
Assistant General Manager/Chief External Affairs Officer

ROSA A. CASTRO
Board Executive Secretary

Special Services

Bond Counsel for the Remarketing
Nixon Peabody LLP
Los Angeles, California

Disclosure Counsel
Norton Rose Fulbright US LLP
Los Angeles, California

Municipal Advisor
Public Resources Advisory Group
Los Angeles, California

Fiscal Agent
June Skillman
Metropolitan Treasurer

Paying Agent
Wells Fargo Bank, National Association
Los Angeles, California
This Remarketing Statement does not constitute an offer to sell the 2017 Index Tender Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Remarketing Statement is not to be construed as a contract with the purchasers of the 2017 Index Tender Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the remarketing of the 2017 Index Tender Bonds, and if given or made, investors must not rely on such information or representations.

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

The Remarketing Agents have provided the following two paragraphs for inclusion in this Remarketing Statement:

The Remarketing Agents have reviewed the information in this Remarketing Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

In connection with the remarketing of the 2017 Index Tender Bonds, the Remarketing Agents may overallot or effect transactions which stabilize or maintain the market price of the 2017 Index Tender Bonds at a level above that which might otherwise prevail on the open market. Such stabilizing, if commenced, may be discontinued at any time.

CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association, and are set forth herein for convenience of reference only. These data are not intended to create a database and do not serve in any way as a substitute for CUSIP Global Services. Metropolitan is not responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

This Remarketing Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) system.

Metropolitan maintains a website. However, the information presented therein is not part of this Remarketing Statement and should not be relied upon in making investment decisions with respect to the 2017 Index Tender Bonds.
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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained or incorporated in this Remarketing Statement and should not be considered to be a complete statement of the facts material to making an investment decision. All terms used in this Summary Statement and not otherwise defined have the meanings given such terms elsewhere in this Remarketing Statement, in APPENDIX I—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS” or in the Subordinate Resolutions. Investors must read the entire Remarketing Statement, including the Appendices hereto and the Referenced Appendices incorporated herein, to obtain information essential to making an informed investment decision.

The Metropolitan Water District of Southern California

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 38-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the Board, is to provide its service area with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way.

Incorporation by Reference of 2019 Official Statement

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated May 29, 2019, relating to its Water Revenue Refunding Bonds, 2019 Series A (the “2019 Official Statement”), which includes the following:

1. APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” (referred to herein as “Referenced Appendix A”);

2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS’ REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017 (UNAUDITED)” (referred to herein as “Referenced Appendix B”); and

3. APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA” (referred to herein as “Referenced Appendix E”).

Metropolitan includes by this specific reference into this Remarketing Statement the Referenced Appendix A, the Referenced Appendix B and the Referenced Appendix E. The 2019 Official Statement is on file with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (the “EMMA System”) and can be accessed at http://emma.msrb.org/.
Economy of Metropolitan’s Service Area

Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For selected demographic and economic information on Metropolitan’s service area, see Referenced Appendix E.

Authorization for the 2017 Index Tender Bonds

Metropolitan originally issued its $80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Bonds”), its $95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Bonds”) and its $95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Bonds,” and collectively with the 2017C Bonds and the 2017D Bonds, the “2017 Index Tender Bonds,” and each, a “Series”) on July 3, 2017, pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code, and with respect to the 2017D Bonds and the 2017E Bonds (sometimes collectively referred to as the “2017 Refunding Bonds”), Article 11 of Chapter 3 (commencing with Section 53580) of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Act”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. The 2017 Index Tender Bonds were also issued under and pursuant to Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including, with respect to the 2017 Refunding Bonds, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”) and, with respect to the 2017C Bonds, Ordinance 149 adopted on October 13, 2015, and Ordinance 150 and Resolution 9226, each adopted on June 13, 2017 (such resolution, the “Third Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution and the First Supplemental Subordinate Resolution, the “Subordinate Resolutions”). Bonds issued by Metropolitan pursuant to the Subordinate Resolutions are referred to in this Remarketing Statement as the “Subordinate Bonds.”

Each Series of the 2017 Index Tender Bonds is further described in a Paying Agent Agreement related to such Series, dated as of July 1, 2017 (each, a “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”). See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS.” The 2017 Index Tender Bonds were originally issued in the Index Mode, bearing interest at an Index Tender Rate and subject to mandatory purchase on certain Mandatory Purchase Dates as described herein and in the related Paying Agent Agreement. All of the originally issued 2017 Index Tender Bonds are currently outstanding.

The 2017 Index Tender Bonds are payable as to principal and interest and any premiums payable upon redemption thereof on parity with Metropolitan’s outstanding Subordinate Bonds and any additional Subordinate Bonds issued by Metropolitan under the Master Subordinate Resolution and with other outstanding and future obligations of Metropolitan payable on parity with the Subordinate Bonds (“First Tier Parity Obligations,” and collectively with the Subordinate Bonds, “Subordinate Obligations”). The obligation of Metropolitan to pay the Purchase Price of the 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date therefor constitutes a First Tier Parity Obligation under the Master Subordinate Resolution.

Metropolitan adopted Resolution 8329 on July 9, 1991, as amended and supplemented (the “Senior Debt Resolution”), authorizing the issuance of water revenue bonds (the “Senior Bonds”) and parity obligations (the “Senior Obligations,” and together with the Senior Bonds, “Senior Debt”) payable and secured on a senior basis to the Subordinate Bonds to finance, or in connection with the financing of,
the costs of improvements to the Water System and other lawful purposes or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Senior Debt Resolution. The 2017 Index Tender Bonds are payable as to principal, Purchase Price, and interest on a basis subordinate to Metropolitan’s outstanding Senior Bonds and any additional Senior Bonds issued by Metropolitan under the Senior Debt Resolution and with other outstanding and future Senior Obligations of Metropolitan payable on parity with the Senior Bonds.

See also “– Security for the 2017 Index Tender Bonds” and “– Additional Indebtedness” below.

**Remarketing and Selected Terms of the 2017 Index Tender Bonds**

**Remarketing of the 2017 Index Tender Bonds.** Metropolitan is remarketing all of the 2017 Index Tender Bonds in connection with an Index Mode Unscheduled Mandatory Tender of each of such Series of 2017 Index Tender Bonds pursuant to which Metropolitan will require all of the existing Owners of the 2017C Bonds, 2017D Bonds and 2017E Bonds to tender their respective 2017 Index Tender Bonds for purchase on July 3, 2019. Metropolitan intends to pay the Purchase Price of each Series of the 2017 Index Tender Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of the respective Series of 2017 Index Tender Bonds. The remarketing of each Series of 2017 Index Tender Bonds upon the Index Mode Unscheduled Mandatory Tender on July 3, 2019 is referred to in this Remarketing Statement as the “Remarketing.” The Depository Trust Company, New York, New York (“DTC”) is the registered owner of the 2017 Index Tender Bonds and, as such, it will tender the 2017 Index Tender Bonds on behalf of the Beneficial Owners upon the Index Mode Unscheduled Mandatory Tender. See APPENDIX 3—“BOOK-ENTRY ONLY SYSTEM.”

The Remarketing with respect to each Series will only occur if Metropolitan purchases all of such Series of 2017 Index Tender Bonds on July 3, 2019 pursuant to the Index Mode Unscheduled Mandatory Tender. Under the terms of each Paying Agent Agreement, Metropolitan may rescind an Index Mode Unscheduled Mandatory Tender. In addition, the Index Mode Unscheduled Mandatory Tender of each Series of 2017 Index Tender Bonds is conditioned on amounts sufficient to pay the Purchase Price of such Series of 2017 Index Tender Bonds tendered for purchase being on deposit with the Paying Agent on the Mandatory Purchase Date. The remarketing of each Series of the 2017 Index Tender Bonds is not contingent upon the remarketing of the other Series of 2017 Index Tender Bonds.

For a more detailed description of Index Mode Unscheduled Mandatory Tenders and the process for the remarketing of the 2017 Index Tender Bonds during the Index Mode, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Tender and Purchase of 2017 Index Tender Bonds – Index Mode Unscheduled Mandatory Tender” and “– Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode – Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.”

**2017 Index Tender Bonds in Index Mode.** Following the Remarketing, the 2017 Index Tender Bonds will bear interest in the Index Mode. Accordingly, each Series of 2017 Index Tender Bonds will be subject to all of the terms and provisions of the applicable Paying Agent Agreement governing such Series in the Index Mode. This includes provisions of each Paying Agent Agreement that (a) require the Owners of the related Series of 2017 Index Tender Bonds to tender their 2017 Index Tender Bonds of such Series for purchase on the Scheduled Mandatory Tender Date for the New Tender Period (defined below) for such Series, on any Mandatory Purchase Date from and after the Call Protection Date for the New Tender Period for such Series and on other dates described in this Remarketing Statement and (b) permit Metropolitan to redeem or change the Interest Mode with respect to the 2017 Index Tender Bonds of such Series from and after the Call Protection Date for the New Tender Period. See also “– Certain Other Provisions Applicable to the 2017 Index Tender Bonds” below.
This Remarketing Statement only describes the 2017C Bonds, 2017D Bonds and 2017E Bonds while bearing interest in the Index Mode (and referred to herein as the 2017 Index Tender Bonds). There are significant differences in the terms of the 2017C Bonds, 2017D Bonds and 2017E Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to the 2017C Bonds, 2017D Bonds or 2017E Bonds bearing interest in an Interest Mode other than the Index Mode. Owners and prospective purchasers of the 2017 Index Tender Bonds should not rely on this Remarketing Statement for information in connection with any change of such 2017 Index Tender Bonds to a different Interest Mode.

Establishment of a New Tender Period. Upon the Remarketing, the existing Tender Period for each Series of 2017 Index Tender Bonds will terminate and a new Tender Period for each Series will commence (such new Tender Period for each Series is referred to herein as the “New Tender Period” for such Series). For a more detailed description of Tender Periods, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Interest Rate Provisions – Tender Periods.”

Determination and Notification of Index Spread. The applicable Remarketing Agent for each Series of the 2017 Index Tender Bonds will determine the Index Spread for that Series for the New Tender Period on or about July 2, 2019. Each Remarketing Agent must determine an Index Spread for the respective Series that will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to such Series and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by such Series, would enable such Remarketing Agent to sell all of such Series of 2017 Index Tender Bonds on July 3, 2019 at a Purchase Price equal to the principal amount thereof. Promptly after the applicable Remarketing Agent for the respective Series of the 2017 Index Tender Bonds determines the Index Spread for each Series, Metropolitan will publish them by supplementing this Remarketing Statement and posting the supplement on the EMMA System.

Interest Rate During the New Tender Period. During the New Tender Period, each Series of 2017 Index Tender Bonds will bear interest at the Index Tender Rate. The Index Tender Rate for the New Tender Period for a Series will be the rate of interest, determined for each Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread that the Remarketing Agent for such Series determines on or about July 2, 2019.

During the New Tender Period, Metropolitan will pay interest on each Series of 2017 Index Tender Bonds on (a) the first Business Day of each calendar month, commencing August 1, 2019, (b) each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series and (c) each Scheduled Mandatory Tender Date for such Series.

For a description of the terms relating to interest on the 2017 Index Tender Bonds, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Interest Rate Provisions.” For a description of the process by which the applicable Remarketing Agent will determine the Index Spread for the New Tender Period for each Series of 2017 Index Tender Bonds for which it is serving as remarketing agent, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode – Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender – Determination of Index Spread.”

Scheduled Mandatory Tender Date. The Scheduled Mandatory Tender Date for the New Tender Period for each Series of 2017 Index Tender Bonds will be July 31, 2020, and for each subsequent Tender Period, will be the date that Metropolitan determines for such Series pursuant to the provisions of the applicable Paying Agent Agreement. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”
**Call Protection Date.** The Call Protection Date for the New Tender Period for each Series of 2017 Index Tender Bonds will be May 2, 2020. For any subsequent Tender Period, the Call Protection Date with respect to each Series of 2017 Index Tender Bonds will be the applicable Standard Call Protection Date unless Metropolitan determines a different date. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”

**Notification Following Remarketing.** Within two Business Days after the Remarketing, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to the Owners of each Series of 2017 Index Tender Bonds at their respective addresses appearing on the registration books and one or more Information Services (currently, the EMMA System), which will state: (a) that the immediately preceding Tender Period for such Series has terminated; (b) that the New Tender Period for such Series has commenced; (c) the day on which the Scheduled Mandatory Tender Date for such Series will occur with respect to the New Tender Period; (d) the day on which the Call Protection Date for such Series will occur with respect to the New Tender Period; and (e) the Index Spread that the Remarketing Agent for such Series determined. Absent manifest error, upon delivery of such notice, the Tender Period for each Series in effect immediately preceding the Remarketing will be deemed to have terminated and the New Tender Period will be deemed to have commenced.

**Book-Entry Only System.** The 2017 Index Tender Bonds of each Series being remarketed will be sold to the purchasers in the Remarketing as fully registered bonds, registered in the name of Cede & Co., as nominee of DTC. DTC acts as securities depository for the 2017 Index Tender Bonds. Beneficial interests in the 2017 Index Tender Bonds of each Series may be purchased in the Remarketing in the authorized denominations of $100,000 principal amount or any integral multiple of $5,000 in excess thereof. Purchasers in the Remarketing will not receive certificates representing the 2017 Index Tender Bonds purchased by them. Metropolitan will pay the principal and Purchase Price of and interest on the 2017 Index Tender Bonds directly to DTC as the registered owner of the 2017 Index Tender Bonds. Upon receipt of payments of principal, Purchase Price or interest, DTC is obligated to remit those payments to DTC’s Direct Participants (as defined in APPENDIX 3–“BOOK-ENTRY ONLY SYSTEM”) for subsequent disbursement to the Beneficial Owners of the 2017 Index Tender Bonds. See APPENDIX 3–“BOOK-ENTRY ONLY SYSTEM.”

**Remarketing Agents.**

Pursuant to separate remarketing agreements, dated as of July 1, 2017, between Metropolitan and J.P. Morgan Securities LLC (“J.P. Morgan”), Metropolitan has appointed J.P. Morgan as the remarketing agent for the 2017C Bonds and for the 2017D Bonds. Pursuant to a remarketing agreement, dated May 16, 2018, between Metropolitan and Merrill Lynch, Pierce, Fenner & Smith Incorporated (now BofA Securities, Inc.) (“BofA Securities”), Metropolitan has appointed BofA Securities as the remarketing agent for the 2017E Bonds. Each of J.P. Morgan and BofA Securities is referred to herein as the applicable “Remarketing Agent” for the related Series of 2017 Index Tender Bonds for which it has been appointed.

**Certain Other Provisions Applicable to the 2017 Index Tender Bonds.**

**Tender and Purchase of the 2017 Index Tender Bonds.** While the 2017 Index Tender Bonds of a Series bear interest in the Index Mode, the Owners of all of the 2017 Index Tender Bonds of such Series must tender for purchase, and Metropolitan must purchase, all of the 2017 Index Tender Bonds of such Series on the Scheduled Mandatory Tender Date for each Tender Period for such Series. While the 2017 Index Tender Bonds bear interest in the Index Mode, during each Tender Period applicable for a Series of 2017 Index Tender Bonds, the 2017 Index Tender Bonds of each Series will be subject to mandatory tender for purchase (in whole but not in part), on any Business Day from and after the Call Protection
Date, including on a Mandatory Purchase Date pursuant to an Index Mode Unscheduled Mandatory Tender or on the Scheduled Mandatory Tender Date for such Series, at a Purchase Price equal to the principal amount thereof, plus accrued and unpaid interest to the purchase date (unless the purchase date is an Index Mode Interest Payment Date, in which case the Purchase Price will not include accrued interest which will be paid in the normal course). See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Tender and Purchase of 2017 Index Tender Bonds.”

Redemption of the 2017 Index Tender Bonds. While bearing interest in the Index Mode, the 2017 Index Tender Bonds of each Series will be subject to optional redemption by Metropolitan in whole or in part, in authorized denominations of $100,000 or any integral multiple of $5,000 in excess thereof, during the applicable Tender Period for such Series, on any Business Day on or after the Call Protection Date for such Tender Period at a redemption price equal to 100% of the principal amount of such Series being redeemed plus accrued interest, if any, to such redemption date, without premium. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Redemption of the 2017 Index Tender Bonds – Optional Redemption of 2017 Index Tender Bonds.”

Each Series of the 2017 Index Tender Bonds is also subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal amount of such Series being redeemed plus accrued interest, if any, to the redemption date from Mandatory Sinking Account Payments which will have been deposited in the Subordinate Bond Service Fund. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Redemption of the 2017 Index Tender Bonds – Mandatory Sinking Fund Redemption of 2017 Index Tender Bonds.”

Conversion to a New Interest Mode or a Fixed Interest Rate. The 2017 Index Tender Bonds of any Series may bear interest calculated pursuant to a different Interest Mode (which may be the Daily Mode, the Weekly Mode, the Short-Term Mode or the Long Mode) and may be converted to a Fixed Interest Rate (as such terms are defined in the applicable Paying Agent Agreement). All the 2017 Index Tender Bonds of a Series must be in the same Interest Mode or bear interest at a Fixed Interest Rate. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Change to a Different Interest Mode or Conversion to Fixed Interest Rate.”

Security for the 2017 Index Tender Bonds

The 2017 Index Tender Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a pledge of and lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of May 1, 2019, Metropolitan had outstanding $3.04 billion aggregate principal amount of Senior Bonds, as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2017 Index Tender Bonds. As described under “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” on June 6, 2019, Metropolitan issued its $218,090,000 principal amount of Water Revenue Refunding Bonds, 2019 Series A for the purpose of refunding $302,750,000 principal amount of the then outstanding Senior Bonds. As of May 1, 2019, Metropolitan had outstanding $1.03 billion aggregate principal amount of parity Subordinate Bonds (including the 2017 Index Tender Bonds), as well as certain other Subordinate Obligations. As described under “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” on June 27, 2019, Metropolitan expects to issue its $241,530,000 principal amount of Subordinate Water Revenue Refunding Bonds, 2019 Series A, which were sold on June 18, 2019 for the purpose of refunding $291,620,000 principal amount of the then outstanding Senior Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.” See also “– Additional Indebtedness” below.
The obligation of Metropolitan to pay the Purchase Price of the 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date therefor constitutes a First Tier Parity Obligation under the Master Subordinate Resolution. Such obligation of Metropolitan to pay the Purchase Price of the 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date is a special limited obligation of Metropolitan payable solely from Net Operating Revenues subordinate to the lien thereon of the Senior Debt and on parity with the Subordinate Bonds and other First Tier Parity Obligations. Failure to pay the Purchase Price of any tendered 2017 Index Tender Bonds on a Scheduled Mandatory Tender Date for a period of five Business Days following written notice by any Owner of such 2017 Index Tender Bonds constitutes an Event of Default under the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.”

The 2017 Index Tender Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2017 Index Tender Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of and interest on the 2017 Index Tender Bonds or the Purchase Price upon a tender for purchase thereof does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Remarketing Statement.

Metropolitan has not funded any reserve fund for the 2017 Index Tender Bonds.

Rate Covenant

Metropolitan covenants under the Master Subordinate Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts: (1) Operating Expenses; (2) the Bond Obligation (as such term is defined in the Senior Debt Resolution) and interest on Senior Debt as the same shall become due and payable; and (3) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Subordinate Bonds (whether Serial or Term Bonds) and amounts payable on First Tier Parity Obligations and Second Tier Subordinate Obligations as they become due and payable. Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2017 Index Tender Bonds, including any Mandatory Sinking Account Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2017 Index Tender Bonds in setting its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Rate Covenant.”

Additional Indebtedness

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

As provided in the Subordinate Resolutions, Metropolitan may issue or incur additional Subordinate Bonds and First Tier Parity Obligations payable from Net Operating Revenues and secured on parity with the Outstanding Subordinate Bonds (including the 2017 Index Tender Bonds) and other Subordinate Obligations, to finance the costs of improvements to the Water System and other lawful purposes or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Additional Indebtedness under the Master Subordinate Resolution.”
Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a senior basis to the 2017 Index Tender Bonds, other Subordinate Bonds and Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

See “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” for a discussion of certain financings recently undertaken or being undertaken by Metropolitan to refund a portion of its outstanding Senior Bonds. See also “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings” for a discussion of other potential additional Senior Debt and Subordinate Obligations that Metropolitan currently expects to issue or incur.

**Continuing Disclosure**

Metropolitan agreed, in connection with the Remarketing of the 2017 Index Tender Bonds, to provide or to cause to be provided to the Municipal Securities Rulemaking Board, through the EMMA System, certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events with respect to the 2017 Index Tender Bonds. See “CONTINUING DISCLOSURE” and APPENDIX 5–“FORM OF CONTINUING DISCLOSURE UNDERTAKING.” Metropolitan has not failed in the previous five years to comply in all material respects with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule.

**Miscellaneous**

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

$80,000,000
Subordinate Water Revenue
Bonds, 2017 Series C
(SIFMA Index Mode)

$95,630,000
Subordinate Water Revenue
Refunding Bonds, 2017 Series D
(SIFMA Index Mode)

$95,625,000
Subordinate Water Revenue
Refunding Bonds, 2017 Series E
(SIFMA Index Mode)

INTRODUCTION

Remarketing; General Background

The Metropolitan Water District of Southern California (“Metropolitan”) is remarketing all of its $80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Bonds”), $95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Bonds”) and $95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Bonds,” and collectively with the 2017C Bonds and the 2017D Bonds, the “2017 Index Tender Bonds,” and each a “Series”) in connection with an Index Mode Unscheduled Mandatory Tender of each of such Series of 2017 Index Tender Bonds pursuant to which Metropolitan will require all of the existing Owners of the 2017C Bonds, 2017D Bonds and 2017E Bonds to tender their respective 2017 Index Tender Bonds for purchase on July 3, 2019. Metropolitan intends to pay the Purchase Price of each Series of 2017 Index Tender Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of the respective Series of 2017 Index Tender Bonds. The remarketing of each Series of 2017 Index Tender Bonds upon the Index Mode Unscheduled Mandatory Tender on July 3, 2019 is referred to in this Remarketing Statement as the “Remarketing.”

The 2017 Index Tender Bonds of each Series were originally issued on July 3, 2017 in the Index Mode, bearing interest at an Index Tender Rate and subject to mandatory purchase on certain Mandatory Purchase Dates as described herein and in a Paying Agent Agreement related to the respective Series, each dated as of July 1, 2017 (each, a “Paying Agent Agreement”), each by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”). See also “DESCRIPTION OF THE 2017 INDEX TENDER BONDS.” All of the originally issued 2017 Index Tender Bonds are currently outstanding.

Upon the Remarketing, a new Tender Period with respect to each Series of 2017 Index Tender Bonds will commence during which each Series of 2017 Index Tender Bonds will bear interest in the Index Mode at an Index Tender Rate.

This Remarketing Statement only describes the 2017C Bonds, 2017D Bonds and 2017E Bonds while bearing interest in the Index Mode (and referred to herein as the 2017 Index Tender Bonds). There are significant differences in the terms of the 2017C Bonds, 2017D Bonds and 2017E Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to the 2017C Bonds, 2017D Bonds or 2017E Bonds bearing interest in an Interest Mode other than the Index Mode. Owners and prospective purchasers of the 2017 Index Tender Bonds should not rely on this Remarketing Statement for information in connection with any change of such 2017 Index Tender Bonds to a different Interest Mode.

Metropolitan issued the 2017 Index Tender Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code, and with respect to
the 2017D Bonds and the 2017E Bonds (sometimes collectively referred to as the “2017 Refunding Bonds”), Article 11 of Chapter 3 (commencing with Section 53580) of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Act”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. The 2017 Index Tender Bonds were also issued under and pursuant to Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including, with respect to the 2017 Refunding Bonds, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”) and, with respect to the 2017C Bonds, Ordinance 149 adopted on October 13, 2015, and Ordinance 150 and Resolution 9226, each adopted on June 13, 2017 (such resolution, the “Third Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution and the First Supplemental Subordinate Resolution, the “Subordinate Resolutions”). Bonds issued by Metropolitan pursuant to the Subordinate Resolutions are referred to in this Remarketing Statement as “Subordinate Bonds.”

Metropolitan’s Board adopted Resolution 8329 on July 9, 1991, as amended and supplemented (the “Senior Debt Resolution”), authorizing the issuance of water revenue bonds (the “Senior Bonds”) and parity obligations (the “Senior Obligations” and together with the Senior Bonds, the “Senior Debt”) payable and secured on a senior basis to the Subordinate Bonds to finance, or in connection with the financing of, the costs of improvements to the Water System (defined as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) and other lawful purposes or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Senior Debt Resolution.

The 2017 Index Tender Bonds were issued by Metropolitan, together with its fixed rate Subordinate Water Revenue Refunding Bonds, 2017 Series B, for the purpose of refunding a portion of Metropolitan’s then-outstanding Senior Debt and to finance certain costs of acquisition, construction and improvements to the Water System.

**Security for the 2017 Index Tender Bonds**

The 2017 Index Tender Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a lien upon the Net Operating Revenues, subordinate to the lien thereon of Metropolitan’s outstanding Senior Bonds and any additional Senior Bonds issued by Metropolitan under the Senior Debt Resolution and with other outstanding and future Senior Obligations of Metropolitan payable on parity with the Senior Bonds. The 2017 Index Tender Bonds are payable as to the principal thereof and interest thereon from Net Operating Revenues on parity with Metropolitan’s other outstanding and future Subordinate Bonds and other obligations of Metropolitan payable on parity with the Subordinate Bonds (“First Tier Parity Obligations” and, collectively with the Subordinate Bonds, “Subordinate Obligations”). The obligation of Metropolitan to pay the Purchase Price of the 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date therefor is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and constitutes a First Tier Parity Obligation under the Master Subordinate Resolution. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described in this Remarketing Statement.

As of May 1, 2019, Metropolitan had outstanding $3.04 billion aggregate principal amount of Senior Bonds, as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2017 Index Tender Bonds. Metropolitan’s outstanding Senior Bonds and Senior Parity Obligations as of May 1, 2019 are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations.”

As of May 1, 2019, Metropolitan had outstanding $1.03 billion aggregate principal amount of parity Subordinate Bonds (including the 2017 Index Tender Bonds), as well as certain other Subordinate
Obligations. Metropolitan’s outstanding Subordinate Bonds and Subordinate Obligations as of May 1, 2019 are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.” See also “—Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan” below for a discussion of certain financings recently undertaken or being undertaken by Metropolitan.

Under the Master Subordinate Resolution, Metropolitan is not prohibited from issuing additional Senior Bonds and Senior Obligations payable and secured on a senior basis to the Outstanding Subordinate Bonds and the 2017 Index Tender Bonds, except subject to the limitations, terms and conditions of the Senior Debt Resolution. As provided in the Subordinate Resolutions, Metropolitan may issue additional Subordinate Bonds and First Tier Parity Obligations payable and secured on parity with the Outstanding Subordinate Bonds and the 2017 Index Tender Bonds, to finance the costs of improvements to the Water System and other lawful purposes or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Additional Indebtedness under the Master Subordinate Resolution.” See also “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings” for a discussion of potential additional Senior Debt and Subordinate Obligations that Metropolitan expects to issue or incur.

The 2017 Index Tender Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2017 Index Tender Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of and interest on the 2017 Index Tender Bonds or the Purchase Price upon a tender for purchase thereof does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Remarketing Statement.

Metropolitan did not fund a reserve fund for the 2017 Index Tender Bonds.

Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan

On June 6, 2019, Metropolitan issued its $218,090,000 principal amount of Water Revenue Refunding Bonds, 2019 Series A (the “2019A Senior Bonds”) to refund $302,750,000 principal amount of then outstanding Senior Bonds, consisting of: (i) $5,365,000 principal amount of Metropolitan’s then outstanding Water Revenue Bonds, 2008 Authorization Series B, (ii) $18,725,000 principal amount of Metropolitan’s then outstanding Water Revenue Bonds, 2008 Authorization Series D (the “2008 Authorization Series D Bonds”), (iii) $29,645,000 principal amount of Metropolitan’s then outstanding Water Revenue Bonds, 2008 Authorization Series C (the “2008 Authorization Series C Bonds”), (iv) $106,690,000 principal amount of Metropolitan’s then outstanding Water Revenue Refunding Bonds, 2009 Series B, (v) $91,165,000 principal amount of Metropolitan’s then outstanding Water Revenue Refunding Bonds, 2009 Series C, (vi) $31,030,000 principal amount of Metropolitan’s then outstanding Water Revenue Refunding Bonds, 2009 Series D, (vii) $6,625,000 principal amount of Metropolitan’s then outstanding Water Revenue Refunding Bonds, 2009 Series E, and (viii) $13,505,000 principal amount of Metropolitan’s then outstanding Water Revenue Refunding Bonds, 2014 Series C-1. Upon the issuance of the 2019A Senior Bonds, the Senior Bonds refunded thereby were defeased and are no longer outstanding for purposes of the Senior Debt Resolution. All of such Senior Bonds refunded by the 2019A Senior Bonds will be paid or redeemed on July 1, 2019.

On June 27, 2019, Metropolitan expects to issue its $241,530,000 Subordinate Water Revenue Refunding Bonds, 2019 Series A (the “2019A Subordinate Bonds”), which were sold by negotiated sale on June 18, 2019, to refund $291,620,000 principal amount of the outstanding Senior Bonds, consisting of: (i) $59,660,000 principal amount of Metropolitan’s then outstanding 2008 Authorization Series C
Bonds, (ii) $220,355,000 principal amount of Metropolitan’s then outstanding 2008 Authorization Series D Bonds, and (iii) $11,605,000 principal amount of Metropolitan’s then outstanding Water Revenue Refunding Bonds, 2014 Series G-4. Upon the issuance of the 2019A Subordinate Bonds, the Senior Bonds refunded thereby will be defeased and will no longer be outstanding for purposes of the Senior Debt Resolution. All of such Senior Bonds refunded by the 2019A Subordinate Bonds will be paid or redeemed on July 1, 2019.

As of June 27, 2019, following the issuance of the 2019A Senior Bonds and the 2019A Subordinate Bonds (assuming such 2019A Subordinate Bonds are delivered) and the refunding of the Senior Bonds refunded thereby, Metropolitan will have outstanding $2.67 billion principal amount of Senior Bonds and $1.27 billion principal amount of Subordinate Bonds (including the 2017 Index Tender Bonds).

See also “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings” for a discussion of other potential additional Senior Debt and Subordinate Obligations that Metropolitan expects to issue or incur.

Incorporation by Reference of 2019 Official Statement

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated May 29, 2019, relating to its Water Revenue Refunding Bonds, 2019 Series A (the “2019 Official Statement”), which includes the following:

1. APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” (referred to herein as “Referenced Appendix A”);

2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS’ REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017 (UNAUDITED)” (referred to herein as “Referenced Appendix B”); and

3. APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA” (referred to herein as “Referenced Appendix E”).

Metropolitan includes by this specific reference into this Remarketing Statement the Referenced Appendix A, the Referenced Appendix B and the Referenced Appendix E. The 2019 Official Statement is on file with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access system (the “EMMA System”) and can be accessed at http://emma.msrb.org/.

Miscellaneous; Summaries Not Definitive

This Introduction is not a summary of this Remarketing Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Remarketing Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Remarketing Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “State”), including the Act, the Senior Debt Resolution, theSubordinate Resolutions, the Paying Agent Agreements and all resolutions, documents, statutes, reports and other materials referred to herein do not purport to be complete, comprehensive or definitive and each such summary or reference is qualified in its entirety by reference to the complete provisions thereof. Capitalized terms used herein and not
otherwise defined will have the meanings ascribed thereto in the Subordinate Resolutions. A summary of certain provisions of the Subordinate Resolutions and a list of selected defined terms are set forth in APPENDIX I–“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.”

REMARKETING OF THE 2017 INDEX TENDER BONDS

General

Metropolitan is remarketing all of the 2017 Index Tender Bonds in connection with an Index Mode Unscheduled Mandatory Tender of each of such Series of 2017 Index Tender Bonds pursuant to which Metropolitan will require all of the existing Owners of the 2017C Bonds, 2017D Bonds and 2017E Bonds to tender their respective 2017 Index Tender Bonds for purchase on July 3, 2019. Metropolitan intends to pay the Purchase Price of each Series of 2017 Index Tender Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of the respective Series of 2017 Index Tender Bonds.

The Remarketing with respect to each Series will only occur if Metropolitan purchases all of such Series of 2017 Index Tender Bonds on July 3, 2019 pursuant to the Index Mode Unscheduled Mandatory Tender. Under the terms of each Paying Agent Agreement, Metropolitan may rescind an Index Mode Unscheduled Mandatory Tender. In addition, the Index Mode Unscheduled Mandatory Tender of each Series of 2017 Index Tender Bonds is conditioned on amounts sufficient to pay the Purchase Price of such Series of 2017 Index Tender Bonds tendered for purchase being on deposit with the Paying Agent on the Mandatory Purchase Date. The remarketing of each Series of the 2017 Index Tender Bonds is not contingent upon the remarketing of the other Series of the 2017 Index Tender Bonds.

For a more detailed description of Index Mode Unscheduled Mandatory Tenders and the process for the remarketing of the 2017 Index Tender Bonds during the Index Mode, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Tender and Purchase of 2017 Index Tender Bonds – Index Mode Unscheduled Mandatory Tender” and “– Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode – Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.

This Remarketing Statement only describes the 2017C Bonds, 2017D Bonds and 2017E Bonds while bearing interest in the Index Mode. There are significant differences in the terms of the 2017C Bonds, 2017D Bonds and 2017E Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to the 2017C Bonds, 2017D Bonds or 2017E Bonds bearing interest in an Interest Mode other than the Index Mode. Owners and prospective purchasers of the 2017 Index Tender Bonds should not rely on this Remarketing Statement for information in connection with any change of such 2017 Index Tender Bonds to a different Interest Mode.

2017 Index Tender Bonds in Index Mode

Following the Remarketing, the 2017 Index Tender Bonds will bear interest in the Index Mode. Accordingly, each Series of 2017 Index Tender Bonds will be subject to all of the terms and provisions of the applicable Paying Agent Agreement governing such Series in the Index Mode. This includes provisions of each Paying Agent Agreement that (a) require the Owners of the related Series of 2017 Index Tender Bonds to tender their 2017 Index Tender Bonds of such Series for purchase on the Scheduled Mandatory Tender Date for the New Tender Period (defined below), on any Mandatory Purchase Date from and after the Call Protection Date for the New Tender Period for such Series and on other dates described in this Remarketing Statement and (b) permit Metropolitan to redeem or change the
Interest Mode with respect to the 2017 Index Tender Bonds of such Series from and after the Call Protection Date for the New Tender Period.

Establishment of a New Tender Period

Upon the Remarketing, the existing Tender Period for each Series of 2017 Index Tender Bonds will terminate and a new Tender Period for each Series will commence (such new Tender Period for each Series is referred to herein as the “New Tender Period” for such Series). For a more detailed description of Tender Periods, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Interest Rate Provisions – Tender Periods.”

Determination and Notification of Index Spread

The applicable Remarketing Agent for each Series of 2017 Index Tender Bonds will determine the Index Spread for that Series for the New Tender Period on or about July 2, 2019. Each Remarketing Agent must determine an Index Spread for the respective Series that will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to such Series and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by such Series, would enable such Remarketing Agent to sell all of such Series of 2017 Index Tender Bonds on July 3, 2019, at a Purchase Price equal to the principal amount thereof. Promptly after the applicable Remarketing Agent for the respective Series of the 2017 Index Tender Bonds determines the Index Spread for each Series, Metropolitan will publish them by supplementing this Remarketing Statement and posting the supplement on the EMMA System.

Interest Rate During the New Tender Period

During the New Tender Period, each Series of 2017 Index Tender Bonds will bear interest at the Index Tender Rate. The Index Tender Rate for the New Tender Period for a Series will be the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread that the Remarketing Agent for such Series determines on or about July 2, 2019.

During the New Tender Period, Metropolitan will pay interest on each Series of 2017 Index Tender Bonds on (a) the first Business Day of each calendar month, commencing August 1, 2019, (b) each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series and (c) each Scheduled Mandatory Tender Date for such Series.

For a description of the terms relating to interest on the 2017 Index Tender Bonds, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Interest Rate Provisions.” For a description of the process by which the applicable Remarketing Agent will determine the Index Spread for the New Tender Period for the Series of 2017 Index Tender Bonds for which it is serving as remarketing agent, see “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode – Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender – Determination of Index Spread.”

Scheduled Mandatory Tender Date

The Scheduled Mandatory Tender Date for the New Tender Period for each Series of 2017 Index Tender Bonds will be July 31, 2020, and for each subsequent Tender Period, will be the date that Metropolitan determines pursuant to the provisions of the applicable Paying Agent Agreement. See

Call Protection Date

The Call Protection Date for the New Tender Period for each Series of 2017 Index Tender Bonds will be May 2, 2020. For any subsequent Tender Period, the Call Protection Date with respect to each Series of 2017 Index Tender Bonds will be the applicable Standard Call Protection Date unless Metropolitan determines a different date. See “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”

Notification Following Remarketing

Within two Business Days after the Remarketing, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to the Owners of each Series of 2017 Index Tender Bonds at their respective addresses appearing on the registration books and one or more Information Services (currently, the EMMA System), which will state: (a) that the immediately preceding Tender Period for such Series has terminated; (b) that the New Tender Period for such Series has commenced; (c) the day on which the Scheduled Mandatory Tender Date for such Series will occur with respect to the New Tender Period; (d) the day on which the Call Protection Date for such Series will occur with respect to the New Tender Period; and (e) the Index Spread that the Remarketing Agent for such Series determined. Absent manifest error, upon delivery of such notice, the Tender Period for each Series in effect immediately preceding the Remarketing will be deemed to have terminated and the New Tender Period will be deemed to have commenced.

DESCRIPTION OF THE 2017 INDEX TENDER BONDS

General

The 2017 Index Tender Bonds were originally issued and are currently outstanding in the respective amounts set forth in the “SUMMARY OF CERTAIN TERMS OF THE REMARKETED BONDS” on the inside cover page of this Remarketing Statement. The 2017 Index Tender Bonds of each Series are dated their date of original delivery, July 3, 2017, and will mature on the respective dates set forth in the “SUMMARY OF CERTAIN TERMS OF THE REMARKETED BONDS” on the inside cover page of this Remarketing Statement. Metropolitan issued the 2017 Index Tender Bonds as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC acts as securities depository for the 2017 Index Tender Bonds. See “– Book-Entry Only System” below. Beneficial interests in the 2017 Index Tender Bonds of a Series may be purchased in the Remarketing of such Series in authorized denominations of $100,000 or any integral multiple of $5,000 in excess thereof.

The 2017 Index Tender Bonds of each Series will bear interest in the Index Mode until such time as Metropolitan designates a new Interest Mode for such Series or converts the interest payable with respect to the 2017 Index Tender Bonds of such Series to a Fixed Interest Rate. See “– Change to a Different Interest Mode or Conversion to Fixed Interest Rate” below. In the Index Mode, the 2017 Index Tender Bonds of a Series will bear interest at a floating interest rate as more fully described herein (see “– Interest Rate Provisions” below); provided that the interest rate on the 2017 Index Tender Bonds of a Series will not exceed the Maximum Interest Rate of 12% per annum (or such lesser interest rate as may be allowed by federal law and the laws of the State of California). Interest on the 2017 Index Tender Bonds is payable on each Index Mode Interest Payment Date (as defined under “– Interest Rate Provisions” below) by the Paying Agent to the registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the 2017 Index Tender Bonds while bearing interest
at an Index Tender Rate, the Business Day immediately preceding each Index Mode Interest Payment Date. Interest on the 2017 Index Tender Bonds will be calculated on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed.

If under the applicable Paying Agent Agreement the Paying Agent is required by Metropolitan to deliver any notice to the Owners of a Series of 2017 Index Tender Bonds, then, within two Business Days after the delivery of such notice, the Paying Agent will deliver such notice by first-class United States mail, postage prepaid, to any Beneficial Owner of such Series that delivered its postal address to the Paying Agent no less than 30 days before the date that the Paying Agent delivers such notice to the Owners of the affected Series of 2017 Index Tender Bonds.

Book-Entry Only System

The 2017 Index Tender Bonds of each Series will be available to Beneficial Owners (as defined in APPENDIX 3–“BOOK–ENTRY ONLY SYSTEM”) in the Remarketing only under the book-entry system maintained by DTC. Beneficial Owners of 2017 Index Tender Bonds will not receive physical certificates representing their interests in the 2017 Index Tender Bonds. So long as the 2017 Index Tender Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners will mean Cede & Co., and will not mean the ultimate purchasers of the 2017 Index Tender Bonds. Metropolitan will pay principal and Purchase Price of and interest on the 2017 Index Tender Bonds directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2017 Index Tender Bonds. Disbursements of such payments to DTC’s Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC’s Direct Participants and Indirect Participants (“Participants”). See APPENDIX 3–“BOOK–ENTRY ONLY SYSTEM.”

Metropolitan and the Fiscal Agent will have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2017 Index Tender Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2017 Index Tender Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal or Purchase Price of or interest on, the 2017 Index Tender Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) if applicable, the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2017 Index Tender Bonds of a Series are redeemed in part. See APPENDIX 3–“BOOK–ENTRY ONLY SYSTEM.”

Interest Rate Provisions

Interest Payment Dates. Interest on each Series of the 2017 Index Tender Bonds in the Index Mode during the New Tender Period will be payable (a) monthly on the first Business Day of each calendar month, commencing August 1, 2019, (b) on each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series, and (c) on each Scheduled Mandatory Tender Date for such Series (each, an “Index Mode Interest Payment Date”).

Index Tender Rate. While the 2017 Index Tender Bonds of a Series bear interest at an Index Tender Rate, during any Index Rate Accrual Period, the 2017 Index Tender Bonds of such Series will bear a per annum rate of interest equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread applicable for the related Tender Period for such Series. The applicable Remarketing Agent for each Series of 2017 Index Tender Bonds will determine the Index Spread for that Series for the New Tender Period on or about July 2, 2019. For future Tender Periods, the Index Spread for the 2017 Index Tender Bonds of a Series will be determined by the applicable Remarketing Agent as described below.
**Determination of SIFMA Average Index Rate and Index Tender Rate.** During any Tender Period for a Series of 2017 Index Tender Bonds, no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Index Mode Interest Payment Date for such Series, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the applicable Remarketing Agent specifying the SIFMA Average Index Rate and the Index Tender Rate for, and the aggregate amount of interest that accrued during, the Index Rate Accrual Period ending on such Business Day for such Series, together with a detailed calculation of the foregoing. Determination by the Fiscal Agent of the SIFMA Average Index Rate and the Index Tender Rate will be, absent manifest error, conclusive and binding on the Owners of the 2017 Index Tender Bonds of such Series and Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

The following terms used in this Remarketing Statement relating to the Index Mode are defined in each of the Paying Agent Agreements as follows:

“SIFMA Average Index Rate” means, during each Index Rate Accrual Period, the per annum rate equal to the average of SIFMA in effect for each day in such Index Rate Accrual Period.

“SIFMA” means, as of any date, the per annum rate published or reported by Bloomberg for the SIFMA Municipal Swap Index, or if the SIFMA Municipal Swap Index is no longer published or reported, the most recently available per annum rate published or reported by Standard & Poors’s Securities Evaluations Inc. for the “S&P Municipal Bond 7 Day High Grade” index, or if neither the SIFMA Municipal Swap Index nor the S&P Municipal Bond 7 Day High Grade index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one month deposits in U.S. Dollars.

“Index Rate Accrual Period” means, the period from each Interest Accrual Date to and including (a) the day next preceding the next Index Mode Interest Payment Date for such 2017 Index Tender Bonds and (b) the day next preceding any redemption date, as applicable. In connection with the Remarketing of the 2017 Index Tender Bonds, an Index Rate Accrual Period for each Series of the 2017 Index Tender Bonds will begin on the date of the date of the Remarketing for each such Series.

“Interest Accrual Date” means with respect to any period during which the 2017 Index Tender Bonds of a Series bear interest at an Index Tender Rate, the first day of each Tender Period for such Series and, thereafter, each Index Mode Interest Payment Date during that Tender Period.

**Tender Periods.** The duration of each Tender Period for a Series of 2017 Index Tender Bonds is determined as described below. At the beginning of each Tender Period, the applicable Remarketing Agent will determine the Index Spread with respect to all 2017 Index Tender Bonds of such Series. No Tender Period for a Series of 2017 Index Tender Bonds will last beyond the Scheduled Mandatory Tender Date on which the Owners of all of the 2017 Index Tender Bonds of such Series must tender for purchase, and Metropolitan must purchase, all of the 2017 Index Tender Bonds of such Series.

**Commencement of Tender Periods.** The New Tender Period for the 2017 Index Tender Bonds of each Series will commence on July 3, 2019. Thereafter, each Tender Period for a Series of 2017 Index Tender Bonds will commence on the first to occur of (a) the applicable Scheduled Mandatory Tender Date of the immediately preceding Tender Period for such Series of 2017 Index Tender Bonds or (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender of such Series of 2017 Index Tender Bonds if all 2017 Index Tender Bonds of such Series are actually purchased.
Termination of Tender Periods. Each Tender Period for a Series of 2017 Index Tender Bonds will terminate on the first to occur of (a) the applicable Scheduled Mandatory Tender Date, (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender if all 2017 Index Tender Bonds of such Series are actually purchased, (c) the first date on which the 2017 Index Tender Bonds of such Series bear interest in an Interest Mode other than the Index Mode, (d) a Fixed Rate Date for such Series, and (e) the date on which all 2017 Index Tender Bonds of such Series are redeemed in accordance with the terms of the applicable Paying Agent Agreement and the Master Subordinate Resolution or all principal and accrued interest on all 2017 Index Tender Bonds of such Series are otherwise paid in full.

Change to a Different Interest Mode or Conversion to Fixed Interest Rate

Change of Interest Mode or Conversion to Fixed Interest Rate. At Metropolitan’s discretion, each Series of the 2017C Bonds, 2017D Bonds and/or 2017E Bonds may bear interest from time to time at (a) an Index Tender Rate, (b) a Daily Rate, (c) a Weekly Rate, (d) Bond Interest Term Rates, (e) a Long Rate or (f) a Fixed Interest Rate, as such terms are defined and as more fully described in the related Paying Agent Agreement. However, all of the respective 2017C Bonds, 2017D Bonds or 2017E Bonds of a Series will bear interest in the same Interest Mode or at a Fixed Interest Rate.

Notice of Different Interest Mode or Conversion to Fixed Interest Rate. The Paying Agent will give notice, together with the notice of mandatory tender for purchase, by first-class United States mail, postage prepaid, or telecopy, facsimile transmission, e-mail or other electronic means of communication, or as to DTC only, electronic means accepted by DTC (“Mail”), of a change of the 2017 Index Tender Bonds of a Series to a different Interest Mode or the conversion of the 2017 Index Tender Bonds of a Series to a Fixed Interest Rate to the Owners of the 2017 Index Tender Bonds of the affected Series not less than seven days prior to the effective date of such different Interest Mode or applicable Fixed Rate Date. Such notice will state, among other matters, (i) that the interest rate on the 2017 Index Tender Bonds will be changed to a different Interest Mode or will be converted to a Fixed Interest Rate, (ii) the effective date of the new Interest Mode or Fixed Rate Date, (iii) in connection with a change in Interest Mode to the Daily Mode, the name of the Liquidity Provider, and in connection with a change in Interest Mode to the Weekly Mode, Short-Term Mode or Long Mode, whether Metropolitan has elected to maintain a Liquidity Facility in connection with such new Interest Mode, and (iv) if applicable, that the 2017 Index Tender Bonds are subject to mandatory tender for purchase on such effective date of the new Interest Mode or Fixed Rate Date, and the applicable Purchase Price. See “– Tender and Purchase of 2017 Index Tender Bonds – Mandatory Tender for Purchase Upon Change of Interest Mode” and “– Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate” below.

Change of Interest Mode or Conversion to Fixed Interest Rate from an Index Mode. During any Tender Period while 2017 Index Tender Bonds of a Series bear interest in the Index Mode, Metropolitan may change the Interest Mode for such Series of 2017 Index Tender Bonds and may convert the interest payable with respect to such Series of 2017 Index Tender Bonds to a Fixed Interest Rate only from and after the applicable Call Protection Date of such Tender Period for such Series.

Tender and Purchase of 2017 Index Tender Bonds

Index Mode Scheduled Mandatory Tender. The Owners of all of the 2017 Index Tender Bonds of a Series must tender for purchase, and Metropolitan must purchase, all of the 2017 Index Tender Bonds of such Series on the Scheduled Mandatory Tender Date of each Tender Period for such Series of 2017 Index Tender Bonds. The Scheduled Mandatory Tender Date for the New Tender Period for each Series of 2017 Index Tender Bonds will be July 31, 2020.
Metropolitan’s obligation to pay the Purchase Price of any 2017 Index Tender Bonds tendered for purchase on any Scheduled Mandatory Tender Date therefor is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and shall constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Failure to pay the Purchase Price of any tendered 2017 Index Tender Bonds on a Scheduled Mandatory Tender Date for such 2017 Index Tender Bonds for a period of five Business Days following written notice by any Owner of such 2017 Index Tender Bonds constitutes an Event of Default under the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.”

**Index Mode Unscheduled Mandatory Tender.**

**Metropolitan’s Right to Require Index Mode Unscheduled Mandatory Tender.** While the 2017 Index Tender Bonds of a Series bear interest in an Index Mode, at its option, Metropolitan may require, during each Tender Period for such Series of 2017 Index Tender Bonds, the Owners of all (but not less than all) of the 2017 Index Tender Bonds of such Series to tender the 2017 Index Tender Bonds of such Series to Metropolitan for purchase, on any Business Day from and after the Call Protection Date of the applicable Tender Period. A mandatory tender as described in the immediately preceding sentence is referred to herein as an “Index Mode Unscheduled Mandatory Tender.” The Call Protection Date for the 2017 Index Tender Bonds of each Series for the New Tender Period will be May 2, 2020. Metropolitan will exercise its option by delivering written notice of an Index Mode Unscheduled Mandatory Tender for a Series of 2017 Index Tender Bonds to the Paying Agent at its Corporate Trust Office and to the applicable Remarketing Agent no later than seven days before the Mandatory Purchase Date. The Paying Agent will pay to the Owners of the 2017 Index Tender Bonds of the affected Series in connection with an Index Mode Unscheduled Mandatory Tender the Purchase Price, which is equal to the principal amount of the 2017 Index Tender Bonds of such Series, on the related Mandatory Purchase Date from the sources of funds described herein, unless Metropolitan elects to rescind such Index Mode Unscheduled Mandatory Tender or any of the conditions of such Index Mode Unscheduled Mandatory Tender is not satisfied.

**Rescission.** Metropolitan will have the right to deliver to the Paying Agent at its Corporate Trust Office and the applicable Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Mandatory Purchase Date for a Series of 2017 Index Tender Bonds, a notice to the effect that Metropolitan elects to rescind any Index Mode Unscheduled Mandatory Tender. If Metropolitan rescinds any Index Mode Unscheduled Mandatory Tender, then no purchase will occur, the 2017 Index Tender Bonds of the applicable Series will continue to bear interest at the Index Tender Rate in effect during such Tender Period, without change or modification, and the Tender Period then in effect will continue until terminated.

**Failure to Meet Conditions.** Any Index Mode Unscheduled Mandatory Tender for a Series of 2017 Index Tender Bonds will be conditioned upon amounts sufficient to pay the Purchase Price for such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. Funds for the payment of the Purchase Price of such mandatory tender will be derived from the sources described below under the caption “– Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode – Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.” If amounts sufficient to pay the Purchase Price of the 2017 Index Tender Bonds of a Series subject to tender in connection with an Index Mode Unscheduled Mandatory Tender are not on deposit with the Paying Agent on the Mandatory Purchase Date, or if Metropolitan fails to deliver a Favorable Opinion of Bond Counsel in connection with any change in the Call Protection Date, then no purchase will occur and the 2017 Index Tender Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during such Tender Period, without change or modification, and the Tender Period then in effect will continue until terminated.
Failure by Metropolitan to pay or cause to be paid the Purchase Price of all of the 2017 Index Tender Bonds of a Series pursuant to an Index Mode Unscheduled Mandatory Tender, for any reason, will not constitute default by Metropolitan under the applicable Paying Agent Agreement or an Event of Default by Metropolitan under the Master Subordinate Resolution or under any other provision of the Subordinate Resolutions. No such failure will affect Metropolitan’s right to require the Owners of the 2017 Index Tender Bonds of such Series to tender their 2017 Index Tender Bonds of such Series during any Tender Period and during any subsequent Tender Period.

**Mandatory Tender for Purchase Upon Change of Interest Mode.** The 2017 Index Tender Bonds of a Series will be subject to mandatory tender for purchase on the effective date of a change in the Interest Mode of that Series, at the Purchase Price, payable in immediately available funds. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any change for a Series of 2017 Index Tender Bonds from an Index Mode to a different Interest Mode will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2017 Index Tender Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

**Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate.** The 2017 Index Tender Bonds of a Series will be subject to mandatory tender for purchase on the Fixed Rate Date for that Series at the Purchase Price, payable in immediately available funds. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any conversion of a Series of 2017 Index Tender Bonds to a Fixed Interest Rate will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2017 Index Tender Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

**Notice of Index Mode Scheduled Mandatory Tender.** The Paying Agent will give notice by Mail of each Index Mode Scheduled Mandatory Tender to the Owners of the affected Series of 2017 Index Tender Bonds not less than 30 days prior to the Scheduled Mandatory Tender Date. Such notice will state: (A) the date of such notice; (B) the distinguishing designation of the 2017 Index Tender Bonds of such Series; (C) the date of issue of the 2017 Index Tender Bonds; (D) the Scheduled Mandatory Tender Date; and (E) the CUSIP number of the 2017 Index Tender Bonds of such Series. Each such notice will also state that the Owners of all of the 2017 Index Tender Bonds of the affected Series are required to tender, and Metropolitan is required to purchase, all of the 2017 Index Tender Bonds of such Series on the Scheduled Mandatory Tender Date of that Tender Period. All 2017 Index Tender Bonds of such Series will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

**Notice of Index Mode Unscheduled Mandatory Tender.** The Paying Agent will give notice of any Index Mode Unscheduled Mandatory Tender by Mail to the Owners of the 2017 Index Tender Bonds of the affected Series not less than seven days prior to the date on which such 2017 Index Tender Bonds will be purchased. Such notice will state: (A) the Mandatory Purchase Date; (B) that the Purchase Price of any 2017 Index Tender Bond of such Series will be payable only upon surrender of such 2017 Index Tender Bond to the Paying Agent at its Corporate Trust Office for delivery of 2017 Index Tender Bonds, accompanied, when such Series of 2017 Index Tender Bonds is not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner.
thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series of 2017 Index Tender Bonds by the applicable Remarketing Agent or from Metropolitan, all 2017 Index Tender Bonds of such Series so subject to Index Mode Unscheduled Mandatory Tender will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2017 Index Tender Bond of such Series subject to Index Mode Unscheduled Mandatory Tender does not surrender such 2017 Index Tender Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2017 Index Tender Bond will be deemed to be an “Undelivered Bond,” and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Subordinate Resolutions, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of the 2017 Index Tender Bonds of such Series have not been provided to the Paying Agent either through the remarketing of the 2017 Index Tender Bonds of such Series or from Metropolitan, that the 2017 Index Tender Bonds of such Series will not be purchased or deemed purchased and will continue to bear interest as if no such Index Mode Unscheduled Mandatory Tender notice had been given; and (E) that the Index Mode Unscheduled Mandatory Tender is subject to rescission by Metropolitan, is subject to the condition that amounts sufficient to pay the Purchase Price of such Index Mode Unscheduled Mandatory Tender are on deposit with the Paying Agent on the Mandatory Purchase Date and, if applicable, is subject to the condition that Metropolitan delivers a Favorable Opinion of Bond Counsel in connection with a change of the Call Protection Date. All 2017 Index Tender Bonds of a Series subject to Index Mode Unscheduled Mandatory Tender will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

If Metropolitan delivers a notice of an Index Mode Unscheduled Mandatory Tender and such Index Mode Unscheduled Mandatory Tender does not occur, then the Paying Agent will give notice by Mail to the Owners of the affected Series of 2017 Index Tender Bonds, as soon as practicable, which states that such Index Mode Unscheduled Mandatory Tender for purchase has not occurred.

Notice of Mandatory Tender for Purchase upon Change in Interest Mode. In connection with any mandatory tender for purchase of 2017 Index Tender Bonds of a Series upon a change in the Interest Mode for the 2017 Index Tender Bonds of such Series, the Paying Agent will give notice of a mandatory tender for purchase by Mail not less than seven days prior to the date on which the 2017 Index Tender Bonds of such Series will be subject to such mandatory tender. Such notice will state: (A) the type of Interest Rate Period to commence for the affected Series of 2017 Index Tender Bonds on such Mandatory Purchase Date; (B) that the Purchase Price of any 2017 Index Tender Bond of such Series so subject to mandatory tender for purchase will be payable only upon surrender of such 2017 Index Tender Bond to the Paying Agent at its Corporate Trust Office for delivery of 2017 Index Tender Bonds, accompanied, when such Series of 2017 Index Tender Bonds is not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of the 2017 Index Tender Bonds of such Series by the applicable Remarketing Agent or from Metropolitan, all 2017 Index Tender Bonds of such Series so subject to mandatory tender for purchase will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2017 Index Tender Bond of such Series so subject to mandatory tender for purchase does not surrender such 2017 Index Tender Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2017 Index Tender Bond will be deemed to be an “Undelivered Bond,” and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Subordinate Resolutions, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of the 2017 Index Tender Bonds of such Series have not been
provided to the Paying Agent either through the remarketing of the 2017 Index Tender Bonds of such Series or from other moneys received from Metropolitan, that such 2017 Index Tender Bonds of such Series will not be purchased or deemed purchased and will continue to bear interest as if such failed purchase had not occurred; and (E) if applicable, that the mandatory tender for purchase is subject to the condition that amounts sufficient to pay the Purchase Price of such mandatory tender for purchase are on deposit with the Paying Agent on the Mandatory Purchase Date.

**Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate.** In connection with any mandatory tender for purchase of 2017 Index Tender Bonds of a Series upon a conversion of such Series to a Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, the applicable Remarketing Agent and the Owners not less than seven days prior to the Fixed Rate Date. Such notice will state: (A) that the interest rate with respect to the 2017 Index Tender Bonds of such Series so subject to mandatory tender for purchase will be converted to the Fixed Interest Rate, (B) the Fixed Rate Date, (C) the date the Fixed Interest Rate is to be established, (D) that interest on the 2017 Index Tender Bonds of such Series will be payable on each January 1 and July 1 after the Fixed Rate Date, (E) that subsequent to the Fixed Rate Date, the Owners will no longer have the right to deliver the 2017 Index Tender Bonds of such Series to the Paying Agent for purchase, (F) that all Outstanding 2017 Index Tender Bonds of such Series will be purchased on the Fixed Rate Date, and (G) that on and after the Fixed Rate Date, the Owners of the 2017 Index Tender Bonds of such Series immediately preceding the Fixed Rate Date will be deemed to have tendered their 2017 Index Tender Bonds of such Series as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, said Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for the 2017 Index Tender Bonds of such Series which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, the 2017 Index Tender Bonds of such Series will no longer otherwise be entitled to the benefits of the applicable Paying Agent Agreement.

**Delivery of 2017 Index Tender Bonds and Payment of the Purchase Price of 2017 Index Tender Bonds Subject to Mandatory Tender for Purchase.**

**Payment of Purchase Price Upon Delivery of 2017 Index Tender Bonds.** For payment of the Purchase Price of any 2017 Index Tender Bond of a Series on a Scheduled Mandatory Tender Date or subject to an Index Mode Unscheduled Mandatory Tender, or of any 2017 Index Tender Bond of a Series subject to mandatory tender for purchase upon a change in the Interest Mode or upon conversion to a Fixed Interest Rate, on the specified Mandatory Purchase Date for such Series of 2017 Index Tender Bonds, such 2017 Index Tender Bond must be delivered, at or prior to 12:00 noon (New York City time), on the Mandatory Purchase Date, to the Paying Agent at its Corporate Trust Office for delivery of the 2017 Index Tender Bonds accompanied, when such Series of 2017 Index Tender Bonds is not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or his or her duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. In the event any such 2017 Index Tender Bond of a Series is delivered after 12:00 noon (New York City time) on the Mandatory Purchase Date for such 2017 Index Tender Bonds of such Series, payment of the Purchase Price of such 2017 Index Tender Bond need not be made until the Business Day following the date of delivery of such 2017 Index Tender Bond but such 2017 Index Tender Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

**Delivery of 2017 Index Tender Bonds.** If moneys sufficient to effect a purchase of a Series of 2017 Index Tender Bonds on a Scheduled Mandatory Tender Date or pursuant to an Index Mode Unscheduled Mandatory Tender, or upon a change in the Interest Mode or upon a conversion to a Fixed Interest Rate, have been provided through the remarketing of the 2017 Index Tender Bonds of such Series by the applicable Remarketing Agent or otherwise, all 2017 Index Tender Bonds of such Series will,
subject to satisfaction of any other conditions applicable thereto, be purchased on the Mandatory Purchase Date. If any Owner of a 2017 Index Tender Bond of such Series does not deliver such 2017 Index Tender Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2017 Index Tender Bond will be deemed to be an “Undelivered Bond,” and no interest will accrue thereon from and after such Mandatory Purchase Date and the Owner thereof will have no rights under the Subordinate Resolutions other than to receive payment of the Purchase Price thereof calculated as of such Mandatory Purchase Date.

If funds in the amount of the Purchase Price of the Undelivered Bonds (including any Undelivered Bonds in connection with an Index Mode Unscheduled Mandatory Tender) are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery, (1) each Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the applicable Paying Agent Agreement; (2) interest will no longer accrue thereon; and (3) funds in the amount of the Purchase Price of each such Undelivered Bond will be held by the Paying Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Paying Agent at its Corporate Trust Office for delivery of 2017 Index Tender Bonds.

Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode

Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Scheduled Mandatory Tender.

Remarketing of 2017 Index Tender Bonds. Commencing 30 days before the Scheduled Mandatory Tender Date of each Tender Period for a Series of 2017 Index Tender Bonds, the applicable Remarketing Agent will offer for sale and use its best efforts to sell all of the 2017 Index Tender Bonds of such Series in accordance with the applicable Remarketing Agreement on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount of the 2017 Index Tender Bonds of such Series, such that the Index Spread for the next Tender Period for the 2017 Index Tender Bonds of such Series will be adjusted (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See “Determination of Index Spread” below.

Determination of the Following Scheduled Mandatory Tender Date. Metropolitan, by written direction to the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent by telephone, telecopy, or telex confirmed by written notice not later than 30 days before a Scheduled Mandatory Tender Date of a Tender Period for a Series of 2017 Index Tender Bonds, will determine the Scheduled Mandatory Tender Date for the Tender Period for such Series of 2017 Index Tender Bonds immediately following the purchase of the 2017 Index Tender Bonds of such Series in connection with an Index Mode Scheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date for a Series of 2017 Index Tender Bonds to be any Business Day during the next Tender Period for such Series except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three months after the commencement of the Tender Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period for such Series of 2017 Index Tender Bonds immediately following the purchase of such Series of 2017 Index Tender Bonds pursuant to an Index Mode Scheduled Mandatory Tender will be the date that is one year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Tender Period commencing on a Scheduled Mandatory Tender Date in connection with an Index Mode Scheduled Mandatory Tender for a
Series of 2017 Index Tender Bonds, the Call Protection Date will be the Standard Call Protection Date. The Standard Call Protection Date will be the date that is 90 days before the Scheduled Mandatory Tender Date.

**Determination of Index Spread.** No later than the date that is 25 days (or, if such date is not a Business Day, the Business Day immediately succeeding such date) before each Scheduled Mandatory Tender Date for a Series of 2017 Index Tender Bonds, the applicable Remarketing Agent for the 2017 Index Tender Bonds of such Series will determine the Index Spread for such Series of 2017 Index Tender Bonds with respect to the Tender Period immediately following such Scheduled Mandatory Tender Date. The applicable Remarketing Agent will determine the Index Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the applicable Remarketing Agent, to the 2017 Index Tender Bonds of such Series and known by the applicable Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2017 Index Tender Bonds of such Series, would enable the applicable Remarketing Agent to sell all the 2017 Index Tender Bonds of such Series on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount thereof. This determination by the applicable Remarketing Agent of the Index Spread will be conclusive and binding on the Owners of the 2017 Index Tender Bonds of such Series, Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

**Purchase of 2017 Index Tender Bonds.** The 2017 Index Tender Bonds of a Series to be purchased in connection with an Index Mode Scheduled Mandatory Tender will be purchased from the Owners thereof, on the Scheduled Mandatory Tender Date at the Purchase Price from the following sources in the order of priority indicated:

(i) proceeds of the sale of the 2017 Index Tender Bonds of such Series remarketed to any person and furnished to the Paying Agent by the applicable Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and

(ii) moneys furnished by or on behalf of Metropolitan to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund.

The applicable Remarketing Agent will offer for sale and use its best efforts to sell any 2017 Index Tender Bonds of a Series purchased by or on behalf of Metropolitan pursuant to an Index Mode Scheduled Mandatory Tender. The applicable Remarketing Agent will offer for sale all of the 2017 Index Tender Bonds of a Series to be purchased in connection with an Index Mode Scheduled Mandatory Tender and all of the 2017 Index Tender Bonds of such Series purchased by or on behalf of Metropolitan (other than 2017 Index Tender Bonds of such Series purchased by the applicable Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on such Series of 2017 Index Tender Bonds; *provided, however*, that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the applicable Remarketing Agent to sell all 2017 Index Tender Bonds of such Series subject to an Index Mode Scheduled Mandatory Tender or all of the 2017 Index Tender Bonds of such Series purchased by or on behalf of Metropolitan at a discount or at a premium.

**Obligation to Pay Purchase Price Constitutes a First Tier Parity Obligation.** Metropolitan is irrevocably committed to pay the Purchase Price of all 2017 Index Tender Bonds of a Series on the Scheduled Mandatory Tender Date for that Series. Metropolitan’s obligation to pay the Purchase Price of any 2017 Index Tender Bonds in connection with an Index Mode Scheduled Mandatory Tender of a Series of 2017 Index Tender Bonds is a First Tier Parity Obligation. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.”
Effect of a Successful Remarketing. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of the 2017 Index Tender Bonds of a Series to be purchased on a Scheduled Mandatory Tender Date and all other conditions are satisfied, the following will occur:

(i) The Tender Period in effect immediately before such purchase will terminate on the Scheduled Mandatory Tender Date and a new Tender Period will commence for such Series of 2017 Index Tender Bonds on such date; and

(ii) The Index Spread with respect to the 2017 Index Tender Bonds of such Series for the new Tender Period will be the Index Spread determined by the applicable Remarketing Agent as described above under the caption “– Determination of Index Spread.”

Notification of New Tender Period. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of all 2017 Index Tender Bonds of a Series on a Scheduled Mandatory Tender Date for such Series of 2017 Index Tender Bonds and all other conditions are satisfied, then, within two Business Days after such Scheduled Mandatory Tender Date, the Paying Agent will deliver, by Mail, a notice to (i) Metropolitan, (ii) the respective Owners of the affected Series of 2017 Index Tender Bonds at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent and (v) one or more Information Services (currently, the EMMA System), which will state: (A) that the immediately preceding Tender Period for such Series of 2017 Index Tender Bonds has terminated, (B) that a new Tender Period for such Series has commenced, (C) the day on which the Scheduled Mandatory Tender Date for such Series of 2017 Index Tender Bonds will occur with respect to the new Tender Period, (D) the day on which the Call Protection Date will occur with respect to such Tender Period, and (E) the Index Spread for such Tender Period for such Series of 2017 Index Tender Bonds determined by the applicable Remarketing Agent as described above under the caption “– Determination of Index Spread.” Absent manifest error, upon delivery of such notice, the Tender Period in effect for such Series of 2017 Index Tender Bonds immediately preceding such Scheduled Mandatory Tender Date with respect to the 2017 Index Tender Bonds of such Series will be deemed to have terminated on such Scheduled Mandatory Tender Date of that Tender Period and a new Tender Period for such Series of 2017 Index Tender Bonds will be deemed to have commenced on such Scheduled Mandatory Tender Date.

Remarketing and Purchase of 2017 Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.

Remarketing of 2017 Index Tender Bonds. Upon receipt of notice by Metropolitan of an Index Mode Unscheduled Mandatory Tender for a Series of 2017 Index Tender Bonds, the applicable Remarketing Agent will offer for sale and use its best efforts to sell, in accordance with the applicable Remarketing Agreement, the 2017 Index Tender Bonds of such Series at a Purchase Price equal to the principal amount of the 2017 Index Tender Bonds of such Series, such that the Index Spread for the next Tender Period for such 2017 Index Tender Bonds of such Series will be determined (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See “– Determination of Index Spread” below.

Determination of the Scheduled Mandatory Tender Date. Metropolitan, by direction to the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender of a Series of 2017 Index Tender Bonds, will determine the Scheduled Mandatory Tender Date for the Tender Period for the 2017 Index Tender Bonds of such Series immediately following the purchase of the 2017 Index Tender Bonds of such Series in connection with such Index Mode Unscheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date for such Series of 2017 Index Tender Bonds to be any Business Day during the
next Tender Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three months after the commencement of the Tender Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of the 2017 Index Tender Bonds of such Series will be the date that is one year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Tender Period commencing on a date on which 2017 Index Tender Bonds of a Series are purchased in connection with an Index Mode Unscheduled Mandatory Tender for such Series of 2017 Index Tender Bonds, the Call Protection Date will be the Standard Call Protection Date. However, Metropolitan may, by direction to the Fiscal Agent, the applicable Remarketing Agent, and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender of such Series, determine the Call Protection Date for such Tender Period to be a date that is different than the Standard Call Protection Date. If Metropolitan delivers a written direction determining the Call Protection Date to be a date other than the Standard Call Protection Date, then, on the Mandatory Purchase Date on which such Tender Period will commence, the related Index Mode Unscheduled Mandatory Tender will be conditioned upon the delivery by Metropolitan on and as of such Mandatory Purchase Date of a Favorable Opinion of Bond Counsel with respect to the change in the Call Protection Date. If Metropolitan determines the Call Protection Date to be a date that is different than the Standard Call Protection Date with respect to any Tender Period for a Series of 2017 Index Tender Bonds, then that determination will not apply to any subsequent Tender Period for such Series of 2017 Index Tender Bonds unless Metropolitan delivers written direction with respect to such subsequent Tender Period.

Determination of Index Spread. No later than 5:00 p.m. (New York City time) one Business Day before the Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender of a Series of 2017 Index Tender Bonds, the applicable Remarketing Agent will determine the Index Spread with respect to the Tender Period for such Series of 2017 Index Tender Bonds immediately following such purchase date. The applicable Remarketing Agent will determine the Index Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the applicable Remarketing Agent, to the 2017 Index Tender Bonds of such Series and known by the applicable Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2017 Index Tender Bonds of such Series, would enable the applicable Remarketing Agent to sell all 2017 Index Tender Bonds of such Series on the Mandatory Purchase Date at a Purchase Price equal to the principal amount thereof. This determination by such applicable Remarketing Agent of the Index Spread with respect to 2017 Index Tender Bonds of such Series will be conclusive and binding on the Owners of the 2017 Index Tender Bonds of such Series, Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

Purchase of 2017 Index Tender Bonds. Metropolitan will cause the 2017 Index Tender Bonds of a Series required to be purchased in connection with an Index Mode Unscheduled Mandatory Tender of such Series of 2017 Index Tender Bonds to be purchased from the Owners thereof, on the applicable Mandatory Purchase Date at the Purchase Price from the following sources in the order of priority indicated:

(i) proceeds of the sale of the 2017 Index Tender Bonds of such Series remaranteed to any person and furnished to the Paying Agent by the applicable Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
(ii) moneys furnished by or at the direction of the Fiscal Agent to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund;

provided, however, that if Metropolitan rescinds any Index Mode Unscheduled Mandatory Tender of a Series of 2017 Index Tender Bonds, or if any of the conditions of any Index Mode Unscheduled Mandatory Tender of a Series of 2017 Index Tender Bonds is not satisfied, then Metropolitan will not have any obligation to purchase any 2017 Index Tender Bonds of such Series, no purchase will occur, the 2017 Index Tender Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during such Tender Period without change or modification and the Tender Period then in effect for such Series of 2017 Index Tender Bonds will continue until terminated.

The applicable Remarketing Agent will offer for sale and use its best efforts to sell any 2017 Index Tender Bonds of a Series purchased by or on behalf of Metropolitan pursuant to an Index Mode Unscheduled Mandatory Tender of such Series of 2017 Index Tender Bonds. The applicable Remarketing Agent will offer for sale all 2017 Index Tender Bonds of a Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender of such Series of 2017 Index Tender Bonds and all 2017 Index Tender Bonds of a Series purchased by or on behalf of Metropolitan (other than 2017 Index Tender Bonds of a Series purchased by the applicable Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on such Series of 2017 Index Tender Bonds; provided, however, that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the applicable Remarketing Agent to sell any 2017 Index Tender Bonds of a Series subject to an Index Mode Unscheduled Mandatory Tender of such Series of 2017 Index Tender Bonds or any 2017 Index Tender Bonds of such Series purchased by or on behalf of Metropolitan at a discount or at a premium.

Effect of a Successful Remarketing. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of the 2017 Index Tender Bonds of a Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender and all other conditions are satisfied, the following will occur:

(i) The Tender Period for such Series of 2017 Index Tender Bonds in effect immediately before such tender will terminate on such Mandatory Purchase Date and a new Tender Period for such Series will commence on such date; and

(ii) The Index Spread with respect to the 2017 Index Tender Bonds of such Series for the new Tender Period will be the Index Spread determined by the applicable Remarketing Agent as described above under the caption “Determination of Index Spread.”

Notification of New Tender Period. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of 2017 Index Tender Bonds of a Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender of such Series of 2017 Index Tender Bonds on the purchase date and all other conditions are satisfied, then within two Business Days after such purchase date, the Paying Agent will deliver a notice, by Mail, to (i) Metropolitan, (ii) the respective Owners of the affected Series of 2017 Index Tender Bonds at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services (currently, the EMMA System), which will state: (A) that the immediately preceding Tender Period for such Series of 2017 Index Tender Bonds has terminated, (B) that a new Tender Period for such Series of 2017 Index Tender Bonds has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Tender Period for such Series, (D) the day on which the Call Protection Date will occur with respect to any new Tender Period, and (E) the Index Spread determined by the applicable Remarketing Agent as described above under the caption “Determination of Index Spread.” Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding
such purchase date will be deemed to have terminated and a new Tender Period will be deemed to have commenced.

**Remarketing and Purchase of 2017 Index Tender Bonds in Connection with a Change in Interest Mode or Conversion to a Fixed Interest Rate.**

**Remarketing of 2017 Index Tender Bonds in new Interest Mode or on Fixed Rate Date.** Upon notice of the tender for purchase of a Series of 2017 Index Tender Bonds in connection with a change in Interest Mode or a conversion to a Fixed Interest Rate of such Series, the Remarketing Agent shall offer for sale and use its best efforts to sell, in accordance with the applicable Remarketing Agreement, the 2017 Index Tender Bonds of the affected Series at the minimum interest rate available in the marketplace at a Purchase Price of par plus accrued interest thereon; provided, however, that in connection with the conversion of a Series of 2017 Index Tender Bonds to a Fixed Interest Rate, if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan shall have the right to direct the applicable Remarketing Agent to remarket the 2017 Index Tender Bonds of the affected Series on the Fixed Rate Date at a discount or at a premium, including a premium sufficient to pay any remarketing fees, and to establish new Mandatory Sinking Account Payments (as defined in the Master Subordinate Resolution); provided, that in order to exercise such option, Metropolitan must deposit with the Paying Agent on or prior to the Fixed Rate Date an amount equal to the discount.

**Purchase of 2017 Index Tender Bonds.** 2017 Index Tender Bonds of a Series required to be purchased in connection with a change in Interest Mode from the Index Mode or a conversion to a Fixed Interest Rate of such Series will be purchased from the Owners thereof, on the date and at the Purchase Price at which such 2017 Index Tender Bonds are required to be purchased. Funds for the payment of such Purchase Price shall be derived from the following sources in the order of priority indicated:

(i) proceeds of the sale of the 2017 Index Tender Bonds of such Series remarkekted to any person (other than Metropolitan) and furnished to the Paying Agent by the applicable Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund;

(ii) solely with respect to 2017C Bonds, 2017D Bonds and/or 2017E Bonds of a Series to be remarkekted in connection with a change in Interest Mode from the Index Mode to the Weekly Mode, Short-Term Mode or Long Mode pursuant to which Metropolitan has elected not to maintain a Liquidity Facility, moneys furnished by or at the direction of Metropolitan to the Paying Agent for deposit into District Account of the Purchase Fund, if any; and

(iii) if applicable, moneys furnished by or at the direction of the Fiscal Agent to the Paying Agent for deposit into the Purchase Account of the Purchase Fund representing moneys received from any Liquidity Provider pursuant to the applicable Liquidity Facility.

Metropolitan will have no liability to pay the Purchase Price of any 2017C Bonds, 2017D Bonds and/or 2017E Bonds of a Series that are supported by a Liquidity Facility and tendered for purchase in connection with a change in Interest Mode from the Index Mode or a conversion to a Fixed Interest Rate of such Series except from the moneys from the sources described in clauses (i) and (iii) above. In the event that moneys on deposit with the Paying Agent are insufficient to pay the Purchase Price of the 2017 Index Tender Bonds of a Series to be purchased in connection with a change in Interest Mode from the Index Mode or a conversion from the Index Mode to a Fixed Interest Rate of such Series, the change in Interest Mode or conversion to a Fixed Interest Rate of such Series will not occur, the Paying Agent will return such 2017 Index Tender Bonds of the affected Series to the Owners thereof together with notice of such insufficiency, and no such insufficiency will constitute a default under the applicable Paying Agent Agreement or an Event of Default under the Master Subordinate Resolution.
Remarketing Agents

Pursuant to separate remarketing agreements, dated as of July 1, 2017, between Metropolitan and J.P. Morgan Securities LLC (“J.P. Morgan”), Metropolitan has appointed J.P. Morgan as the remarketing agent for the 2017C Bonds and for the 2017D Bonds. The principal office of J.P. Morgan, in its capacity as remarketing agent for the 2017C Bonds and 2017D Bonds, is 383 Madison Avenue, 8th Floor, New York, New York 10179, Attention: Public Finance Short Term Trading Desk. Pursuant to a remarketing agreement, dated May 16, 2018, between Metropolitan and Merrill Lynch, Pierce, Fenner & Smith Incorporated (now BofA Securities, Inc.) (“BofA Securities”), Metropolitan has appointed BofA Securities as the remarketing agent for the 2017E Bonds. The principal office of BofA Securities, in its capacity as remarketing agent for the 2017E Bonds, is Bank of America Tower, One Bryant Park, 9th Floor, New York, New York 10036, Attention: Municipal Money Markets. Each of J.P. Morgan and BofA Securities is referred to herein as the applicable “Remarketing Agent” for the related Series of 2017 Index Tender Bonds for which it has been appointed.

J.P. Morgan, the Remarketing Agent for the 2017C Bonds and the 2017D Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original offering prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2017C Bonds and 2017D Bonds from JPMS at the original offering price less a negotiated portion of the selling concession applicable to any 2017C Bonds or 2017D Bonds that such firm sells.

BofA Securities, the Remarketing Agent for the 2017E Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities may compensate MLPF&S as a dealer for their selling efforts with respect to the 2017E Bonds.

Pursuant to the remarketing agreements, a Remarketing Agent may resign upon the applicable notice to Metropolitan, the Fiscal Agent and the Paying Agent and may be removed as remarketing agent by Metropolitan upon notice from Metropolitan in accordance with the terms of the applicable Remarketing Agreement (provided, that a Remarketing Agent may not resign or be discharged of the duties and obligations created under the applicable Paying Agent Agreement on any date that is less than 30 days before a Scheduled Mandatory Tender Date) unless Metropolitan has appointed another remarketing agent for the affected Series of the 2017 Index Tender Bonds.

Redemption of the 2017 Index Tender Bonds

Optional Redemption of 2017 Index Tender Bonds. The 2017 Index Tender Bonds of a Series will be subject to optional redemption by Metropolitan in whole or in part, in authorized denominations of $100,000 or any integral multiple of $5,000 in excess thereof, during any Tender Period for such Series of 2017 Index Tender Bonds, on any Business Day on or after the applicable Call Protection Date at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such redemption date, without premium. For a description of the Call Protection Date, see “– Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode” above.
**Mandatory Sinking Fund Redemption of 2017 Index Tender Bonds.**

The 2017C Bonds in the Index Mode will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2045 and on each July 1 thereafter through and including July 1, 2047, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the redemption date, from Mandatory Sinking Account Payments (as defined in the Master Subordinate Resolution) which have been deposited in the Subordinate Bond Service Fund, in the principal amounts set forth below.

<table>
<thead>
<tr>
<th>2017C Bonds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redemption Date</strong></td>
<td><strong>Principal Amount</strong></td>
</tr>
<tr>
<td>(July 1)</td>
<td></td>
</tr>
<tr>
<td>2045</td>
<td>$26,195,000</td>
</tr>
<tr>
<td>2046</td>
<td>26,665,000</td>
</tr>
<tr>
<td>2047†</td>
<td>27,140,000</td>
</tr>
</tbody>
</table>

† Final Maturity

The 2017D Bonds in the Index Mode will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2033 and on each July 1 thereafter through and including July 1, 2037, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the redemption date, from Mandatory Sinking Account Payments (as defined in the Master Subordinate Resolution) which have been deposited in the Subordinate Bond Service Fund, in the principal amounts set forth below.

<table>
<thead>
<tr>
<th>2017D Bonds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redemption Date</strong></td>
<td><strong>Principal Amount</strong></td>
</tr>
<tr>
<td>(July 1)</td>
<td></td>
</tr>
<tr>
<td>2033</td>
<td>$11,335,000</td>
</tr>
<tr>
<td>2034</td>
<td>18,910,000</td>
</tr>
<tr>
<td>2035</td>
<td>17,835,000</td>
</tr>
<tr>
<td>2036</td>
<td>39,840,000</td>
</tr>
<tr>
<td>2037†</td>
<td>7,710,000</td>
</tr>
</tbody>
</table>

† Final Maturity

The 2017E Bonds in the Index Mode will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2033 and on each July 1 thereafter through and including July 1, 2037, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the redemption date, from Mandatory Sinking Account Payments (as defined in the Master Subordinate Resolution) which have been deposited in the Subordinate Bond Service Fund, in the principal amounts set forth below.

<table>
<thead>
<tr>
<th>2017E Bonds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redemption Date</strong></td>
<td><strong>Principal Amount</strong></td>
</tr>
<tr>
<td>(July 1)</td>
<td></td>
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<td>2033</td>
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<tr>
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<td>39,835,000</td>
</tr>
<tr>
<td>2037†</td>
<td>7,705,000</td>
</tr>
</tbody>
</table>

† Final Maturity
Mandatory Sinking Account Payments for the 2017 Index Tender Bonds of a Series will be reduced to the extent Metropolitan has purchased 2017 Index Tender Bonds of such Series and surrendered such 2017 Index Tender Bonds of such Series to the Fiscal Agent for cancellation. If 2017 Index Tender Bonds of a Series have been redeemed as described under “–Optional Redemption of 2017 Index Tender Bonds” above, then the amount of the 2017 Index Tender Bonds of such Series so redeemed will be credited to such future Mandatory Sinking Account Payments for such Series of 2017 Index Tender Bonds as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments for a Series of 2017 Index Tender Bonds in any 12-month period ending July 1 will reduce the principal amount of 2017 Index Tender Bonds of such Series subject to mandatory sinking fund redemption on that July 1.

Notice of Redemption. Notice of redemption of 2017 Index Tender Bonds will be given by the Paying Agent by Mail not less than 20 nor more than 45 days prior to the redemption date to (a) the respective Owners of any 2017 Index Tender Bonds of a Series designated for redemption at their addresses appearing on the register maintained by the Paying Agent, (b) the applicable Remarketing Agent, (c) the Fiscal Agent, and (d) one or more Information Services (currently, the EMMA System). Notice of redemption of 2017 Index Tender Bonds will also be given by Mail to DTC upon provision of notice of redemption to the Owners and the Information Services. Each notice of redemption shall state the date of such notice, the distinguishing designation of the 2017 Index Tender Bonds of the Series to be redeemed, the date of issue of the Series of 2017 Index Tender Bonds to which such notice relates, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent), the CUSIP number (if any) of the maturity or maturities, and, in the case of 2017 Index Tender Bonds of a Series to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable with respect to each of said 2017 Index Tender Bonds of such Series the redemption price thereof (or of the specified portion of the principal amount thereof in the case of a 2017 Index Tender Bond to be redeemed in part only), and that from and after such redemption date, interest thereon will cease to accrue, and will require that such 2017 Index Tender Bonds of such Series must be surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Further, notice of any redemption of 2017 Index Tender Bonds will either: (1) state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the 2017 Index Tender Bonds to be redeemed; or (2) be sent only if sufficient money to pay the full redemption price of the 2017 Index Tender Bonds of the applicable Series to be redeemed is on deposit in the applicable fund or account. All such amounts will be held uninvested or will be invested in Federal Securities which mature on or prior to such redemption date. Such redemption notice may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed thereon or on the 2017 Index Tender Bonds to be redeemed.

Failure by the Paying Agent to give notice as described above to the applicable Remarketing Agent, the Owners of the 2017 Index Tender Bonds of a Series designated for redemption or any one or more of the Information Services (currently, the EMMA System) or DTC, or any defect in such notice, will not affect the sufficiency of the proceedings for redemption.

Effect of Redemption. If notice of redemption has been given in the manner described under “–Notice of Redemption” above, and if funds for the payment of the redemption price of the 2017 Index Tender Bonds to be redeemed are held by the Paying Agent, an escrow agent or other fiduciary for such purpose, on the designated redemption date, then, on the redemption date designated in such notice, the redemption price of the 2017 Index Tender Bonds of the Series or portions thereof so called for redemption will become due and payable as specified in such notice. From and after the date so designated, interest due with respect to the 2017 Index Tender Bonds of such Series or portions thereof so called for redemption will cease to accrue, the 2017 Index Tender Bonds of such Series (or portions thereof so called for redemption) will cease to be entitled to any benefit, protection or security under the
applicable Paying Agent Agreement and the Owners of such 2017 Index Tender Bonds of such Series will have no rights in respect thereof except to receive payment of the redemption price. The Paying Agent will, upon surrender for payment of any of the 2017 Index Tender Bonds of a Series to be redeemed on their respective redemption dates, pay such 2017 Index Tender Bonds of such Series at the redemption price therefor. If said moneys will not be available on the redemption date, such 2017 Index Tender Bonds of such Series will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS

Security for the 2017 Index Tender Bonds

The 2017 Index Tender Bonds are special limited obligations of Metropolitan payable, as to principal thereof, interest thereon, and any premiums upon redemption thereof, if any, solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Under the Master Subordinate Resolution, Metropolitan has further pledged to secure the payment of the principal of, and premium, if any, and interest on the Subordinate Bonds, including the 2017 Index Tender Bonds, all amounts (including proceeds of the Subordinate Bonds) held by the Treasurer of Metropolitan in the Subordinate Bond Service Fund, subject only to the provisions of the Master Subordinate Resolution permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution. See APPENDIX 1—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.” See also “– Subordinate Bond Service Fund” below.

Pursuant to the respective Paying Agent Agreement for the 2017 Index Tender Bonds, Metropolitan’s obligation to pay the Purchase Price of any 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and shall constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Failure to pay the Purchase Price of any tendered 2017 Index Tender Bonds on a Scheduled Mandatory Tender Date for a period of five Business Days following written notice by any Owner of such 2017 Index Tender Bonds constitutes an Event of Default under the Master Subordinate Resolution.

As defined in the Master Subordinate Resolution:

“Net Operating Revenues” are initially the Operating Revenues less Operating Expenses paid from Operating Revenues.

“Operating Revenues” are all revenues received by Metropolitan from charges for the sale and availability of water as determined in accordance with generally accepted accounting principles, as in effect in the United States with respect to governmental entities similar to Metropolitan (“GAAP”).

“Operating Expenses” are the operating expenses of Metropolitan as determined by GAAP, provided that (1) Operating Expenses does not include expenses attributable to amortization, depreciation, and debt service, and any amounts recognized as operating expenses of Metropolitan according to GAAP that are attributable to pension benefits that constitute non-cash items and post-employment benefits other than pensions that constitute non-cash items, and (2) the cost of any acquisition of water shall be recognized as an operating expense of Metropolitan at a time that Metropolitan determines, but shall not be recognized at any time later than the time Metropolitan sells such water. As described herein, for purposes of the Master Subordinate Resolution, and consistent with the modified accrual basis of accounting methodology Metropolitan uses for budgetary and budgetary financial reporting purposes, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when
incurred. Thus, revenues from water transactions are recognized in the month the transaction occurs and expenses, including the costs of any acquisition of water, are recognized when goods have been received and services have been rendered. See “ACCOUNTING AND BUDGET MATTERS.”

As described herein, Metropolitan has adopted the Senior Debt Resolution authorizing the issuance of Senior Bonds and Senior Obligations (collectively referred to herein as Senior Debt) payable and secured on a senior basis to the Subordinate Bonds for the purpose of financing, or in connection with the financing of, the costs of improvements to the Water System and other lawful purposes or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Senior Debt Resolution. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations” for a description of Metropolitan’s outstanding Senior Debt as of May 1, 2019. See also APPENDIX 2—“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION” for a summary of the terms of the Senior Debt Resolution.

The Master Subordinate Resolution permits Metropolitan to change the definition of Net Operating Revenues at such time as Metropolitan is no longer permitted to issue or incur any additional Senior Debt under the Senior Debt Resolution. The Master Subordinate Resolution refers to this as a “Pledge Change Designation.” After a Pledge Change Designation, the definition of “Net Operating Revenues” will be changed to mean “Operating Revenues less (i) Operating Expenses paid from Operating Revenues and (ii) SWC Capital Payments paid from Operating Revenues.” “SWC Capital Payments” are any payments made by Metropolitan under its State Water Contract that do not constitute Operating Expenses. Metropolitan’s State Water Contract is discussed in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – State Water Contract Obligations.” To effect a Pledge Change Designation, Metropolitan must deliver a certificate electing to effect a Pledge Change Designation and pursuant to which it certifies that (1) it is prohibited from issuing or incurring any additional Senior Debt under the terms of the Senior Debt Resolution and (2) after giving effect to the Pledge Change Designation, it can satisfy the additional bonds test under the Master Subordinate Resolution as though it were issuing all Subordinate Bonds and First Tier Parity Obligations Outstanding on such date. See “APPENDIX 1—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.”

The 2017 Index Tender Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2017 Index Tender Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on, or the Purchase Price upon a tender of, the 2017 Index Tender Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Remarketing Statement.

Rate Covenant

Metropolitan covenants in the Master Subordinate Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts (collectively, the “Rate Covenant Amounts”):

1. Operating Expenses;

2. The Bond Obligation (as such term is defined in the Senior Debt Resolution) and interest on Senior Debt as the same shall become due and payable; and
3. The interest on and Bond Obligation (including Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) and amounts payable on First Tier Parity Obligations and Second Tier Subordinate Obligations as they become due and payable.

In the event of, and from and after, a Pledge Change Designation (as described above), the Rate Covenant Amounts will also include SWC Capital Payments. In determining the amounts payable with respect to any of the Rate Covenant Amounts and the amounts of rates and charges, Metropolitan may make such allowances for contingencies and errors in estimates and may incorporate and use such assumptions as Metropolitan determines are appropriate and reasonable.

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

No Reserve Fund

Metropolitan has not funded a reserve fund for the 2017 Index Tender Bonds. Amounts held or to be held in a reserve fund or account established for any Senior Bonds or any other Series of Subordinate Bonds or any insurance policy, surety bond, letter of credit or other credit facility credited to a reserve fund or account established for any Senior Bonds or any other Series of Subordinate Bonds will not be available or drawn upon to pay principal of or interest on the 2017 Index Tender Bonds.

Outstanding Senior Bonds and Senior Obligations

As of May 1, 2019, Metropolitan had outstanding $3.04 billion aggregate principal amount of Senior Bonds issued under the Senior Debt Resolution. As described under “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” on June 6, 2019, Metropolitan issued $218,090,000 principal amount of its 2019A Senior Bonds for the purpose of refunding $302,750,000 principal amount of the then outstanding Senior Bonds. In addition, on June 27, 2019, Metropolitan expects to issue $241,530,000 principal amount of its 2019A Subordinate Bonds, which were sold on June 18, 2019, for the purpose of refunding $291,620,000 principal amount of the then outstanding Senior Bonds. In addition to fixed rate bonds, Metropolitan’s outstanding Senior Bonds include variable rate Self-Liquidity Bonds and Liquidity-Supported Bonds, Term Mode Bonds, and Build America Bonds, as more fully described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations,” “– Term Mode Bonds” and “– Build America Bonds.” The Senior Bonds, including any Senior Bonds hereafter issued in accordance with the Senior Debt Resolution, and all Senior Obligations of Metropolitan on parity therewith are payable from Net Operating Revenues prior to the payment of Metropolitan’s Subordinate Bonds, including the 2017 Index Tender Bonds, and other Subordinate Obligations.
Metropolitan has entered into a short-term revolving credit facility (the “RBC Short-Term Revolving Credit Facility”) that it secured as a Senior Obligation. Under the RBC Short-Term Revolving Credit Facility, Metropolitan may borrow, pay down and re-borrow, through the issuance and sale from time to time of short-term notes, an aggregate amount outstanding at any time of up to $200 million. As of May 1, 2019, Metropolitan had $0 in outstanding notes under the RBC Short-Term Revolving Credit Facility. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations” for a description of the RBC Short-Term Revolving Credit Facility.

Metropolitan also has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan’s obligation to pay principal of and interest on the Senior Bonds and other Senior Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as described in, Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations – Interest Rate Swap Transactions.”

As provided in the Senior Debt Resolution, Metropolitan may issue additional Senior Bonds and Senior Obligations payable and secured on a basis senior and prior to the payment of the Subordinate Bonds, including the 2017 Index Tender Bonds, and other Subordinate Obligations, subject to the limitations, terms and conditions of the Senior Debt Resolution. See APPENDIX 2– “SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION – Covenants – Limits on Additional Debt.”

**Outstanding Subordinate Obligations**

As of May 1, 2019, Metropolitan had outstanding $1.03 billion aggregate principal amount of Subordinate Bonds (including the 2017 Index Tender Bonds) issued under the Subordinate Resolutions. As described under “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” on June 27, 2019, Metropolitan expects to issue $241,530,000 principal amount of its 2019A Subordinate Bonds for the purpose of refunding certain outstanding Senior Bonds of Metropolitan. Metropolitan’s outstanding Subordinate Bonds include Index Tender Bonds, as more fully described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.” The other outstanding Subordinate Bonds, including any additional Subordinate Bonds hereafter issued in accordance with the Subordinate Resolutions, and all First Tier Parity Obligations of Metropolitan are payable from Net Operating Revenues on parity with the 2017 Index Tender Bonds.

Metropolitan’s Subordinate Water Revenue Bonds, 2016 Authorization Series A (the “2016A Subordinate Bonds”) were issued in a direct purchase arrangement with Bank of America, N.A. (“BANA”). In connection with the issuance of the 2016A Subordinate Bonds, Metropolitan entered into a Continuing Covenant Agreement (the “2016 BANA Agreement”) with BANA to provide for the purchase by BANA of the 2016A Subordinate Bonds. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds, including the 2017 Index Tender Bonds, and all other Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – Short-Term Revolving Credit Facility” for a description of the 2016A Subordinate Bonds and the 2016 BANA Agreement.

Metropolitan has also entered into a note purchase and continuing covenant agreement with BANA (the “BANA Short-Term Note Purchase Agreement”), under which Metropolitan may borrow, through the issuance and sale from time to time of short-term notes, an aggregate principal amount of not
to exceed $86 million. Metropolitan has secured its obligations to repay notes evidencing borrowings under the BANA Short-Term Note Purchase Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds, including the 2017 Index Tender Bonds, and all other Subordinate Obligations. As of May 1, 2019, Metropolitan had $46.8 million in outstanding notes under the BANA Short-Term Note Purchase Agreement issued for the purpose of providing advance funding support for the California WaterFix, as authorized by the Metropolitan Board on July 10, 2018. On May 2, 2019, the California Department of Water Resources withdrew its approval of the California WaterFix project and announced plans to pursue a new planning and environmental review process for a single tunnel Bay-Delta conveyance project. See Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – State Water Project – Bay-Delta Proceedings Affecting State Water Project – Bay-Delta Planning Activities.” See also Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – Subordinate Short-Term Certificates” for a description of the BANA Short-Term Note Purchase Agreement.

Metropolitan has, and may in the future, enter into one or more self-liquidity revolving credit agreements (“Self-Liquidity Revolving Credit Agreements”) which may be drawn upon for the purpose of paying the purchase price of any Self-Liquidity Bonds. Under the terms of Metropolitan’s existing Self-Liquidity Revolving Credit Agreement with the Industrial and Commercial Bank of China Limited, New York Branch (the “ICBC Self-Liquidity Revolving Credit Agreement”), Metropolitan may borrow up to $200 million for the purpose of paying the purchase price of tendered Self-Liquidity Bonds, including any Senior Bonds and/or Subordinate Bonds of Metropolitan that are part of Metropolitan’s self-liquidity program. As of May 1, 2019, all of Metropolitan’s Self-Liquidity Bonds are Senior Bonds. Metropolitan has secured its obligation to pay principal and interest under the ICBC Self-Liquidity Revolving Credit Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds, including the 2017 Index Tender Bonds, and all other Subordinate Obligations. In addition, in order to secure Metropolitan’s obligations under the ICBC Self-Liquidity Revolving Credit Agreement, Metropolitan has pledged to the repayment of such obligations any principal and interest it receives from Senior Bonds that are Self-Liquidity Bonds which it purchases from borrowings under the ICBC Self-Liquidity Revolving Credit Agreement. Metropolitan may in the future secure its obligation to pay principal and interest under any additional Self-Liquidity Revolving Credit Agreement it may enter into either senior to or on parity with the outstanding Subordinate Bonds and First Tier Parity Obligations under the Subordinate Resolutions. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – Self-Liquidity Revolving Credit Agreement” for a description of the ICBC Self-Liquidity Revolving Credit Agreement.

Under some circumstances, the interest rate swap agreements referred to under “– Outstanding Senior Bonds and Senior Obligations” above are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Such termination payments are secured in some cases on a basis on parity with, and in other cases on a basis senior in payment priority to, the Subordinate Bonds, including the 2017 Index Tender Bonds, and the other Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

**Additional Indebtedness under the Master Subordinate Resolution**

Metropolitan covenants in the Master Subordinate Resolution that, except for existing and future Senior Debt, no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Subordinate Bonds, including the 2017 Index Tender Bonds, and First Tier Parity Obligations.
In addition, Metropolitan covenants in the Master Subordinate Resolution that, except Subordinate Bonds and First Tier Parity Obligations to the extent incurred to pay or discharge Outstanding Senior Debt, Subordinate Bonds or First Tier Parity Obligations and which do not result in an increase in the Average Annual Debt Service on all Senior Debt, Subordinate Bonds or First Tier Parity Obligations to be Outstanding after the issuance of such Subordinate Bonds or First Tier Parity Obligations, and except for any Subordinate Bonds or First Tier Parity Obligations issued or incurred in connection with any Commercial Paper Program or Revolving Credit Agreement, Metropolitan will not issue or incur any additional Subordinate Bonds or First Tier Parity Obligations unless, among other things, Metropolitan delivers a Certificate to the Fiscal Agent, to the effect that, as of the Calculation Date (which date shall not be any earlier than 60 days preceding the date of delivery of the Subordinate Bonds or incurrence of First Tier Parity Obligations):

FIRST: Metropolitan is not in default under the terms of the Subordinate Resolutions (including as supplemented, modified or amended by any supplemental resolution); and

SECOND: The sum obtained from (A) at the option of Metropolitan either the amount of (1) the Net Operating Revenues as shown by the books and records of Metropolitan for either the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than two months before the applicable Calculation Date selected by Metropolitan, or (2) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Subordinate Bonds or First Tier Parity Obligations will be in operation, as estimated by and set forth in a Certificate of Metropolitan, plus (B) at the option of Metropolitan, any or all of certain other items permitted by the Subordinate Resolutions, will have amounted to not less than Average Annual Debt Service on all Senior Debt, Subordinate Bonds and First Tier Parity Obligations to be Outstanding immediately after the issuance or incurrence of such additional Subordinate Bonds or First Tier Parity Obligations. In making this calculation, Metropolitan may take into consideration any increases in water rates or charges which have been adopted by the Board before the issuance or incurrence of such additional Subordinate Bonds or First Tier Parity Obligations; any increase in Net Operating Revenues which may arise from additions, extensions or improvements to the Water System to be made or acquired with the proceeds of such additional Subordinate Bonds or First Tier Parity Obligations or using the proceeds of Senior Debt, Subordinate Bonds, First Tier Parity Obligations or Second Tier Subordinate Obligations previously issued, or from additions recently placed in service; and Additional Revenues and other moneys of Metropolitan reasonably expected to be available to pay principal of and interest on Senior Debt, Subordinate Bonds and First Tier Parity Obligations as specified in the Subordinate Resolutions.

Under the Subordinate Resolutions, Metropolitan may issue or incur Second Tier Subordinate Obligations and obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Subordinate Bonds and all First Tier Parity Obligations and Second Tier Subordinate Obligations, and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Subordinate Resolutions from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Subordinate Bonds and all First Tier Parity Obligations and Second Tier Subordinate Obligations, as the same become due and payable and at the times and in the manner as required in the Subordinate Resolutions or the instruments creating any First Tier Parity Obligations and Second Tier Subordinate Obligations.

Under the Act, the amount of outstanding bonds and other evidences of indebtedness may not exceed 15% of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of May 1, 2019, Metropolitan’s outstanding bonds and other evidences of indebtedness, in the aggregate amount of $4.16 billion, constituted approximately 0.14% of the fiscal year.
2018-19 taxable assessed valuation of $2,916.6 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100% of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2018 were $6.69 billion. The aggregate amount of revenue bonds outstanding as of May 1, 2019 was $4.07 billion.

See “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings.” See also Referenced Appendix A under the caption “CAPITAL INVESTMENT PLAN – Capital Investment Plan Financing” for a discussion of certain additional financings projected to be undertaken by Metropolitan as of the date of this Remarketing Statement.

Subordinate Bond Service Fund

So long as any Subordinate Bonds are Outstanding, Metropolitan is required to transfer into the following funds and accounts in the following amounts and in the following order of priority, the requirements of each such fund or account at the time of deposit to be satisfied before any deposit is made to any fund or account subsequent in priority; provided that (i) Metropolitan may set aside or transfer, on a parity with such deposits, amounts with respect to First Tier Parity Obligations (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Subordinate Bonds and such First Tier Parity Obligations); (ii) in the event any of the deposits or transfers requires more than one such deposit or payment and there are insufficient moneys to make all such deposits and payments, then such deposits and payments will be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available moneys:

(1) **First Priority – Interest Account.** No later than the Business Day before each Interest Payment Date, Metropolitan is required to transfer to the Interest Account an amount equal to the aggregate amount of interest becoming due and payable on the Outstanding Subordinate Bonds on such Interest Payment Date (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of any Series of Subordinate Bonds or other source and reserved as capitalized interest to pay such interest on the Interest Payment Date). No deposit need be made into the Interest Account with respect to any Subordinate Bonds if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Date. On each Interest Payment Date or as soon as practicable thereafter, any excess amounts in the Interest Account not needed to pay interest on Subordinate Bonds on such Interest Payment Date will be transferred to the Water Revenue Fund.

(2) **Second Priority – Principal Account.** No later than the Business Day before each Principal Payment Date, Metropolitan will transfer to the Principal Account an amount equal to (a) the aggregate amount of Subordinate Bond Obligation becoming due and payable on such Principal Payment Date plus (b) the aggregate of the Mandatory Sinking Account Payments to be paid on such Principal Payment Date.

No deposit need be made into the Principal Account on any date so long as there will be in such fund moneys sufficient to pay the Subordinate Bond Obligations and Mandatory Sinking Account Payments required to be made on such Principal Payment Date. On each Principal Payment Date or as soon as practicable thereafter, any excess amounts in the Principal Account not needed to pay Subordinate Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date will be transferred to the Water Revenue Fund.
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by a vote of the electorates of eleven southern California cities under authority of the Act to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and general information on Metropolitan’s service area, see Referenced Appendix A under the caption “INTRODUCTION – Member Agencies.”

Metropolitan has described its finances and operations in detail in Referenced Appendix A and Referenced Appendix B. In addition, Metropolitan has presented selected demographic and economic information for its service area in Referenced Appendix E. Metropolitan includes by specific reference into this Remarketing Statement each of Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2019 Official Statement, including Referenced Appendix A, Referenced Appendix B and Referenced Appendix E, is on file with the EMMA System and can be accessed at http://emma.msrb.org/. To obtain information essential to making an informed investment decision, potential investors must read the entire Remarketing Statement, including the appendices, Referenced Appendix A, Referenced Appendix B and Referenced Appendix E in their entirety.

Recent Developments

The following updates information provided in Referenced Appendix A under the captions “METROPOLITAN’S WATER SUPPLY – Current Water Conditions” (which begins on page A-6 in Referenced Appendix A) and “– State Water Project – State Water Contract” (which begins on page A-9 in Referenced Appendix A).

On June 19, 2019, DWR notified State Water Contractors that it had increased its calendar year 2019 allocation estimate of State Water Project water to 75 percent of contracted amounts, or 1,433,625 acre-feet for Metropolitan.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations (which begins on page A-67 in Referenced Appendix A).

On June 6, 2019, Metropolitan issued its $218,090,000 principal amount of Water Revenue Refunding Bonds, 2019 Series A for the purpose of refunding $302,750,000 principal amount of the then outstanding Senior Bonds.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations (which begins on page A-73 in Referenced Appendix A).

On June 27, 2019, Metropolitan expects to issue its $241,530,000 principal amount of Subordinate Water Revenue Refunding Bonds, 2019 Series A, which were sold by negotiated sale on June 18, 2019, for the purpose of refunding $291,620,000 principal amount of the then outstanding Senior Bonds.
OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO

Operating Revenues

Water transactions (which includes water sales, wheeling and exchanges) comprise Metropolitan’s principal source of revenues. Water revenues include revenues from water sales, wheeling and exchanges received by Metropolitan from charges for water transactions. Other significant revenue sources include charges for the availability of water, including, without limitation, Metropolitan’s readiness-to-serve charge, standby charge, and capacity charge. See Referenced Appendix A under the captions “METROPOLITAN REVENUES – Water Revenues,” “– Rate Structure” and “– Other Charges.” In meeting the requirements of the Subordinate Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan’s hydroelectric power recovery plants and Interest Subsidy Payments that may be received by Metropolitan in connection with any existing and future Build America Bonds. Metropolitan previously issued and designated three series of Senior Bonds in the aggregate principal amount of $578,385,000 as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (including the 2008 Authorization Series C Bonds and 2008 Authorization Series D Bonds refunded by the 2019A Senior Bonds and 2019A Subordinate Bonds). No assurances are provided that Metropolitan will receive all or any portion of the Interest Subsidy Payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan’s compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. For a description of Metropolitan’s outstanding Build America Bonds, including reductions that have occurred in the amount of Interest Subsidy Payments Metropolitan had expected to receive from the United States Treasury as a result of sequestration, see Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Build America Bonds.” Following the issuance of the 2019A Senior Bonds and 2019A Subordinate Bonds and the refunding of the Senior Bonds refunded thereby, Metropolitan’s only outstanding Build America Bonds will be its $250,000,000 Water Revenue Bonds, 2010 Authorization, Series A. See “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan.” Ad valorem taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2017 Index Tender Bonds. For a description of “Operating Revenues” and the effect of Operating Expenses on the amount of revenues available for payment of the 2017 Index Tender Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.” See also APPENDIX 1–“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.” For information on Metropolitan’s revenues and expenses, including historical and projected revenues and expenses, see Referenced Appendix A under the captions “METROPOLITAN REVENUES,” “METROPOLITAN EXPENSES,” and “HISTORICAL AND PROJECTED REVENUES AND EXPENSES.” See also Metropolitan’s financial statements contained in Referenced Appendix B.

Existing Bonds and Obligations Payable from Net Operating Revenues

Metropolitan covenants in the Master Subordinate Resolution that except for Senior Debt, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Outstanding Subordinate Bonds or First Tier Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Additional Indebtedness Under the Master Subordinate Resolution.”

Metropolitan has issued and incurred Senior Debt, including Senior Bonds pursuant to the Senior Debt Resolution which were outstanding as of May 1, 2019 in the amounts listed in Referenced Appendix
A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Revenue Bonds,” and certain Senior Obligations which are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations.” As described under “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” on June 6, 2019, Metropolitan issued its $218,090,000 principal amount of 2019A Senior Bonds for the purpose of refunding $302,750,000 principal amount of the then outstanding Senior Bonds. Principal of and interest on the 2017 Index Tender Bonds is payable from Net Operating Revenues on a basis subordinate to the Senior Bonds and Senior Obligations.

Metropolitan has issued Subordinate Bonds (including the 2017 Index Tender Bonds) pursuant to the applicable Subordinate Resolutions, which Subordinate Bonds were outstanding as of May 1, 2019 in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations,” and has incurred certain First Tier Parity Obligations which are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.” As described under “INTRODUCTION – Recent Refunding Transactions Undertaken and Being Undertaken by Metropolitan,” on June 27, 2019, Metropolitan expects to issue its $241,530,000 principal amount of 2019A Subordinate Bonds, which were sold on June 18, 2019, for the purpose of refunding $291,620,000 principal amount of the then outstanding Senior Bonds. Principal of and interest on the 2017 Index Tender Bonds are payable from Net Operating Revenues on parity with the other Subordinate Bonds and First Tier Parity Obligations.

Anticipated Financings

Metropolitan anticipates that it will issue bonds, notes or other evidences of indebtedness under the Senior Debt Resolution in addition to the outstanding Senior Bonds and Senior Obligations to finance improvements to its Water System and for other lawful purposes and to refund outstanding revenue bonds or general obligation bonds from time to time depending on market conditions and other factors. Metropolitan has and anticipates it will also issue or incur Subordinate Bonds and other First Tier Parity Obligations under the Master Subordinate Resolution in addition to the 2017 Index Tender Bonds and the outstanding Subordinate Bonds and other Subordinate Obligations, subject to the limitations in the Act. Metropolitan’s current Capital Investment Plan is described in Referenced Appendix A under the caption “CAPITAL INVESTMENT PLAN.”

The Senior Debt Resolution and Master Subordinate Resolution each permit subsequent authorizations of additional bonds as described herein. The Senior Debt Resolution and Master Subordinate Resolution establish limitations on the issuance of additional obligations payable from Net Operating Revenues senior to and on parity with the 2017 Index Tender Bonds as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS.”

On June 13, 2017, Metropolitan’s Board adopted Ordinance 150 (the “2017 Revenue Bond Ordinance”) determining that the interests of Metropolitan required the use of up to an aggregate principal amount of $400,000,000 of revenue bonds to fund a portion of its capital expenditures. As of May 1, 2019, Metropolitan had issued $107,600,000 principal amount of revenue bonds utilizing a portion of the authorization under the 2017 Revenue Bond Ordinance. The issuance of the balance of the $400,000,000 aggregate principal amount of revenue bonds under the 2017 Revenue Bond Ordinance is subject to board approval in future supplemental bond authorizations. The Board may from time to time in the future adopt other ordinances supporting the authorization of the issuance of additional revenue bonds, including Senior Bonds and/or Subordinate Bonds.
From time to time Metropolitan may enter into synthetic interest rate swaps, pursuant to which, for example, fixed rate obligations are converted to variable rate obligations or vice versa. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

**Debt Service Requirements**

The following table shows the estimated annual debt service requirements for Metropolitan’s outstanding Senior Bonds and Subordinate Bonds, and the 2017 Index Tender Bonds.

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## The Metropolitan Water District of Southern California

### Estimated Debt Service Requirements for Water Revenue Bonds

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Source: Metropolitan.

(1) Assumes the refunding of certain Senior Bonds by at Metropolitan’s 2019A Subordinate Bonds which are expected to be delivered on June 27, 2019. Does not include any debt service for the RBC Short-Term Revolving Credit Facility. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facility.”

(2) Indicates amounts reflect the stated interest rate on Metropolitan’s outstanding Water Revenue Bonds, 2010 Authorization, Series A (Taxable Build America Bonds), and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with any Build America Bonds.

(3) Assumes each Series of Term Mode Bonds are remarked to a variable rate after the initial call protection date for such Series. Interest after the initial call protection date is calculated at an assumed interest rate of 2.25% per annum.

(4) Assumes that Metropolitan’s 2019A Subordinate Bonds are delivered on June 27, 2019. Assumes that approximately $10.1 million of the 2023 maturity of Metropolitan’s 2019A Subordinate Bonds is refunded with variable rate bonds prior to its maturity date, with the refunding bonds amortizing in 2037 and interest thereon at an assumed 2.25% per annum. Assumes that the 2028 maturity of Metropolitan’s Subordinate Water Revenue Bonds, 2017 Series B is largely refunded with variable rate bonds prior to its maturity date, with the refunding bonds amortizing in the years 2033-2049 and interest thereon at an assumed 2.25% per annum. Assumes Metropolitan’s Subordinate Water Revenue Refunding Bonds, 2017 Series B are refunded with variable rate bonds at their respective July 1 optional redemption dates, with the refunding bonds amortizing on July 1 in the years 2028-2033 and interest thereon at an assumed 2.25% per annum. Actual amortization of refunding bonds and rates may differ from those set forth in this footnote. Does not include any debt service for short-term notes under the BANA Short-Term Note Purchase Agreement or any debt service for the ICBC Self-Liquidity Revolving Credit Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Outstanding Subordinate Obligations.”

(5) Interest on the Subordinate Bonds that are Index Tender Bonds is calculated at an assumed interest rate of 2.25% per annum.

(6) Of Metropolitan’s $1.2 billion principal amount of outstanding variable rate bonds reflected in this table ($797.3 million of Senior Bonds and $446.3 million of Subordinate Bonds), interest on $493.6 million aggregate amount of such variable rate bonds is hedged by interest rate swap agreements. Senior Bonds debt service is calculated taking into account the assumed fixed payor rates of interest to be paid under the respective interest rate swap agreements. For the remaining variable rate bonds, interest is calculated at an assumed interest rate of 2.25% per annum.

(7) Totals are rounded. Actual debt service may differ from assumptions utilized in preparing this table.
Summary of Net Operating Revenues

For a description of actual and projected Net Operating Revenues available for debt service on the outstanding Senior Debt, Subordinate Bonds and other Subordinate Obligations of Metropolitan, including additional revenue bonds that Metropolitan projects it will issue, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A. See also Referenced Appendix A under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES – Water Revenues.”

Debt Service Coverage

For a summary of actual and projected debt service coverage on the outstanding Senior Bonds and Subordinate Bonds, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A.

Financial Reserve Policy

For a summary of Metropolitan’s financial reserve policy and its unrestricted reserves and other related matters, see Referenced Appendix A under the caption “METROPOLITAN REVENUES – Financial Reserve Policy.”

Metropolitan’s Investment Portfolio

Metropolitan’s investment portfolio consists of the total cash and investments from all of its funds, which are derived from various sources, including Net Operating Revenues, property tax collections, hydroelectric power sales, investment earnings and invested construction funds. See Referenced Appendix A under the caption “METROPOLITAN REVENUES – Summary of Revenues by Source.” Metropolitan’s investment portfolio also includes amounts held as collateral, from time to time, by Metropolitan’s swap counterparties. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

See also Referenced Appendix A under the captions “METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts” and “– Financial Reserve Policy” and Referenced Appendix B.

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s full accrual basis financial statements for the Fiscal Years ended June 30, 2018 and June 30, 2017. See Referenced Appendix B.

Budgetary Accounting Method

Metropolitan’s budgeting and budgetary financial reporting is presented using a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the full accrual basis of accounting utilized in Metropolitan’s audited annual financial statements in the following respects: depreciation and amortization are not recorded and payments for debt service and pay-as-you-go construction are recorded when paid. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water revenues are recognized in the month the water transaction occurs and expenses are recognized
when goods have been received and services have been rendered. See Referenced Appendix A under the captions “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”

**Financial Statements**

The Basic Financial Statements of Metropolitan for the Fiscal Years ended June 30, 2018 and June 30, 2017 and Basic Financial Statements for the Six Months Ended December 31, 2018 and 2017 (Unaudited) are included in Referenced Appendix B. Metropolitan’s Basic Financial Statements for the Nine Months Ended March 31, 2019 and 2018 (Unaudited) are included in APPENDIX 6—“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2019 AND 2018 (UNAUDITED).” Metropolitan routinely prepares unaudited quarterly financial statements, and although Metropolitan is not obligated to do so, such unaudited quarterly financial statements are generally filed by Metropolitan voluntarily with the MSRB’s EMMA System, when available (typically approximately two months after the end of the relevant fiscal quarterly period). Such filing of Metropolitan’s unaudited quarterly financial statements is not required pursuant to any continuing disclosure undertaking by Metropolitan relating to its outstanding Bonds, and Metropolitan, does not have and has not incurred any obligation to continue to provide any such ongoing filing of its quarterly unaudited financial statements.

The Financial Statements for the Fiscal Years ended June 30, 2018 and June 30, 2017 have been audited by KPMG LLP, Metropolitan’s independent auditor (the “Independent Auditor”), as stated in its Independent Auditors’ Report, dated October 10, 2018, which is included in Referenced Appendix B. Metropolitan has not requested the consent of the Independent Auditor, nor has the Independent Auditor consented, to the inclusion of the Financial Statements or the Independent Auditors’ Report in Referenced Appendix B. KPMG LLP, Metropolitan’s Independent Auditor, has not been engaged to perform and has not performed, since the date of its Independent Auditors’ Report included in Referenced Appendix B, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Remarketing Statement.

The financial and statistical information otherwise contained and incorporated in this Remarketing Statement is included herein for informational purposes only and a complete review of the audited Financial Statements and the Notes to such Financial Statements set forth in Referenced Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other financial information or data included in this Remarketing Statement, other than the audited Financial Statements for the Fiscal Years ended June 30, 2018 and June 30, 2017 included in Referenced Appendix B.

**Budget System**

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

The ability of Metropolitan to pay principal of and interest on the 2017 Index Tender Bonds depends primarily upon Metropolitan’s receipt of Net Operating Revenues. The ability of Metropolitan to pay the Purchase Price of any 2017 Index Tender Bonds depends primarily upon Metropolitan’s receipt of the proceeds of remarketing of the 2017 Index Tender Bonds and other available sources. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2017 Index Tender Bonds or from receiving a sufficient amount of remarketing proceeds and other available funds to enable it to pay the Purchase Price of the 2017 Index Tender Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2017 Index Tender Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Remarketing Statement, including the appendices hereto and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E incorporated herein, to obtain information essential to making an informed investment decision.

Risks Relating to the Index Mode

Metropolitan’s Ability to Pay the Purchase Price of the 2017 Index Tender Bonds on the Scheduled Mandatory Tender Dates May Be Limited. As described in this Remarketing Statement, the Owners of all of the 2017 Index Tender Bonds on any Series must tender for purchase, and Metropolitan must purchase, all of the 2017 Index Tender Bonds of a Series on its respective Scheduled Mandatory Tender Date. The obligation of Metropolitan to pay the Purchase Price of the 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date therefor will constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the Purchase Price on any Scheduled Mandatory Tender Date. The ability of Metropolitan to pay the Purchase Price will depend on its ability to successfully remarket the applicable Series of 2017 Index Tender Bonds and otherwise to provide funds to pay the Purchase Price. Metropolitan’s primary source of funds to pay the Purchase Price, other than remarketing proceeds, will be Net Operating Revenues subordinate to the lien thereon of the Senior Debt and on parity with the Subordinate Bonds and other First Tier Parity Obligations. Metropolitan may not have sufficient funds to pay the Purchase Price of all of the 2017 Index Tender Bonds to be tendered on any Scheduled Mandatory Tender Date.

During each Tender Period, Metropolitan will review its financing alternatives before each Scheduled Mandatory Tender Date. After the Call Protection Date of any Tender Period, Metropolitan may (a) remarket the applicable 2017 Index Tender Bonds in an Index Mode through an Index Mode Unscheduled Mandatory Tender, (b) change the Interest Mode of a Series of 2017 Index Tender Bonds or convert the Series of 2017 Index Tender Bonds to a Fixed Interest Rate or (c) issue bonds or other indebtedness to refund all or any portion of the 2017 Index Tender Bonds. In order to manage the 2017 Index Tender Bonds in an Index Mode so as to avoid a failed remarketing on a Scheduled Mandatory Tender Date, Metropolitan currently plans to use one of these three financing alternatives before each Scheduled Mandatory Tender Date.

Failure of Metropolitan to pay the Purchase Price of any tendered 2017 Index Tender Bonds on a Scheduled Mandatory Tender Date for a period of five Business Days following written notice by any Owner of such 2017 Index Tender Bonds will constitute an Event of Default under the Master Subordinate Resolution.

Secondary Market May Not Develop. There is not an established secondary market for bonds issued in an Index Mode and one may not develop. Therefore, an Owner may be unable to sell its 2017 Index Tender Bond in the secondary market.
Limited Obligations

The 2017 Index Tender Bonds are special limited obligations of Metropolitan payable as to principal, redemption premium, if any, and interest thereon solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Metropolitan’s obligation to pay the Purchase Price of any 2017 Index Tender Bonds on any Scheduled Mandatory Tender Date is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and will constitute a First Tier Parity Obligation under the Master Subordinate Resolution.

The 2017 Index Tender Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2017 Index Tender Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of and interest on the 2017 Index Tender Bonds or the Purchase Price upon a tender for purchase thereof does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Remarketing Statement.

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, and interest on all Senior Debt and on the 2017 Index Tender Bonds and all other Subordinate Bonds and other Subordinate Obligations. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its member agencies and to establish, maintain and collect rates and charges sufficient to pay for Operating Expenses and debt service.

2017 Index Tender Bonds Subordinate to Senior Debt

The pledge and lien securing the 2017 Index Tender Bonds and other Subordinate Obligations is subordinate to the pledge and lien securing the Senior Debt. In addition, under the Senior Debt Resolution, Metropolitan is required to make monthly deposits from Net Operating Revenues into funds and accounts created under the Senior Debt Resolution equal to estimates of future principal and interest payments before Metropolitan may use Net Operating Revenues to pay principal of or interest on, or the purchase price upon a tender of, the 2017 Index Tender Bonds and other Subordinate Obligations.

A Portion of Senior Debt and Subordinate Obligations May Be Subject to Acceleration

Metropolitan has entered into revolving credit facilities, short-term credit facilities and standby bond purchase facilities which provide, upon the occurrence of events of default, that the providers thereof may declare any outstanding Senior Debt thereunder to be immediately due and payable. In addition, the terms of the Master Subordinate Resolution permit any Bank Obligation to be subject to acceleration. Interest rate swaps to which Metropolitan is a party are, under some circumstances, subject to early termination, upon which a substantial termination payment may become immediately due to the applicable counterparty. If any Senior Debt or Subordinate Obligations are accelerated or substantial swap termination payments become due, it may significantly reduce the amount of Net Operating Revenues available to pay debt service on the 2017 Index Tender Bonds and other Subordinate Obligations.

Refinancing Risks in Connection with Certain Subordinate Bonds

Metropolitan currently expects to issue bonds or other indebtedness to refund all or a portion of certain maturities of the outstanding Subordinate Bonds (i.e., the 2023 maturity of Metropolitan’s 2019A Subordinate Bonds, the 2028 maturity of Metropolitan’s Subordinate Water Revenue Bonds, 2018 Series
B, and the 2020 through 2024 maturities of Metropolitan’s Subordinate Water Revenue Refunding Bonds, 2017 Series B) (the “Subordinate Bonds Anticipated to be Refunded”) on or prior to their respective maturity dates. Metropolitan does not intend to take into account the full scheduled payments of principal of the Subordinate Bonds Anticipated to be Refunded in setting its rates and charges prior to their respective maturity dates. In the event that Metropolitan does not have sufficient funds on hand to pay any Subordinate Bonds Anticipated to be Refunded on their respective maturity dates, Metropolitan’s ability to pay such Subordinate Bonds Anticipated to be Refunded will be dependent on Metropolitan’s ability to issue and sell refunding obligations to refund all or a portion of such Subordinate Bonds Anticipated to be Refunded on or prior to such maturity date. No assurance can be given that Metropolitan will be able to effect such a refinancing on sufficiently favorable terms. A variety of events could prevent access to the municipal securities market, prohibit Metropolitan from issuing such refunding obligations, or make the issuance of refunding obligations prohibitively expensive. In the event Metropolitan has not refinanced any Subordinate Bonds Anticipated to be Refunded coming due on or prior to their applicable maturity date, a failure of Metropolitan to provide sufficient funds to pay such Subordinate Bonds Anticipated to be Refunded at the applicable maturity date (from refunding proceeds or other available funds delivered on or prior to such date) will constitute an Event of Default under the Master Subordinate Resolution.

**Risks Relating to Water Transactions**

Metropolitan’s primary purpose is to provide a supplemental supply of imported water to its member public agencies. Metropolitan’s water supply is described in more detail in Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY.” The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of locally supplied water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water transactions. See Referenced Appendix A under the caption “REGIONAL WATER RESOURCES – Local Water Supplies.” Over the last several years supplies and demands have been affected by weather conditions (including, most recently, wet weather conditions), drought, water use restrictions, economic conditions, and environmental laws, regulations and judicial decisions, as described below. Future water transactions will be subject to variability due to these and other factors.

**Weather Conditions.** Metropolitan provides a supplemental supply of water to its member agencies, most of whom have other sources of water. Regional water supplies are described in Referenced Appendix A under the caption “REGIONAL WATER RESOURCES.” Climatic conditions in Metropolitan’s service area (including, most recently, wet weather, as well as, over the prior several years, drought and the effects of actions taken in response thereto), and availability of local supplies affect demands for imported water purchased from Metropolitan. Historically, in years in which above-normal precipitation occurs in the region, retail level water use declines while available regional water supplies increase, resulting in lower demand for imported water purchased from Metropolitan. Metropolitan uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. Metropolitan’s reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan’s water transactions. See Referenced Appendix A under the caption “METROPOLITAN REVENUES – Financial Reserve Policy.”

**Water Supply Shortages.** Metropolitan’s principal sources of water are the State Water Project and the Colorado River, both of which over the last several years have been subject to drought conditions that have contributed to lower overall water deliveries to Metropolitan. While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, drought conditions that have occurred in recent years and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the “ESAs”), have placed additional limitations on Metropolitan’s ability to obtain and deliver water supplies to its member agencies. See Referenced Appendix A under the caption “METROPOLITAN’S WATER
SUPPLY – Endangered Species Act and Other Environmental Considerations.” Multi-party drought contingency plans have been developed for the Colorado River which impose additional restrictions on Metropolitan’s access to its Colorado River supplies. See Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – Colorado River Aqueduct – Colorado River Operations: Surplus and Shortage Guidelines.” For additional information regarding the impact of drought conditions on Metropolitan’s water supply, see Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY.” Metropolitan may obtain supplies to meet demands during water supply shortages by, among other things, drawing on its stored water supplies and pursuing additional water transfers. See Referenced Appendix A under the captions “METROPOLITAN’S WATER SUPPLY – Water Transfer, Storage and Exchange Programs” and “– Storage Capacity and Water in Storage.” If Metropolitan anticipates that supplies will be insufficient to meet demands, Metropolitan may allocate available supplies among its member agencies pursuant to its Water Supply Allocation Plan. See Referenced Appendix A under the caption “CONSERVATION AND WATER SHORTAGE MEASURES – Water Supply Allocation Plan.”

**Economic Conditions.** Retail level water use is affected by economic conditions. Economic recession and its associated impacts, such as job losses, income losses, and housing foreclosures or vacancies, affect aggregate levels of water use and Metropolitan’s water transactions. See Referenced Appendix E.

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

**Actions to Manage Risks Relating to Water Transactions.** Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. To address supply shortages due to periods of prolonged drought conditions and/or environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues, which may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Rate Covenant.” See also Referenced Appendix A under the captions “METROPOLITAN’S WATER SUPPLY” and “CAPITAL INVESTMENT PLAN.” Wet weather and economic conditions in the region can also impact retail water use and reduce demand for imported water purchased from Metropolitan. A reduction in water deliveries to Metropolitan’s member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 INDEX TENDER BONDS – Rate Covenant.”
Earthquakes, Floods, Wildfires and Other Natural Disasters

Southern California is subject to geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires, floods, high winds and areas of potential liquefaction and landslide. Earthquakes, wildfires, floods, high winds or other natural disasters could cause failure of Water System infrastructure or otherwise interrupt operation of the Water System and thereby impair the ability of Metropolitan to generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. The severity and/or frequency of these occurrences may be exacerbated by the impacts of climate change. See also Referenced Appendix A under the captions “GOVERNANCE AND MANAGEMENT – Risk Management” and “METROPOLITAN’S WATER DELIVERY SYSTEM – Seismic Considerations and Emergency Response Measures.”

Cybersecurity; Other Safety and Security Risks

Metropolitan, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to Metropolitan’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. Cybersecurity breaches could damage Metropolitan’s information and security systems and cause material disruption to its operations. The occurrence of military conflicts and terrorist activities, including cyber terrorism, could also adversely impact the operations of the Water System or the finances of Metropolitan. Metropolitan has a variety of security measures and safeguards in place. See Referenced Appendix A under the captions “GOVERNANCE AND MANAGEMENT – Cybersecurity” and “METROPOLITAN’S WATER DELIVERY SYSTEM – Security Measures.” However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that military conflicts or terrorist activities, including cyber terrorism, are directed against the assets of the Water System. The costs of security measures or of remediying damage from security breaches could be greater than presently anticipated.

Limitations on Remedies

Upon the occurrence and continuance of an Event of Default under the Subordinate Resolutions, the Owners of the Subordinate Bonds (including the 2017 Index Tender Bonds) have limited remedies and, except for limited circumstances, the Owners of the Subordinate Bonds do not have the right to accelerate the payment of principal of or interest on the Subordinate Bonds (including the 2017 Index Tender Bonds). See APPENDIX 1—“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS – MASTER SUBORDINATE RESOLUTION – Defaults and Remedies.”

In addition, the rights of the Owners of the 2017 Index Tender Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

Tax Law Proposals

Existing law may change so as to reduce or eliminate the benefit to Beneficial Owners of the 2017 Index Tender Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. See “TAX MATTERS.”
LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, (b) the validity of the 2017 Index Tender Bonds or the power and authority of Metropolitan to remarket the 2017 Index Tender Bonds, or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Subordinate Resolutions.

For a discussion of litigation challenging the allocation of costs to certain water rates, see Referenced Appendix A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA,” including information under the caption “METROPOLITAN REVENUES – Litigation Challenging Rate Structure.” For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see Referenced Appendix A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA,” including information under the captions “METROPOLITAN’S WATER SUPPLY – State Water Project,” and “– Colorado River Aqueduct” and “METROPOLITAN EXPENSES – Power Sources and Costs; Related Long-Term Commitments.”

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

TAX MATTERS

Original Opinions of Co-Bond Counsel

Metropolitan issued the 2017 Index Tender Bonds (together with its Subordinate Water Revenue Refunding Bonds, 2017 Series B) on July 3, 2017. On July 3, 2017, the date of original delivery of the 2017 Index Tender Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan in connection with such issuance, each delivered an opinion with respect to each Series of the 2017 Index Tender Bonds to the effect that, as of that date, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements by Metropolitan, interest on the respective Series of the 2017 Index Tender Bonds was excluded from gross income for federal income tax purposes and was not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Co-Bond Counsel noted that, with respect to corporations, interest on the 2017 Index Tender Bonds of the respective Series might be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. Co-Bond Counsel were further of the opinion that, as of the date of their opinions, interest on each of the respective Series of the 2017 Index Tender Bonds was exempt from State of California personal income tax. Complete copies of such opinions of Co-Bond Counsel (the “Co-Bond Counsel Opinions”) are included as Appendix 4 hereto. Such opinions spoke only as of their date and have not been updated in connection with the Remarketing.

No Updated Co-Bond Counsel Opinions

Co-Bond Counsel’s Opinions spoke only as of their date and have not been updated in connection with the Remarketing. Nixon Peabody LLP, Bond Counsel to Metropolitan in connection with the Remarketing, has not taken, and has not been engaged to take, any action to determine if interest on the 2017 Index Tender Bonds is presently excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes.
General Considerations

Notwithstanding the foregoing, investors should be aware of the following information.

Co-Bond Counsel’s Opinions as to the exclusion from gross income for federal income tax purposes of interest on the 2017 Index Tender Bonds were based upon certain representations of fact and certifications made by Metropolitan, the respective underwriters of the 2017 Index Tender Bonds and others, and were subject to the condition that Metropolitan comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the 2017 Index Tender Bonds to assure that interest on the 2017 Index Tender Bonds would not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2017 Index Tender Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017 Index Tender Bonds. Metropolitan has covenanted to comply with all such requirements.

The Internal Revenue Service (“IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2017 Index Tender Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2017 Index Tender Bonds might be affected as a result of such an audit of the 2017 Index Tender Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS will not change the Code (or interpretation thereof) to the extent that it adversely affects the exclusion from gross income of interest on the 2017 Index Tender Bonds or their market value.

Co-Bond Counsel’s Opinions delivered in connection with the original issuance of the 2017 Index Tender Bonds were based on legal authority as of July 3, 2017. It should be noted that on December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law and repealed the federal corporate alternative minimum tax for taxable years beginning after December 31, 2017. Thus, the observation by Co-Bond Counsel in the original July 3, 2017 Co-Bond Counsel Opinions with respect to the inclusion of interest on the 2017 Index Tender Bonds in adjusted current earnings when calculating federal corporate alternative minimum taxable income would no longer be applicable for taxable years beginning after December 31, 2017.

There might be other federal, state or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) subsequent to the date of issuance of the 2017 Index Tender Bonds that affect the federal, state or local tax treatment of the interest on the 2017 Index Tender Bonds or the market value of the 2017 Index Tender Bonds. It is possible that legislative changes might be introduced in Congress, which, if enacted, would result in additional federal income tax or state tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2017 Index Tender Bonds. The introduction or enactment of any such changes could adversely affect the market value or liquidity of the 2017 Index Tender Bonds. No assurance can be given that such changes (or other changes) will not be introduced or enacted or that such interpretations will not occur. Before purchasing any of the 2017 Index Tender Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the 2017 Index Tender Bonds.

Co-Bond Counsel’s Opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date of the Co-Bond Counsel Opinions. Co-Bond Counsel have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. In the Co-Bond Counsel Opinions, Co-Bond Counsel expressed no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest with respect to any 2017 Index
Tender Bond if any such action was taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq.

Although Co-Bond Counsel opined that interest on each Series of the 2017 Index Tender Bonds was excluded from gross income for federal income tax purposes provided that Metropolitan continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2017 Index Tender Bonds may otherwise affect the tax liability of certain persons. Co-Bond Counsel expressed no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2017 Index Tender Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2017 Index Tender Bonds.

CERTAIN RELATIONSHIPS

The Remarketing Agents have provided the following paragraphs for inclusion in this Remarketing Statement:

The Remarketing Agents and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Remarketing Agents and their affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Metropolitan, for which they received or will receive customary fees and expenses. Affiliates of certain of the Remarketing Agents serve as an interest rate swap provider to Metropolitan and as remarketing agents and/or liquidity providers for certain of Metropolitan’s variable rate bonds. See also “DESCRIPTION OF THE 2017 INDEX TENDER BONDS – Remarketing Agents.”

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

MUNICIPAL ADVISOR

Metropolitan has retained Public Resources Advisory Group, Los Angeles, California, as municipal advisor (the “Municipal Advisor”) in connection with the remarketing of the 2017 Index Tender Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Remarketing Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Municipal Advisor has reviewed this Remarketing Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Remarketing Statement.

LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and Alexis S. M. Chiu, Esq., served as Co-Bond Counsel to Metropolitan in connections with the original issuance of the 2017 Index Tender Bonds and rendered their opinions with respect to the 2017 Index Tender Bonds on the date the 2017 Index Tender Bonds were issued. Copies of the opinions of Co-Bond Counsel are set forth in APPENDIX 4–“COPY OF ORIGINAL CO-BOND COUNSEL OPINIONS.” Such opinions speak only as of their date and have not been updated in connection with the Remarketing
of the 2017 Index Tender Bonds. Nixon Peabody LLP, Los Angeles, California is serving as Bond Counsel to Metropolitan in connection with the Remarketing of the 2017 Index Tender Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Remarketing Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel, and for the Remarketing Agents by their counsel, Orrick, Herrington & Sutcliffe LLP. Norton Rose Fulbright US LLP is acting as Disclosure Counsel to Metropolitan in connection with the Remarketing of the 2017 Index Tender Bonds.

**RATINGS**

S&P Global Ratings and Fitch Ratings have assigned their short-term ratings of “A-1+” and “F1+,” respectively, to the 2017 Index Tender Bonds. Fitch Ratings has further assigned the 2017 Index Tender Bonds its long-term rating of “AA+.” As of the date of this Remarketing Statement, these credit ratings have not been changed, withdrawn or suspended. Such credit ratings reflect only the views of the applicable organizations and any desired explanation of the significance of any such credit rating should be obtained from the rating agency furnishing the same, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; and Fitch Ratings, 33 Whitehall Street, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Any such credit rating may not continue for any given period and may be revised downward or withdrawn entirely by the rating agency furnishing the same, if in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of any such credit rating could have an adverse effect on the market price of the 2017 Index Tender Bonds.

**CONTINUING DISCLOSURE**

Metropolitan has agreed to execute a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”) in connection with the remarketing of the 2017 Index Tender Bonds, which provides for disclosure obligations on the part of Metropolitan for so long as the 2017 Index Tender Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan covenants for the benefit of Owners and Beneficial Owners of the 2017 Index Tender Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of 10 business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. See APPENDIX 5–“FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

Metropolitan has not failed in the previous five years to comply in any material respect with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule.

**MISCELLANEOUS**

The terms of the 2017 Index Tender Bonds are set forth in the Subordinate Resolutions and the respective Paying Agent Agreements related thereto, as applicable. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012; telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Remarketing Statement may be directed to the Assistant General Manager/Chief Financial Officer.
The attached appendices, and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E incorporated herein, are integral parts of this Remarketing Statement and should be read in their entirety. Potential purchasers must read the entire Remarketing Statement to obtain information essential to making an informed investment decision.

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

By: /s/ Jeffrey Kightlinger
    General Manager
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APPENDIX 1

SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS
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SUMMARY OF CERTAIN PROVISIONS OF THE
SUBORDINATE RESOLUTIONS

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

MASTER SUBORDINATE RESOLUTION

Definitions; Content of Certificates and Opinions

Definitions. Unless the context otherwise requires, the terms defined in the Master Subordinate Resolution, for all purposes thereof and of any Supplemental Resolution and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and plural forms of any of the terms therein defined. Unless otherwise defined in the Master Subordinate Resolution, all terms used therein have the meanings assigned to such terms in the Act.

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

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

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

“Annual Debt Service” means, with respect to any Covered Obligations and for any Fiscal Year, the aggregate amount of Debt Service on such Covered Obligations becoming due and payable during such Fiscal Year (or assumed to be due and payable under the definition of “Debt Service”).

“Assumed CP Period” means, with respect to any Commercial Paper Program, a period following the later of the effective date of the Commercial Paper Program or the Calculation Date equal to 30 years, or such different period that Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, which is not less than five years and not greater than 40 years.

“Assumed Debt Service” means, for purposes of any Calculation Date, with respect to any Excluded Principal Payment, for any Fiscal Year on or after the date of such Excluded Principal Payment, the sum of the amount of principal and interest which would be payable in each such Fiscal Year if that Excluded Principal Payment were amortized for and during the Assumed EPP Period on a substantially level debt service basis, calculated based on a fixed interest rate equal to an average of the MMD maturity nearest to (but not greater than) the Assumed EPP Period for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by Metropolitan, and, if MMD is not then in effect, a fixed interest rate equal to the product of 0.70 multiplied by the average yield of the
Ten-Year Treasury Yield for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by Metropolitan.

“Assumed EPP Period” means, with respect to any Excluded Principal Payment, a period following the date of the applicable Excluded Principal Payment equal to the lesser of (a) 30 years and (b) the period between the date of such Excluded Principal Payment and 40 years from the Calculation Date, or such different period following the applicable Excluded Principal Payment that Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, which is not less than five years and which ends no later than 40 years from the Calculation Date.

“Assumed RCA Period” means, with respect to any Revolving Credit Agreement, a period following the later of the effective date of the Revolving Credit Agreement or the Calculation Date equal to 30 years, or such different period that Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, which is not less than five years and not greater than 40 years.

“Authorized Investments” means any investments in which Metropolitan may legally invest sums subject to its control pursuant to Sections 53601 and 53635 of the California Government Code, as further restricted by the Administrative Code of Metropolitan (in each case, as amended from time to time), as certified to each Fiscal Agent, and will include any Designated Investments.

“Authorized Representative” means each of the General Manager and the Chief Financial Officer and any other officer or employee of Metropolitan authorized by the General Manager or the Chief Financial Officer to act as an Authorized Representative.

“Average Annual Debt Service” means with respect to any Covered Obligations and as of any date of calculation, the quotient obtained by dividing (1) the sum of the Annual Debt Service on such Covered Obligations for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made and terminating in the later of (A) the last Fiscal Year in which any Debt Service on such Covered Obligations is due (or assumed to be due under the definition of Debt Service) and (B) the latest of the last Fiscal Year of any Assumed EPP Period, Assumed CP Period and Assumed RCA Period, by (2) the number of such Fiscal Years.

“Bank Obligation” means any Bonds of any Series or any First Tier Parity Obligation (a) the Owner of all of which is one or more commercial banks or affiliates of commercial banks for their own account and with respect to which Metropolitan delivers a Certificate of Metropolitan at the time of initial delivery of Bonds of such Series or incurrence of such First Tier Parity Obligation or at the time of a remarketing of Bonds of such Series following a tender of all Bonds of such Series, (b) that are supported by a Credit Facility, (c) that, in the case of Bonds, are purchased by one or more commercial banks or affiliates of commercial banks pursuant to the terms of a Credit Facility, or (d) that, in the case of First Tier Parity Obligations, are incurred under the terms of a Credit Facility.

“Bond” or “Bonds” means The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Master Subordinate Resolution. If provided in the Supplemental Resolution authorizing any Commercial Paper Program will provide, the term “Bonds” will include any Commercial Paper Notes issued pursuant to a Commercial Paper Program.

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

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

“Calculation Date” means any date on which Metropolitan delivers any Certificate of Metropolitan to satisfy the requirements of the Master Subordinate Resolution.

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

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

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of Metropolitan means, respectively, a written certificate, statement, request, requisition or order signed by an Authorized Representative.

“Chief Financial Officer” means the Chief Financial Officer of Metropolitan.

“Commercial Paper Debt Service” means, for purposes of any Calculation Date, with respect to any Commercial Paper Program, for any Fiscal Year on or after the effective date of such Commercial Paper Program, the sum of the amount of principal and interest which would be payable in each such Fiscal Year if the principal amount of Commercial Paper Notes Outstanding as of the Calculation Date were amortized for and during the Assumed CP Period on a substantially level debt service basis, calculated based on a fixed interest rate equal to an average of the MMD maturity nearest to (but not greater than) the Assumed CP Period for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by Metropolitan, and, if MMD is not then in effect, a fixed interest rate equal to the product of 0.70 multiplied by the average yield of the Ten-Year Treasury Yield for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by Metropolitan.

“Commercial Paper Notes” means short-term, commercial paper notes with a fixed maturity, including (without limitation) commercial paper notes that provide for an extension of the maturity under the terms thereof.

“Commercial Paper Program” means a program established by Metropolitan pursuant to the Master Subordinate Resolution that provides for the issuance from time to time of Commercial Paper Notes.

“Commercial Paper Support” means, with respect to any Commercial Paper Program, any letter of credit, credit agreement, liquidity facility, line of credit or comparable instrument that insures, guarantees or supports in any way the payment of Commercial Paper Notes issuable under such Commercial Paper Program.

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

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

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

“Debt Service” means, as of any Calculation Date and with respect to any Fiscal Year, the sum of (1) the interest scheduled to be due on any Covered Obligations during such Fiscal Year, (2) the principal or Mandatory Sinking Account Payments required to be paid with respect to such Covered Obligations during such Fiscal Year, and (3) any other regularly scheduled payments of Covered Obligations during such Fiscal Year to the extent not included in clauses (1) and (2) above, all of which are to be computed on the assumption that no portion of such Covered Obligations will cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such calculation: (a) Excluded Principal Payments will be excluded from such calculation and Assumed Debt Service will be included in such calculation; (b) if Metropolitan establishes a Commercial Paper Program pursuant to the Master Subordinate Resolution, for so long such Commercial Paper Program remains in effect, all payments of principal and interest of any Covered Obligations issued or incurred in connection with such Commercial Paper Program (including the principal and interest in connection with any Commercial Paper Support) will be excluded from the calculation of Debt Service, and Commercial Paper Debt Service will be included into the calculation of Debt Service; (c) if Metropolitan enters into a Revolving Credit Agreement pursuant to the Master Subordinate Resolution, for so long as such Revolving Credit Agreement remains in effect, all payments of principal and interest of any Covered Obligations issued or incurred in connection with such Revolving Credit Agreement will be excluded from the calculation of Debt Service, and Revolving Credit Agreement Debt Service will be included into the calculation of Debt Service; (d) if any Covered Obligations are Variable Rate Indebtedness, the interest rate on such Covered Obligations will be assumed to be equal to the average of the Municipal Swap Index of Securities Industry and Financial Markets Association for the twelve-week period immediately preceding the Calculation Date; (e) principal and interest payments on Covered Obligations will be excluded to the extent that Metropolitan expects to make such payments from amounts on deposit (and investment earnings thereon) as of the Calculation Date with the Treasurer, any Fiscal Agent or any other fiduciary, as set forth in a Certificate of Metropolitan; (f) if the Covered Obligations are Paired Obligations, the interest rate on such Covered Obligations will be the collective fixed interest rate to be paid by Metropolitan with respect to such Paired Obligations; (g) in determining the principal amount due on Covered Obligations in each Fiscal Year, payment (unless a different clause applies for purposes of determining principal maturities or amortization) will be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Covered Obligations on the basis of Accreted Value; (h) with respect to each interest rate swap agreement constituting a Covered Obligation then in effect, if any, there will be added into the calculation of Debt Service an amount equal to the greater of: (i) 0 and (ii) (a) if the swap rate applicable to Metropolitan under such interest rate swap agreement is fixed, an amount equal to (1) (x) such fixed swap rate less (y) an average of the variable swap rate applicable to the counterparty to such interest rate swap agreement for the 12-week period immediately preceding the Calculation Date, times (2) the notional amount of such interest rate swap agreement, or (b) if the swap rate applicable to Metropolitan under such interest rate swap agreement is variable, an amount equal to (1)(x) 1.20 times the average of the variable swap rate for the 12-week period immediately preceding the Calculation Date less (y) the fixed swap rate applicable to the counterparty to such interest rate swap agreement, times (2) the notional amount of such interest rate swap agreement; (i) if Metropolitan creates a Covered Obligation (including, without limitation, a revolving credit agreement entered into for the purpose of supporting the payment of any principal, interest or Purchase Obligation of any Covered Obligation) (each, a “Supporting Debt”) for the purpose of purchasing or supporting the purchase of a Covered Obligation (as evidenced by a Certificate
of Metropolitan on or before the applicable Calculation Date) (each, a “Supported Debt”), then Metropolitan will calculate both the Supporting Debt and Supported Debt under the definition of Debt Service, and will only include into the calculation of Debt Service the amount that would otherwise be included into the definition of Debt Service for either the Supporting Debt and Supported Debt and will only include the one that causes the amount of Average Annual Debt Service to be the highest; and (j) if Metropolitan issues Covered Obligations and payments of principal and interest and Purchase Obligations of such Covered Obligations are secured as Covered Obligations of any kind, then any Purchase Obligations secured as Covered Obligations will be disregarded and not included in any calculation under the definition of Debt Service in the Master Subordinate Resolution.

Notwithstanding any other provision of the definition of Debt Service, except as set forth in (h) above, no amounts payable (including any settlement amounts or termination payments) under any interest rate swap agreement constituting a Covered Obligation will be included in the calculation of Debt Service. Except as otherwise provided in the definition of Debt Service, to the extent that any calculation under the definition of “Debt Service” requires an index, interest rate or other amount to make such calculation, and such index, interest rate or other amount is not published, is not available or is not capable of being included in such calculation, then Metropolitan will use such other index, interest rate, or other amount in its reasonable discretion in order to complete such calculation and that calculation will be binding on Metropolitan, the Owners of all Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, the Fiscal Agent and all other affected parties, absent manifest error.

“Designated Investments” means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series.

“Excluded Principal Payment” means each payment of principal or purchase price of Covered Obligations which Metropolitan designates (in the Supplemental Resolution or other document or certificate delivered on or before the Calculation Date) to be an Excluded Principal Payment. There will be no requirement for Metropolitan to designate any Excluded Principal Payment at the time of issuance of the related Covered Obligation. No such determination will affect the security for any Bonds or First Tier Parity Obligations or the obligation of Metropolitan to pay any such payments from Net Operating Revenues or from the applicable reserve fund or account, if any.

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

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

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

“Initial Amount” means the principal amount of a Capital Appreciation Bond on the date of issuance and delivery to the original purchaser thereof.

“Interest Payment Date” means, with respect to any Bonds, any date on which interest on such Bonds becomes due and payable.
“Mandatory Sinking Account Payment” (a) with respect to Bonds of any Series and maturity, means the amount required by the Master Subordinate Resolution or any Supplemental Resolution to be deposited by the Treasurer in the Subordinate Bond Service Fund for the payment of Term Bonds of such Series and maturity and (b) with respect to any Senior Debt, has the meaning given such term in the Senior Resolution.

“MMD” means the Municipal Market Data AAA Curve published by Thomson Reuters or any successor thereto, or, if Thomson Reuters or any such successor has discontinued its Municipal Market Data AAA Curve, an index or benchmark published by Thomson Reuters or any successor thereto that is comparable to the Municipal Market Data AAA Curve selected by Metropolitan in its discretion.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by Metropolitan (other than Standard & Poor’s).

“Municipal Obligations” means municipal obligations meeting the following conditions: (a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption; (b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and (d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Operating Revenues” (a) initially, means Operating Revenues less Operating Expenses paid from Operating Revenues and (b) from and after any Pledge Change Designation, will mean Operating Revenues less (i) Operating Expenses paid from Operating Revenues and (ii) SWC Capital Payments paid from Operating Revenues.

“NOR Period” means either (a) the latest Fiscal Year or (b) any 12-consecutive-month period within the last completed 24-month period ended not more than two months before the applicable Calculation Date, selected by Metropolitan and as set forth in a Certificate of Metropolitan; provided that such period will be the same period for all calculations made on any Calculation Date.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding” means (1) when used as of any particular time with reference to Bonds (subject to the provisions of the Master Subordinate Resolution), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Master Subordinate Resolution except (A) Bonds theretofore canceled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of Metropolitan will have been discharged in accordance with the Master Subordinate Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Master Subordinate Resolution; and (D) Bonds no longer deemed to be outstanding under the Master Subordinate Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Senior Debt, all Senior Debt deemed outstanding within the meaning of the respective Senior Debt Resolutions; (3) when used as of any particular time with reference to First Tier Parity Obligations, all First Tier Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such First Tier Parity Obligations; and (4) when used as of any particular time with reference to Second Tier Subordinate Obligations, all Second Tier Subordinate Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Second Tier Subordinate Obligations.
“Owner” or “Bondholder” or “Bondowner,” whenever used in the Master Subordinate Resolution with respect to a Bond, means the Person in whose name such Bond is registered. When the term “Owner” is used in reference to any First Tier Parity Obligations or Second Tier Subordinate Obligations, it means the Person or Persons who are entitled to payments that are secured by such First Tier Parity Obligation or Second Tier Subordinate Obligations.

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

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

“Principal Payment Date” means any date on which any amount of Bond Obligation becomes due and payable or any Mandatory Sinking Account Payments are required to be paid.

“Purchase Obligation” means the obligation of Metropolitan under any Supplemental Resolution or any other instrument to purchase any Covered Obligations.

“Rating Agencies” means either or both of Moody’s and Standard & Poor’s, and such other securities rating agencies providing a rating with respect to a Series of Bonds.

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

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

“Refunding Bonds” means all Bonds whether issued in one or more Series, authorized pursuant to the Master Subordinate Resolution, to the extent the proceeds thereof are used to pay or to provide for the payment of Senior Debt, Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or any other obligations or indebtedness of Metropolitan.

“Revolving Credit Agreement” means any revolving credit agreement, line of credit agreement or similar agreement executed pursuant to the Master Subordinate Resolution.

“Revolving Credit Agreement Debt Service” means, for purposes of any Calculation Date, with respect to any Revolving Credit Agreement, for any Fiscal Year on or after the effective date of such Revolving Credit Agreement, the sum of the amount of principal and interest which would be payable in each such Fiscal Year if the principal amount Outstanding under the Revolving Credit Agreement as of the Calculation Date were amortized for and during the Assumed RCA Period on a substantially level debt service basis, calculated based on a fixed interest rate equal to an average of the MMD maturity nearest to (but not greater than) the Assumed RCA Period for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by Metropolitan, and, if MMD is not then in effect, a fixed interest rate equal to the product of 0.70 multiplied by the average yield of the Ten-Year Treasury Yield for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by Metropolitan.
“Second Tier Subordinate Obligations” means (1) any indebtedness or other obligation of Metropolitan for borrowed money, (2) any obligations of Metropolitan for deferred purchase price, (3) any lease obligation of Metropolitan, or (4) any other obligation of Metropolitan, in each case, which Metropolitan has secured with a lien and charge upon, or being payable from, the Net Operating Revenues on a basis junior subordinate to the Bonds and the First Tier Parity Obligations.

“Securities Depository” means the following: The Depository Trust Company; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and such other securities depositories as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

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

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


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

“Subordinate Redemption Fund” means the Water Revenue Subordinate Bonds, Redemption Fund established pursuant to the Master Subordinate Resolution.

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

“SWC Capital Payments” means any payments by Metropolitan under the State Water Contract that do not constitute Operating Expenses.

“Ten-Year Treasury Yield” means the yield to maturity implied by the Treasury Constant Maturity Series yields reported, for the latest day for which such yields have been so reported as of the Business Day next preceding the Calculation Date, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded United States Treasury securities having a constant maturity equal to ten years.

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

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

“Unrestricted Reserves” means any financial reserves of Metropolitan that are available to Metropolitan for its general purposes and that are not restricted to a particular purpose by a designation of the Board, the Senior Debt Resolution, the Master Subordinate Resolution, or by applicable law.
“Variable Rate Indebtedness” means any indebtedness or obligation, other than Paired Obligations, the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate until the scheduled maturity of the indebtedness or obligation.

“Water Revenue Fund” means the fund of that name required to be established, continued and maintained pursuant to the Master Subordinate Resolution.

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

Content of Certificates and Opinions. Every certificate or opinion provided for in the Master Subordinate Resolution with respect to compliance with any provision thereof must include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions in the Master Subordinate Resolution relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement (a) that, in the opinion of such Person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter or (b) that he or she had made or caused to be made his or her examination or investigation with respect to the subject matter in accordance with specified professional standards; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

Any such certificate or opinion made or given by an officer or employee of Metropolitan may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of Metropolitan) upon a certificate or opinion of or representation by an officer or employee of Metropolitan, unless such counsel, accountant or independent consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such Person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer or employee of Metropolitan, or the same counsel or accountant or independent consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Master Subordinate Resolution, but different officers, employees, counsel, accountants or independent consultants may certify to different matters, respectively.

The Bonds

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Master Subordinate Resolution, by the Person in whose name it is registered, in Person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond. Whenever any Bond or Bonds of a Series is surrendered for transfer, Metropolitan will execute and the Fiscal Agent for that Series will authenticate and deliver a new Bond or Bonds, of the same Series, tenor and maturity and for a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to register a transfer of any Bonds within 15 days before the date of selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. A Fiscal Agent may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental
Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bond so selected for redemption. The Fiscal Agent will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

**Bond Register.** The Fiscal Agent for each Series of Bonds will keep or cause to be kept at its designated office sufficient books for the registration and transfer of the Bonds of that Series, which will at all times be open to inspection during normal business hours by Metropolitan; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Master Subordinate Resolution.

**Temporary Bonds.** The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, will be of such denomination as may be determined by Metropolitan, will be in registered form and may contain such reference to any of the provisions of the Master Subordinate Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond will be executed by Metropolitan and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If Metropolitan issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Master Subordinate Resolution as definitive Bonds authenticated and delivered under the Master Subordinate Resolution.

**Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond becomes mutilated, Metropolitan at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond will be canceled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to Metropolitan and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and Metropolitan and indemnity satisfactory to them will be given, Metropolitan at the expense of the Owner, will execute, and that Fiscal Agent will thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent for that Series may pay the same without surrender thereof upon receipt of the aforementioned indemnity). Metropolitan may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Master Subordinate Resolution and of the expenses which may be incurred by Metropolitan and the Fiscal Agent in connection with such replacement. Any Bond issued under the provisions of the Master Subordinate Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of Metropolitan whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Master Subordinate Resolution with all other Bonds secured by the Master Subordinate Resolution. Neither Metropolitan nor any Fiscal Agent will be required to treat both the original Bond and any substitute Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Master Subordinate Resolution or for the purpose of determining any percentage of Bonds Outstanding under the Master Subordinate Resolution, but both the original and substitute Bond will be treated as one and the same.
Issuance of Bonds

Series of Bonds: Terms of Supplemental Resolutions. The Board may from time to time by Supplemental Resolution establish one or more Series of Bonds, and Metropolitan may issue, and a Fiscal Agent may authenticate and deliver to the purchaser thereof, Bonds of any Series so established, in such principal amount as will be determined by the Board, but only upon compliance by Metropolitan with the provisions of the Master Subordinate Resolution and any additional requirements set forth in said Supplemental Resolution.

A Supplemental Resolution authorizing one or more Series of Bonds will specify, among other things: (i) the authorized principal amount and distinguishing designation of such Series; (ii) the general purpose or purposes for which such Series of Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the Bonds of such Series; (iii) the date or dates, and the maturity date or dates of the Bonds of such Series, and the principal amount maturing on each maturity date and any Mandatory Sinking Account Payments for the Bonds of such Series; (iv) the interest rate or rates on the Bonds of such Series (which may be a rate of zero) and the interest payment date or dates thereof, and whether such interest rate or rates will be fixed, variable or a combination of both and, if necessary, the manner of determining such rate or rates; (v) the denominations of, and the manner of dating, numbering, and, if necessary, authenticating, the Bonds of such Series; (vi) the Fiscal Agent and any paying agent or paying agents for the Bonds of such Series and the duties and obligations thereof, (vii) the place or places of payment of the principal, Accreted Value, redemption price, if any, or purchase price, if any, or the interest on, the Bonds of such Series, (viii) the tender agent or tender agents for the Bonds of such Series, if any, and the duties and obligations thereof; (ix) the remarketing agent or remarketing agents for the Bonds of such Series, if any, and the duties and obligations thereof, (x) the form or forms of the Bonds of such Series and any coupons attached thereto, which may include but will not be limited to, registered form, bearer form with or without coupons, and book-entry form, and the methods, if necessary, for the registration, transfer and exchange of the Bonds of such Series; (xi) the terms and conditions, if any, for the redemption of the Bonds of such Series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms, (xii) the terms and conditions, if any, for the purchase of the Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms; (xiii) if so determined by the Board, the authorization of and any terms and conditions with respect to any Credit Facility for the Bonds of such Series and the pledges or provision of moneys, assets or security other than Net Operating Revenues to or for the payment of the Bonds of such Series or any portion thereof; (xiv) the creation and maintenance of one or more special funds or accounts, if any, to provide for the payment or purchase of the Bonds of such Series and, if so determined by the Board, any other special funds or accounts, including, without limitation, a reserve fund or account, for the Bonds of such Series and the application of moneys therein; (xv) instructions for the application of the proceeds of the Bonds of such Series; (xvi) any Designated Investments for the Bonds of that Series; (xvii) if so determined by the Board, the authorization of and any terms and conditions with respect to any interest rate swap by Metropolitan with respect to the Bonds of such Series and the pledges or provision of moneys, assets or security for any payments by Metropolitan with respect to any such interest rate swap; (xviii) if so determined by the Board, the authorization of and any terms and conditions with respect to any municipal bond insurance policy insuring the payment of the Bonds; and (xx) any other provisions which the Board deems necessary or desirable in connection with the Bonds of such Series not inconsistent with the terms of the Master Subordinate Resolution. In lieu of expressly stating any of the foregoing, it will be sufficient if such Supplemental Resolution provides the method or procedure for determination of any of the foregoing.

General Provisions for the Issuance of Bonds. The Bonds of each Series will be executed by Metropolitan for issuance under the Master Subordinate Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to Metropolitan on its order, but only upon receipt by that Fiscal Agent of the following: (a) a copy of the Master Subordinate Resolution, including the Supplemental Resolution creating such Series, certified by the Secretary of the Board; (b) an opinion of
Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by Metropolitan in an aggregate, principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of any or all of the following: (1) all or any portion of the principal or Redemption Price of the Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or any obligation or indebtedness of Metropolitan to be refunded (including the purchase price of any Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded); (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness and the cost of issuance of such Refunding Bonds; (3) interest on all Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness to be refunded to the date such Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or Senior Debt will be called for redemption or paid at maturity; and (4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded.

A Series of Refunding Bonds may be executed by Metropolitan for issuance under the Master Subordinate Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to Metropolitan or its order, but only upon receipt by that Fiscal Agent of the documents required by, and, if applicable, satisfaction of the requirements contained in, the Master Subordinate Resolution.

Application of Proceeds. Proceeds of each Series of Bonds will be applied as specified in the Supplemental Resolution pursuant to which such Series of Bonds is created. All Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or Senior Debt paid, purchased, redeemed or retired by use of funds received from the sale of Refunding Bonds, and all Bonds surrendered to a Fiscal Agent against the issuance of Refunding Bonds, will be forthwith canceled and will not be reissued.

Redemption of Bonds

Terms of Redemption. Each Series of Bonds may be made subject to redemption before its respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Resolution creating such Series of Bonds.

Redemption at the Direction of Metropolitan. In the case of any redemption of Bonds at direction of Metropolitan, Metropolitan will select Series, maturities and principal amounts thereof to be redeemed and Metropolitan will give written notice to the Fiscal Agent for each Series of Bonds to be redeemed specifying the redemption date and the maturities and Bond Obligation amounts of such Series to be redeemed, and directing the Fiscal Agent to give notice of redemption to the Owners of Bonds selected for redemption.

Redemption Otherwise than at the Direction of Metropolitan. Whenever by the terms of the Supplemental Resolution pursuant to which any Series of Bonds is issued the Fiscal Agent is required or authorized to redeem Bonds otherwise than at the direction of Metropolitan, the Fiscal Agent will, subject to receipt of any notice from Metropolitan pursuant to the Master Subordinate Resolution, select the Bonds...
to be redeemed as provided in the applicable Supplemental Resolution and will give the notice of redemption.

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

Revenues

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

Equality of Security. In consideration of the acceptance of the Bonds by the Owners thereof from time to time, the Master Subordinate Resolution will be deemed to be and will constitute a contract between Metropolitan and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Master Subordinate Resolution to be performed by or on behalf of Metropolitan will be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or in the Master Subordinate Resolution. Notwithstanding the foregoing, nothing in the Master Subordinate
Resolution will prevent additional security being provided to particular Bonds under any Supplemental Resolution.

Establishment of Funds and Accounts; Application. Metropolitan will establish, continue and maintain, as appropriate, in accordance with the terms of the Senior Debt Resolutions and of the Master Subordinate Resolution, the following funds and accounts:

1. Water Revenue Fund (the “Water Revenue Fund”);

2. Water Revenue Subordinate Bonds, Bond Service Fund (the “Subordinate Bond Service Fund”), including an Interest Account (the “Interest Account”) and the Principal Account (the “Principal Account”) therein; and

3. To the extent required by any Supplemental Resolution, any Reserve Fund (a “Reserve Fund”).

All funds and accounts established or continued under the Master Subordinate Resolution or by any Supplemental Resolution will be held by the Treasurer or, if applicable, a Fiscal Agent and will be accounted for separate and apart from all other funds and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with the Master Subordinate Resolution and any Supplemental Resolution.

Water Revenue Fund. Metropolitan will allocate all Operating Revenues to the Water Revenue Fund.

Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, Metropolitan will transfer to such Reserve Fund the amount required by the terms of the Supplemental Resolution creating such Bonds on the dates required by such Supplemental Resolution.

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

Application of Funds and Accounts. All amounts in the Subordinate Bond Service Fund will be used and withdrawn by Metropolitan solely for the purposes of paying (i) interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers; (ii) the Bond Obligation and any Mandatory Sinking Account Payment when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers; and (iii) to the extent amounts have been set aside in the Subordinate Bond Service Fund with respect to First Tier Parity Obligations, amounts due in respect to First Tier Parity Obligations.

Notwithstanding the paragraph above, moneys in the Subordinate Bond Service Fund may be applied to the purchase of Bonds maturing or subject to Mandatory Sinking Account Payment (1) within the next six months in the case of Bonds subject to semi-annual maturity dates or (2) within the next twelve months in the case of Bonds subject to annual maturity dates but only to the extent of amounts deposited in the Subordinate Bond Service Fund in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges) as is directed by Metropolitan, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to the foregoing provision will be delivered to the Fiscal Agent for such Bonds and canceled and destroyed by that Fiscal
Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Amounts on deposit in any reserve fund or account for a Series of Bonds will be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series. Amounts on deposit in any excess earnings or rebate fund or account established for a Series of Bonds will be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.

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

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Master Subordinate Resolution will be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account will be credited to such fund or account when received. Notwithstanding anything to the contrary contained in the Master Subordinate Resolution, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment will be credited to the fund or account from which such accrued interest was paid.

Unless otherwise provided in a Supplemental Resolution with respect to a fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Master Subordinate Resolution into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Treasurer or any Fiscal Agent under the Master Subordinate Resolution will be accounted for separately as required by the Master Subordinate Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent will keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records will specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and will set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received...
at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

Pledge Change Designation. If, on any date, Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent satisfying each of the following requirements: (A) Metropolitan sets forth in such Certificate of Metropolitan that it has elected to effect a Pledge Change Designation; (B) Metropolitan certifies that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt; and (C) Metropolitan certifies that, after giving effect to the Pledge Change Designation, it can satisfy the Master Subordinate Resolution as though it were issuing all Bonds and First Tier Parity Obligations Outstanding on such date; then, from and after the date on which such Certificate of Metropolitan is delivered, the definition of Net Operating Revenues will be automatically amended and modified to read as set forth in paragraph (b) of the definition thereof.

Covenants of Metropolitan

Covenants. Metropolitan makes the following covenants with the Owners (to be performed by Metropolitan or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners; provided, however, that said covenants do not require or obligate Metropolitan to use any of its moneys other than the Operating Revenues. Said covenants will be in effect so long as any of the Bonds issued under the Master Subordinate Resolution are Outstanding.

Compliance with Senior Debt Resolution. Metropolitan will comply in all material respects with the Senior Debt Resolution.

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

Maintenance and Operation of the Water System. Metropolitan will cause the Water System to be maintained in good repair, working order, and condition at all times and will continuously operate the Water System in an efficient and economical manner so that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be compiled with, but Metropolitan will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Water System.

Records and Accounts. Metropolitan will keep proper books of records and accounts of the Water System separate from all other records and accounts in which complete and correct entries will be made of all transactions relating to the Water System. Said books will at all times be subject to the inspection of the Owners of not less than 25 percent of the Outstanding Bonds, or their representatives authorized in writing.

Rates and Charges. In determining the amounts payable with respect to any of the Rate Covenant Amounts and the amounts of rates and charges, Metropolitan may make such allowances for contingencies and error in estimates and may incorporate and use such reasonable assumptions as Metropolitan determines are appropriate and reasonable.
No Priority for Additional Bonds. Except for Senior Debt, no additional bonds, notes or other evidences of indebtedness payable out of the Operating Revenues will be issued having any priority in payment of principal, premium, if any, or interest over the Outstanding Bonds or First Tier Parity Obligations.

Additional Bonds and First Tier Parity Obligations. (a) Except Bonds and First Tier Parity Obligations to the extent incurred to pay or discharge Outstanding Senior Debt, Bonds or First Tier Parity Obligations and which do not result in an increase in the Average Annual Debt Service on all Senior Debt, Bonds or First Tier Parity Obligations to be Outstanding after the issuance of such Bonds or First Tier Parity Obligations, and except for any Bonds or First Tier Parity Obligations issued or incurred in connection with any Commercial Paper Program or Revolving Credit Agreement (which are addressed in clauses (b) and (c) below), Metropolitan will not issue or incur any additional Bonds or First Tier Parity Obligations unless it delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that, as of the Calculation Date (which date will not be any earlier than 60 days preceding the date of delivery of the Bonds or incurrence of First Tier Parity Obligations): (1) no Event of Default has occurred and is continuing under the terms of the Master Subordinate Resolution; and (2) the sum obtained from (A) at the option of Metropolitan, either the amount of (I) the Net Operating Revenues as shown by the books and records of Metropolitan for the applicable NOR Period, or (II) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or First Tier Parity Obligations are in operation, as estimated by and set forth in a Certificate of Metropolitan, plus (B) at the option of Metropolitan, any or all of the items later designated in the foregoing covenant have amounted to not less than Average Annual Debt Service on all Covered Obligations to be Outstanding immediately after the issuance or incurrence of such additional Bonds or First Tier Parity Obligations.

(b) If Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that, as of the Calculation Date (which date will not be any earlier than 60 days preceding the effective date of any such Commercial Paper Program and no later than such effective date): (1) no Event of Default has occurred and is continuing under the terms of the Master Subordinate Resolution; (2) Metropolitan is establishing a Commercial Paper Program and setting forth the maximum principal amount of Commercial Paper Notes issuable under such Commercial Paper Program; and (3) the requirements set forth in the Master Subordinate Resolution are satisfied on the Calculation Date assuming that the amount included in the definition of Debt Service with respect to all Bonds and First Tier Parity Obligations issued or incurred in connection with the Commercial Paper Program (including the Commercial Paper Notes and any Commercial Paper Support) for each Fiscal Year is equal to the amount of Commercial Paper Debt Service based on the principal amount of Commercial Paper Notes that Metropolitan reasonably estimates on the Calculation Date will be Outstanding on the effective date of such Commercial Paper Program; then, for all purposes of the Master Subordinate Resolution, any Bonds and First Tier Parity Obligations issued in connection with a Commercial Paper Program including any Bonds or First Tier Parity Obligations issued under any Commercial Paper Support will be deemed to be issued and incurred on the effective date of establishing the Commercial Paper Program and Metropolitan will not be required to satisfy any of the requirements set forth in the paragraph above at the time of the issuance of any Commercial Paper Notes or the incurrence of any First Tier Parity Obligations in connection with any Commercial Paper Support under such Commercial Paper Program. If Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that any Commercial Paper Program has been terminated, the Commercial Paper Program will be deemed terminated for purposes of the Master Subordinate Resolution (including for purposes of calculating Debt Service). Metropolitan will not deliver any such Certificate at any time at which there are Bonds or First Tier Parity Obligations Outstanding under such Commercial Paper Program, including under any Commercial Paper Support.

(c) If Metropolitan delivers a Certificate of Metropolitan to the Fiscal Agent to the effect that, as of the Calculation Date (which date will not be any earlier than 60 days preceding the effective date of any such Revolving Credit Agreement and no later than such effective date): (1) no Event of Default has occurred and is continuing under the terms of the Master Subordinate Resolution; and (2) the requirements set forth in clause (2) of paragraph (a) above are satisfied assuming that the amount included in the definition of Debt Service with respect to all Bonds and First Tier Parity Obligations issued or incurred in connection with the Revolving Credit Agreement for each Fiscal Year is equal to the amount of Revolving
Credit Agreement Debt Service based on the principal amount that Metropolitan reasonably estimates on the Calculation Date will be Outstanding on the effective date of the Revolving Credit Agreement; then, for all purposes of the Master Subordinate Resolution, any Bonds and First Tier Parity Obligations issued in connection with a Revolving Credit Agreement will be deemed to be issued and incurred on the effective date of the execution of the Revolving Credit Agreement, and Metropolitan will not be required to satisfy any of the requirements set forth in paragraph (a) above the time of the issuance or incurrence of any Bond or First Tier Parity Obligations in connection with such Revolving Credit Agreement.

(d) The items any or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in the Master Subordinate Resolution are the following:

(1) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating Expenses) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or First Tier Parity Obligations or with the proceeds of Senior Debt, Bonds, First Tier Parity Obligations or Second Tier Subordinate Obligations previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of the applicable NOR Period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of Metropolitan.

(2) An allowance for earnings arising from any increase in the charges made for the use of the Water System which has been adopted by the Board before the issuance or incurrence of such additional Bonds or First Tier Parity Obligations but which, during all or any part of the applicable NOR Period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of the applicable NOR Period, as shown by the Certificate of Metropolitan.

(3) Any Additional Revenues for the NOR Period.

(4) Any other moneys of Metropolitan reasonably expected to be available (in any Fiscal Year during which Bonds or First Tier Parity Obligations is Outstanding for purposes of the definition of Debt Service) to pay principal and Accreted Value of and interest on Covered Obligations, as evidenced by a Certificate of Metropolitan.

(e) Any calculation required to be made under the foregoing provisions will be made by Metropolitan in its discretion and any calculation made by Metropolitan for these purposes will be conclusive and binding on the Owners and any other affected Persons for all purposes, absent manifest error. Nothing in the Master Subordinate Resolution will limit the ability of Metropolitan to issue or incur Second Tier Subordinate Obligations and obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all First Tier Parity Obligations and Second Tier Subordinate Obligations, and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Master Subordinate Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all First Tier Parity Obligations and Second Tier Subordinate Obligations, as the same become due and payable and at the times and in the manner as required in the Master Subordinate Resolution or the instruments creating any First Tier Parity Obligations and Second Tier Subordinate Obligations.

Insurance. Metropolitan will procure or provide and maintain, at all times while any of the Bonds remain Outstanding or any First Tier Parity Obligations or Second Tier Subordinate Obligations remain unpaid, insurance or self-insurance against such risks as are usually insured against by other providers of water services similar to those provided by Metropolitan through the Water System. Such insurance or self-insurance will be in an adequate amount as to the risk insured against as determined by Metropolitan. Any
self-insurance will be established in accordance with applicable law and will include reserves or reinsurance in amounts Metropolitan determines to be adequate to protect against risks assumed under such self-insurance including any potential retained liability in the event of the termination of such self-insurance.

The Fiscal Agent

Appointment: Duties of Fiscal Agent. (A) Metropolitan may appoint a Fiscal Agent, who may be the Treasurer or the Controller, or a combination thereof, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent will act as the agent of Metropolitan and will perform such duties and only such duties as are specifically set forth in the Master Subordinate Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants will be read into the Master Subordinate Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent will exercise such of the rights and powers vested in it by the Master Subordinate Resolution or the Supplemental Resolution pursuant to which it was appointed.

(B) Metropolitan may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent ceases to be eligible in accordance with (E) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property is appointed, or any public officer takes control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such Fiscal Agent, and thereupon will appoint a successor Fiscal Agent by an instrument in writing. Notwithstanding the foregoing, the Treasurer or the Controller may only be removed as a Fiscal Agent by a Resolution of the Board.

(C) Each Fiscal Agent may at any time resign by giving 90 days written notice of such resignation to Metropolitan and by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent. Upon receiving such notice of resignation, Metropolitan will promptly appoint a successor Fiscal Agent by an instrument in writing. Notwithstanding the foregoing, in no event may the Treasurer or the Controller resign as a Fiscal Agent unless so directed by a Resolution of the Board.

(D) Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent has been appointed and has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Master Subordinate Resolution, will signify its acceptance of such appointment by executing and delivering to Metropolitan and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, will become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Master Subordinate Resolution. Upon request of the successor Fiscal Agent, Metropolitan and the predecessor Fiscal Agent will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Master Subordinate Resolution in succession to a Fiscal Agent will be either the Treasurer or the Controller or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company will be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the Master Subordinate Resolution the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.
Upon merger, consolidation, or reorganization of a Fiscal Agent, Metropolitan will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent will cease to be eligible in accordance with the foregoing provisions, such Fiscal Agent will resign immediately in the manner and with the effect specified in the Master Subordinate Resolution.

If, by reason of the judgment of any court, a Fiscal Agent for a Series of Bonds or any successor Fiscal Agent is rendered unable to perform its duties under the Master Subordinate Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent will be assumed by and vested in the Treasurer in trust for the benefit of the Bondholders of such Series.

Liability of Fiscal Agent. (A) The recitals of facts in the Master Subordinate Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of Metropolitan, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Master Subordinate Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Master Subordinate Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Master Subordinate Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Master Subordinate Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Master Subordinate Resolution. A Fiscal Agent and its directors, officers, employees or Agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of Metropolitan, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of Metropolitan and make disbursements for Metropolitan and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it will be proved that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Master Subordinate Resolution and perform the duties required of it under the Master Subordinate Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Master Subordinate Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

(C) No provision of the Master Subordinate Resolution will require a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Master Subordinate Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

(D) A Fiscal Agent will not be required to ascertain, monitor or inquire as to the performance or observance by Metropolitan of the terms, conditions, covenants or agreements set forth in the Master Subordinate Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of Metropolitan to make payments with respect to the Bonds when due as set forth in the Master Subordinate Resolution and to file with such Fiscal Agent when due, such reports and certifications as Metropolitan is required to file with each Fiscal Agent under the Master Subordinate Resolution.

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent under the Master Subordinate Resolution will be construed to impose a duty to exercise such power, right or remedy.
A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of Metropolitan, personally or by agent or attorney.

Whether or not therein expressly so provided, every provision of the Master Subordinate Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions of the Master Subordinate Resolution.

Right of Fiscal Agent to Rely on Documents. A Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to Metropolitan, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Master Subordinate Resolution in good faith and in accordance therewith unless it is proved that a Fiscal Agent was negligent in ascertaining the pertinent facts.

Whenever in the administration of the duties imposed upon it by the Master Subordinate Resolution a Fiscal Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Master Subordinate Resolution, such matter (unless other evidence in respect thereof be specifically prescribed in the Master Subordinate Resolution) may be deemed to be conclusively proved and established by a Certificate of Metropolitan, and such Certificate will be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of the Master Subordinate Resolution in reliance upon such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by Metropolitan or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Master Subordinate Resolution.

Modification or Amendment of the Master Subordinate Resolution

Amendments Permitted. (A) (1) The Master Subordinate Resolution and the rights and obligations of Metropolitan, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the Board with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Master Subordinate Resolution.

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

It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent will approve the substance thereof. It will not be necessary for all Bondholders consenting to any amendments or modifications of the Master Subordinate Resolution to consent on one date and Metropolitan may obtain consents from Owners of different Bonds and different Series of Bonds at different times. Promptly after the adoption by the Board of any Supplemental Resolution pursuant to the foregoing provision, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment will mail a notice provided by Metropolitan, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Resolution.

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

Underwriter Consent. The underwriter (as such term is defined in Section 2(a)(11) of the Securities Act of 1933, as amended) of the Bonds of any Series may consent to any amendment on behalf of the Owners of the Bonds of the Series for which it is serving as underwriter with the full force and effect as any other Owner of Bonds.

Consents Effective on Tender. Notwithstanding any provision of the Master Subordinate Resolution to the contrary, the Owners of any Series of Bonds will be deemed to consent to any modification or amendment of the Master Subordinate Resolution and for any other purposes if (a) such amendment becomes effective upon or after the date on which, under the terms and conditions of the Supplemental Resolution under which the Bonds of such Series were issued, the Owners of all Bonds of such Series are required to tender their Bonds for purchase, (b) such amendment does not affect the right of the tendering Owners to receive the payment of the purchase price payable upon such mandatory tender for purchase of the Bonds of such Series, and (c) the content to the amendment is included in a notice of mandatory tender delivered to the Owners.
Amendment to Name of the Bonds and Resolution. Notwithstanding any provision of the Master Subordinate Resolution to the contrary, Metropolitan may modify or amend the name of the Bonds and the name of the Master Subordinate Resolution without the consent of the Owners of the Bonds from time to time and at any time by filing with each Fiscal Agent a Supplemental Resolution and a Certificate of Metropolitan certifying that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt.

Effect of Supplemental Resolution. From and after the time any Supplemental Resolution becomes effective pursuant to the Master Subordinate Resolution, the Master Subordinate Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Master Subordinate Resolution of Metropolitan, each Fiscal Agent and all Owners of Bonds, First Tier Parity Obligations and Second Tier Subordinate Obligations Outstanding will thereafter be determined, exercised and enforced under the Master Subordinate Resolution subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Master Subordinate Resolution for any and all purposes.

Endorsement of Bonds: Preparation of New Bonds. Bonds delivered after any Supplemental Resolution becomes effective pursuant to the Master Subordinate Resolution may, and if a Fiscal Agent so determines will, bear a notation by endorsement or otherwise in form approved by the Board and such Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his Bond for such purpose at the Corporate Trust Office of such Fiscal Agent or at such additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation will be made on such Bond. If a Supplemental Resolution so provides, new Bonds so modified as to conform, in the opinion of the Board and the Fiscal Agent for such Series, to any modification or amendment contained in such Supplemental Resolution, will be prepared and executed by Metropolitan and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the Corporate Trust office of such Fiscal Agent, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

Amendment of Particular Bonds. The provisions of the Master Subordinate Resolution will not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him (even if the effect of the amendment is to increase the amount of debt service on Bonds), provided that due notation thereof is made on such Bonds.

Defeasance

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways: (a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable; (b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Master Subordinate Resolution) to pay or redeem all Bonds Outstanding of the Series; or (c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series. If Metropolitan pays all Series for which any Bonds are Outstanding and also pays or causes to be paid all other sums payable to any provider of a Credit Facility under the Master Subordinate Resolution by Metropolitan, then and in that case, at the election of Metropolitan (evidenced by a Certificate of Metropolitan, filed with each Fiscal Agent, signifying the intention of Metropolitan to discharge all such indebtedness and the Master Subordinate Resolution), and notwithstanding that any Bonds have not been surrendered for payment, the Master Subordinate Resolution and the pledge of Net Operating Revenues and other assets made under the Master Subordinate Resolution and all covenants, agreements and other obligations of Metropolitan under the Master Subordinate Resolution will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of Metropolitan, the Treasurer will cause an accounting for such period or periods as Metropolitan may request to be prepared and filed with Metropolitan and will cause to be
executed and delivered to Metropolitan all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or another fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Master Subordinate Resolution) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption will have been given as provided in the Master Subordinate Resolution or provision satisfactory to such Fiscal Agent will have been made for the giving of such notice, then all liability of Metropolitan in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Master Subordinate Resolution and the continuing duties of the Fiscal Agent for such Series under the Master Subordinate Resolution. Upon defeasance and discharge of any Bond as provided in the Master Subordinate Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond. Metropolitan may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which Metropolitan may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Treasurer. Unless otherwise provided in a Supplemental Resolution (and then only with respect to the Bonds of the Series authorized thereby), whenever in the Master Subordinate Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the funds and accounts established pursuant to the Master Subordinate Resolution for such Bonds and will be one or more of the following: (a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as provided in the Master Subordinate Resolution or provision satisfactory to the Fiscal Agent for such Series will have been made for the giving of such notice, the amount to be deposited or held will be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or (b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Master Subordinate Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice; provided, in each case, that the Fiscal Agent for such Series has been irrevocably instructed (by the terms of the Master Subordinate Resolution or by Request of Metropolitan) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Resolution. Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Master Subordinate Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, will, upon Request of Metropolitan, be released from the trusts created by the Master Subordinate Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent
may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at
the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as
may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and
not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys
held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such
Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on
Bonds of such Series, whether at redemption or maturity, will be held in trust for the account of the Owners
thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary will not be
required to pay Owners any interest on, or be liable to the Owners or any other Person (other than
Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to
pay principal or Accreted Value of or interest on the Bonds will be promptly released to Metropolitan and
will be promptly deposited into the Water Revenue Fund.

Defaults and Remedies

Events of Default. Each of the following events will be an “Event of Default”: (a) default by
Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value on
any Bond (whether at maturity, by acceleration, call for redemption or otherwise); (b) default by
Metropolitan in the due and punctual payment of the interest on any Bond; (c) failure of Metropolitan to
pay any First Tier Parity Obligation when due and payable and such failure continues for a period of 5
Business Days following written notice by any Owner of such First Tier Parity Obligation; (d) failure of
Metropolitan to pay any Second Tier Subordinate Obligations when due and payable and such failure continues for a period of 30 Business Days following written notice by any Owner of such Second Tier
Subordinate Obligations; (e) failure of Metropolitan to observe and perform any of its other covenants,
conditions or agreements under the Master Subordinate Resolution or in the Bonds for a period of 90 days
after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds
then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such
default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to
proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;
(f) the occurrence of an “event of default” under the Senior Debt Resolution; (g) (1) failure of Metropolitan
generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case
under the Federal bankruptcy laws, as now or later constituted, or any other applicable Federal or state
bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver,
liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water
System or any substantial part of Metropolitan’s property, or to the taking possession by any such official
of the Water System or any substantial part of Metropolitan’s property, (4) making by Metropolitan of
any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of
any of the foregoing; (h) the entry of any (1) decree or order for relief by a court having jurisdiction over
Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or later
constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2)
appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for
Metropolitan, the Water System or any substantial part of Metropolitan’s property, or (3) order for the
termination or liquidation of Metropolitan or its affairs; or (i) failure of Metropolitan within 90 days after
the commencement of any proceedings against it under the Federal bankruptcy laws prior any other
applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or
stayed.

The provisions of clause (e) above are subject to the limitation that if by reason of force majeure
Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or
agreements under the Master Subordinate Resolution, Metropolitan will not be deemed in default during the
continuance of such disability. The term “force majeure” as used in the Master Subordinate Resolution
will include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public
enemies; orders of any kind of the government of the United States of America or of the State of California
or of any of their departments, agencies, political subdivisions or officials, or any civil or military authority;
insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods;
washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage
or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan will, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of Metropolitan, and Metropolitan will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders’ Committee. If an Event of Default has occurred and is continuing, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders’ committee (a “Bondholders’ Committee”). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders’ Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders’ Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders’ Committee of the power conferred upon it in the Master Subordinate Resolution, and (c) may provide for the termination of the existence of the Bondholders’ Committee. The Bondholders’ Committee is declared by the Master Subordinate Resolution to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders’ Committee as trustee all the rights and powers conferred in the Master Subordinate Resolution on any Owner, provided, however, that whenever any provision of the Master Subordinate Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Master Subordinate Resolution on the Owners to which such percentage obtains, the Bondholders’ Committee either will have been elected by or their election will have been approved by or concurred in, and such committee will then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders’ Committee, including the names and addresses of its chairman and other members, will be filed with the Authorized Representative.

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

(B) Any Bank Obligations may be subject to acceleration on the terms and conditions set forth in the Supplemental Resolution authorizing such Bonds or the instrument creating such First Tier Parity Obligations. Except for Bank Obligations and except as provided in the Master Subordinate Resolution, no principal due and payable on any Bonds or First Tier Parity Obligations may be accelerated as a result of an Event of Default under the Master Subordinate Resolution or default or event of default under the terms of such Bonds or First Tier Parity Obligations. Any Second Tier Subordinate Obligations may be
subject to acceleration on the terms and conditions set forth in the instrument creating such Second Tier Subordinate Obligations.

Receiver. Upon the occurrence and continuance of an Event of Default for a period of 60 days, the Bondholders’ Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do. No bond will be required of such receiver.

Other Remedies, Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Master Subordinate Resolution.

No remedy conferred by the Master Subordinate Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Bondholders under the Master Subordinate Resolution or now or later existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence in the Master Subordinate Resolution, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default under the Master Subordinate Resolution by the Owners will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

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

Miscellaneous

Liability of Metropolitan Limited to Net Operating Revenues. Notwithstanding anything in the Master Subordinate Resolution or in the Bonds contained, Metropolitan will not be required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Master Subordinate Resolution for any of the purposes mentioned in the Master Subordinate Resolution, whether for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or for any other purpose of the Master Subordinate Resolution.

The general fund of Metropolitan is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of Metropolitan pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond will not compel the exercise of the taxing power by Metropolitan or the forfeiture of any of its property. The principal and Accreted Value of and interest on any Bond and any premiums upon the redemption of any thereof prior to maturity are not a debt of Metropolitan nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.
Successor Is Deemed Included in All References to Predecessor. Whenever in the Master Subordinate Resolution either Metropolitan, the Treasurer or any Fiscal Agent is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Master Subordinate Resolution contained by or on behalf of Metropolitan or any Fiscal Agent will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Metropolitan Fiscal Agents and Bondholders. Nothing in the Master Subordinate Resolution or in the Bonds expressed or implied is intended or will be construed to give to any Person other than Metropolitan, each Fiscal Agent, and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Master Subordinate Resolution or any covenant, condition or provision therein or in the Master Subordinate Resolution contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of Metropolitan, each Fiscal Agent, and the Owners of the Bonds.

Waiver of Notice. Whenever in the Master Subordinate Resolution the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Destruction or Delivery of Canceled Bonds. Whenever in the Master Subordinate Resolution provision is made for the cancellation by a Fiscal Agent and the delivery to the Treasurer of any Bonds, such Fiscal Agent may, in its sole discretion, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of a representative of the Treasurer, if the Treasurer so requires), and deliver a certificate of such destruction to the Treasurer.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Master Subordinate Resolution or in the Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Master Subordinate Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the Master Subordinate Resolution, and the Master Subordinate Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Master Subordinate Resolution. The Board declares by the Master Subordinate Resolution that it would have adopted the Master Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase of the Master Subordinate Resolution and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Master Subordinate Resolution may be held illegal, invalid or unenforceable.

Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by the Master Subordinate Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, will be sufficient for any purpose of the Master Subordinate Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of Metropolitan if made in the manner provided in the Master Subordinate Resolution.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Fiscal Agent for such Series. The Fiscal Agent of a Series may establish a record date as of which to measure consent of the Bondholders of such Series in order to determine whether the requisite consents are received.
Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or Metropolitan in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Master Subordinate Resolution, Bonds which are owned or held by or for the account of Metropolitan, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, Metropolitan or any other obligor on the Bonds (except for any remarketing or other underwriting agent), will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Master Subordinate Resolution if the pledgee establishes to the satisfaction of the Fiscal Agent for such Series the pledgee’s right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, Metropolitan or any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent taken upon the advice of counsel will be full protection to such Fiscal Agent.

Money Held for Particular Bonds. The money held by the Treasurer or a Fiscal Agent for the payment of the interest, principal, Accreted Value or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on Metropolitan’s books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Master Subordinate Resolution.

Funds and Accounts. Any fund required by the Master Subordinate Resolution to be established and maintained by Metropolitan or a Fiscal Agent may be established and maintained in the accounting records of Metropolitan or a Fiscal Agent, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or an account; but all such records with respect to all such funds will at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

Proceedings Constitute Contract. The provisions of the Master Subordinate Resolution will constitute a contract between Metropolitan and the Bondholders of such Bonds, and the provisions of the Master Subordinate Resolution and thereof will be enforceable by any Bondholder for the equal benefit and protection of all Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court of competent jurisdiction.

No remedy conferred by the Master Subordinate Resolution upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any subsequent default or breach of duty or contract or will impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default will impair any such right or power or will be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy will be brought or taken and the Bondholder prevails, said Bondholder will be entitled to receive from the Water Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney’s fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, Metropolitan and the Bondholder
will be restored to their former positions, rights and remedies as if such Suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds of any Series, the Master Subordinate Resolution will be irrepealable, but will be subject to modification to the extent and in the manner provided in the Master Subordinate Resolution, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Master Subordinate Resolution will be deemed to restrict or prohibit Metropolitan from making contracts or creating bonded or other indebtedness payable from the general fund of Metropolitan, as the case may be, or from taxes or any source other than the Net Operating Revenues, and from and after the sale of the Bonds of any Series, the general fund of Metropolitan will not include the Net Operating Revenues and no contract or other obligation payable from the general fund of Metropolitan will be payable from the Net Operating Revenues, except as provided in the Master Subordinate Resolution.

Waiver of Personal Liability. No Board member, officer, agent or employee of Metropolitan or any Fiscal Agent will be individually or personally liable for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof, but nothing contained in the Master Subordinate Resolution will relieve any such Board member, officer, agent or employee of Metropolitan or any Fiscal Agent from the performance of any official duty provided by law or by the Master Subordinate Resolution.

Governing Law. The Master Subordinate Resolution will be construed and governed in accordance with the laws of the State of California.

Payment and Performance on a Business Day. Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day will become due or will be made on the next succeeding Business Day and no interest will accrue for such period.

FIRST SUPPLEMENTAL SUBORDINATE RESOLUTION

Definitions

All terms which are defined in the Master Subordinate Resolution will, unless otherwise defined in the First Supplemental Subordinate Resolution, have the same meanings, respectively, in the First Supplemental Subordinate Resolution. Unless the context otherwise requires, the terms defined in the First Supplemental Subordinate Resolution, for all purposes thereof and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and the plural forms of any of the terms therein defined.

“Ad Hoc Committee” has the meaning ascribed to such term in the First Supplemental Subordinate Resolution.

“Bond Purchase Contract” means a contract for the purchase of one or more Series of Subordinate Refunding Bonds between Metropolitan and the Underwriters for such Series.

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

“Continuing Disclosure Certificate” means the continuing disclosure certificate of Metropolitan, if any, delivered by Metropolitan in connection with the issuance of a Series of Subordinate Refunding Bonds.

“Credit/Liquidity Support Arrangement” means one or more letters of credit, lines of credit, credit agreements, standby bond purchase agreements or insurance policies pursuant to which one or more banks, insurers or any other financial institutions agree to pay the purchase price of, or to purchase, any tendered Subordinate Refunding Bonds or pursuant to which one or more banks, insurers or any other financial institutions guarantee timely payment of or otherwise agree to pay the principal of and interest on any Subordinate Refunding Bonds.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Escrow Agent” means the escrow agent selected and appointed by an Authorized Representative in accordance with the First Supplemental Subordinate Resolution to act in accordance with and to carry out the Escrow Instructions relating to a Series of Subordinate Refunding Bonds.

“Escrow Instructions” means the escrow instructions relating to any Series of Subordinate Refunding Bonds authorized or required by the First Supplemental Subordinate Resolution.

“Escrow Requirements” means those amounts necessary from time to time to pay when due the redemption price of Refunded Bonds on the redemption date or other date specified in the applicable Escrow Instructions, and the principal, if any, and the interest to become due on the Refunded Bonds on or before such redemption date.

“Excess Earnings Fund” means the Subordinate Water Revenue Refunding Bonds Excess Earnings Fund established for such Series pursuant to the First Supplemental Subordinate Resolution.

“Fiscal Agent” means the Treasurer of Metropolitan.

“Nominee” means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant to the First Supplemental Subordinate Resolution.

“Participants” means those broker-dealers, banks and other financial institutions for which the Securities Depository holds certificates as securities depository.

“Paying Agent” means any paying agent appointed pursuant to the Trust Agreement relating to a Series of Subordinate Refunding Bonds.

“Refunded Bonds” has the meaning ascribed thereto under the caption “Sale of Subordinate Refunding Bonds; Application; Funds; Covenants-Establishment and Application of Escrow Funds-Establishment of Escrow Instructions and Appointment of Escrow Agent.”

“Remarketing Agent” means a remarketing agent appointed by Metropolitan from time to time pursuant to the applicable Trust Agreement.

“Remarketing Agreement” means a remarketing agreement between Metropolitan and a Remarketing Agent pursuant to which, among other terms and conditions, the Remarketing Agent agrees to remarket Subordinate Refunding Bonds of a Series and, if applicable, to determine the daily, weekly or other periodically determined interest rate of Subordinate Refunding Bonds of such Series.

“Representation Letter” means each representation letter from Metropolitan to the Securities Depository as described in the First Supplemental Subordinate Resolution.
“Reserve Fund” means a Subordinate Water Revenue Refunding Bonds Reserve Fund established for a Series of Subordinate Refunding Bonds pursuant to the First Supplemental Subordinate Resolution.

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

“Revolving Credit Facilities” means one or more credit facilities or credit agreements with one or more banks or other financial institutions pursuant to which such banks or financial institutions commit to lend a maximum amount that Metropolitan may borrow from time to time for the purpose of providing Metropolitan funds to pay the purchase price of (a) any tendered Subordinate Refunding Bonds of one or more Series or (b) any other tendered Bonds of one or more Series authorized by any Supplemental Resolution.

“Securities Depository” means the Securities Depository (initially DTC) acting as such under the First Supplemental Subordinate Resolution and which may be Metropolitan.

“Subordinate Refunding Bonds” has the meaning ascribed thereto in the First Supplemental Subordinate Resolution.

“Tax and Nonarbitrage Certificate” means the tax and nonarbitrage certificate delivered by Metropolitan in connection with the issuance of a Series of Subordinate Refunding Bonds.

“Trust Agreement” means such trust agreement, paying agent agreement or such other instrument or instrument executed and delivered in connection with the issuance of any Series of Subordinate Refunding Bonds which sets forth the terms and conditions of the Subordinate Refunding Bonds of such Series and which appoints a Paying Agent in respect of such Series.

“Underwriters” means the original purchaser or purchasers of a Series of Subordinate Refunding Bonds, as selected by the General Manager or his or her designee.

The Subordinate Refunding Bonds

CUSIP Identification Numbers. The Underwriters will order, and Metropolitan will cause to be printed on the Subordinate Refunding Bonds, CUSIP identification numbers. However, CUSIP identification numbers will be deemed to not be part of the Subordinate Refunding Bonds or a part of the contract evidenced thereby and no liability will attach to Metropolitan or its officers, employees or agents because of or on account of such CUSIP identification numbers.

Book-Entry System. The Fiscal Agent will pay all principal of and interest on the Subordinate Refunding Bonds of any Series only to or upon the order of the respective Owners, as shown in the Bond Register of the Fiscal Agent, or their respective attorneys, duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the obligations under the First Supplemental Subordinate Resolution with respect to the payment of principal of, and interest on, the Subordinate Refunding Bonds of such Series to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register of the Fiscal Agent, will receive a Subordinate Refunding Bond of any Series evidencing the obligation to make payments of principal and interest and premium, if any, pursuant to the First Supplemental Subordinate Resolution. Upon delivery by the Securities Depository to the Fiscal Agent and Metropolitan of written notice to the effect that the Securities Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the First Supplemental Subordinate Resolution with respect to record dates, the word Nominee in the First Supplemental Subordinate Resolution will refer to such new nominee of the Securities Depository.

Representation Letter. To qualify the Subordinate Refunding Bonds of any Series for the Securities Depository’s book-entry system, each Authorized Representative is authorized by the First Supplemental Subordinate Resolution to execute and deliver on behalf of Metropolitan to such Securities Depository a
letter, if necessary, from Metropolitan representing such matters as is necessary to so qualify the Subordinate Refunding Bonds of such Series (the “Representation Letter”). The execution and delivery of the Representation Letter will not in any way limit the provisions of the First Supplemental Subordinate Resolution or in any other way impose upon Metropolitan any obligation whatsoever with respect to persons having interests in the Subordinate Refunding Bonds other than the Owners, as shown on the Bond Register of the Fiscal Agent. In the Representation Letter, the Fiscal Agent will agree to take all actions necessary to comply with all representations of Metropolitan in the Representation Letter. In addition to the execution and delivery of the Representation Letter, each Authorized Representative of Metropolitan is authorized by the First Supplemental Subordinate Resolution to take any other actions, not inconsistent with the First Supplemental Subordinate Resolution, to qualify the Subordinate Refunding Bonds of any Series for the Securities Depository’s book-entry program.

Transfers Outside Book-Entry System. In the event (a) the Securities Depository determines not to continue to act as securities depository for the Subordinate Refunding Bonds of any Series, or (b) Metropolitan determines that the Securities Depository will, subject to the provisions of the Trust Agreement for the Subordinate Refunding Bonds of such Series, no longer so act and delivers a written certificate to the Fiscal Agent to that effect, then Metropolitan will discontinue the book-entry system with the Securities Depository. Subject to the provisions of the related Trust Agreement for the Subordinate Refunding Bonds of any Series, if Metropolitan determines to replace the Securities Depository with another qualified securities depository, Metropolitan will prepare or direct the preparation of a new, single, separate, fully registered Subordinate Refunding Bond for each maturity of the Subordinate Refunding Bonds of such Series, registered in the name of such successor or substitute qualified securities depository or its nominee, or make such other arrangement acceptable to Metropolitan and the Securities Depository as are not inconsistent with the terms of the First Supplemental Subordinate Resolution. If Metropolitan fails to identify another qualified securities depository to replace the Securities Depository, the Subordinate Refunding Bonds of such Series will no longer be restricted to being registered in the Bond Register of the Fiscal Agent in the name of the Nominee, but will be registered in whatever name or names the Participants transferring or exchanging Subordinate Refunding Bonds will designate, in accordance with the provisions of the Master Subordinate Resolution and the provisions of the Trust Agreement for such Series.

Payments and Notices to the Nominee. Notwithstanding any other provision of the First Supplemental Subordinate Resolution or the Master Subordinate Resolution to the contrary, so long as any Subordinate Refunding Bond is registered in the name of the Nominee, all payments with respect to principal of, and interest and premium, if any, on, such Subordinate Refunding Bond and all notices with respect to such Subordinate Refunding Bond will be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Securities Depository.

Sale of Subordinate Refunding Bonds; Application; Funds; Covenants

Establishment and Application of Escrow Funds.

(A) Establishment of Escrow Funds. In connection with the issuance of any Series of Subordinate Refunding Bonds, Metropolitan will establish a special trust fund with respect to the Refunded Bonds. Such special fund will be designated as the “Subordinate Water Revenue Refunding Bonds Escrow Fund” and will bear such additional designation as will be determined by an Authorized Representative. Each Escrow Fund established pursuant to the terms of the First Supplemental Subordinate Resolution will be held by the Escrow Agent for such Series of Subordinate Refunding Bonds pursuant to the Escrow Instructions for such Series of Subordinate Refunding Bonds. Moneys in the Escrow Fund for such Series of Subordinate Refunding Bonds will be applied solely as provided in the Escrow Instructions for such Series of Subordinate Refunding Bonds.

(B) Establishment of Escrow Instructions and Appointment of Escrow Agent. Each Authorized Representative has been severally authorized and directed to execute and deliver one or more Escrow Instructions for each Series of Subordinate Refunding Bonds, and to select and appoint the Escrow Agent.
for each such Series. The Escrow Agent may be any bank or trust company within or without the State of California, or both within and without said State, except as otherwise required by the documentation pursuant to which the Refunded Bonds were issued or incurred. The selection and appointment of the Escrow Agent will be subject to such terms and conditions, and the Escrow Instructions will contain such terms, conditions and provisions, as such Authorized Representative, acting in his or her sole discretion, deems to be in the best interests of Metropolitan in providing for the refunding of all or a portion of the Refunded Bonds from time to time, subject to the documentation pursuant to which the Refunded Bonds were issued or incurred. An Authorized Representative may direct that the Escrow Instructions with respect to a Series of Subordinate Refunding Bonds provide for the refunding of such Refunded Bonds, as such Authorized Representative will, in his or her sole discretion, deem to be the best interests of Metropolitan, by depositing in the Escrow Fund established for such Refunded Bonds that amount of moneys necessary to purchase Federal Securities or Municipal Obligations or such other investments as are permitted or required by the documentation pursuant to which the Refunded Bonds were issued or incurred, the principal of and the interest on which when due will provide moneys which will be sufficient to pay when due the Escrow Requirements with respect to the related Refunded Bonds.

The Escrow Instructions for each Series of Subordinate Refunding Bonds will specify which Covered Obligations or other indebtedness or obligations for borrowed money are to be refunded by such Series. The Covered Obligations or other indebtedness or obligations which are specified by the Escrow Instructions for such Series of Subordinate Refunding Bonds as the obligations to be refunded by a Series of Subordinate Refunding Bonds are referred to in the First Supplemental Subordinate Resolution as the “Refunded Bonds.”

The Escrow Instructions for each Series of Subordinate Refunding Bonds may provide that upon receipt of certificate from an Authorized Representative directing the Escrow Agent with respect to such Series to do so, the Escrow Agent may substitute other Federal Securities or Municipal Obligations for those initially purchased for the Escrow Fund with respect to such Series only if (i) a nationally recognized firm of independent certified public accountants will certify that the Federal Securities or Municipal Obligations to be substituted, together with the Federal Securities or Municipal Obligations and uninvested amounts which will continue to be held in such funds will mature at such times and in such amounts to satisfy the applicable Escrow Requirements when due, and (ii) with respect to Refunded Bonds issued on the basis that the interest thereon would not be included in gross income for purposes of federal income taxation, Metropolitan will have received an Opinion of Bond Counsel to the effect that the sale, transfer, redemption or other disposition and substitution of such Federal Securities or Municipal Obligations does not cause interest on either the related Refunded Bonds or the Subordinate Refunding Bonds of the related Series to be included in gross income for purposes of federal income taxation under relevant provisions of the Code.

Establishment and Application of Excess Earnings Funds. To ensure proper compliance with the tax covenants contained in the First Supplemental Subordinate Resolution, if required by the related Tax and Nonarbitrage Certificate, Metropolitan will establish and the Treasurer will maintain a fund for each Series of Subordinate Refunding Bonds issued under the First Supplemental Subordinate Resolution, which fund will be separate from any other fund or account established and maintained under the First Supplemental Subordinate Resolution or under the Master Subordinate Resolution and will be designated as the “Subordinate Water Revenue Refunding Bonds Excess Earnings Fund” and will bear such additional designation as will be determined by an Authorized Representative. All money at any time deposited in the Excess Earnings Fund for such Series of Subordinate Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series will be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor any Owner of Subordinate Refunding Bonds of such Series will have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund will be governed by the First Supplemental Subordinate Resolution and by the Tax and Nonarbitrage Certificate with respect to such Series. The Treasurer will invest all amounts held in any such Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money will not be transferred from the Excess Earnings Fund established for a Series of Subordinate Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.
**Tax Covenants.** Except with respect to Subordinate Refunding Bonds the interest of which is included in the gross income of the Owners thereof, to maintain the exclusion from gross income of the interest on the Subordinate Refunding Bonds for federal income tax purposes, Metropolitan has covenanted to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and Metropolitan has agreed to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate which by reference is incorporated in the First Supplemental Subordinate Resolution, as a source of guidance for compliance with such provisions.

Notwithstanding any other provisions of the Master Subordinate Resolution or the First Supplemental Subordinate Resolution to the contrary, upon Metropolitan’s failure to observe, or refusal to comply with, the foregoing covenant, no Person other than the Owners of the Subordinate Refunding Bonds of the related Series will be entitled to exercise any right or remedy provided to the Owners under the Master Subordinate Resolution or the First Supplemental Subordinate Resolution on the basis of Metropolitan’s failure to observe, or refusal to comply with, such covenant.

**Undertakings**

**Municipal Securities Disclosure.** Metropolitan is authorized to enter into a Continuing Disclosure Certificate with respect to a Series of Subordinate Refunding Bonds if necessary or appropriate in order for the Underwriters to comply with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, or if the Ad Hoc Committee otherwise determines that it is appropriate that Metropolitan do so. Metropolitan has agreed by the First Supplemental Subordinate Resolution to provide or cause to be provided certain annual financial information and notices of certain material events with respect to each Series of Subordinate Refunding Bonds in accordance with the terms of a related Continuing Disclosure Certificate, if any, delivered by Metropolitan in connection with such Series of Subordinate Refunding Bonds.

Default. Failure to comply with the disclosure undertakings provisions of the First Supplemental Subordinate Resolution will not be deemed an Event of Default under the Master Subordinate Resolution. The sole remedy under the First Supplemental Subordinate Resolution in the event of any failure of Metropolitan to comply with the disclosure undertakings provisions of the First Supplemental Subordinate Resolution will be an action to compel performance, and no person or entity will be entitled to recover monetary damages under the First Supplemental Subordinate Resolution under any circumstances.

**Amendment.** The disclosure undertakings provisions of the First Supplemental Subordinate Resolution may be amended, supplemented, modified or deleted, from time to time and at any time, as Metropolitan may determine without the consent of any Owner of the Subordinate Refunding Bonds.

**Miscellaneous**

**Subordinate Refunding Bonds Subject to the Master Subordinate Resolution.** Except as expressly provided in the First Supplemental Subordinate Resolution, every term and condition contained in the Master Subordinate Resolution will apply to the First Supplemental Subordinate Resolution and to the Subordinate Refunding Bonds with the same force and effect as if it were set forth at length in the First Supplemental Subordinate Resolution, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the First Supplemental Subordinate Resolution. The Master Subordinate Resolution, as amended and supplemented by the First Supplemental Subordinate Resolution, is in all respects ratified and approved.

**Severability of Invalid Provisions.** If any one or more of the provisions contained in the First Supplemental Subordinate Resolution or in the Subordinate Refunding Bonds will for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the First Supplemental Subordinate Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the First Supplemental Subordinate Resolution, and the First Supplemental Subordinate Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the First Supplemental Resolution.
Subordinate Resolution. Metropolitan declares by the First Supplemental Subordinate Resolution that it would have adopted the First Supplemental Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase of the First Supplemental Subordinate Resolution and authorized the issuance of the Subordinate Refunding Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the First Supplemental Subordinate Resolution may be held illegal, invalid or unenforceable.

Governing Law. The First Supplemental Subordinate Resolution will be construed and governed in accordance with the laws of the State of California.

THIRD SUPPLEMENTAL SUBORDINATE RESOLUTION

Application of Bond Proceeds; Establishment of Funds; Covenants

Application of Construction Fund. The moneys in the Subordinate Water Revenue Bonds, 2017 Series C Construction Fund (the “Construction Fund”), which Metropolitan will establish and maintain under the Third Supplemental Subordinate Resolution, will be disbursed by Metropolitan to pay the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Water System and any facilities related thereto (the “Construction Costs”). All investment earnings on funds held in the Construction Fund will be credited to such fund unless otherwise specified in a Certificate of an Authorized Representative. Metropolitan will keep a record of all payments from the Construction Fund, which record will state: (1) the item number of such payment; (2) the name and address of the person to whom each such payment is due, which may be Metropolitan in the case of reimbursement for costs theretofore paid by Metropolitan; and (3) the purpose by general classification for which each obligation to be paid was incurred.

Application of Excess Earnings Fund. All money at any time deposited in the Subordinate Water Revenue Bonds, 2017 Series C Excess Earnings Fund (the “Excess Earnings Fund”), which Metropolitan will establish and maintain under the Third Supplemental Subordinate Resolution, in accordance with the provisions of the and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of the 2017C Subordinate Bonds (the “Tax Certificate”) will be held by Metropolitan in trust for the payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any 2017C Subordinate Bonds will have any rights in or claim to such money. All amounts deposited into or on deposit in the Excess Earnings Fund will be governed by the Third Supplemental Subordinate Resolution and the Tax Certificate. Metropolitan will invest all amounts held in the Excess Earnings Fund in accordance with the Tax Certificate. Moneys may not be transferred from the Excess Earnings Fund except in accordance with the Tax Certificate.
APPENDIX 2

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION
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SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION

The following is a summary of certain provisions of the Senior Debt Resolution. This summary does not purport to be complete and is qualified in its entirety by reference to the Senior Debt Resolution for a complete statement of provisions thereof.

Definitions

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

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

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

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

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

“Authorized Investments” means, any investments in which Metropolitan may legally invest sums subject to its control pursuant to Sections 53601 and 53635 of the California Government Code, as further restricted by the Administrative Code of Metropolitan (as amended from time to time), as certified to each Fiscal Agent, and will include Designated Investments.

“Authorized Representative” means each of the General Manager and the Director of Finance and any other officer or employee of Metropolitan authorized by the General Manager or the Director of Finance to act as an Authorized Representative.

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

“Bond Register” means the Bond Register as defined in the Senior Debt Resolution.

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

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

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

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

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

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of Metropolitan means, respectively, a written certificate, statement, request, requisition or order signed by an Authorized Representative.

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

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

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

“Designated Investments” means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series.

“Director of Finance” means the Chief Financial Officer of Metropolitan.

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

“Expenditures” means cash disbursements of Metropolitan.

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

“Final Compounded Amount” means the Accreted Value of any Capital Appreciation Bond on its maturity date.

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

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

“General Manager” means the General Manager of Metropolitan.

“Initial Amount” means the principal amount of a Capital Appreciation Bond on the date of issuance and delivery to the original purchaser thereof.

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

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

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

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

(c) if the Parity Obligations or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Obligations or Bonds, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the lesser of (i) the then current “prime rate” of the provider of the Credit Facility and (ii) the maximum rate permitted on the Parity Obligations or Bonds;
(d)principal and interest payments on Parity Obligations and Bonds will be excluded to the extent such payments are to be paid from amounts on deposit (and investment earnings thereon) as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Obligations or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

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

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

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

(i) 0 and

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

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

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

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

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

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

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

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and
the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

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

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

“Operation and Maintenance Expenditures” means the necessary Expenditures for operating and maintaining the properties, works, and facilities of Metropolitan and will include (i) Expenditures for such charges as may be payable by Metropolitan under the State Water Contract and under that certain contract entitled “The Devil Canyon - Castaic Contract” between Metropolitan and certain other Southern California public agencies, dated June 23, 1972, as amended from time to time, which charges constitute operation, maintenance, power and replacement charges, (ii) any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants and (iii) such other Expenditures of Metropolitan generally classified as operating and maintenance Expenditures, excluding any charges for depreciation or amortization. Notwithstanding the preceding sentence, for purposes of payment of Operation and Maintenance Expenditures only, Operation and Maintenance Expenditures will not include a portion of any payment calculated pursuant to Section 25(d) of the first aforementioned contract which Metropolitan determines is attributable to the capital costs of off-aqueduct power facilities, as such facilities are defined in Article (1)(i)(2) of such contract.

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

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

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

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

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

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

“Prior Lien Bonds” means the bonds issued and outstanding pursuant to the Prior Lien Bonds Resolutions.

“Prior Lien Bonds Maximum Annual Debt Service” with respect to the Prior Lien Bonds means the largest of the sums obtained by totaling for the current Fiscal Year and each future Fiscal Year (a) the principal amount of serial Prior Lien Bonds maturing during such Fiscal Year, (b) the principal amount of term Prior Lien Bonds maturing or required to be paid during such Fiscal Year, together with any premium thereon, and (c) the interest which would be due during such Fiscal Year on such serial Prior Lien Bonds and term Prior Lien Bonds; all after excluding from such amounts principal and interest on Prior Lien Bonds previously retired.


“Rating Agencies” means either or both of Moody's Investors Service and Standard & Poor's Ratings Services and such other securities rating agencies providing a rating with respect to a Series of Bonds.

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

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

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

“Resolutions” means, collectively, the Senior Debt Resolution as supplemented, modified or amended by each Supplemental Resolution.

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

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

“State” means the State of California.

“Supplemental Resolution” means any resolution duly adopted by Metropolitan, supplementing, modifying or amending the Senior Debt Resolution, in accordance with its provisions.

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

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

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

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

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

**General**

The Senior Debt Resolution authorizes the creation of the “The Metropolitan Water District of Southern California Water Revenue Bonds,” which Bonds may be issued in an unlimited principal amount and will be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Senior Debt Resolution.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Senior Debt Resolution, by the Person in whose name it is registered, in Person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond.

Whenever any Bond or Bonds of a Series are surrendered for transfer, Metropolitan will execute and the Fiscal Agent for that Series will authenticate and deliver a new Bond or Bonds, of the same Series, tenor and maturity and for a like aggregate principal amount; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to register a transfer of any Bonds within 15 days before the date of selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. A Fiscal Agent may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bond so selected for redemption. The Fiscal Agent will require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.
Bond Register. The Fiscal Agent for each Series of Bonds will keep or cause to be kept at its designated office sufficient books for the registration and transfer of the Bonds of that Series, which will at all times be open to inspection during normal business hours by Metropolitan; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Senior Debt Resolution.

Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, will be of such denomination as may be determined by Metropolitan, will be in registered form and may contain such reference to any of the provisions of the Senior Debt Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond will be executed by Metropolitan and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If Metropolitan issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Senior Debt Resolution as definitive Bonds authenticated and delivered under the Senior Debt Resolution.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, Metropolitan at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond will be cancelled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to Metropolitan and the Fiscal Agent for that Bond and, if such evidence be satisfactory to both that Fiscal Agent and Metropolitan and indemnity satisfactory to them will be given, Metropolitan at the expense of the Owner, will execute, and that Fiscal Agent will thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent for that Series may pay the same without surrender thereof upon receipt of the aforementioned indemnity). Metropolitan may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under the Senior Debt Resolution and of the expenses which may be incurred by Metropolitan and the Fiscal Agent in the premises. Any Bond issued under the provisions of the Senior Debt Resolution in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of Metropolitan whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Senior Debt Resolution with all other Bonds secured by the Senior Debt Resolution. Neither Metropolitan nor any Fiscal Agent will be required to treat both the original Bond and any substitute Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Senior Debt Resolution or for the purpose of determining any percentage of Bonds Outstanding under the Senior Debt Resolution, but both the original and substitute Bond will be treated as one and the same.

Supplemental Resolutions; Additional Bonds

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

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

**Redemption of Bonds**

**Terms of Redemption.** Each Series of Bonds may be made subject to redemption prior to its respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Resolution creating such Series of Bonds.

**Redemption at the Direction of Metropolitan.** In the case of any redemption of Bonds at the direction of Metropolitan, Metropolitan will select the series, maturities and principal amounts thereof to be redeemed and the Treasurer will give written notice to the Fiscal Agent for each Series of Bonds to be redeemed specifying the redemption date and the maturities and Bond Obligation amounts of such Series to be redeemed, and directing the Fiscal Agent to give notice of redemption to the Owners of Bonds selected for redemption. Metropolitan will give such notice at least 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent for that Series may give notice of redemption to the Owners of the Bonds of that Series.

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

**Revenues**

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

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

Establishment of Funds and Accounts; Application. Metropolitan will establish, continue and maintain, as appropriate, in accordance with the terms of the Prior Lien Bonds Resolutions and of the Senior Debt Resolution, the following funds and accounts:

1. Water Revenue Fund (the “Water Revenue Fund”);
2. Operation and Maintenance Fund (the “Operation and Maintenance Fund”);
3. Water Revenue Bonds, Bond Service Fund (the “Bond Service Fund”); and
4. Revenue Remainder Fund (the “Revenue Remainder Fund”). All funds and accounts established or continued under the Senior Debt Resolution or by any Supplemental Resolution will be held by the Treasurer or, if applicable, a Fiscal Agent and will be accounted for separate and apart from all other funds and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with the Senior Debt Resolution and any Supplemental Resolution.

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

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

   (ii) Bond Service Fund. Upon delivery of the Bonds to the purchasers thereof, the amount specified pursuant to the Senior Debt Resolution will be placed in the Bond Service Fund.

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

No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Senior Debt Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates), and (ii) there is in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Senior Debt Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

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

(iii) Reserve Funds. Metropolitan will deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there will be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues will be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency.

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

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

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

Application of Funds and Accounts. All amounts in the Bond Service Fund will be used and withdrawn by the Treasurer solely for the purposes of paying (i) interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers; and (ii) the Bond Obligation of the Bonds when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers.

Notwithstanding the paragraph above, moneys in the Bond Service Fund may be applied to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (1) within the next six months in the case of Bonds subject to semi-annual maturity dates or (2) within the next twelve months in the case of Bonds subject to annual maturity dates (but only to the extent of amounts deposited in the Bond Service Fund in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges) as is directed by Metropolitan, except that the purchase price (excluding accrued interest, in the case of current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Reserve Funds. Amounts on deposit in any reserve fund or account for a Series of Bonds will be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.
Excess Earnings Funds. Amounts on deposit in any excess earnings or rebate fund or account established for a Series of Bonds will be used and withdrawn as provided in the Supplemental Resolution authorizing the issuance of such Series.

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

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Senior Debt Resolution will be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent. Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account will be credited to such fund or account when received. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment will be credited to the fund or account from which such accrued interest was paid.

Unless otherwise provided in a Supplemental Resolution with respect to a fund or account created pursuant to that Supplemental Resolution, the Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Senior Debt Resolution into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Treasurer or any Fiscal Agent under the Senior Debt Resolution will be accounted for separately as required by the Senior Debt Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent will keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records will specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and will set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.
Covenants

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

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

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

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

Metropolitan has covenanted that any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain or sale under threat thereof which adversely affects the adequacy of Net Operating Revenues to pay principal and Accreted Value of and interest on the Bonds or any Parity Obligations will either be used for the acquisition and/or construction of improvements and extensions of the Water System or will be placed in the Bond Service Fund or the Redemption Fund and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Senior Debt Resolution.
Insurance. Metropolitan has covenanted that it will at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Water System will be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, will be applied to the retirement of any Outstanding Bonds.

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

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

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

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

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

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

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

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operation and Maintenance Expenditures) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or with the proceeds of bonds previously issued, and also for net

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revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate of Metropolitan.

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

(c) Any Additional Revenues.

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

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

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

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

The Fiscal Agent

Appointment; Duties of Fiscal Agent. Metropolitan may appoint a Fiscal Agent, who may be the Treasurer or the Controller, or a combination thereof, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent will act as the agent of Metropolitan and will perform such duties and only such duties as are specifically set forth in the Senior Debt Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants will be read into the Senior Debt Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent will exercise such of the rights and powers vested in it by the Senior Debt Resolution or the Supplemental Resolution pursuant to which it was appointed.

Metropolitan may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent ceases to be eligible in accordance with paragraph (E) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property is appointed, or any public officer takes control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving
written notice of such removal to such Fiscal Agent, and thereupon will appoint a successor Fiscal Agent by an instrument in writing. Notwithstanding the foregoing, the Treasurer or the Controller may only be removed as a Fiscal Agent by a resolution of the Board.

Each Fiscal Agent may at any time resign by giving 90 days written notice of such resignation to Metropolitan and by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent. Upon receiving such notice of resignation, Metropolitan will promptly appoint a successor Fiscal Agent by an instrument in writing. Notwithstanding the foregoing, in no event may the Treasurer or the Controller resign as a Fiscal Agent unless so directed by a resolution of the Board.

Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent has been appointed and has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Senior Debt Resolution, will signify its acceptance of such appointment by executing and delivering to Metropolitan and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, will become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Senior Debt Resolution. Upon request of the successor Fiscal Agent, Metropolitan and the predecessor Fiscal Agent will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Senior Debt Resolution in succession to a Fiscal Agent will be either the Treasurer or the Controller or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company will be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

Upon merger, consolidation, or reorganization of a Fiscal Agent, Metropolitan will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent ceases to be eligible in accordance with the provisions of the Senior Debt Resolution, such Fiscal Agent will resign immediately in the manner and with the effect specified in the Senior Debt Resolution.

If, by reason of the judgment of any court, a Fiscal Agent for a Series of Bonds or any successor Fiscal Agent is rendered unable to perform its duties under the Senior Debt Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent will be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

**Liability of Fiscal Agent.** The recitals of facts in the Senior Debt Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of Metropolitan, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Senior Debt Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Senior Debt Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Senior Debt Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be
A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it is proved that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers hereof and perform the duties required of it under the Senior Debt Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Senior Debt Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

No provision of the Senior Debt Resolution will require a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Senior Debt Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

A Fiscal Agent will not be required to ascertain, monitor or inquire as to the performance or observance by Metropolitan of the terms, conditions, covenants or agreements set forth in the Senior Debt Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of Metropolitan to make payments with respect to the Bonds when due as set forth in the Senior Debt Resolution and to file with such Fiscal Agent when due, such reports and certifications as Metropolitan is required to file with each Fiscal Agent under the Senior Debt Resolution.

No permissive power, right or remedy (if any) conferred upon a Fiscal Agent under the Senior Debt Resolution will be construed to impose a duty to exercise such power, right or remedy.

A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent determines to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of Metropolitan, personally or by agent or attorney.

Whether or not therein expressly so provided, every provision of the Senior Debt Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions of the Senior Debt Resolution.

Right of Fiscal Agent to Rely on Documents. A Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to Metropolitan, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent will be full and complete authorization and protection in respect of any action taken or suffered by it under the Senior Debt Resolution in good faith and in accordance therewith unless it is proved that a Fiscal Agent was negligent in ascertaining the pertinent facts.
Whenever in the administration of the duties imposed upon it by the Senior Debt Resolution a Fiscal Agent will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Senior Debt Resolution, such matter (unless other evidence in respect thereof be specifically prescribed in the Senior Debt Resolution) may be deemed to be conclusively proved and established by a Certificate of Metropolitan, and such Certificate will be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of the Senior Debt Resolution in reliance upon such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by Metropolitan or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Senior Debt Resolution.

Amendments to Senior Debt Resolution

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

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

It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent approves the substance thereof. Promptly after the adoption by the Board of any Supplemental Resolution pursuant to the Senior Debt Resolution, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment will mail a notice provided by Metropolitan, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Resolution.

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

Effect of Supplement Resolution. From and after the time any Supplemental Resolution becomes
effective pursuant to the Senior Debt Resolution, the Senior Debt Resolution will be deemed to be modified
and amended in accordance therewith, and the respective rights, duties and obligations under the Senior
Debt Resolution of Metropolitan, each Fiscal Agent and all Owners of Bonds Outstanding will thereafter
be determined, exercised and enforced under the Senior Debt Resolution subject in all respects to such
modification and amendment, and all the terms and conditions of any such Supplemental Resolution will
be deemed to be part of the terms and conditions of the Senior Debt Resolution for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after any Supplemental
Resolution becomes effective pursuant to the Senior Debt Resolution may, and if a Fiscal Agent so
determines will, bear a notation by endorsement or otherwise in form approved by the Board and such
Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and,
in that case, upon demand of the owner of any Bond outstanding at the time of such execution and
presentation of his Bond for such purpose at the corporate trust office of such Fiscal Agent or at such
additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation will
be made on such Bond. If a Supplemental Resolution so provides, new Bonds so modified as to conform,
in the opinion of the Board and the Fiscal Agent for such Series, to any modification or amendment
contained in such Supplemental Resolution, will be prepared and executed by Metropolitan and
authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then outstanding will
be exchanged at the corporate trust office of such Fiscal Agent, without cost to any Bondholder, for
Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal
amounts of the same Series, tenor and maturity.

Amendment of Particular Bonds. The provisions of the Senior Debt Resolution will not prevent
any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due
notation thereof is made on such Bonds.

Defeasance

Discharge of Senior Debt Resolution. Except as may be provided in any Supplemental Resolution
creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways:
(a) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the
Series, as and when the same become due and payable; (b) by depositing with the Treasurer, the Fiscal
Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities
in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or (c) by delivering to the
Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If Metropolitan pays all Series for which any Bonds are Outstanding and also pay or cause to be
paid all other sums payable to any provider of a Credit Facility under the Senior Debt Resolution by
Metropolitan, then and in that case, at the election of Metropolitan (evidenced by a Certificate of
Metropolitan, filed with each Fiscal Agent, signifying the intention of Metropolitan to discharge all such
indebtedness and the Senior Debt Resolution), and notwithstanding that any Bonds have not been surrendered for payment, the Senior Debt Resolution and the pledge of Net Operating Revenues and other assets made under the Senior Debt Resolution and all covenants, agreements and other obligations of Metropolitan under the Senior Debt Resolution will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of Metropolitan, the Treasurer will cause an accounting for such period or periods as Metropolitan may request to be prepared and filed with Metropolitan and will cause to be executed and delivered to Metropolitan all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Senior Debt Resolution) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption has been given as provided in the Senior Debt Resolution or provision satisfactory to such Fiscal Agent has been made for the giving of such notice, then all liability of Metropolitan in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Senior Debt Resolution and the continuing duties of the Fiscal Agent for such Series under the Senior Debt Resolution. Upon defeasance and discharge of any Bond as provided in the Senior Debt Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond.

Metropolitan may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which Metropolitan may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Treasurer. Unless otherwise provided in a Supplemental Resolution (and then only with respect to the Bonds of the Series authorized thereby), whenever in the Senior Debt Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the funds and accounts established pursuant to the Senior Debt Resolution and will be one or more of the following: (a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Senior Debt Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice, the amount to be deposited or held will be the Bond Obligation or Redemption Price of such Bonds and unpaid interest thereon to the redemption date; or (b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof; notice of such redemption has been given as provided in the Senior Debt Resolution or provision satisfactory to the Fiscal Agent for such Series has been made for the giving of such notice; provided, in each case, that the Fiscal Agent for such Series has been irrevocably instructed (by the terms of the Senior Debt Resolution or by Request of Metropolitan) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to the Bonds.

Payment of Bonds After Discharge of the Senior Debt Resolution. Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has
become due and payable (whether at maturity or upon call for redemption as provided in the Senior Debt Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, will, upon Request of Metropolitan, be released from the trusts created by the Senior Debt Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys will thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary will not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds will be promptly released to Metropolitan and will be promptly deposited into the Water Revenue Fund.

Defaults and Remedies

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

The provisions of clause (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Senior Debt Resolution, Metropolitan will not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Senior Debt Resolution will include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage
or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan will, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of Metropolitan, and Metropolitan will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default has occurred and is continuing, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a “Bondholders' Committee”). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Senior Debt Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Senior Debt Resolution on any Owner, provided, however, that whenever any provision thereof requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Senior Debt Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either has been elected by or their election has been approved by or concurred in, and such committee will then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, will be filed with the Authorized Representative.

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

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues
thereafter arising therefrom in the same manner as Metropolitan itself might do. No bond will be required of such receiver.

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

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

Miscellaneous

Liability of Metropolitan Limited to Net Operating Revenues. Notwithstanding anything in the Senior Debt Resolution or in the Bonds contained, Metropolitan will not be required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged under the Senior Debt Resolution for any of the purposes in the Senior Debt Resolution mentioned, whether for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or for any other purpose of the Senior Debt Resolution.

The general fund of Metropolitan is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of Metropolitan pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond will not compel the exercise of the taxing power by Metropolitan or the forfeiture of any of its property. The principal and Accreted Value of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of Metropolitan nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.

Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by the Senior Debt Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, will be sufficient for any purpose of the Senior Debt Resolution and will be conclusive in favor of the Fiscal Agent for such Series and of Metropolitan if made in the manner provided in the Senior Debt Resolution.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such
request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a
witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Fiscal Agent for
such Series. The Fiscal Agent of a Series may establish a record date as of which to measure consent of the
Bondholders of such Series in order to determine whether the requisite consents are received.

Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any
request, consent, or other instrument or writing of the Owner of any Bond of such Series will bind every
future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu
thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or
Metropolitan in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount
of Bonds have concurred in any demand, request, direction, consent or waiver under the Senior Debt
Resolution, Bonds which are owned to or held by or for the account of Metropolitan, or by any other obligor
on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect
common control with, Metropolitan or any other obligor on the Bonds (except for any remarketing or other
underwriting agent), will be disregarded and deemed not to be Outstanding for the purpose of any such
determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for
the purposes of the Senior Debt Resolution if the pledgee establishes to the satisfaction of the Fiscal Agent
for such Series the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or
indirectly controlling or controlled by, or under direct or indirect common control with, Metropolitan or
any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent
taken upon the advice of counsel will be full protection to such Fiscal Agent.

Money Held for Particular Bonds. The money held by the Treasurer or a Fiscal Agent for the
payment of the interest, principal, Accreted Value or Redemption Price due on any date with respect to
particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) will, on and
after such date and pending such payment, be set aside on Metropolitan's books and held in trust by the
Treasurer for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Senior
Debt Resolution.

Proceedings Constitute Contract. The provisions of the Senior Debt Resolution will constitute a
contract between Metropolitan and the Bondholders of such Bonds, and the provisions of the Senior Debt
Resolution and thereof will be enforceable by any Bondholder for the equal benefit and protection of all
Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or
proceeding at law or in equity that is now or may later be authorized under the laws of the State in any court
of competent jurisdiction.

No remedy conferred by the Senior Debt Resolution upon any Bondholder is intended to be
exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy
and may be exercised without exhausting and without regard to any other remedy conferred by any law
of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any
subsequent default or breach of duty or contract or will impair any rights or remedies on said subsequent
default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon
any default will impair any such right or power or will be construed as a waiver of any such default or
acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be
enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to
reinforce any right or exercise any remedy will be brought or taken and the Bondholder prevails, said
Bondholder will be entitled to receive from the Water Revenue Fund reimbursement for reasonable costs,
expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be
determined adversely to the Bondholder then, and in every such case, Metropolitan and the Bondholder
will be restored to their former positions, rights and remedies as if such suit, action or proceeding had
not been brought or taken.
After the issuance and delivery of the Bonds of any Series, the Senior Debt Resolution will be irrepealable, but will be subject to modification to the extent and in the manner provided in the Senior Debt Resolution, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Senior Debt Resolution will be deemed to restrict or prohibit Metropolitan from making contracts or creating bonded or other indebtedness payable from the general fund of Metropolitan, as the case may be, or from taxes or any source other than the Net Operating Revenues, and from and after the sale of the Bonds of any Series, the general fund of Metropolitan will not include the Net operating Revenues and no contract or other obligation payable from the general fund of Metropolitan will be payable from the Net Operating Revenues, except as provided in the Senior Debt Resolution.

Waiver of Personal Liability. No Board member, officer, agent or employee of Metropolitan or any Fiscal Agent will be individually or personally liable for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Senior Debt Resolution will relieve any such Board member, officer, agent or employee of Metropolitan or any Fiscal Agent from the performance of any official duty provided by law or by the Senior Debt Resolution.

Governing Law. The Senior Debt Resolution will be construed and governed in accordance with the laws of the State of California.

Payment and Performance on a Business Day. Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day will become due or will be made on the next succeeding Business Day and no interest will accrue for such period.
APPENDIX 3
BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under “– General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described under “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website. The Beneficial Owners of the 2017 Index Tender Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2017 INDEX TENDER BONDS UNDER THE SUBORDINATE RESOLUTIONS OR THE PAYING AGENT AGREEMENTS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2017 INDEX TENDER BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2017 INDEX TENDER BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2017 INDEX TENDER BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, New York, acts as securities depository for the 2017 Index Tender Bonds. The 2017 Index Tender Bonds have been issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as requested by an authorized representative of DTC. One fully-registered certificate has been issued for each Series of the 2017 Index Tender Bonds and is on deposit with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to DTC’s 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”). S&P Global Ratings has rated DTC “AA+.” DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2017 Index Tender Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Index Tender Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2017 Index Tender Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2017 Index Tender Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2017 Index Tender Bonds, except in the event that use of the book-entry system for the 2017 Index Tender Bonds is discontinued.

To facilitate subsequent transfers, all 2017 Index Tender Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2017 Index Tender Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 Index Tender Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2017 Index Tender Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2017 Index Tender Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017 Index Tender Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2017 Index Tender Bonds documents. For example, Beneficial Owners of the 2017 Index Tender Bonds may wish to ascertain that the nominee holding the 2017 Index Tender Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2017 Index Tender Bonds of a Series are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2017 Index Tender Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2017 Index Tender Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
Payments of principal of, premium, if any, and interest on, and the Purchase Price of, the 2017 Index Tender Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent or Paying Agent, as applicable, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, the Paying Agent or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on, and the Purchase Price of, the 2017 Index Tender Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2017 Index Tender Bonds purchased or tendered, if applicable, through its Direct Participant, to the Paying Agent, and shall effect delivery of such 2017 Index Tender Bonds by causing the Direct Participant to transfer the Direct Participant’s interest in the 2017 Index Tender Bonds, on DTC’s records, to the Paying Agent. The requirement for physical delivery of 2017 Index Tender Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the affected 2017 Index Tender Bonds are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered 2017 Index Tender Bonds to the Paying Agent’s DTC account.

NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF 2017 INDEX TENDER BONDS FOR REDEMPTION.

Metropolitan, the Fiscal Agent and the Paying Agent cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal of, premium, if any, and interest on, or the Purchase Price of, the 2017 Index Tender Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Remarketing Statement. Metropolitan, the Fiscal Agent and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2017 Index Tender Bonds or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2017 Index Tender Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2017 Index Tender Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2017 Index Tender Bond certificates will be printed and delivered to DTC.
The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that Metropolitan believes to be reliable, but Metropolitan takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2017 INDEX TENDER BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT OR THE PAYING AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.
July 3, 2017

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

Re: $80,000,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds, 2017 Series C

Members of the Board of Directors:

We have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of $80,000,000 aggregate principal amount of Subordinate Water Revenue Bonds, 2017 Series C (the "Bonds"). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the "Board") adopted on March 8, 2016, as amended and supplemented (the "Master Resolution"), including by Resolution 9226 of the Board adopted on June 13, 2017 (together with the Master Resolution, the "Resolutions"). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Paying Agent Agreement relating to the Bonds, dated as of July 1, 2017, by and between Metropolitan and the Paying Agent that is named therein.

In connection with our role as Co-Bond Counsel, we have examined the record of proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon these proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:
1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the "State") now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

2. The obligation of Metropolitan to make the payments of principal and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The amount by which the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.
The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the “Tax Certificate”) containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.
We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

We further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

Respectfully submitted,
July 3, 2017

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

Re: $80,000,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds, 2017 Series C

Members of the Board of Directors:

I have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of $80,000,000 aggregate principal amount of Subordinate Water Revenue Bonds, 2017 Series C (the "Bonds"). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the "Board") adopted on March 8, 2016, as amended and supplemented (the "Master Resolution"), including by Resolution 9226 of the Board adopted on June 13, 2017 (together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Paying Agent Agreement relating to the Bonds, dated as of July 1, 2017, by and between Metropolitan and the Paying Agent that is named therein.

In connection with my role as Co-Bond Counsel, I have examined the record of proceedings relating to the Bonds. As to questions of fact material to my opinion, I have relied upon these proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as I have deemed relevant in the circumstances, but subject to the limitations set forth herein, I am of the opinion that:

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the "State") now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.
2. The obligation of Metropolitan to make the payments of principal of and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The amount by which the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable Bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the
Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, I have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than myself. Other than expressly stated herein, I express no other opinion regarding tax consequences with respect to the Bonds.

My opinion is limited to matters governed by the laws of the State and federal law. I assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon my analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on my knowledge of facts as of the date hereof. I assume no duty to update or supplement my opinions to reflect any facts or circumstances that may thereafter come to my attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, my opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent my legal judgment based upon my review of existing law that I deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

I call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.
I express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

I further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. I have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). My engagement with respect to the Bonds terminates upon their issuance, and I disclaim any obligation to update the matters set forth herein.

Respectfully submitted,

Alexis S. M. Chiu
July 3, 2017

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

Re: $95,630,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds, 2017 Series D

Members of the Board of Directors:

We have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of $95,630,000 aggregate principal amount of Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “Bonds”). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the “Board”) adopted on March 8, 2016, as amended and supplemented (the “Master Resolution”), including by Resolution 9200 of the Board adopted on March 8, 2016 (together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Paying Agent Agreement relating to the Bonds, dated as of July 1, 2017, by and between Metropolitan and the Paying Agent that is named therein.

In connection with our role as Co-Bond Counsel, we have examined the record of proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon these proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:
1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the “State”) now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

2. The obligation of Metropolitan to make the payments of principal of and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The amount by which the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable Bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.
The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the “Tax Certificate”) containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.
We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

We further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

Respectfully submitted,

[Signature]

4-12
July 3, 2017

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

Re: $95,630,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds, 2017 Series D

Members of the Board of Directors:

I have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of $95,630,000 aggregate principal amount of Subordinate Water Revenue Refunding Bonds, 2017 Series D (the "Bonds"). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the "Board") adopted on March 8, 2016, as amended and supplemented (the "Master Resolution"), including by Resolution 9200 of the Board adopted on March 8, 2016 (together with the Master Resolution, the "Resolutions"). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Paying Agent Agreement relating to the Bonds, dated as of July 1, 2017, by and between Metropolitan and the Paying Agent that is named therein.

In connection with my role as Co-Bond Counsel, I have examined the record of proceedings relating to the Bonds. As to questions of fact material to my opinion, I have relied upon these proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as I have deemed relevant in the circumstances, but subject to the limitations set forth herein, I am of the opinion that:

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the "State") now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.
2. The obligation of Metropolitan to make the payments of principal of and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The amount by which the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable Bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the
Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, I have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than myself. Other than expressly stated herein, I express no other opinion regarding tax consequences with respect to the Bonds.

My opinion is limited to matters governed by the laws of the State and federal law. I assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon my analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on my knowledge of facts as of the date hereof. I assume no duty to update or supplement my opinions to reflect any facts or circumstances that may thereafter come to my attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, my opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent my legal judgment based upon my review of existing law that I deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

I call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.
I express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

I further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. I have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). My engagement with respect to the Bonds terminates upon their issuance, and I disclaim any obligation to update the matters set forth herein.

Respectfully submitted,

Alexis S. M. Chiu
July 3, 2017

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

Re:  $95,625,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds, 2017 Series E

Members of the Board of Directors:

We have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of $95,625,000 aggregate principal amount of Subordinate Water Revenue Refunding Bonds, 2017 Series E (the "Bonds"). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the "Board") adopted on March 8, 2016, as amended and supplemented (the "Master Resolution"), including by Resolution 9200 of the Board adopted on March 8, 2016 (together with the Master Resolution, the "Resolutions"). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Paying Agent Agreement relating to the Bonds, dated as of July 1, 2017, by and between Metropolitan and the Paying Agent that is named therein.

In connection with our role as Co-Bond Counsel, we have examined the record of proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon these proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:
1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the "State") now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

2. The obligation of Metropolitan to make the payments of principal of and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The amount by which the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable Bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.
The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.
We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

We further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

Respectfully submitted,

[Signature]

[Address]
July 3, 2017

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

Re: $95,625,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds, 2017 Series E

Members of the Board of Directors:

I have acted as Co-Bond Counsel to The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of $95,625,000 aggregate principal amount of Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “Bonds”). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the “Board”) adopted on March 8, 2016, as amended and supplemented (the “Master Resolution”), including by Resolution 9200 of the Board adopted on March 8, 2016 (together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the Paying Agent Agreement relating to the Bonds, dated as of July 1, 2017, by and between Metropolitan and the Paying Agent that is named therein.

In connection with my role as Co-Bond Counsel, I have examined the record of proceedings relating to the Bonds. As to questions of fact material to my opinion, I have relied upon these proceedings and other certifications of public officials furnished to me without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as I have deemed relevant in the circumstances, but subject to the limitations set forth herein, I am of the opinion that:

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the “State”) now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.
2. The obligation of Metropolitan to make the payments of principal of and interest on the Bonds from Net Operating Revenues is an enforceable obligation of Metropolitan and does not constitute an indebtedness of Metropolitan in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The amount by which the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Bond. In the opinion of Co-Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the “Code”); such amortizable Bond premium reduces the Bond Owner’s basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions that are expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by Metropolitan and are subject to the condition that Metropolitan comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the
Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Metropolitan has covenanted to comply with all such requirements.

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the “Tax Certificate”) containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinions set forth herein, I have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than myself. Other than expressly stated herein, I express no other opinion regarding tax consequences with respect to the Bonds.

My opinion is limited to matters governed by the laws of the State and federal law. I assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon my analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions are further based on my knowledge of facts as of the date hereof. I assume no duty to update or supplement my opinions to reflect any facts or circumstances that may thereafter come to my attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, my opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent my legal judgment based upon my review of existing law that I deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

I call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.
I express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

I further call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. I have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). My engagement with respect to the Bonds terminates upon their issuance, and I disclaim any obligation to update the matters set forth herein.

Respectfully submitted,

Alexis S. M. Chiu
APPENDIX 5

FORM OF CONTINUING DISCLOSURE UNDERTAKING
APPENDIX 5

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of July 3, 2019 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the remarketing of its $80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Subordinate Bonds”), $95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Subordinate Bonds”) and $95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Subordinate Bonds,” and collectively with the 2017C Subordinate Bonds and the 2017D Subordinate Bonds, the “Bonds”). This Undertaking supersedes that certain Continuing Disclosure Undertaking, dated as of July 1, 2017 by Metropolitan, solely with respect to the 2017C Subordinate Bonds, the 2017D Subordinate Bonds and the 2017E Subordinate Bonds referenced therein. The Bonds were issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code, and with respect to the 2017D Subordinate Bonds and the 2017E Subordinate Bonds (sometimes collectively referred to as the “Refunding Bonds”), Article 11 of Chapter 3 (commencing with Section 53580) of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Act”). The Bonds were also issued under and pursuant to Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including, with respect to the Refunding Bonds, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”) and, with respect to the 2017C Subordinate Bonds, Ordinance 149 adopted on October 13, 2015, and Ordinance 150 and Resolution 9226, each adopted on June 13, 2017 (such resolution, the “Third Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution and the First Supplemental Subordinate Resolution, the “Subordinate Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Subordinate Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I
Definitions

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

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in Referenced Appendix A to the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage”; (iii) under the caption “METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts” in Referenced Appendix A to the Official Statement, the total market value of all Metropolitan funds, earnings on investments and the minimum month-end balance of Metropolitan’s investment portfolio; (v) under the caption

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“METROPOLITAN EXPENSES” in Referenced Appendix A to the Official Statement, the table “Summary of Expenses”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan and Other Post-Employment Benefits”; (vi) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A to the Official Statement, historical revenues and expenses for the then immediately past fiscal year, as presented in the table “Historical and Projected Revenues and Expenses”; (vii) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A to the Official Statement, the percentage of operation and maintenance expenses to total costs; and (viii) under the caption “METROPOLITAN EXPENSES – Power Sources and Costs; Related Long-Term Commitments” in Referenced Appendix A to the Official Statement, the expenses for electric power, for so long as such information shall be deemed to be material by Metropolitan and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

(3) “Counsel” means a nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

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

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

(6) “Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “Financial Obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.
(7) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

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

(9) "Notice Event" means any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;
(ii) non-payment related defaults, if material;
(iii) unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) unscheduled draws on credit enhancements reflecting financial difficulties;
(v) substitution of credit or liquidity providers, or their failure to perform;
(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of any Bonds;
(vii) modifications to rights of security holders, if material;
(viii) bond calls, if material, and tender offers;
(ix) defeasances;
(x) release, substitution, or sale of property securing repayment of the securities, if material;
(xi) rating changes;
(xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
(xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
ARTICLE II
The Undertaking

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

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2018-19, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

(b) Metropolitan shall provide, in a timely manner, notice of any failure of Metropolitan to provide the Annual Financial Information by the dates specified in subsection (a) above to the EMMA System.
Section 2.3. **Audited Financial Statements.** If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

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

Section 2.5. **Additional Information.** Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

### ARTICLE III
Operating Rules

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

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

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

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

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

### ARTICLE IV
Termination, Amendment and Enforcement

Section 4.1. **Effective Date; Termination.**

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the Bonds.
(b) Metropolitan’s obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Subordinate Resolution, prior redemption or payment in full of all of the Bonds.

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

Section 4.2. Amendment.

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

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

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

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

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

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

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

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

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of Federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such Federal securities laws and official interpretations thereof.
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APPENDIX 6

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2019 AND 2018 (UNAUDITED)

The Basic Financial Statements for the nine months ended March 31, 2019 and 2018 (Unaudited) contained in this Appendix 6 remain subject to amendment and revision. The source for the information herein is Metropolitan unless otherwise stated.
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Nine Months ended March 31, 2019 and 2018

(Unaudited)
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**UNAUDITED**
March 31, 2019 and 2018

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The following discussion and analysis of The Metropolitan Water District of Southern California’s (Metropolitan) financial performance provides an overview of the financial activities for the nine months ended March 31, 2019 and 2018. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Metropolitan operates as an enterprise fund and maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statements of net position include all of Metropolitan’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan’s revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project (SWP) costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal year 2018 have been reclassified to conform to the fiscal year 2019 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2018, Metropolitan implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses the accounting and financial reporting for postemployment benefits other than pensions (OPEB). Metropolitan did not restate the financial statements for the fiscal years ended June 30, 2017 and 2016 because the necessary actuarial information was not provided to Metropolitan by the California Public Employees’ Retirement System (CalPERS) for the prior years presented. As of July 1, 2017, Metropolitan restated the beginning net position in the amount of $138.9 million to record the beginning deferred OPEB contributions and net OPEB liability.
CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets and deferred outflows of resources</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Capital assets, net</td>
<td>$10,443.2</td>
<td>$10,601.2</td>
<td>$10,607.1</td>
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<tr>
<td>Other assets</td>
<td>1,810.6</td>
<td>1,653.7</td>
<td>1,903.9</td>
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<td><strong>Total assets</strong></td>
<td>12,253.8</td>
<td>12,254.9</td>
<td>12,511.0</td>
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<td>Deferred outflows of resources</td>
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<td>202.2</td>
<td>148.3</td>
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<td><strong>Total assets and deferred outflows of resources</strong></td>
<td>12,481.7</td>
<td>12,457.1</td>
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<td><strong>Liabilities and deferred inflows of resources</strong></td>
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<tr>
<td>Long-term liabilities, net of current portion</td>
<td>4,811.6</td>
<td>4,748.1</td>
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<tr>
<td>Other liabilities</td>
<td>790.9</td>
<td>759.1</td>
<td>814.0</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td>5,602.5</td>
<td>5,507.2</td>
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<tr>
<td>Deferred inflows of resources</td>
<td>36.8</td>
<td>33.5</td>
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<tr>
<td><strong>Total liabilities and deferred inflows of resources</strong></td>
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<td>5,540.7</td>
<td>5,887.0</td>
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<tr>
<td><strong>Net position</strong></td>
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<td></td>
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<tr>
<td>Net investment in capital assets, including State Water Project costs</td>
<td>6,103.9</td>
<td>6,135.3</td>
<td>5,997.2</td>
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<tr>
<td>Restricted</td>
<td>398.9</td>
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<td>Unrestricted</td>
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<td>377.1</td>
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<td><strong>Total net position</strong></td>
<td>$6,842.4</td>
<td>$6,916.4</td>
<td>$6,772.3</td>
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</table>

**Capital Assets, Net**

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

*Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018.* Net capital assets totaled approximately $10.4 billion, or 83.7 percent, of total assets and deferred outflows of resources, and were $158.0 million lower than the prior year. The decrease included depreciation and amortization of $358.9 million and $89.0 million net retirement of capital assets and write-off of construction in progress upon determination that no operating assets would result from the costs incurred. These decreases were offset by $158.1 million of construction spending (including $2.5 million of capitalized interest) and a net increase of $131.5 million in participation rights in State Water Project and other facilities. See the capital assets section on pages 14-15 for additional information.

*Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017.* At March 31, 2018, net capital assets totaled $10.6 billion, or 85.1 percent, of total assets and deferred outflows of resources, and were $5.9 million lower than the prior year. The decrease included $306.5 million of depreciation and amortization and $82.5 million retirement of capital assets and write-off of Mills Modules 1 and 2. These decreases were offset by Metropolitan’s continued expenditures on the capital investment plan of $248.1 million (including $11.6 million of capitalized interest) and net capital payments for participation rights in the State Water Project and other facilities of $135.0 million. See the capital assets section on pages 14-15 for additional information.
Other Assets
Other assets include accounts receivable, inventories, prepaid costs, and cash and investments.

*Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018.* At March 31, 2019, other assets totaled $1.8 billion and were $156.9 million more than the prior year. Cash and investments were $119.6 million higher, primarily due to proceeds from bond refundings were $129.7 million more than the debt refunded. Deposits, prepaid costs, and other were $61.9 million higher due to $41.5 million of prepaid costs related to the California WaterFix advance funding agreement with the California Department of Water Resources (DWR) and a $17.4 million increase in PVID land fallowing cost. These increases were offset by $24.9 million lower receivables which included $33.0 million lower water revenues receivable as fiscal year 2019 February and March water transactions were 43.7 thousand acre-feet (TAF) less than the prior year’s comparable months, offset by $7.0 million higher property tax receivable due to higher property assessments.

*Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017.* At March 31, 2018, other assets totaled $1.7 billion and were $250.2 million less than the prior year. Cash and investments were $331.3 million lower primarily due to the $250.0 million prepayment of the short-term revolving notes. This decrease was partially offset by $53.1 million higher deposits, prepaid costs, and other primarily due to $52.5 million or 421.7 TAF more of prepaid water costs. In addition, water sales receivable were $32.8 million higher as February and March 2018 sales were 42.8 TAF more than prior year’s comparable months.

Deferred Outflows of Resources
Deferred outflows of resources include deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability and net OPEB liability, and deferred outflows for effective interest rate swaps.

*Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2019.* At March 31, 2019, deferred outflows totaled $227.9 million and were $25.7 million higher than the prior year. The increase was primarily due to $34.7 million deferred OPEB contributions due to the implementation of GASB 75 and $8.1 million net difference in projected and actual earnings related to the net pension liability. This increase was offset by $14.0 million lower deferred loss on bond refundings due to $6.9 million of scheduled amortization and $7.1 million of refunding transactions. In addition, deferred outflows from loss on swap terminations decreased $3.1 million due to debt defeasances.

*Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017.* At March 31, 2018, deferred outflows of resources totaled $202.2 million and were $53.9 million more than the prior year. The increase was primarily due to $82.0 million net difference in projected and actual earnings related to the net pension liability. This increase was offset by $19.0 million lower deferred outflows related to loss on bond refundings due to $12.8 million of refunding transactions and $6.2 million of scheduled amortization. In addition, deferred outflows from loss on swap terminations decreased $4.8 million due to debt defeasances.
Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, revolving notes, customer deposits and trust funds, net pension liability, net OPEB liability, postemployment benefits other than pensions, accrued compensated absences, obligations for off-aqueduct facilities, workers’ compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

**Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018.** At March 31, 2019, long-term liabilities, net of current portion, totaled $4.8 billion and were $63.5 million higher than the prior year. The implementation of GASB 75 resulted in net OPEB liability that was $157.0 million more than the obligation for OPEB recorded as of March 31, 2018. The increase also included $73.3 million higher net pension liability due to $156.7 million of interest on total pension liability plus $125.7 million related to changes of assumptions from a 7.65 percent discount rate to 7.15 percent, offset by $171.6 million of pension plan investment earnings and $42.8 million of employer contributions.

These increases in long-term liabilities were offset by $151.5 million lower revolving notes primarily due to the $198.3 million paydown of the US Bank Facility offset by $46.8 million Bank of America, N.A. notes issued for the California WaterFix advances. In addition, SWP off-aqueduct facilities decreased $8.7 million as Metropolitan was released from its obligations by DWR in June 2018. See the long-term debt section for additional information.

**Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017.** At March 31, 2018, long-term liabilities, net of current portion, totaled $4.7 billion and were $284.8 million lower than the prior year. The decrease included $523.7 million of lower long-term debt, net of current portion due to a $237.4 million decrease related to bond refundings, as the new debt issued was less than the amount of debt refunded, $163.8 million of scheduled principal payments, and $180.0 million of long-term debt became current as a result of self-liquidity bonds that are not supported by the Revolving Credit Agreement (RCA) that expired on June 24, 2018 (see other liabilities section below). These decreases were offset by $80.0 million in new bonds issued. In addition, customer deposits and trust funds, net of current portion decreased by $50.6 million primarily due to $50.4 million termination of the San Luis Rey trust and fair value of interest rate swaps decreased by $17.4 million due to higher interest rates as compared to the prior year. Offsetting these decreases were $198.3 million of revolving notes sold to refund several issues of water revenue refunding bonds and $108.1 million decrease in net pension liability due to the decrease of actual pension plan investment earnings as compared to the prior year, offset by $38.4 million of employer contributions. See the long-term debt section for additional information.

**Other Liabilities**

Other liabilities represent current liabilities that are due within one year. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

**Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018.** At March 31, 2019, other liabilities totaled $790.9 million and were $31.8 million higher than the prior year. Current portion of long-term debt increased by $69.9 million primarily due to two standby purchase agreements that are expiring on September 19, 2019 and March 27, 2020 resulting in the classification of $272.5 million self-liquidity bonds as current liabilities. This was offset by a new $200.0 million RCA that provides coverage for outstanding self-liquidity variable rate bonds. This increase was offset by $30.5 million lower accounts payable and accrued expenses primarily due to lower SWP off-aqueduct power costs of $23.5 million due to the discharge of Metropolitan’s obligations by DWR.
Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. At March 31, 2018, other liabilities totaled $759.1 million and were $54.9 million lower than the prior year. The decrease was primarily due to $250.0 million prepayment of revolving notes in November 2017 offset by $182.7 million higher current portion of long-term debt as the 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds were not covered by the Revolving Credit Agreement that expired on June 24, 2018.

Deferred Inflows of Resources
Deferred inflows of resources represent deferred inflows related to the net pension liability and net OPEB liability, and deferred inflows for effective interest rate swaps.

Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. At March 31, 2019, deferred inflows of resources totaled $36.8 million and were $3.3 million higher than the prior year primarily due to $6.9 million higher deferred inflows related to OPEB as a result of the implementation of GASB 75. The increase was offset by $4.1 million lower deferred inflows related to the net pension liability, which included $11.0 million lower deferred inflows due to change of assumptions offset by $6.9 million higher difference between actual and expected experience.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. At March 31, 2018, deferred inflows of resources totaled $33.5 million and were $6.6 million lower than the prior year. This decrease included $18.2 million lower deferred inflows related to the net pension liability primarily due to a decrease of $16.1 related to net difference between projected and actual earnings and $10.9 million due to change in assumptions offset by $8.8 million higher difference between actual and expected experience. The decrease in the net pension liability was offset by an increase in effective swaps of $11.6 million due to higher interest rates.

Net Investment in Capital Assets, including State Water Project Costs
Net investment in capital assets, including State Water Project costs, include amounts expended for capital improvements and State Water Project, offset by debt issued for these purposes.

Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. At March 31, 2019, net investment in capital assets, including State Water Project costs totaled $6.1 billion and was $31.4 million lower than the prior year. This decrease included $158.0 million net decrease in capital assets offset by $136.6 million increase in outstanding debt related to capital assets. See discussions of these items in the capital assets and long-term debt sections.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. At March 31, 2018, net investment in capital assets, including State Water Project costs totaled $6.1 billion and was $138.1 million higher than the prior year. This increase included $341.1 million decrease in outstanding bonds offset by the issuance of $198.3 million of revolving notes sold to refund several issues of water revenue bonds.
Restricted Net Position
Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. At March 31, 2019, restricted net position totaled $398.9 million, which was $27.8 million higher than the prior year primarily due to a $25.7 million increase in restricted for operating expenses as the SWP operations, maintenance, power and replacement (OMP&R) costs were estimated to be higher than the prior year.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. At March 31, 2018, restricted net position totaled $371.1 million which was $26.9 million lower than prior year. The decrease included $24.8 million lower restricted for debt service due to the reduction in outstanding debt.

Unrestricted Net Position
Unrestricted net position consists of net position items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Certain unrestricted net position items have been designated for purposes authorized by the Board.

Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. Unrestricted net position of $339.6 million decreased $70.4 million from the prior year. Metropolitan implemented GASB 75 in fiscal year 2018, which resulted in the recording of beginning deferred OPEB contributions and net OPEB liability of $138.9 million. In addition, restricted net position requirements for debt service and operating expenses was $27.8 million higher. These decreases were offset by twelve months ended March 31, 2019 changes in net position before contributions of $64.4 million and $31.4 million of lower net investment in capital assets, including State Water Project costs.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. Unrestricted net position of $410.0 million increased $32.9 million from the prior year. The increase included $143.0 million of income before contributions for the twelve months ended March 31, 2018 and $26.9 million of lower restricted net position requirements for debt service and operating expenses. Partially offsetting the increase was $138.1 million net investment in capital assets.
### Changes in Net Position

*Condensed Schedule of Revenues, Expenses, and Changes in Net Position*

<table>
<thead>
<tr>
<th>(Dollars in millions)</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water revenues</td>
<td>$897.3</td>
<td>$962.2</td>
<td>$859.8</td>
</tr>
<tr>
<td>Readiness-to-serve charges</td>
<td>103.3</td>
<td>102.5</td>
<td>110.3</td>
</tr>
<tr>
<td>Capacity charge</td>
<td>25.4</td>
<td>25.8</td>
<td>31.3</td>
</tr>
<tr>
<td>Power sales</td>
<td>8.4</td>
<td>21.3</td>
<td>11.3</td>
</tr>
<tr>
<td><strong>Operating revenues</strong></td>
<td><strong>1,034.4</strong></td>
<td><strong>1,111.8</strong></td>
<td><strong>1,012.7</strong></td>
</tr>
<tr>
<td>Taxes, net</td>
<td>97.7</td>
<td>91.0</td>
<td>84.4</td>
</tr>
<tr>
<td>Investment income</td>
<td>24.3</td>
<td>5.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Other</td>
<td>8.1</td>
<td>9.6</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Nonoperating revenues</strong></td>
<td><strong>130.1</strong></td>
<td><strong>106.5</strong></td>
<td><strong>89.5</strong></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>1,164.5</strong></td>
<td><strong>1,218.3</strong></td>
<td><strong>1,102.2</strong></td>
</tr>
</tbody>
</table>

| Power and water costs                     | -(290.1) | -(362.4) | -(323.0) |
| Operations and maintenance                | -(363.1) | -(351.1) | -(366.6) |
| Depreciation and amortization             | -(255.5) | -(226.9) | -(222.2) |
| **Operating expenses**                    | **-(908.7)** | **-(940.4)** | **-(911.8)** |
| Bond interest, net of amount capitalized  | -(89.2)  | -(93.2)  | -(99.1)  |
| Other                                     | -(10.9)  | -(27.2)  | -(2.9)   |
| **Nonoperating expenses**                 | **-(100.1)** | **-(120.4)** | **-(102.0)** |
| **Total expenses**                        | **-(1,008.8)** | **-(1,060.8)** | **-(1,013.8)** |

| Changes in net position before contributions | 155.7   | 157.5   | 88.4    |
| Capital contributions                      | 0.2     | 1.2     | 0.1     |
| **Changes in net position**                | **155.9** | **158.7** | **88.5** |
| Net position, at June 30, 2018, 2017, and 2016 | $6,686.5 | $6,757.7 | $6,683.8 |

| Net position, at March 31, 2019, 2018, and 2017 | $6,842.4 | $6,916.4 | $6,772.3 |
Operating Revenues
Metropolitan’s principal source of revenue is derived from the sale and availability of water, including water rates and other exchange and wheeling transactions, which typically account for approximately 85 percent of operating revenues. Metropolitan’s primary sources of water supply are the Colorado River and the State Water Project.

Analytical Review of Operating Revenues
Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. For the nine months ended March 31, 2019, operating revenues were $1.0 billion or $77.4 million lower than the prior year. The decrease was primarily due to $64.9 million of lower water revenues, which included $67.2 million or 82.1 TAF of lower volumes sold and $2.3 million related to higher water rates. In addition, power sales decreased $12.9 million due to lower Colorado River Aqueduct deliveries resulting from lower demand as compared to prior year.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. For the nine months ended March 31, 2018, operating revenues were $1.1 billion or $99.1 million more than the prior year primarily due to $102.4 million of higher water revenues, of which $91.1 million related to higher rates and $11.3 million or 15.3 TAF of higher volumes sold.
Nonoperating Revenues
The primary source of nonoperating revenues is property taxes.

Analytical Review of Nonoperating Revenues

*Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018.* Nonoperating revenues for the nine months ended March 31, 2019 totaled $130.1 million and were $23.6 million higher than the prior year. The increase included $18.4 million more of investment income, which included $13.1 million higher rate of return and a $5.3 million favorable change in fair value of investments. In addition, taxes, net increased $6.7 million due to higher assessed values.

*Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017.* Nonoperating revenues for the nine months ended March 31, 2018 totaled $106.5 million and were $17.0 million higher than the prior year. The increase included $5.1 million more of investment income primarily due to $12.0 million of higher rate of return offset by $7.1 million of unfavorable change in fair value of investments. Additionally, net tax revenue was $6.6 million higher due to higher property values.
Operating Expenses
Operating expenses fall into three primary cost areas: power and water, operations and maintenance, and depreciation and amortization.

Analytical Review of Operating Expenses

Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. For the nine months ended March 31, 2019, operating expenses of $908.7 million were $31.7 million lower than prior year. The decrease was primarily due to $72.3 million lower power and water costs, which included $54.8 million of SWP variable power expense as a result of moving less water due to lower water allocation and $22.3 million of lower SWP minimum OMP&R costs related to an over collection of prior year's charges. This decrease was offset by $28.6 million of higher depreciation and amortization due to a $479.9 million increase in depreciable plant assets and participation rights. In addition, operations and maintenance costs increased $12.0 million primarily due to $8.7 million higher labor cost resulting from the negotiations with bargaining units which concluded in fiscal year 2018.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. For the nine months ended March 31, 2018, operating expenses of $940.4 million were $28.6 million higher than prior year primarily due to $39.4 million of higher power and water costs as the $37.0 million State Water Project credit in fiscal year 2017 was not present in fiscal year 2018. This increase was partially offset by $15.5 million of lower operations and maintenance costs primarily due to $30.2 million lower conservation credits expenses as the $450.0 million budget in fiscal year 2015 continued to be spent down, offset by an increase in labor cost of $9.6 million resulting from the 2017 labor negotiations.
Nonoperating Expenses
The primary source of nonoperating expenses is interest expense on bonds.

Analytical Review of Nonoperating Expenses
*Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018.* For the nine months ended March 31, 2019, nonoperating expenses of $100.1 million were $20.3 million lower than the prior year. The decrease was primarily due to $16.3 million lower other expenses, as the adjustment resulting from the recalculation of capitalized interest on construction was $16.9 million less than prior year. In addition, bond interest expense decreased $4.0 million due to lower interest rates resulting from bond refunding transactions.

*Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017.* For the nine months ended March 31, 2018, nonoperating expenses of $120.4 million were $18.4 million higher than the prior year primarily due to $24.3 million more of other expenses of which, $24.0 million relates to a recalculation of previously capitalized interest on construction, offset by a decrease of $5.9 million in interest expense related to bond refunding transactions to take advantage of lower interest rates.
CAPITAL ASSETS

Capital assets include Metropolitan’s water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs.

<table>
<thead>
<tr>
<th>Schedule of Capital Assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land, easements and rights-of-way</td>
<td>$986.0</td>
<td>$1,011.4</td>
<td>$1,009.7</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>743.6</td>
<td>1,100.4</td>
<td>970.5</td>
</tr>
<tr>
<td>Parker power plant and dam</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Power recovery plants</td>
<td>216.2</td>
<td>196.9</td>
<td>180.4</td>
</tr>
<tr>
<td>Other dams and reservoirs</td>
<td>1,560.7</td>
<td>1,549.8</td>
<td>1,546.3</td>
</tr>
<tr>
<td>Water transportation facilities</td>
<td>3,874.6</td>
<td>3,792.9</td>
<td>3,708.9</td>
</tr>
<tr>
<td>Pumping plants and facilities</td>
<td>302.4</td>
<td>294.3</td>
<td>293.6</td>
</tr>
<tr>
<td>Treatment plants and facilities</td>
<td>2,969.8</td>
<td>2,796.5</td>
<td>2,920.4</td>
</tr>
<tr>
<td>Buildings</td>
<td>162.5</td>
<td>138.9</td>
<td>136.1</td>
</tr>
<tr>
<td>Other plant assets</td>
<td>745.1</td>
<td>713.8</td>
<td>700.5</td>
</tr>
<tr>
<td>Pre-operating expenses original aqueduct</td>
<td>44.6</td>
<td>44.6</td>
<td>44.6</td>
</tr>
</tbody>
</table>

Participation rights in State Water Project | 5,323.6 | 5,191.7 | 5,056.5 |

Participation rights in other facilities | 459.0 | 459.7 | 459.7 |

**Gross capital assets** | **17,401.1** | **17,303.9** | **17,040.2** |

Less accumulated depreciation and amortization | **(6,957.9)** | **(6,702.7)** | **(6,433.1)** |

**Capital assets, net** | **$10,443.2** | **$10,601.2** | **$10,607.1** |

Net increase from prior year | $(158.0)$ | $(5.9)$ | $139.6$

Percent change | (1.5%) | -0.1% | 1.3%
Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. Net capital assets totaled approximately $10.4 billion and decreased $158.0 million over the prior year. The decrease included depreciation and amortization of $358.9 million and $89.0 million net retirement of capital assets. These decreases were offset by $158.1 million of construction spending, and a net increase of $131.5 million in participation rights in State Water Project and other facilities.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $49.3 million for the distribution system’s rehabilitation program; this program will replace or refurbish existing facilities within Metropolitan’s distribution system including reservoirs, pressure control structures, hydroelectric power plants, and pipelines in order to reliably meet water demands.
- $33.5 million for the improvements in infrastructure reliability at the treatment plants; this program will replace or refurbish facilities and components at Metropolitan’s five water treatment plants in order to continue to reliably meet water demands.
- $31.5 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to ensure long-term reliability of Metropolitan’s PCCP lines water delivery.
- $20.2 million for the Colorado River Aqueduct (CRA) supply reliability program and system expansion program (CRA supply reliability program); this program is designed to improve the reliability and flexibility of delivering Colorado River water during drought or other State Water Project delivery constraints.
- $14.5 million for the system reliability program, which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan’s operational and business applications.

Metropolitan’s fiscal year 2019 capital investment plan includes $254.7 million principally for the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability programs, the PCCP feeders upgrade, systems and information technology improvements, and water treatment plants upgrades program.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. Net capital assets totaled approximately $10.6 billion and decreased $5.9 million over the prior year. This decrease included depreciation and amortization of $306.5 million and $82.5 million retirement of capital assets and write-off of Mills Modules 1 and 2. The decrease was offset by $248.1 million of new construction activity, and an increase of $135.0 million in participation rights in State Water Project and other facilities.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $41.4 million for the distribution system’s rehabilitation program.
- $33.8 million for the improvements in infrastructure reliability at the treatment plants.
- $26.7 million for the CRA supply reliability program.
- $26.7 million for the PCCP program.
- $19.0 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- $12.6 million for the system reliability program.
DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

<table>
<thead>
<tr>
<th>(Dollars in millions)</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds (a)</td>
<td>$48.1$</td>
<td>$60.6$</td>
<td>$74.9$</td>
</tr>
<tr>
<td>Revenue bonds (a)</td>
<td>$4,068.0$</td>
<td>$4,003.4$</td>
<td>$4,310.6$</td>
</tr>
<tr>
<td>State revolving loan</td>
<td>$—$</td>
<td>$—$</td>
<td>$8.6$</td>
</tr>
<tr>
<td>Revolving notes</td>
<td>$46.8$</td>
<td>$198.3$</td>
<td>$250.0$</td>
</tr>
<tr>
<td>Other, net (b)</td>
<td>$206.5$</td>
<td>$196.3$</td>
<td>$207.3$</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,369.4$</td>
<td>$4,458.6$</td>
<td>$4,851.4$</td>
</tr>
</tbody>
</table>

Increase (decrease) from prior year | $(89.2)$ | $(392.8)$ | $300.1$
Percent change | $(2.0\%)$ | $(8.1\%)$ | $6.6\%$

(a) Includes refunding bonds.
(b) Consists of unamortized bond discounts and premiums.

Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018. At March 31, 2019, outstanding bonds and other long-term obligations totaled $4.4 billion, a net decrease of $89.2 million or 2.0 percent from the prior year. The decrease included $151.5 million paydown of the revolving notes and $142.0 million of scheduled principal payments. These decreases were offset by $129.7 million increase related to bond refundings, as the new debt issued was more than the amount of debt refunded and $64.3 million in new revenue bonds issued. In addition to these increases, unamortized bond premiums and discounts increased by $10.2 million, which included $44.0 million related to bond refundings, as the new premiums were more than the amount of premiums refunded, offset by $33.8 million related to amortization of bond premiums and discounts.

Third Quarter Fiscal 2018 Compared to Third Quarter Fiscal 2017. At March 31, 2018, there was $4.3 billion of outstanding bonds and other long-term obligations, a net decrease of $392.8 million or 8.1 percent from the prior year. The decrease included $237.4 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded, $163.8 million of scheduled principal payments, and $51.7 million paydown of the revolving notes. These decreases were offset by the issuance of $80.0 million revenue bonds.

Additional information on Metropolitan’s long-term debt can be found in Note 3 to the basic financial statements.

CREDIT RATINGS

Metropolitan’s credit ratings at March 31, 2019, are shown below.

<table>
<thead>
<tr>
<th></th>
<th>Moody’s Investors Service</th>
<th>Standard &amp; Poor’s Global</th>
<th>Fitch Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds</td>
<td>Aaa</td>
<td>AAA</td>
<td>AA+</td>
</tr>
<tr>
<td>Water revenue bonds-fixed rate</td>
<td>Aa1</td>
<td>AAA</td>
<td>AA+</td>
</tr>
<tr>
<td>Water revenue bonds-variable rate</td>
<td>VMIG 1</td>
<td>A-1+</td>
<td>F1+</td>
</tr>
<tr>
<td>Subordinate water revenue bonds-fixed rate</td>
<td>N/A</td>
<td>AA+</td>
<td>AA+</td>
</tr>
<tr>
<td>Subordinate water revenue bonds-variable rate</td>
<td>N/A</td>
<td>A-1+</td>
<td>F1+</td>
</tr>
</tbody>
</table>
### STATEMENTS OF NET POSITION

(Dollars in thousands)  

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2019</th>
<th>March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</strong></td>
<td>(Unaudited)</td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments, at fair value (Notes 1b and 2):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted (cost: $328,570 and $320,531 for 2019 and 2018, respectively)</td>
<td>$328,986</td>
<td>$318,841</td>
</tr>
<tr>
<td>Restricted (cost: $358,281 and $339,426 for 2019 and 2018, respectively)</td>
<td>358,735</td>
<td>337,637</td>
</tr>
<tr>
<td>Total cash and investments</td>
<td>687,721</td>
<td>656,478</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water revenues</td>
<td>108,177</td>
<td>141,191</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>4,543</td>
<td>4,051</td>
</tr>
<tr>
<td>Other, net (Note 1c)</td>
<td>76,571</td>
<td>68,955</td>
</tr>
<tr>
<td>Total receivables</td>
<td>189,291</td>
<td>214,197</td>
</tr>
<tr>
<td>Inventories (Note 1f)</td>
<td>96,226</td>
<td>95,853</td>
</tr>
<tr>
<td>Deposits, prepaid costs, and other (Note 8)</td>
<td>62,227</td>
<td>61,359</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,035,465</td>
<td>1,027,887</td>
</tr>
<tr>
<td><strong>Noncurrent Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments, at fair value (Notes 1b and 2):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted (cost: $400,071 and $294,334 for 2019 and 2018, respectively)</td>
<td>400,578</td>
<td>292,782</td>
</tr>
<tr>
<td>Restricted (cost: $59,288 and $76,953 for 2019 and 2018, respectively)</td>
<td>59,529</td>
<td>78,947</td>
</tr>
<tr>
<td>Total cash and investments</td>
<td>460,107</td>
<td>371,729</td>
</tr>
<tr>
<td>Capital assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and equipment - non depreciable (Notes 1g and 6g)</td>
<td>1,729,617</td>
<td>2,111,806</td>
</tr>
<tr>
<td>Plant and equipment - depreciable (Notes 1g and 6g)</td>
<td>9,888,787</td>
<td>9,540,921</td>
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<tr>
<td>Participation rights in State Water Project (Notes 1h and 7)</td>
<td>5,323,644</td>
<td>5,191,668</td>
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<tr>
<td>Participation rights in other facilities (Note 1h)</td>
<td>459,049</td>
<td>459,550</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>17,401,097</td>
<td>17,303,945</td>
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<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(6,957,903)</td>
<td>(6,702,708)</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>10,443,194</td>
<td>10,601,237</td>
</tr>
<tr>
<td>Other assets, net of current portion:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits, prepaid costs, and other (Note 8)</td>
<td>315,060</td>
<td>253,980</td>
</tr>
<tr>
<td>Total other assets</td>
<td>315,060</td>
<td>253,980</td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>11,218,361</td>
<td>11,226,946</td>
</tr>
<tr>
<td><strong>Deferred Outflows of Resources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on bond refundings (Note 1q)</td>
<td>29,644</td>
<td>43,633</td>
</tr>
<tr>
<td>Loss on swap terminations (Note 1q)</td>
<td>25,181</td>
<td>28,264</td>
</tr>
<tr>
<td>Pension related (Notes 1k, 1q and 4)</td>
<td>138,405</td>
<td>130,346</td>
</tr>
<tr>
<td>OPEB related (Notes 11, 1q and 5)</td>
<td>34,674</td>
<td>—</td>
</tr>
<tr>
<td>Total deferred outflows of resources</td>
<td>227,904</td>
<td>202,243</td>
</tr>
<tr>
<td><strong>Total Assets and Deferred Outflows of Resources</strong></td>
<td>$12,481,730</td>
<td>$12,457,076</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
<table>
<thead>
<tr>
<th>Liabilities, Deferred Inflows of Resources, and Net Position</th>
<th>March 31, 2019</th>
<th>March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</strong></td>
<td>(Unaudited)</td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses (Note 1i)</td>
<td>$70,151</td>
<td>$100,646</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>572,871</td>
<td>506,035</td>
</tr>
<tr>
<td>Current portion of obligations for off-aqueduct power facilities (Note 6f)</td>
<td>—/nobreakspace</td>
<td>1,203</td>
</tr>
<tr>
<td>Current portion of accrued compensated absences (Note 1j)</td>
<td>19,700</td>
<td>19,800</td>
</tr>
<tr>
<td>Current portion of customer deposits and trust funds</td>
<td>5,828</td>
<td>4,902</td>
</tr>
<tr>
<td>Current portion of workers’ compensation and third party claims</td>
<td>4,083</td>
<td>5,543</td>
</tr>
<tr>
<td>Current portion of other long-term liabilities</td>
<td>76,372</td>
<td>77,221</td>
</tr>
<tr>
<td>Accrued bond interest</td>
<td>40,055</td>
<td>41,910</td>
</tr>
<tr>
<td>Matured bonds and coupons not presented for payment</td>
<td>1,754</td>
<td>1,760</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>790,814</td>
<td>759,020</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>3,749,747</td>
<td>3,754,347</td>
</tr>
<tr>
<td>Revolving notes (Note 3a)</td>
<td>46,800</td>
<td>198,265</td>
</tr>
<tr>
<td>Obligations for off-aqueduct power facilities, net of current portion (Note 6f)</td>
<td>—/nobreakspace</td>
<td>8,727</td>
</tr>
<tr>
<td>Accrued compensated absences, net of current portion (Note 1j)</td>
<td>29,267</td>
<td>28,491</td>
</tr>
<tr>
<td>Customer deposits and trust funds, net of current portion</td>
<td>39,901</td>
<td>41,583</td>
</tr>
<tr>
<td>Net pension liability (Notes 1k and 4)</td>
<td>660,917</td>
<td>587,662</td>
</tr>
<tr>
<td>Net OPEB liability (Notes 1l and 5)</td>
<td>221,072</td>
<td>—/nobreakspace</td>
</tr>
<tr>
<td>Postemployment benefits other than pensions (Note 5)</td>
<td>—/nobreakspace</td>
<td>64,114</td>
</tr>
<tr>
<td>Workers’ compensation and third party claims, net of current portion</td>
<td>10,752</td>
<td>11,264</td>
</tr>
<tr>
<td>Fair value of interest rate swaps (Note 3e)</td>
<td>50,988</td>
<td>51,466</td>
</tr>
<tr>
<td>Other long-term liabilities, net of current portion</td>
<td>2,204</td>
<td>2,222</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>4,811,648</td>
<td>4,748,141</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>5,602,462</td>
<td>5,507,161</td>
</tr>
<tr>
<td><strong>Commitments and Contingencies (Note 6)</strong></td>
<td>—/nobreakspace</td>
<td>—/nobreakspace</td>
</tr>
<tr>
<td><strong>Deferred Inflows of Resources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective swaps (Note 1q)</td>
<td>12,072</td>
<td>11,593</td>
</tr>
<tr>
<td>Pension related (Notes 1k, 1q and 4)</td>
<td>17,836</td>
<td>21,896</td>
</tr>
<tr>
<td>OPEB related (Notes 1l, 1q and 5)</td>
<td>6,928</td>
<td>—/nobreakspace</td>
</tr>
<tr>
<td><strong>Total deferred inflows of resources</strong></td>
<td>36,836</td>
<td>33,489</td>
</tr>
<tr>
<td><strong>Total Liabilities and Deferred Inflows of Resources</strong></td>
<td>5,639,298</td>
<td>5,540,650</td>
</tr>
<tr>
<td><strong>Net Position (Note 10):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets, including State Water Project costs</td>
<td>6,103,907</td>
<td>6,135,280</td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt service</td>
<td>192,616</td>
<td>190,414</td>
</tr>
<tr>
<td>Other</td>
<td>206,343</td>
<td>180,671</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>339,566</td>
<td>410,061</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>6,842,432</td>
<td>6,916,426</td>
</tr>
<tr>
<td><strong>Total Liabilities, Deferred Inflows of Resources, and Net Position</strong></td>
<td>$12,481,730</td>
<td>$12,457,076</td>
</tr>
</tbody>
</table>
## Statements of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Note 1c):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water revenues</td>
<td>$897,300</td>
<td>$962,145</td>
</tr>
<tr>
<td>Readiness-to-serve charges</td>
<td>103,250</td>
<td>102,500</td>
</tr>
<tr>
<td>Capacity charge</td>
<td>25,414</td>
<td>25,750</td>
</tr>
<tr>
<td>Power sales</td>
<td>8,443</td>
<td>21,320</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>1,034,407</strong></td>
<td><strong>1,111,715</strong></td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power and water costs</td>
<td>290,059</td>
<td>362,359</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>363,139</td>
<td>351,075</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>653,198</strong></td>
<td><strong>713,434</strong></td>
</tr>
<tr>
<td><strong>Operating income before depreciation and amortization</strong></td>
<td><strong>381,209</strong></td>
<td><strong>398,281</strong></td>
</tr>
<tr>
<td><strong>Less depreciation and amortization</strong></td>
<td>(255,554)</td>
<td>(226,902)</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>125,655</td>
<td>171,379</td>
</tr>
</tbody>
</table>

| **Nonoperating Revenues (Expenses)** (Note 1n) | 2019       | 2018       |
|                                               |            |            |
| Taxes, net (Note 1d)                          | 97,692     | 91,030     |
| Bond interest, net of $2,500 and $11,600 of interest capitalized in fiscal years 2019 and 2018, respectively (Note 1g) | (89,174) | (93,175) |
| Investment income, net                         | 24,322     | 5,944      |
| Other, net                                     | (2,797)    | (17,668)   |
| **Total nonoperating revenues, net**           | **30,043** | (13,869)   |

| **Changes in Net Position Before Contributions** | 2019       | 2018       |
|                                               |            |            |
| Capital contributions (Note 1m)                | 249        | 1,231      |
| **Changes in net position**                    | **155,947** | **158,741** |
| **Net position, at June 30, 2018 and 2017**    | 6,686,485  | 6,757,685  |

| **Net position, at March 31, 2019 and 2018**   | $6,842,432 | $6,916,426 |

See accompanying notes to basic financial statements.
## STATEMENTS OF CASH FLOWS

Nine Months Ended
March 31, 2019 2018

(Dollars in thousands)

### Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from water sales</td>
<td>$ 936,004</td>
<td>$ 943,889</td>
</tr>
<tr>
<td>Cash received from readiness-to-serve charges</td>
<td>83,458</td>
<td>82,347</td>
</tr>
<tr>
<td>Cash received from capacity charge</td>
<td>21,420</td>
<td>20,161</td>
</tr>
<tr>
<td>Cash received from power sales</td>
<td>9,484</td>
<td>25,397</td>
</tr>
<tr>
<td>Cash received from other exchange transactions</td>
<td>74,173</td>
<td>65,469</td>
</tr>
<tr>
<td>Cash paid for operations and maintenance expenses</td>
<td>(249,807)</td>
<td>(186,276)</td>
</tr>
<tr>
<td>Cash paid to employees for services</td>
<td>(140,373)</td>
<td>(179,211)</td>
</tr>
<tr>
<td>Cash paid for power and water costs</td>
<td>(297,034)</td>
<td>(372,753)</td>
</tr>
<tr>
<td>Other cash flows for operating activities</td>
<td>(3,208)</td>
<td>(2,175)</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities: 434,117 396,847

### Cash Flows from Noncapital Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from other collections</td>
<td>8,257</td>
<td>6,206</td>
</tr>
</tbody>
</table>

Net cash provided by noncapital financing activities: 8,257 6,206

### Cash Flows from Capital and Related Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition and construction of capital assets</td>
<td>(137,968)</td>
<td>(159,186)</td>
</tr>
<tr>
<td>Payments for State Water Project costs</td>
<td>(218,522)</td>
<td>(161,668)</td>
</tr>
<tr>
<td>Proceeds from short and long-term debt</td>
<td>46,800</td>
<td>79,833</td>
</tr>
<tr>
<td>Payments for bond issuance costs</td>
<td>(3,307)</td>
<td>(2,035)</td>
</tr>
<tr>
<td>Principal paid on debt</td>
<td>(148,930)</td>
<td>(414,125)</td>
</tr>
<tr>
<td>Interest paid on debt</td>
<td>(148,664)</td>
<td>(156,927)</td>
</tr>
<tr>
<td>Payments for other long-term obligations</td>
<td>—</td>
<td>(1,253)</td>
</tr>
<tr>
<td>Proceeds from tax levy</td>
<td>89,857</td>
<td>87,838</td>
</tr>
<tr>
<td>Transfer to/from escrow trust accounts</td>
<td>10,664</td>
<td>(27,284)</td>
</tr>
<tr>
<td>Payments of rebatable arbitrage</td>
<td>(10)</td>
<td>—</td>
</tr>
</tbody>
</table>

Net cash used by capital and related financing activities: (510,080) (754,807)

### Cash Flows from Investing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of investment securities</td>
<td>(5,145,564)</td>
<td>(5,324,320)</td>
</tr>
<tr>
<td>Proceeds from sales and maturities of investment securities</td>
<td>5,034,335</td>
<td>5,663,110</td>
</tr>
<tr>
<td>Investment income</td>
<td>16,571</td>
<td>12,779</td>
</tr>
</tbody>
</table>

Net cash provided/(used) by investing activities: (94,658) 351,569

### Net change in cash:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in cash</td>
<td>(162,364)</td>
<td>(185)</td>
</tr>
<tr>
<td>Cash at July 1, 2018 and 2017</td>
<td>162,379</td>
<td>902</td>
</tr>
</tbody>
</table>

### Cash at March 31, 2019 and 2018 (Notes 1b and 2a)

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 15</td>
<td>$ 717</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
## Statements of Cash Flows

Nine Months Ended March 31,  
(Unaudited)

(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income</td>
<td>$125,655</td>
<td>$171,379</td>
</tr>
<tr>
<td>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>255,554</td>
<td>226,902</td>
</tr>
<tr>
<td>Decrease in accounts receivable</td>
<td>114,902</td>
<td>44,782</td>
</tr>
<tr>
<td>Decrease in inventories</td>
<td>1,500</td>
<td>14,680</td>
</tr>
<tr>
<td>Increase in deposits, prepaid costs, and other</td>
<td>(108,572)</td>
<td>(121,210)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued expenses</td>
<td>(27,030)</td>
<td>554</td>
</tr>
<tr>
<td>Increase in other items</td>
<td>72,108</td>
<td>59,760</td>
</tr>
<tr>
<td>Total Adjustments</td>
<td>308,462</td>
<td>225,468</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$434,117</td>
<td>$396,847</td>
</tr>
</tbody>
</table>

Significant Noncash Investing, Capital and Financing Activities

- Refunding bonds proceeds received in escrow trust fund $196,216 $611,435
- Debt defeased through escrow trust fund with refunding debt $(190,660) $(598,260)

## Reconciliation of Cash and Investments to Cash

Unrestricted cash and investments (at March 31, 2019 and 2018 include $15 and $717 of cash, respectively)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$729,564</td>
<td>$611,623</td>
<td></td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>418,264</td>
<td>416,584</td>
</tr>
<tr>
<td>Total cash and investments, at fair value</td>
<td>1,147,828</td>
<td>1,028,207</td>
</tr>
<tr>
<td>Less: carrying value of investments</td>
<td>(1,147,813)</td>
<td>(1,027,490)</td>
</tr>
<tr>
<td>Total Cash (Notes 1b and 2a)</td>
<td>$15</td>
<td>$717</td>
</tr>
</tbody>
</table>
I. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan’s primary purposes under the Act are to develop, store and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Metropolitan’s service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director’s term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan’s Board. MWDAFC had no financial operations during the nine months ended March 31, 2019 or 2018. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting. The accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

(c) Revenue Policies

Water revenues, which include funds received from charges for the sale and availability of water, including water rates and other exchange and wheeling transactions, is the principal source of Metropolitan’s revenues. Other sources of operating revenue include readiness-to-serve charges, capacity charge, and hydroelectric power sales. Other revenues include ad valorem property taxes and investment income.
Water rates are established by the Board on a biennial basis and are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Water is delivered to the member agencies on demand and revenue is recognized at the time of sale.

Metropolitan’s rate structure consists of unbundled rate elements (supply, treatment, conveyance and distribution, power, and demand management) designed to provide transparency regarding the cost of specific functions to member agencies. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Taxing Authority
Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board effective as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments that are due on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year.

Property tax revenue is used to pay Metropolitan’s general obligation bond debt service and a portion of its obligations under its contract with the state for a water supply and participation rights in the State Water Project (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, commencing with the fiscal year ended June 30, 1991, tax levies, other than annexation taxes, are limited to the amount needed to pay debt service on Metropolitan’s general obligation bonds and Metropolitan’s proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan’s fiscal integrity. The Board has suspended the restriction and maintained the tax rate for fiscal years ended/ending June 30, 2014 through 2019, at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than debt service.

(e) Other Receivables
Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.
(f) Inventories
Metropolitan’s inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at March 31, 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>March 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Water in storage</td>
<td>$82,919</td>
</tr>
<tr>
<td>Operating supplies</td>
<td>13,307</td>
</tr>
<tr>
<td>Total inventories</td>
<td>$96,226</td>
</tr>
</tbody>
</table>

(g) Plant and Equipment
Metropolitan’s capital assets include plant and equipment, which are recorded at cost. Construction costs are capitalized if they exceed $50,000 and the asset has a useful life of at least five years. The cost of constructed assets may include labor, materials, certain general and administrative expenses, and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which are 10 to 80 years for buildings, storage, and distribution facilities, 10 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 80 years for miscellaneous assets. Improvements or refurbishments with aggregated costs that meet capitalization thresholds and that extend the useful life of an existing asset by at least five years or improve the operating efficiency of the asset are capitalized.

Major computer systems software, whether purchased or internally developed, is capitalized if the cost exceeds $250,000 and the useful life is at least three years. Vehicles and operating equipment are capitalized if the cost equals or exceeds $5,000 and the useful life is at least four years. Depreciation is calculated using the straight-line method based on the estimated useful lives and ranges from 3 to 10 years for major computer systems software and 4 to 10 years for vehicles and operating equipment.

(h) Participation Rights
Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the State Water Project and various storage and water management programs. Metropolitan’s participation in these projects is through cash payments. The value of participation rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities, and storage facilities, and amortized over the life of the agreements. These assets are not owned by Metropolitan. Certain projects also require payments for ongoing maintenance; those payments are charged to expense as incurred (See Note 7.)
(i) Disaggregation of Payable Balances
Accounts payable and accrued expenses at March 31, 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th>Department of Water Resources (State Water Project): Capital, operating, maintenance, power, replacement, and variable power</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendors</td>
<td>$32,004</td>
<td>$57,439</td>
</tr>
<tr>
<td>Accrued power costs</td>
<td>$28,268</td>
<td>$29,650</td>
</tr>
<tr>
<td>Accrued salaries</td>
<td>$1,378</td>
<td>$3,053</td>
</tr>
<tr>
<td>Conservation credits</td>
<td>$4,438</td>
<td>$2,540</td>
</tr>
<tr>
<td>Total accounts payable and accrued expenses</td>
<td>$70,151</td>
<td>$100,646</td>
</tr>
</tbody>
</table>

(j) Compensated Absences
Metropolitan’s employees earn vacation, sick, and compensatory leave in varying amounts depending primarily on length of service. Upon termination from Metropolitan service, employees are entitled to full payment for accrued vacation and compensatory leave at their final pay rates, and are entitled to payment for approximately one-half of their accrued sick leave at such rates. Metropolitan records its obligations for vacation, sick, and compensatory leave earned by eligible employees based on current pay rates. The allocations to the current and long-term portions of these vested obligations were based on experience and projections of turnover.

(k) Pension Accounting
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2016
Measurement Date (MD): June 30, 2017
Measurement Period: July 1, 2016 to June 30, 2017

(l) OPEB Accounting
For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Metropolitan’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.
Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2017
Measurement Date (MD): June 30, 2017
Measurement Period: July 1, 2016 to June 30, 2017

(m) Capital Contributions
Capital contributions are comprised of federal, state, and private grants. These grants are typically of a reimbursable nature: Metropolitan first pays for the project and then the granting agency reimburses Metropolitan for its eligible expenses. The portion of the grants restricted for capital purposes are reflected as capital contributions in the statements of revenues, expenses and changes in net position when they are earned, irrespective of the timing of the receipts. Examples of capital projects where grants are received include water treatment plant improvements, such as fluoridation and water storage programs.

(n) Operating and Nonoperating Revenues and Expenses
Metropolitan’s primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as revenues derived from the sale and availability of water, including water rates and other exchange and wheeling transactions. It also includes readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

Revenues from property taxes and investment income, as well as interest expense on outstanding debt, are related to capital and financing activities and are defined as nonoperating revenues and expenses.

(o) Restricted and Unrestricted Resources
When both restricted and unrestricted resources are available for use, it is Metropolitan’s practice to use restricted resources first, then unrestricted resources as they are needed.

(p) Use of Estimates
The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Deferred Outflows/Inflows of Resources
GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* requires that the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources be reported as net position. In addition, the impact of a deferred outflow and a deferred inflow of resources on net position must be explained as is done in the following paragraphs.

The net investment in capital assets, including State Water Project costs of $6.1 billion at March 31, 2019 and 2018 included the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at March 31, 2019 and 2018 were $29.6 million and $43.6 million, respectively. This is amortized and recognized as a component of interest expense in a systematic and rational manner over the
remaining life of the old or the new debt, whichever is shorter.

The unrestricted net position amount of $339.6 million and $410.0 million at March 31, 2019 and 2018, respectively, included the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan’s effective interest rate swaps, and deferred amounts related to pension and OPEB. The deferred outflows from losses on swap terminations resulting in debt defeasance at March 31, 2019 and 2018, respectively, were $25.2 million and $28.3 million. These deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows related to pension at March 31, 2019 and 2018, respectively, were $138.4 million and $130.3 million and included pension contributions made subsequent to the measurement date, changes of assumptions, differences between expected and actual experience and the net difference between projected and actual earnings on pension plan investments. The deferred inflows related to pension at March 31, 2019 and 2018 were $17.8 million and $21.9 million, respectively, and included changes of assumptions, and differences between expected and actual experience. Metropolitan’s contributions to the pension plan subsequent to the measurement date are deferred until the following measurement date. The differences between expected and actual experience and changes of assumptions are deferred and amortized over the expected average remaining service life while the net difference between projected and actual earnings on pension plan investments is deferred and amortized over 5 years.

The deferred outflows and deferred inflows related to OPEB at March 31, 2019 were $34.7 million and $6.9 million, respectively. The deferred outflows relate to contributions to the OPEB plan subsequent to the measurement date, which are deferred until the following measurement date, and the deferred inflows relate to the net difference between projected and actual earnings on OPEB plan investments which are deferred and amortized over 5 years. There were no deferred outflows or inflows related to OPEB at June 30, 2017 since GASB 75, which requires the recording of deferred OPEB items, was not implemented until fiscal year 2018.

The deferred inflow from the increase in fair value of interest rate swaps of $12.1 million and $11.6 million at March 31, 2019 and 2018, respectively, would be recognized as an investment gain upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred inflow would be recognized as an investment gain if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred inflow would be reduced and the deferred gain on refunding would be increased by the same amount. The deferred gain on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(r) Fair Value Measurement
GASB Statement No. 72, Fair Value Measurement and Application (GASB 72) requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Metropolitan reports its investments and liabilities at fair value using market approach and cost approach.

Additionally, GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels which are: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than
quoted prices—that are observable for identical assets or liabilities, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security. The fair value hierarchy to Metropolitan’s assets and liabilities are presented in Note 2.

(s) New Accounting Pronouncements
Metropolitan implemented the following GASB Statements in the twelve months ended March 31, 2019:

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), which establishes new accounting and financial reporting requirements for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and GASB 57- OPEB Measurements by Agent Multiple-Employer Plans (GASB 45). As a result of the implementation of GASB 75, Metropolitan restated beginning net position for fiscal year 2018 in the amount of $138.9 million to record the beginning deferred OPEB contributions and net OPEB liability. Metropolitan didn’t restate the financial statements for the year ended June 30, 2017 because the necessary actuarial information was not available.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017 (GASB 85). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

Specifically, this Statement addresses the following topics: (1) Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) Reporting amounts previously reported as goodwill and “negative” goodwill, (3) Classifying real estate held by insurance entities, (4) Measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (5) Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus (6) Recognizing on-behalf payments for pensions or OPEB in employer financial statements, (7) Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (8) Classifying employer-paid member contributions for OPEB, (9) Simplifying certain aspects of the alternative measurement method for OPEB, (10) Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. Implementation of GASB 85 in fiscal year 2018 didn’t impact any previously reported balances in the Statement of Net Position or the Statement of Revenues, Expenses and Changes in Net Position. The effect of implementing GASB 85 was reflected in the Required Supplementary Information section of Metropolitan’s financial statements for the year ended June 30, 2018.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues (GASB 86). The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasances of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirement of this statement were effective beginning in fiscal year 2018 but there were no impacts on previously reported balances in the Statements of Net Position or the Statements of Revenues, Expenses and Changes in Net Position and there was no impact on note disclosures for the current period.
Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

- GASB Statement No. 87, *Leases.*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.*
- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*

The following pronouncements were issued by GASB but were determined to not be applicable to Metropolitan’s financial statements:

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements.*
- GASB Statement No. 84, *Fiduciary Activities.*

2. CASH AND INVESTMENTS

As a public agency, Metropolitan’s investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Metropolitan’s statement of investment policy is approved annually by the Board and describes the Treasurer’s investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 2d and 10).

A summary of Metropolitan’s deposit and investment policies, information on interest and credit risks, and restricted cash and investments is provided below.

(a) Deposits

The California Government Code requires California banks and savings and loan associations to secure a local government agency’s deposits by pledging government securities as collateral.

As of March 31, 2019 and 2018, Metropolitan’s cash balances with financial institutions were $10,000 and $712,000 respectively, and cash on hand was $5,000 at each year end.
(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, repurchase agreements, negotiable certificates of deposit, bankers’ acceptances, prime commercial paper, government sponsored enterprises, California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, shares of beneficial interest, and Local Agency Investment Fund (LAIF). As of March 31, 2019 and 2018, Metropolitan had the following investments at fair value:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>March 31, 2019</th>
<th>March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities</td>
<td>$ 306,661</td>
<td>$ 244,771</td>
</tr>
<tr>
<td>U.S. Guarantees – GNMAs</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>100,907</td>
<td>86,085</td>
</tr>
<tr>
<td>Prime commercial paper</td>
<td>122,867</td>
<td>202,101</td>
</tr>
<tr>
<td>Medium-term corporate notes</td>
<td>237,547</td>
<td>132,893</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>214,522</td>
<td>238,567</td>
</tr>
<tr>
<td>Shares of beneficial interest</td>
<td>30,130</td>
<td>669</td>
</tr>
<tr>
<td>Government-sponsored enterprise (GSE)</td>
<td>67,649</td>
<td>64,035</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>2,528</td>
<td>20,316</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>65,000</td>
<td>38,050</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>$ 1,147,813</strong></td>
<td><strong>$ 1,027,490</strong></td>
</tr>
</tbody>
</table>

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.
The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of March 31, 2019 and 2018:

<table>
<thead>
<tr>
<th>Investments by fair value level:</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observations Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observations Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Treasury securities</strong></td>
<td>$306,661</td>
<td>$306,661</td>
<td>$244,771</td>
<td>$244,771</td>
<td>$244,771</td>
<td>$244,771</td>
</tr>
<tr>
<td><strong>U.S. Guarantees – GNMA's</strong></td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Federal agency securities</strong></td>
<td>100,907</td>
<td>100,907</td>
<td>86,085</td>
<td>86,085</td>
<td>86,085</td>
<td>86,085</td>
</tr>
<tr>
<td><strong>Prime commercial paper</strong></td>
<td>122,867</td>
<td>122,867</td>
<td>202,101</td>
<td>202,101</td>
<td>202,101</td>
<td>202,101</td>
</tr>
<tr>
<td><strong>Medium-term corporate notes</strong></td>
<td>237,547</td>
<td>237,547</td>
<td>132,893</td>
<td>132,893</td>
<td>132,893</td>
<td>132,893</td>
</tr>
<tr>
<td><strong>Negotiable certificates of deposit</strong></td>
<td>214,522</td>
<td>164,504</td>
<td>208,567</td>
<td>208,567</td>
<td>208,567</td>
<td>208,567</td>
</tr>
<tr>
<td><strong>Shares of beneficial interest</strong></td>
<td>30,130</td>
<td>30,130</td>
<td>669</td>
<td>669</td>
<td>669</td>
<td>669</td>
</tr>
<tr>
<td><strong>Government-sponsored enterprise (GSE)</strong></td>
<td>67,649</td>
<td>67,649</td>
<td>30,130</td>
<td>30,130</td>
<td>30,130</td>
<td>30,130</td>
</tr>
<tr>
<td><strong>Municipal bonds</strong></td>
<td>2,528</td>
<td>2,528</td>
<td>20,316</td>
<td>20,316</td>
<td>20,316</td>
<td>20,316</td>
</tr>
<tr>
<td><strong>Total investments by fair value level</strong></td>
<td><strong>$1,082,813</strong></td>
<td><strong>$879,798</strong></td>
<td><strong>$172,885</strong></td>
<td><strong>$30,130</strong></td>
<td><strong>$989,440</strong></td>
<td><strong>$756,670</strong></td>
</tr>
</tbody>
</table>

Investments not subject to fair value level:
- **Local Agency Investment Fund** 65,000
- **Municipal bonds**

**Total investments** $1,147,813

(1) As of March 31, 2019 the balance was invested in Dreyfus Government Cash Management (DGCXX), Dreyfus AMT-Free Tax Exempt Cash Management (DEIXX), and BlackRock Treasury Trust (TTTXX). As of March 31, 2018, the balance was invested in BlackRock Treasury Trust (TTTXX).

Investments classified in Level 1 of the fair value hierarchy, valued at $879.8 million and $756.7 million as of March 31, 2019 and 2018, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling $122.9 million and $202.1 million and negotiable certificates of deposit totaling $50.0 million and $30.0 million, as of March 31, 2019 and 2018, respectively, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

 Shares of beneficial interest totaling $30.1 million and $0.7 million as of March 31, 2019 and 2018, respectively, classified in Level 3 of the fair value hierarchy were valued at the Fund’s share price of $1.00.

**Interest rate risk.** In accordance with Metropolitan’s investment policy, interest rate risk was managed by limiting the duration of the various portfolio segments. Each segment has limitations on the amount of duration exposure (see the following for specific durations).
Internally Managed Segment
This segment of the portfolio was managed against the Intercontinental Exchange Bank of America Merrill Lynch (ICE BoAML) 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For March 31, 2019 and 2018, the benchmark durations were 0.16 and 0.24, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 0.20. As of March 31, 2019 and 2018, Metropolitan’s investments and portfolio durations for this segment were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Dollars in thousands)</td>
<td>Fair value</td>
<td>Duration</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>$ 91,516</td>
<td>0.68</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>94,916</td>
<td>0.38</td>
</tr>
<tr>
<td>Prime commercial paper</td>
<td>122,867</td>
<td>0.20</td>
</tr>
<tr>
<td>Medium-term corporate notes</td>
<td>165,572</td>
<td>0.40</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>214,162</td>
<td>0.39</td>
</tr>
<tr>
<td>Shares of beneficial interest</td>
<td>18,701</td>
<td>—</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>752</td>
<td>5.29</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>65,000</td>
<td>—</td>
</tr>
<tr>
<td>Portfolio duration</td>
<td></td>
<td>0.36</td>
</tr>
</tbody>
</table>

Externally Managed Segment
This segment of the portfolio was managed against the ICE BoAML, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For March 31, 2019 and 2018, the benchmark durations were 2.53 and 2.65, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of March 31, 2019 and 2018, Metropolitan’s investments and portfolio durations for this segment were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Dollars in thousands)</td>
<td>Fair value</td>
<td>Duration</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>$ 212,169</td>
<td>2.78</td>
</tr>
<tr>
<td>U.S. Guarantees – GNMAs</td>
<td>2</td>
<td>3.35</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>5,743</td>
<td>8.98</td>
</tr>
<tr>
<td>Medium-term corporate notes</td>
<td>71,755</td>
<td>2.56</td>
</tr>
<tr>
<td>Shares of beneficial interest</td>
<td>208</td>
<td>—</td>
</tr>
<tr>
<td>Government-sponsored enterprise (GSE)</td>
<td>67,649</td>
<td>2.46</td>
</tr>
<tr>
<td>Portfolio duration</td>
<td></td>
<td>2.80</td>
</tr>
</tbody>
</table>

Bond Reserves and Lake Mathews Segment
Investments in the bond reserves were managed based on the requirements of each of the bond issues. The Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years.
As of March 31, 2019 and 2018, Metropolitan’s investments and portfolio durations for this segment were as follows:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Duration</td>
</tr>
<tr>
<td>U.S. Treasury securities</td>
<td>$2,976</td>
<td>1.47</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>248</td>
<td>0.03</td>
</tr>
<tr>
<td>Prime commercial paper</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Medium-term corporate notes</td>
<td>220</td>
<td>0.04</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>360</td>
<td>0.04</td>
</tr>
<tr>
<td>Shares of beneficial interest</td>
<td>11,221</td>
<td>—</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>1,776</td>
<td>3.26</td>
</tr>
<tr>
<td>Weighted average duration</td>
<td>0.61</td>
<td>—</td>
</tr>
</tbody>
</table>

**Credit risk:** Credit risk was managed by purchasing investments with the nationally recognized credit ratings specified in Metropolitan’s investment policy. Additionally, the policy required monitoring the credit ratings of securities held in the portfolio, and if the securities’ credit ratings were downgraded, evaluating for potential sale. For certain securities, additional requirements included consideration of net worth, length of time in business, and specified market values.

Presented in the following table is the minimum rating required, if applicable, by investment type pursuant to Metropolitan’s investment policy and State law:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Minimum Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government and agencies</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Bankers' acceptances</td>
<td>Prime quality of the highest ranking or highest letter and numerical rating (‘A1’, ‘P1’, ‘F1’ or higher) as provided by Moody’s Investors Service, Inc., Standard &amp; Poor’s Global Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.</td>
</tr>
<tr>
<td>Prime commercial paper</td>
<td>Rating category of at least ‘A’ or better, or the equivalent, by a nationally recognized rating agency.</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>Rating category of at least ‘A’ or better, or the equivalent, by a nationally recognized rating agency.</td>
</tr>
<tr>
<td>Time deposits</td>
<td>Rating category of at least ‘A’ or better, or the equivalent, by a nationally recognized rating agency.</td>
</tr>
<tr>
<td>Medium-term corporate notes</td>
<td>Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.</td>
</tr>
<tr>
<td>Shares of beneficial interest</td>
<td>Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.</td>
</tr>
<tr>
<td>Government-sponsored enterprise (e.g., FannieMae, FreddieMac)</td>
<td>Issuer’s debt must be rated ‘A’ or higher as provided by a nationally recognized rating agency and the security must be rated in a category of ‘AAA’ by a nationally recognized rating agency.</td>
</tr>
<tr>
<td>California local agency securities</td>
<td>Securities with a maturity in excess of five years must have a credit rating of at least ‘AA’ (may be insured) and an underlying credit rating of ‘A’ or better by a nationally recognized rating agency.</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>Only with primary dealers in government securities or financial institutions with a Moody’s Investors Service, Inc. or equivalent rating of ‘A’ or better.</td>
</tr>
<tr>
<td>Investment contracts</td>
<td>Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.</td>
</tr>
</tbody>
</table>
Metropolitan’s minimum rating for government-sponsored enterprises (GSE) of ‘AAA’ is more restrictive than the California Government Code requirement of ‘AA’.

At March 31, 2019 and 2018, Metropolitan’s portfolio was invested in the following securities by rating:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>Rating</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities</td>
<td>N/A(1)</td>
<td>$306,661</td>
<td>$244,771</td>
</tr>
<tr>
<td>U.S. Guarantees – GNMAs</td>
<td>N/A(1)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Federal agency securities</td>
<td>AAA(2)</td>
<td>100,907</td>
<td>86,085</td>
</tr>
<tr>
<td>Prime commercial paper</td>
<td>A1/P1(3)</td>
<td>122,867</td>
<td>202,101</td>
</tr>
<tr>
<td>Medium-term corporate notes</td>
<td>A(3)</td>
<td>237,547</td>
<td>132,893</td>
</tr>
<tr>
<td>Negotiable certificates of deposit</td>
<td>F1(3)</td>
<td>214,522</td>
<td>238,567</td>
</tr>
<tr>
<td>Shares of beneficial interest</td>
<td>AAA</td>
<td>30,130</td>
<td>669</td>
</tr>
<tr>
<td>Government-sponsored enterprise (GSE)</td>
<td>AAA</td>
<td>67,649</td>
<td>64,035</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>A(3)</td>
<td>2,528</td>
<td>20,316</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>(4)</td>
<td>65,000</td>
<td>38,050</td>
</tr>
<tr>
<td>Total portfolio</td>
<td></td>
<td>$1,147,813</td>
<td>$1,027,490</td>
</tr>
</tbody>
</table>

(1) Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.  
(2) Federal Agencies are rated “AAA” by two nationally recognized rating agencies and “AA” by one nationally recognized rating agency.  
(3) A or better e.g. F1+, A1+, AA, or AAA.  
(4) Local Agency Investment Fund is not rated.

**Concentration of credit risk:** In accordance with Metropolitan’s investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent, for GSE and shares of beneficial interest, to 100 percent, for U.S. Treasury and agency securities. The percentages of investments that can be purchased by a single issuer, within each security type, ranged from 5 percent, for GSE, to 10 percent, for bankers’ acceptances.
The following table identifies Metropolitan’s limits and the percent invested by security type based on fair value, as of March 31, 2019 and 2018.

<table>
<thead>
<tr>
<th>Investment Policy Limits</th>
<th>Percent of Portfolio 2019</th>
<th>Percent of Portfolio 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities 100%</td>
<td>26.73%</td>
<td>23.82%</td>
</tr>
<tr>
<td>Federal agency securities 100%</td>
<td>8.79%</td>
<td>8.38%</td>
</tr>
<tr>
<td>Prime commercial paper 25%</td>
<td>10.70%</td>
<td>19.67%</td>
</tr>
<tr>
<td>Medium-term corporate notes 30%</td>
<td>20.70%</td>
<td>12.93%</td>
</tr>
<tr>
<td>Negotiable certificates of deposit 30%</td>
<td>18.69%</td>
<td>23.22%</td>
</tr>
<tr>
<td>Shares of beneficial interest 20%</td>
<td>2.62%</td>
<td>0.07%</td>
</tr>
<tr>
<td>Government-sponsored enterprise (GSE) 20%</td>
<td>5.89%</td>
<td>6.23%</td>
</tr>
<tr>
<td>Municipal bonds 30%</td>
<td>0.22%</td>
<td>1.98%</td>
</tr>
<tr>
<td>Local Agency Investment Fund N/A</td>
<td>5.66%</td>
<td>3.70%</td>
</tr>
<tr>
<td>Total portfolio</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

At March 31, 2019, Metropolitan had the following investment (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund</td>
<td>$65,000</td>
</tr>
</tbody>
</table>

At March 31, 2018, Metropolitan had no investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investment portfolio.

**Custodial credit risk.** At March 31, 2019 and 2018, Metropolitan’s investments were insured, registered or held, in Metropolitan’s name, in safekeeping at Metropolitan’s bank, which was not a counterparty to the investment transactions. The exceptions were $65.0 million and $38.1 million in deposits in the California State managed LAIF as of March 31, 2019 and 2018, respectively.

The LAIF, created by California statute, is part of a pooled money investment account (PMIA). The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairwoman is the State Treasurer or her designated representative.

The total amount invested by all public agencies in LAIF as of March 31, 2019 and 2018 was $22.1 billion and $21.2 billion, respectively. At March 31, 2019 and 2018, the PMIA had a balance of $86.9 billion and $75.0 billion, respectively, of which 2.34 percent and 2.83 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as of March 31, 2019 and 2018 was 179 days and 183 days, respectively.
(c) Reverse Repurchase Agreements
Metropolitan is permitted, subject to conditions imposed by State law, to sell securities owned under written agreements and to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the fiscal years ended March 31, 2019 and 2018.

(d) Restricted Cash and Investments
Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts are classified as "restricted." Most restricted accounts have the minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provide for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

3. SHORT-TERM AND LONG-TERM DEBT
Metropolitan’s enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan’s service area. Existing outstanding debt of $4.369 billion and $4.459 billion at March 31, 2019 and 2018, respectively, represents less than one percent of the June 30, 2018 and 2017 total taxable assessed valuation of $2,917 billion and $2,741 billion, respectively.

Metropolitan’s long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan's authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan’s net operating revenues. Such obligations contain certain restrictive covenants, with which Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) Commercial Paper and Revolving Notes
Metropolitan may issue up to $200.0 million in commercial paper to fund a portion of its capital plan, as approved by Metropolitan’s Board. During the twelve months ended March 31, 2019 and 2018, there was no commercial paper issued or outstanding. Metropolitan may also issue other forms of short-term debt such as revolving notes and variable rate water revenue bonds (see Note 3c).

In April 2016, Metropolitan entered into a noteholder’s agreement with RBC Municipal Products, LLC (RBC) for the purchase by RBC and sale by Metropolitan of Metropolitan’s Index Notes, Series 2016 (RBC Facility). Also in April 2016, Metropolitan entered into a note purchase and continuing covenant agreement with U.S. Bank National Association (US Bank), for the purchase by US Bank and sale by Metropolitan of Metropolitan’s Flexible Rate Revolving Notes, Series 2016 (US Bank Facility, and together with the RBC Facility, the Short-Term Revolving Credit Facilities). Metropolitan was permitted to sell up to $200.0 million of notes under each of the Short-Term Revolving Credit Facilities for an aggregate amount of available borrowings of $400.0 million. Metropolitan may borrow, paydown and re-borrow amounts under each of the Short-Term Revolving Credit Facilities, each of which bears interest at a variable rate of interest. The US Bank Facility resulted in interest at a basis point spread to one-month London interbank offering rate (LIBOR) for taxable borrowings or to 70 percent
of one-month LIBOR for tax-exempt borrowings through December 17, 2017 and starting December 18, 2017 at a spread to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, while the RBC Facility bears interest at a spread to one-month LIBOR for taxable borrowings or to the SIFMA Municipal Swap Index for tax-exempt borrowings. Under the Short-Term Revolving Credit Facilities, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, each bank could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Short-Term Credit Facilities as Senior Parity Obligations.

There were no short-term notes issued or refunded during the twelve months ended March 31, 2019.

Short-term notes issued and refunded during the twelve months ended March 31, 2018 were as follows:

- On April 3, 2017, Metropolitan sold $250.0 million of notes under the Short-Term Revolving Credit Facilities, $125.0 million Taxable Flexible Rate Refunding Notes, Series A-1 and $125.0 million Taxable and Refunding Subseries 2017 Series B-1 Notes, to refund the notes outstanding as of fiscal year ended June 30, 2016 of $250.0 million. The $125.0 million note issued in 2017 under the RBC Facility had a maturity date of April 5, 2020 and the $125.0 million note issued in 2017 under the US Bank Facility had a maturity date of April 5, 2019.

The Short-Term Revolving Credit Facilities requires RBC to purchase refunding notes, subject to certain terms and conditions, through the RBC Facilities expiration date of April 5, 2019. The maturity date of April 5, 2020 for the RBC Note will only be effective if RBC agrees, at its option, to extend the expiration of its Credit Facility to April 5, 2020.

- On June 1, 2017, Metropolitan sold $12.3 million of notes under the US Bank Facility, to refund $12.3 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E. These notes were refunded on July 3, 2017.

- On November 1, 2017, Metropolitan prepaid the $250.0 million Short-Term Revolving Credit Facilities notes issued in April 2017.

Long-term note issued during the twelve months ended March 31, 2019 was as follows:

- On August 1, 2018, Metropolitan entered into a Note Purchase and Continuing Covenant Agreement with Bank of America N.A. (BANA, and the 2018 BANA Agreement), for the purchase by BANA and sale by Metropolitan of up to $86.0 million of Metropolitan’s Short-Term Revenue Certificates, 2018 Series A (the Series 2018 Notes). Proceeds were used to provide advances or contributions of money to pay for costs related to the California WaterFix. The Series 2018 Notes will bear interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2018 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2018 BANA Agreement as a Subordinate Lien Parity Obligation.
The Series 2018 Notes are subject to mandatory tender for purchase on the scheduled mandatory tender date of July 31, 2020, or, if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. As of March 31, 2019, there were $46.8 million of Series 2018 Notes outstanding.

Long-term note issued during the twelve months ended March 31, 2018 was as follows:

- In December 2017, Metropolitan sold $198.3 million of notes under the US Bank facility, which was paid down on June 27, 2018, when Metropolitan terminated the US Bank Short-Term Revolving Credit Facility.

**(b) General Obligation Bonds**

In 1966, voters authorized Metropolitan to incur up to $850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan’s capital plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million at March 31, 2019 and 2018. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $48.1 million and $60.6 million in general obligation bonds and general obligation refunding bonds were outstanding at March 31, 2019 and 2018, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates equal to 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption.

No general obligation bonds were issued during the twelve months ended March 31, 2019 and 2018.

**(c) Revenue Bonds**

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of $4.068 billion and $4.003 billion of revenue bonds and revenue refunding bonds were outstanding at March 31, 2019 and 2018, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2047 at interest rates ranging from 2.00 percent to 6.95 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on any interest payment dates, and subject to early redemption.

Revenue bond issued during the fiscal year ended March 31, 2019 was as follows:

- On June 28, 2018, Metropolitan issued $64.3 million of Subordinate Water Revenue Bonds, 2018 Series B, to finance a portion of Metropolitan’s capital expenditures. The maturities extend to September 1, 2028 and are not subject to optional and mandatory redemption provisions.
Revenue bond issued during the fiscal year ended March 31, 2018 was as follows:

- On July 3, 2017, Metropolitan issued $80.0 million of Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), to finance a portion of Metropolitan’s capital expenditures. The maturities extend to July 1, 2047 and are subject to optional and mandatory redemption provisions.

**d) Bond Refundings and Defeasances**

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and short-term notes to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and revolving notes previously issued. The net proceeds from these sales were used to redeem the refunded bonds and fund certain swap termination payments or to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan’s basic financial statements.

**e) Interest Rate Swaps**

Metropolitan has eight outstanding interest rate swap agreements as of March 31, 2019. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates, which are Metropolitan’s hedging derivative instruments.

**Pay-Fixed, Receive-Variable**

*Objective of the Swaps:* In order to take advantage of low interest rates in the marketplace, Metropolitan entered into eight separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

*Terms:* The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

*Fair Values:* At March 31, 2019, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.
**Credit Risks:** As of March 31, 2019, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of March 31, 2019.

Each swap contains cross-default provisions that allow the nondefaulting party to accelerate and terminate all outstanding transactions and to net the transactions’ fair values into a single sum to be owed by, or owed to, the nondefaulting party.

As of March 31, 2019, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $216.0 million or 43.8 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa2/A+/AA by Moody’s, Standard & Poor’s Global, and Fitch Ratings, respectively.

**Basis Risk:** The interest rates on Metropolitan’s variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of March 31, 2019, the interest rates of the variable rate debt associated with these swap transactions range from 1.26 percent to 2.82 percent. Metropolitan’s variable rate payments received from the counterparties of these swaps ranged from 1.16 percent to 1.82 percent.

**Termination Risk:** Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap’s fair value.

**Tax Risk:** As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.
(f) Variable Rate Bonds
The variable rate bonds bear interest at daily and weekly rates ranging from 1.26 percent to 2.82 percent as of March 31, 2019 and 1.45 percent to 2.05 percent as of March 31, 2018. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. For the Water Revenue Bonds, 2000 Series B-3, Special Variable Water Revenue Refunding Bonds, 2016 Series B-1 and B-2, Water Revenue Bonds, 2017 Series A and Special Variable Water Revenue Refunding Bonds, 2018 Series A-1 and A-2, bondholders have the right to tender bonds to the paying agent on any business day with same day notice. The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), provide bondholders a right to tender bonds to the paying agent every 397 days. Metropolitan has entered into standby bond purchase agreements (SBPA) with commercial banks to provide liquidity for six and four separate variable rate bond issues in the amount of $482.5 million and $272.5 million as of March 31, 2019 and 2018, respectively. In addition, Metropolitan has eight series of variable rate bonds in the amounts of $761.1 million as of March 31, 2019 and 2018 that are not supported by an SBPA. The Bank Bonds issued under the SBPA’s, would initially bear interest at a rate, depending on the agreement, of either; a “Bank Rate”, equal to LIBOR plus 7.50 percent; or, a “Base Rate”, equal to the highest of (i) Prime Rate plus 1.00 percent, (ii) Fed Funds Rate, plus 2.00 percent, and (iii) 7.0 percent. The principal of the Bank Bonds would be payable, depending on the agreement, either ten equal semi-annual installments commencing 180 days after purchase by the bank, or in two equal semi-annual installments commencing six months after purchase by the bank.

The $103.7 million 2016 Series B-1 and B-2 bonds have SBPAs that expire on September 19, 2019, the $80.0 million Water Revenue Bonds, 2017 Authorization, Series A, and the $88.8 million 2000 Series B-3, Water Revenue Bonds, have SBPAs that expire on March 27, 2020, and the $210.0 million Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1 and A-2 have SBPAs that expire on June 25, 2021. According to the provisions of the Paying Agent Agreement for the bonds, the Paying Agent will draw on the SBPA two business days prior to the SBPA expiration to redeem all outstanding bonds.

The liquidity facilities give Metropolitan the ability to refinance on a long-term basis and Metropolitan intends to either renew the facility or exercise its right to tender the debt as a long-term financing. As a result, two and four separate variable-rate bonds supported by SBPAs have been classified as long term in the statements of net position at March 31, 2019 and 2018, respectively. The $103.7 million 2016 Series B-1 and B-2 bonds, the $80.0 million Water Revenue Bonds, 2017 Authorization, Series A, and the $88.8 million 2000 Series B-3, Water Revenue Bonds were classified as current in the statements of net position at March 31, 2019 as the SBPAs expire within one year. For the two and four separate series of variable-rate bonds supported by SBPAs at March 31, 2019 and 2018, the portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements was $35.0 million and $94.8 million at March 31, 2019 and 2018, respectively.

For three series of variable rate bonds not supported by SBPA, the Subordinate Water Revenue Bonds, 2017 Series C and Subordinate Water Revenue Refunding Bonds, 2017 Series D and 2017 Series E in the amount of $271.3 million, if the purchase price is not paid from the proceeds of remarketing or other funds, for a period of five business days following written notice by any Owner of such bonds, will constitute an event of default under the Subordinate Debt Resolutions, upon the occurrence and continuance of which the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders’ committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the
right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

The outstanding self-liquidity variable rate bonds that were not supported by a SBPA were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the $38.5 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at March 31, 2019 and 2018 had no long-term take out provisions therefore, the entire principal amount of $314.8 million, may be tendered for purchase upon one week’s notice from bondholders. However, on July 1, 2015 and June 25, 2018, Metropolitan entered into Revolving Credit Agreements (2015 RCA, 2018 RCA, and collectively RCAs), by which Metropolitan may borrow up to $180.0 million and $200.0 million, respectively, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The 2015 RCA permits repayment of any borrowed funds over a term-out period beginning 120 days after the stated expiration date of June 24, 2018. The 2018 RCA permits repayment of any borrowed funds over ten semi-annual installments beginning 180 days after the funds are borrowed and has a stated expiration date of June 23, 2023. As a result of the RCAs, $114.8 million was reported as current liabilities as of March 31, 2019 and the full $314.8 million was reported as current liabilities as of March 31, 2018.

4. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan’s Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee’s Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS’ annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.
5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description and Benefits Provided

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees’ Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Metropolitan participates in the CalPERS California Employers’ Retiree Trust (CERBT) Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. For employees hired on or after January 1, 2012, retirees must have a minimum of 10 years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS’ annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy and Contributions

Contribution requirements are established by Memorandum of Understandings negotiated between Metropolitan and its various bargaining units. During fiscal year 2018, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. During fiscal years 2019 and 2018, Metropolitan contributed, net of participant contributions as determined by CalPERS, the full actuarially determined contribution rate of 13.8 percent or $27.3 million and 15.2 percent or $30.1 million, respectively. Employees are not required to contribute to the plan.

6. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 7)

Estimates of Metropolitan’s share of the projected fixed costs of the State Water Project are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

<table>
<thead>
<tr>
<th>Year ending June 30</th>
<th>State Water Contract Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$407,410</td>
</tr>
<tr>
<td>2020</td>
<td>420,264</td>
</tr>
<tr>
<td>2021</td>
<td>448,024</td>
</tr>
<tr>
<td>2022</td>
<td>449,645</td>
</tr>
<tr>
<td>2023</td>
<td>450,968</td>
</tr>
</tbody>
</table>

Metropolitan intends to exercise its option to extend its agreement with the State through 2085, which will result in annual minimum operations and maintenance costs through 2085. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments are recorded as liabilities in the accompanying basic financial statements.
(b) Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to Metropolitan and other water users throughout California. The State Board exercises its regulatory authority over Bay/Delta watershed supplies by means of public proceedings leading to regulations and decisions.

In September 2006, then Governor Schwarzenegger established a Delta Vision Process to identify a strategy for managing the Delta as a sustainable resource. The process was tied to legislation that created a Blue Ribbon Task Force (BRTF) and cabinet-level committee (Delta Vision Committee) tasked with developing a durable vision for sustainable management of the Delta over the long-term, which addressed a full array of issues, including land use, infrastructure, flood protection, and natural resources including water supply. The BRTF released its final Delta Vision Strategic Plan in October 2008 and a final implementation report was submitted to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The Delta Plan anticipated the need for periodic reviews and updates in response to changing circumstances and conditions in the Delta. The DSC amended the Delta Plan in February 2016 to include an initial set of performance measures in September 2016 to exempt single-year water transfers from consideration as covered actions. DSC adopted three amendments to the Delta Plan in April 2018, including Chapter 3 updating the section on Conveyance, Storage and Operations, Chapter 7 updating the section on the Delta Levee Investment Strategy and Appendix E updating performance measures. Chapter 4 of the Delta Plan, which directs agencies to restore aquatic habitat and improve water quality while respecting local land uses and expanding opportunities for nature-based recreation and tourism, is also going through a public process of refining and amending the Delta Plan. DSC is working with partner agencies, stakeholders, and the public on this process, which is expected to last through 2019.

The Bay Delta Conservation Plan (BDCP), which began in 2007, is a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive conservation and restoration program for the Delta. In addition, the BDCP would provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program. On April 30, 2015, the state announced its intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. On July 10, 2018, Metropolitan’s Board approved Metropolitan’s funding in the aggregate of up to 64.6 percent of the overall capital cost of the California WaterFix, including its share as a State Water Contractor and through various forms of additional financial support Metropolitan would contribute to the project. Since then, two new public joint powers authorities have been formed to aid in the implementation of California WaterFix—Delta Conveyance Design and Construction Authority (DCA) and Delta Conveyance Finance Authority. At its inaugural meeting, DCA approved and signed an agreement with the California Department of Water Resources (DWR) delineating their joint partnership to construct the California WaterFix project.

On February 12, 2019, recently elected Governor Gavin Newsom presented at the State of the State address a conceptual proposal supporting a single-tunnel configuration for the California WaterFix. On March 1, 2019, DWR and the Bureau of Reclamation sent a request to the State Board to temporarily place their pending petition before the State Board for a change in point of diversion (a water right proceeding) for California WaterFix in abeyance and issue a temporary 60-day stay on all proceedings for the California WaterFix change in point of
diversion. DWR and the Bureau of Reclamation indicated that the request was being submitted in light of the Governor’s State of the State address to allow DWR sufficient time to assess the effects on the California WaterFix and the nature and the extent the effects would have on any new permit and planning work for California WaterFix. The request for a 60-day stay of the proceedings was granted by the State Board on March 5, 2019 (see Note 12).

**c) Imperial Irrigation District**

As of March 31, 2019, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $337.0 million for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive 85,000-105,000 acre-feet in 2019 and annually thereafter depending upon the amount used by the Coachella Valley Water District (CVWD). A total of at least 85,000 and 105,000 acre-feet will be/was available in calendar years 2019 and 2018, respectively, for diversion by Metropolitan.

**d) Sale of Water by the Imperial Irrigation District to San Diego County Water Authority**

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA’s purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (QSA) (see Note 6e). The amended Transfer Agreement sets the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023. In addition, specific programs under the QSA and related agreements include lining portions of the All-American and Coachella Canals, which were completed in 2009 and conserve over 95,000 acre-feet annually. Metropolitan receives this water and delivers over 79,000 acre-feet of exchange water annually to the SDCWA.

No facilities exist to provide for delivery of conserved water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. In 2003, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract (the Exchange Agreement), pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower price is paid by SDCWA for the Exchange Agreement water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan’s Board from time to time to be paid by its member agencies for the conveyance of water by Metropolitan (see Note 1c). SDCWA has challenged the validity of Metropolitan’s charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan’s Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 6h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan’s Board on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan’s Board on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. On June 9, 2017, SDCWA filed a lawsuit challenging the charges adopted by the Metropolitan’s
Board on April 11, 2017 and effective on January 1, 2017. On June 8, 2018, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan’s Board on April 10, 2018 and effective on January 1, 2019 and January 1, 2020. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation section.

(e) Quantification Settlement Agreement
The QSA is part of the California Plan, which is a plan to reduce California’s use of Colorado River water to its basic apportionment of 4.4 million acre-feet per year when necessary through water conservation, transfers from higher priority agricultural users to Metropolitan’s service area, and storage programs. The QSA was executed in October 2003 and establishes Colorado River water use limits for IID and the CVWD. It also provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years and restores the opportunity for Metropolitan to receive any special surplus water.

(f) Abandoned Off-Aqueduct Power Facilities
DWR financed the construction of certain off-aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities were abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of $204.1 million in prior fiscal years. The State relieved Metropolitan of its obligation during the fiscal year ended June 30, 2018.

(g) Construction Programs and Contracts
The estimated cost, excluding contingencies, of Metropolitan’s capital program for fiscal years 2019 through 2023 totals approximately $1.41 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays and facility shutdowns constraints, anticipated expenditures are forecasted at $200.0 million per year for the next 2 years and $250.0 million per year in fiscal years 2021 through 2023.

Over the next three years, Capital Investment Plan spending totals approximately $797.0 million with over $650.0 million targeted for major efforts such as seismic retrofits and mechanical and electrical refurbishments to major components of the Colorado River Aqueduct and Metropolitan’s water treatment plants, rehabilitation through relining of the Prestressed Concrete Cylinder Pipe portions of the Allen McColloch and Rialto Pipelines, and Calabasas, Second Lower, and Sepulveda feeders, replacement/upgrade to the Supervisory Control and Data Acquisition system, and the Los Angeles headquarters building seismic and security upgrades.

With the completion of all major construction under the Oxidation Retrofit Program, estimated capital costs for new facilities and/or improvements that may be required to meet current water quality standards over the next 3 years are $3.3 million (see Note 6i).

(h) Claims and Litigation
SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California, et al. on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan’s Supply Rate, even though under the State Water Contract Metropolitan is billed
separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates adopted on April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates. Rates in effect in prior years are not challenged in this lawsuit.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims were for breach of the water Exchange Agreement between Metropolitan and SDCWA (see Note 6d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA’s payments under this Exchange Agreement from calculation of SDCWA’s preferential rights to purchase Metropolitan supplies and illegality of the rate structure integrity provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. The rate structure integrity provision permitted the Board to terminate incentives payable under conservation and local resources incentive agreements between Metropolitan and a member agency due to certain actions by the member agency to challenge the rates that are the source of incentive payments. In June 2011, Metropolitan’s Board authorized termination of two incentive agreements with SDCWA under the rate structure integrity provision in such agreements after SDCWA filed its initial complaint challenging Metropolitan’s rates.

SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contained additional allegations but no new causes of action.


SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan’s rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan’s motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling did not affect SDCWA’s separate challenge to Metropolitan’s rates adopted in April 2012, which also includes Proposition 26 allegations.

Following trial of both lawsuits in two phases, concluding on January 23, 2014 and April 30, 2015, respectively, the Superior Court of the State of California, County of San Francisco (the Superior Court), issued its Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan appealed the trial court’s decision in each case, and SDCWA filed a cross-appeal of the court’s ruling on the rate structure integrity claim and an attorneys’ fees order.

On June 21, 2017, the California Court of Appeal released its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its State Water Project transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement’s price term, and that Metropolitan may also lawfully include the System Access Rate in its wheeling rate, reversing the trial court decision on this issue. The Court held Metropolitan’s allocation of the State Water Project transportation costs as its own transportation costs is proper and does not violate the wheeling statutes (Water Code, § 1810, et seq.), Proposition 26 (Cal. Const., Article XIXC, §1, subd.(e)), California
Government Code section 54999.7, the common law, or the terms of the parties’ Exchange Agreement.

The Court of Appeal also ruled that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan’s inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and wheeling statutes. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. The court did not address the allocation of the Water Stewardship Rate in subsequent years based on a different record. The court noted, and in a subsequent modification confirmed, that its holding does not preclude Metropolitan from including the Water Stewardship Rate in Metropolitan’s full service rate.

The Court of Appeal held that because the Water Stewardship Rate was included in the Exchange Agreement price, there was a breach by Metropolitan of the Exchange Agreement in 2011 through 2014. The court remanded the case to the trial court for a redetermination of damages in light of its ruling concerning the Water Stewardship Rate. The Court of Appeal agreed with the trial court that statutory prejudgment interest applies with respect to any damages award, not a lesser contractual interest. The Court of Appeal reversed the trial court by finding that the Exchange Agreement may entitle SDCWA to attorneys’ fees for the second phase of the case concerning breach of contract; but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys’ fees.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court’s ruling that Metropolitan improperly excludes SDCWA’s payments under the Exchange Agreement in Metropolitan’s calculation of SDCWA’s preferential rights. The court also ruled that SDCWA had the constitutional right to challenge the rate structure integrity provision in Metropolitan’s conservation and local resources incentive agreements, and found that the rate structure integrity provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

On September 27, 2017, the California Supreme Court denied SDCWA’s petition for review, declining to consider the Court of Appeal’s decision. The Court of Appeal’s decision is therefore final.

On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision. With respect to the Superior Court’s redetermination of damages in light of the Court of Appeal’s ruling that the administrative record for calendar years 2011 through 2014 did not support Metropolitan’s inclusion of its demand management costs in the Exchange Agreement price, the Superior Court ruled that it will award SDCWA $28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The Superior Court determined that Metropolitan is not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that from SDCWA’s damages.

The Superior Court further ruled that SDCWA is not entitled in the remand proceedings to litigate the issue of “offsetting benefits” under the wheeling statutes for the parties’ Exchange Agreement. The Superior Court found that such claim is both outside the scope of remand and waived.

The Superior Court also ruled that SDCWA is entitled to judgment on its declaratory relief cause of action declaring the rate structure integrity provision in Metropolitan’s conservation and local resources incentive agreements invalid and unenforceable, SDCWA is entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014, and the parties shall also litigate in further proceedings
the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action. The Superior Court has scheduled a case management conference for May 9, 2019 at which time it may address the scope of any appropriate discovery relating to the rate structure integrity provision monetary restitution and non-monetary equitable relief sought by SDCWA and may set a date for legal briefing and further proceedings to determine the issue of SDCWA’s entitlement to the requested relief.

Finally, the Superior Court confirmed, as the parties agreed, that it will conduct further proceedings for a redetermination of the prevailing party and attorneys’ fees in this matter.

On September 14, 2018, Metropolitan filed a Petition for Writ of Mandate with the California Court of Appeal, requesting the court to require the Superior Court to recalculate contract damages for breach of the Exchange Agreement from years 2011 through 2014, to include a set-off for the additional sums SDCWA would have paid had Metropolitan collected the Water Stewardship Rate through its full service sales as SDCWA argued was correct. On November 1, 2018, the Court of Appeal determined that it would not review the issue at this stage of the cases. Metropolitan may raise this issue again on any later appeal from the cases’ final judgment.

Due to SDCWA’s litigation challenging Metropolitan’s rates, and pursuant to the Exchange Agreement between Metropolitan and SDCWA, as of March 31, 2019, Metropolitan held $55.8 million in a designated fund, the Exchange Agreement Set-Aside Fund. This amount includes the disputed Water Stewardship Rate payments for calendar years 2011 through the present, and interest earned by Metropolitan thereon. The amount held does not include statutory prejudgment interest or any post-judgment interest, attorneys’ fees, or costs the Court may award. The Set-Aside Fund also does not include any amounts applicable to the rate structure integrity provision declaratory relief cause of action, because that claim does not involve disputed payments under the Exchange Agreement.

On February 14, 2019, Metropolitan tendered to SDCWA payment of $44.4 million for the San Francisco Superior Court’s contract damages award for Water Stewardship Rate payments from 2011 through 2014, plus statutory interest through February 15, 2019, with a reservation of appeal rights, in the San Diego County Water Authority v. Metropolitan Water District of Southern California, et al., 2010 and 2012 actions. This tender was made under compulsion, to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan’s right to appeal, including its right to challenge the amount of the damages award. The tendered payment included $31.6 million of amounts withdrawn from the Exchange Agreement Set-Aside Fund, and $12.8 million withdrawn from reserves (representing statutory interest). On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. The returned funds were credited back to the Exchange Agreement Set-Aside Fund and Metropolitan reserves in the amounts drawn. The balance in the Exchange Agreement Set-Aside Fund set forth above includes the returned funds.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board’s April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan’s Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed
above and additional claims of over-collection and misallocation of costs and procedural violations. Following a stipulated order issued by the court on November 10, 2016, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases’ appeals. The amended petition/complaint adds allegations of the same Exchange Agreement breach as in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts; requests a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA’s future fees. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve (RTS) Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA’s 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleges the 2018 RTS Charge and Capacity Charge violate the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a first amended petition/complaint to add the Metropolitan’s Board action of July 11, 2017 to make minor corrections to the RTS Charge. On July 31, 2018, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On June 8, 2018, SDCWA filed a new lawsuit that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for “offsetting benefits” pursuant to Water Code Section 1810, et seq., which SDCWA contends (and Metropolitan disputes) applies to the parties’ Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan’s California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. Following a stipulated order issued by the San Francisco Superior Court on January 10, 2019, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement for charging an unlawful price that includes the Water Stewardship Rate (despite suspension of this charge), failing to provide credit for offsetting benefits, charging transportation rates that are not based on costs of service, including California WaterFix costs, and not following procedural requirements; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA’s future fees. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

A number of other suits and claims arising in the normal course of business are pending against Metropolitan. In the opinion of Metropolitan’s General Counsel, the adverse results, if any, of such legal actions on these suits and claims will not have a material effect on Metropolitan’s financial position, changes in net position, or liquidity.
(i) Drinking Water Quality Standards
Under the Safe Drinking Water Act Amendments of 1996, Congress required the United States Environmental Protection Agency to set new drinking water quality standards. New standards to control microbial pathogens and disinfection byproducts (DBPs) became effective in 2002. These rules are known as the Interim Enhanced Surface Water Treatment Rule and the Stage 1 Disinfectants/Disinfection By-Product Rule. These standards became more stringent in a second set of regulations effective 2006. The second set of regulations (the Stage 2 Disinfectants/Disinfection Byproducts Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule) did not require additional capital investment by Metropolitan.

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Diemer, Jensen, Mills, and Skinner plants. Construction of ozonation facilities at the Weymouth plant was completed in October 2017. The estimated cost of implementing ozone treatment at all five plants is approximately $1.1 billion.

(j) Reid Gardner Generating Station
Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, DWR entered into a Participation Agreement to import power from the Plant to serve the State Water Project energy needs. DWR's interest in the Plant terminated on July 25, 2013. DWR and NE negotiated the terms of the divestiture including DWR's obligations to mitigate any environmental impacts associated with the electricity generated for DWR over the past thirty years. Metropolitan paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(k) Landfill Obligation
Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately $2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. Approximately $5,000 and $3,000 were expended for postclosure maintenance and monitoring activities during the nine months ended March 31, 2019 and 2018, respectively.

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability.

7. PARTICIPATION RIGHTS IN STATE WATER PROJECT
Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 6a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.
Approximately 34 percent and 37 percent of Metropolitan’s total expenditures during the nine months ended March 31, 2019 and 2018, respectively, pertained to its net payment obligations for the State Water Project. These payments were primarily based on the contractual water delivery request, the annually requested and actual deliveries received, and the cost of power required for such deliveries, offset by credits received from the project.

On December 18, 2018, the Board authorized the General Manager to sign the proposed amendment to the State Water Contract that would extend the contractual period to at least 2085, under similar terms. This corresponds to an estimated 125-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California’s power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the capital and operating costs of the power facilities regardless of the amount of power generated (see Note 6f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h and 6a). Metropolitan’s share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon information provided by the State of California. In fiscal year 2006, the formula was modified to use maximum annual contracted deliveries as the production capacity estimate as previous estimates of total production were less reliable than expected. Amortization expense totaled $98.3 million and $95.6 million for the nine months ended March 31, 2019 and 2018, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at March 31, 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>March 31, 2019</th>
<th>March 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid water costs</td>
<td>$ 172,148</td>
<td>$ 166,449</td>
</tr>
<tr>
<td>Prepaid costs-Delta Habitat conservation and conveyance</td>
<td>58,627</td>
<td>58,627</td>
</tr>
<tr>
<td>Prepaid costs-California WaterFix</td>
<td>41,500</td>
<td>—</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>15,656</td>
<td>9,809</td>
</tr>
<tr>
<td>Preliminary design/reimbursable projects</td>
<td>76,249</td>
<td>65,569</td>
</tr>
<tr>
<td>Total deposits, prepaid costs, and other</td>
<td>377,287</td>
<td>315,339</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(62,227)</td>
<td>(61,359)</td>
</tr>
<tr>
<td>Noncurrent portion</td>
<td>$ 315,060</td>
<td>$ 253,980</td>
</tr>
</tbody>
</table>
(a) Prepaid Water Costs
Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and State Water Project water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan’s reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At March 31, 2019 and 2018, prepaid water costs totaled approximately $172.1 million and $166.4 million, respectively, based on volumes of 838,000 acre-feet and 859,000 acre-feet, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance
In March 2009, Metropolitan, other State Water Project contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with DWR. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan’s three-year DHCCP agreement provides funding of approximately $35.0 million for Metropolitan’s share (24 percent). Metropolitan’s two-year BDCP-DHCCP agreement provides funding of approximately $25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP, which was later on adapted as California WaterFix (see Note 6b), through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. With a decision to move forward to finance and construct a Delta conveyance project, DWR intends to refund Metropolitan for funds advanced through these agreement for planning and environmental studies through the initial bond financing actions.

(c) Prepaid Costs—California WaterFix
As of March 31, 2019, Metropolitan disbursed a total of $41.5 million to DWR for preconstruction planning costs of the California WaterFix in accordance with the advance funding agreement entered into in August 2018. The $41.5 million is Metropolitan’s share (31 percent) of the funding and DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions.

(d) Preliminary Design/Reimbursable Projects
Metropolitan engages in preliminary design activities prior to obtaining Board approval of capital projects. The costs of these designs are recorded as prepaid costs. Once Board approval is obtained, these costs are added to the cost of the relevant construction project.

Reimbursable projects include work Metropolitan is contracted to perform for outside, non-related parties, and is subsequently billed for reimbursement.

9. DEFERRED COMPENSATION AND SAVINGS PLANS
For the benefit of its employees, Metropolitan has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.
Investment of the funds is managed by a third-party administrator, accordingly, at March 31, 2019 and 2018, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

The third-party administrator coordinates the investment of the deferred amounts in available investment vehicles per the instructions of each participant. Metropolitan’s Treasurer serves as Trustee for the deferred compensation plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan is available to substantially all employees. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested. Deferred amounts and matching contributions are transferred by Metropolitan each pay period to a third-party administrator who coordinates the investment of such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. The Treasurer serves as Trustee for the savings plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established a matching contribution program on behalf of each participating employee in the savings plan. Metropolitan’s contribution is subject to a maximum of 4.5 percent of the employee’s total cash compensation.

10. NET POSITION

Net position is classified as restricted, unrestricted, or net investment in capital assets, including State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and deferred outflows and inflows of resources related to debt. Metropolitan’s capital assets, including State Water Project costs include plant and equipment (Note 1g), participation rights in State Water Project (Notes 1h and 7), and participation rights in other facilities (Note 1h). Net investment in capital assets, including State Water Project costs were approximately $6.1 billion at March 31, 2019 and 2018.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled $398.9 million and $371.1 million at March 31, 2019 and 2018, respectively, of which $192.6 million and $190.4 million, respectively, represents principal and interest set aside for the next bond payment. The remaining $206.3 million and $180.7 million, respectively, relate to estimated operating and maintenance expense for April and May of the subsequent fiscal quarter. Each of these requirements is related to bond covenants.
The unrestricted component of net position are those items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled $339.6 million and $410.0 million at March 31, 2019 and 2018, respectively.

11. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first $25.0 million for general liability, fiduciary liability and directors’ and officers’ liability, and $5.0 million for workers’ compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage, $60.0 million excess fiduciary liability coverage, $65.0 million excess for directors’ and officers’ liability coverage, and statutory limits excess workers’ compensation coverage. Special insurance policies carried include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2019 were unchanged from fiscal year 2018. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5 percent annual interest rate over the life of the claims.

12. SUBSEQUENT EVENT

On April 29, 2019, Governor Newsom issued an executive order directing DWR and the State Water Contractors (State agencies) to develop a comprehensive statewide strategy to build a climate-resilient water system. The specific actions identified in the Governor’s executive order included directing the State agencies to inventory and assess the current planning for modernizing conveyance through the Bay-Delta with a new single tunnel project. In light of this order, on May 2, 2019, DWR withdrew its approval of the two tunnel California WaterFix project and announced plans to pursue a new planning and environmental review process for a single tunnel Bay-Delta conveyance project. As DWR has only recently announced its intent to undertake planning and environmental review of a proposed single tunnel project, no cost estimates for such activities or proposed project have yet been developed. Therefore, Metropolitan’s costs associated with any such future activities or proposed project, if any, will inevitably vary from the $10.8 billion that was previously approved by the Board.

In April 2019, Metropolitan’s Board authorized the General Manager to enter into an agreement with Antelope Valley-East Kern (AVEK) for a groundwater banking program referred to as the High Desert Water Bank Program. Under this agreement, Metropolitan would pay AVEK for the capital costs of construction of groundwater recharge and recovery facilities to be located in AVEK’s service area near the split of the West and East Branches of the California Aqueduct. Metropolitan currently expects that construction will commence in fiscal year 2019-20. The estimated cost of construction of the facilities is $131 million. Following completion of construction, which is expected to take approximately five years, Metropolitan would have the right to store up to 70,000 acre-feet per year of its unused Table A State Water Project water or other supplies in the Antelope Valley.
groundwater basin for later return. The maximum storage capacity for Metropolitan supplies would be 280,000 acre-feet. At Metropolitan’s direction, up to 70,000 acre-feet of stored water annually would be available for return by direct pump back into the East Branch of the California Aqueduct. Metropolitan would pay for the actual operation, maintenance and power costs for the water bank facilities when used for Metropolitan’s benefit. In addition, Metropolitan would pay a set recovery usage fee on all recovered water. In total, the estimated cost to Metropolitan would be $320/per acre-foot. Upon completion, this program would provide additional flexibility to store and recover water for emergency or water supply needs through 2057.
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