



*THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA*

**Annual Comprehensive Financial Report  
For the Fiscal Years Ended June 30, 2021 and 2020**



**THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA**

**Annual Comprehensive Financial Report**

**For the Fiscal Years Ended June 30, 2021 and 2020**

Prepared by:

Office of the Chief Financial Officer

# THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

## Annual Comprehensive Financial Report For the Fiscal Years Ended June 30, 2021 and 2020

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THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

*Executive Office*

December 15, 2021

To the Board of Directors of  
The Metropolitan Water District of Southern California:

We are pleased to present the Annual Comprehensive Financial Report for The Metropolitan Water District of Southern California (Metropolitan) for the fiscal years ended June 30, 2021 and 2020.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the basic financial statements are free of any material misstatements.

KPMG LLP, an independent public accounting firm, has issued an unmodified opinion on Metropolitan's basic financial statements for the fiscal years ended June 30, 2021 and 2020. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

### **Profile of Metropolitan**

Metropolitan is a public agency and a quasi-municipal corporation, which was created by an act of the state Legislature in 1928. Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. Most member agencies have other sources of water. Metropolitan is comprised of 26 member agencies consisting of 14 cities, 11 municipal water districts, and one county water authority, which collectively provide services in more than 300 cities and numerous unincorporated communities. Its service area spans some 5,200 square miles, and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura.

Metropolitan has historically provided between 40 and 60 percent of the water used by nearly 19 million Southern Californians who reside within its service area. Metropolitan imports water from two principal sources, Northern California, via the Edmund G. Brown California Aqueduct of the State Water Project owned by the State of California, and the Colorado River, via the Colorado River Aqueduct (CRA) owned by Metropolitan.

Metropolitan is governed by a 38-member Board of Directors (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. The Board elects the Chair and Secretary, and the Vice Chairs are appointed by the Chair.

Metropolitan's biennial budget for fiscal year 2021-22 included 1,907 regular full time positions with approximately 1,804 positions filled at fiscal year ended June 30, 2021, and the remaining positions under recruitment or vacant. Employees are represented by the American Federation of State, County and Municipal Employees, Locals 1001 and 1902, the Association of Confidential Employees, and the Supervisors Association of Metropolitan. Metropolitan is an equal opportunity employer and encourages diversity in contracting and in the workforces of Metropolitan contractors.

### **Financial Policies and Highlights**

Metropolitan has a comprehensive set of financial policies. These policies set forth guidelines to maintain control and accountability over revenue and expenses, maintain a reasonable balance between debt and assets in providing funding for capital assets, and ensure proper appropriation of reserves and restricted funds.

#### ***Rate Stabilization***

Metropolitan's reserve policy provides for minimum reserve requirement and target amount of unrestricted reserves at June 30 of each year. The minimum reserve requirement at June 30 of each year is equal to the portion of fixed costs estimated to be recovered by water revenues for the 18 months beginning with the immediately succeeding July. Funds representing the minimum reserve requirement are held in the Revenue Remainder Fund. Any funds in excess of the minimum reserve requirement are held in the Water Rate Stabilization Fund. The target amount of unrestricted reserves is equal to the portion of the fixed costs estimated to be recovered by water revenues during the two years immediately following the 18-month period used to calculate the minimum reserve requirement. If the fixed charge coverage ratio is less than 1.2, funds in excess of the target amount are to be utilized for capital expenditures in lieu of the issuance of additional debt, or for the redemption, defeasance or purchase of outstanding bonds or commercial paper as determined by the Board. Provided that the fixed charge coverage ratio is at or above 1.2, amounts in excess of the target may be expended for any lawful purpose of Metropolitan, as determined by the Board.

### ***Investment***

Annually, the Board adopts an investment policy that is in compliance with the California Government Code, Sections 53600 et seq. The investment of idle funds is delegated by the Board to Metropolitan's Treasurer who assumes full responsibility for the transactions of the investment program, which includes the investment of bond proceeds and debt service reserves. Metropolitan's investments are in compliance with the adopted investment policy. Refer to Note 3 in the Notes to the Basic Financial Statements for detailed investment information.

### ***Ad Valorem Tax***

In addition to water revenues, Metropolitan is expressly empowered under the Metropolitan Water District 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. As a result of legislation enacted in 1984, tax levies beginning in fiscal year 1990-91, 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 state general obligation bond debt service under the State Water Contract. However, under the terms of the 1984 legislation, the Board may, following a public hearing, suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. The Board made such a finding for fiscal years ended June 30, 2014 through 2021, and maintained the tax rate for those fiscal years at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than debt service.

### ***Budget and Rates***

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 group and department biennially. 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.

The adopted biennial budget for fiscal years 2020-21 and 2021-22 meets the fixed charge coverage target, makes progress towards meeting the revenue bond coverage target, provides increased funding from revenues for the Capital Investment Plan, and promotes the long-term fiscal sustainability goals of Metropolitan. The total budgets for fiscal years 2020-21 and 2021-22 were \$2.04 billion and \$2.15 billion, respectively. The adopted biennial budget includes an overall water rates and charges increase of 3.0% effective January 1, 2021 and an additional 4.0% on January 1, 2022.

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.

Metropolitan’s budgetary accounting method is done on a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the accrual basis of accounting in the following respects: depreciation and amortization are not recorded and payments of debt service are recorded when due and payable. Under the modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and available and certain expenses are recognized when incurred.

## **Metropolitan’s Economic Condition**

### ***Local Economy***

Metropolitan’s service area has an economic base that is diversified and well-positioned to participate in U.S. and world economic growth over the next ten years. In 2020, the economy of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties (the “Six County Area”) was larger than all but twelve nations of the world, ranking between the Russian Federation and Brazil with an estimated gross domestic product (“GDP”) of \$1.499 trillion. In 2020, the major sectors of the economy providing employment in the Six County Area were education and health services, professional and business services, which include architecture, design, computer, research and development, advertising, legal, accounting, and internet-related and management services; government, leisure and hospitality, retail trade and manufacturing. Educational and health services, professional and business services and transportation, warehousing and utilities have shown the largest job growth since 2010. The Six County Area has an above-average share of three additional fast-growing sectors—Wholesale Trade and Transportation, tied to the area’s projected growth in foreign trade; Information, which includes motion pictures; and the tourism component of Leisure and Hospitality, tied to growth in disposable income in the U.S. and worldwide. International trade has been a leading growth sector in the Six County Area economy with Los Angeles and Long Beach ports being the nation’s leading port complex in terms of trade volumes reaching record levels in 2020.

The Six County Area had an employed labor force of approximately 8.8 million through December 2020, the most recent date that employment data is available. The Six County Area had 22.2 million residents in 2020, approximately 56 percent of the State’s population. High housing prices and large job losses have contributed to slowing population growth since 2005, yet the population grew by approximately 1.7 million residents between 2000 and 2010 and another 1.2 million between 2010 and 2020. In 2020 population growth was negative for the Six County Area as the number of people leaving the region outpaced the number of people moving to the region.

### ***Long-term Financial Planning***

Metropolitan currently has several major construction projects underway. These projects primarily involve infrastructure and system reliability, either as upgrades to existing capital assets or replacements and refurbishments of existing facilities, to ensure reliability as well as enhance operational efficiency and flexibility, and comply with water quality regulations. As set forth in the adopted biennial budget for fiscal years 2020-21 and 2021-22, Metropolitan’s capital investment plan for the fiscal years ending June 30, 2021 through 2025 totals approximately \$1.4 billion.

Metropolitan's capital investment plan is regularly reviewed and updated. Implementation and construction of specific elements of the program are subject to Board approval, and the amount and timing of borrowings will depend upon, among other factors, status of construction activity and water demands within Metropolitan's service area. Major projects in the capital investment plan are highlighted below.

Funding of the capital investment plan is accomplished with external and internal resources. The Board has adopted an internal funding objective to fund 55 to 60 percent of capital program expenditures. The amount of internal funding is determined by the Board as part of the biennial budget process. The remainder of capital program expenditures is funded primarily through the issuance of water revenue bonds payable from net operating revenues. Additional information on Metropolitan's capital investment plan can be found in Note 9f of the Notes to the Basic Financial Statements.

### ***Highlights of the Capital Investment Plan***

*Colorado River Aqueduct Facilities.* Deliveries through the CRA began in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the CRA are regularly evaluated. Projects under the CRA facilities program are designed to replace or refurbish facilities and components on the CRA system in order to reliably convey water from the Colorado River to Southern California. A variety of projects have been completed over the past 10 years, including, among other things, replacement of high voltage circuit breakers and transformers at the five pumping plant switchyards, refurbishment of operators and power centers on the head gates downstream of the pumping plants, replacement of several miles of deteriorated concrete canal liner, new wastewater systems at the Hinds and Eagle Mountain Pumping Plants, replacement of the sand trap facilities upstream of the Hinds, Eagle Mountain, and Iron Mountain pumping plants, and replacement of the outlet gates and appurtenant electrical, mechanical, and control systems at the Copper Basin Reservoir. Projects currently underway to refurbish or replace electrical and mechanical system components at each of the five pumping plants includes power cables, uninterruptible power supply systems, and sump systems. Additionally, many of the mechanical and electrical components, including the nine main pumps and motors at each of the five pumping plants will be evaluated and replaced or refurbished over the next several years. To facilitate efficient execution of the pump and motor replacement or refurbishment, new isolation coupling assemblies have been installed at each of the pump discharge pipelines at all five pumping plants during the February 2021 CRA shutdown.

*Distribution System - Prestressed Concrete Cylinder Pipe.* Metropolitan's distribution system is comprised of approximately 830 miles of pipelines ranging in diameter from 30 inches to over 200 inches. 163 miles of the distribution system is made up of prestressed concrete cylinder pipe (PCCP). In response to PCCP failures experienced by several water agencies, Metropolitan initiated the PCCP Assessment Program in December 1996 to evaluate the condition of Metropolitan's PCCP lines and investigate inspection and refurbishment methods. As a result, Metropolitan has identified and made improvements to several sections of PCCP. The costs for these improvements through February 2021 were \$100.7 million. Rather than continue to make spot repairs to pipe segments, Metropolitan has initiated a long-term capital program to

rehabilitate approximately 100 miles of PCCP in five pipelines by relining with a welded steel liner. The first three major contracts to reline approximately 10.9 miles of PCCP on the Second Lower Feeder were completed by fiscal year end June 30, 2021. Subsequent contracts are planned to be awarded annually depending on shutdown scheduling.

*Distribution System Refurbishments and Improvements.* In addition to the long-term program to rehabilitate Metropolitan's PCCP lines, several other components of the distribution system are being refurbished and/or improved. Major projects completed to date include the \$70 million replacement of the outlet facilities at Lake Mathews, the first two phases of the Orange County Feeder and Etiwanda Pipeline relining projects and various other facility refurbishment and replacement projects ranging in cost from approximately \$0.5 million to over \$10.0 million. Ongoing projects to ensure the reliability of the distribution system, primarily due to age, include multiple replacements or refurbishments of isolation and control valves and gates, lining replacement of remaining portions of the Etiwanda Pipeline and Orange County Feeder, refurbishment to pressure control and hydroelectric power facilities, system improvements to provide drought relief, replacement of finished water reservoir covers and liners, upgrading dam monitoring systems, and various other upgrades.

*System Reliability.* System Reliability projects are implemented at facilities throughout Metropolitan's system to utilize new processes or technologies, to improve safety, or to increase overall reliability. Significant projects in this category include seismic strengthening of Metropolitan's headquarters building, construction or improvement of operations support facilities such as the La Verne machine and fabrication shops, security system enhancements, and information technology infrastructure projects.

*F.E. Weymouth Treatment Plant Improvements.* The F.E. Weymouth Treatment Plant, built in 1938, is Metropolitan's oldest water treatment facility. It has been subsequently expanded several times since its original construction. Metropolitan has completed several upgrades and refurbishment/replacement projects to maintain the plant's reliability and improve its efficiency. These include power systems upgrades, a residual solids dewatering facility, refurbishment/replacement of the mechanical equipment in two of the eight flocculation and settling basins, a new plant maintenance facility, new chemical feed systems and storage tanks, replacement of the plant domestic/fire water system, seismic upgrades to the plant inlet structure and filter buildings, upgrades to the plants filters, and a new chlorine handling and containment facility. Significant projects over the next several years include refurbishment of four of the plant's settling basins and strengthening inlet channels to the basins, seismic retrofits to the administration building, and replacement of the valves used to control filter operation.

*Robert B. Diemer Treatment Plant Improvements.* The Robert B. Diemer Treatment Plant, built in 1963 and subsequently expanded in 1968, is Metropolitan's second oldest water treatment facility. Several upgrades and refurbishment/replacement projects have been completed at the Diemer plant, including power system upgrades, a new residual solids dewatering facility, new vehicle and plant maintenance facilities, new chemical feed systems and storage tanks, a new chlorine handling and containment facility, construction of a roller-compacted concrete slope stabilization system, a new secondary access road, and upgrades to half of the plant's settling basins and filter valves. Significant projects over the next several years

include the completion of refurbishment of the plant's settling basins and replacement of the valves used to control filter operation, and seismic retrofits to the filter buildings.

## **Major Initiatives**

Metropolitan faces a number of challenges in providing adequate, reliable, and high-quality supplemental water supplies for Southern California. These challenges include population growth in Metropolitan's service area, increased competition for low-cost water supplies, variable weather conditions, increased environmental regulations, and climate change. Metropolitan's resources and strategies for meeting these long-term challenges are identified in its Integrated Water Resources Plan (IRP).

The Board-adopted IRP was developed by Metropolitan, its member agencies, sub-agencies, and groundwater basin managers with the purpose of balancing local and imported water resources to meet the water supply reliability and water quality needs for the service area in a cost-effective and environmentally sound manner. On January 12, 2016, the IRP was updated (2015 IRP Update) enabling Metropolitan and its member agencies to manage future challenges and changes in California's water conditions and to balance investments with water reliability benefits. The 2015 IRP Update seeks to provide regional reliability by stabilizing Metropolitan's traditional imported water supplies and continuing to develop additional conservation programs and local resources. It also advances long-term planning for potential future contingency resources, such as storm water capture and seawater desalination. In February 2020 Metropolitan began the process of updating the IRP which will be referred to as the 2020 IRP update which is still in development and likely to be finalized in fiscal year 2022.

Since 2010, Metropolitan has been evaluating the potential and feasibility of implementing a regional recycled water program (the RRWP). Chronic drought conditions have resulted in significant reductions in local surface supplies and groundwater production and have increased the need for recharge supplies to groundwater and surface water reservoirs to improve their sustainable yields and operating integrity. In 2015, Metropolitan executed an agreement with the Sanitation Districts of Los Angeles County (LACSD) to implement a demonstration project and to establish a framework of terms and conditions of the RRWP. The objectives of the RRWP are to enable the potential reuse of up to 150 million gallons per day (mgd) of treated effluent from LACSD's Joint Water Pollution Control Plant. Purified water from a new advanced treatment facility could be delivered through pipelines to the region's groundwater basins, industrial facilities, and two of Metropolitan's treatment plants. Construction of a 0.5-mgd advanced water treatment demonstration plant was approved in 2017 and was completed in September 2019. Testing and operation of the plant began in October 2019 to confirm treatment costs and provide the basis for regulatory approval of the proposed treatment process. The initial phase of testing is scheduled for completion in 2021 with future testing phases planned that will form the basis for the design, operation, and optimization of, and will inform Metropolitan's Board decision whether to move forward with, a full-scale advanced water treatment facility. Finally, the RRWP will have the flexibility to be expanded in the future to implement Direct Potable Reuse (DPR) through raw water augmentation at two of Metropolitan's treatment plants. The State Water Resources Control Board Division of Drinking Water is in the process of developing regulations for DPR in California, with the current

anticipated date for promulgation by the end of 2023. The fiscal year 2020-21 and 2021-22 biennial budget includes \$30 million for the preparation of a programmatic environment impact report for the RRWP. Metropolitan's financial projections through fiscal year ending June 30, 2024 do not include any future capital costs associated with a potential full-scale RRWP. On November 10, 2020, Metropolitan's Board voted to begin environmental planning work on the RRWP. In December 2020, Metropolitan and SNWA executed a funding agreement under which Southern Nevada Water Authority (SNWA) will contribute up to \$6.0 million for the environmental planning costs for the RRWP. In the event either SNWA or Metropolitan decides not to proceed or participate in the RRWP in the future, SNWA's financial contribution to the RRWP's environmental planning would be returned by Metropolitan.

The Sites Reservoir is a proposed reservoir project of approximately 1.3 million to 1.5 million acre-feet, being analyzed by the Sites Reservoir Authority, to be located in Colusa County. The water stored in the proposed project would be diverted from the Sacramento River. As currently proposed, the Sites Reservoir project would have dedicated water storage and yield that would be used for fishery enhancement, water quality, and other environmental purposes. The proposed project could also provide additional water supply that could be used for dry-year benefits. Metropolitan is a member of the Sites Reservoir Committee, a group of 30 agencies that are participating in certain planning activities in connection with the proposed development of the project, including the development of environmental planning documents, a federal feasibility report and project permitting. In October 2020, Metropolitan's Board approved \$5.0 million in funding for Metropolitan's continued participation in such planning activities through the end of 2021. Metropolitan's agreement to participate in funding of this phase of project development activities does not commit Metropolitan to participate in any actual reservoir project that may be undertaken in the future.

On July 10, 2018, Metropolitan's Board approved the funding of up to 64.6 percent, approximately \$10.8 billion (in 2017 dollars) of the overall capital cost of the California WaterFix (CWF), a project designed as an improvement to the State Water Project by updating the aging infrastructure of Southern California's water delivery system to improve reliability of water supply. Metropolitan's funding commitment was intended to support the full two tunnel project. However, on February 12, 2019, on his State of the State address, Governor Gavin Newsom announced the shift from a twin tunnel CWF project to a single tunnel project now referred to as the Delta Conveyance Project. Subsequently, on April 29, 2019, Governor Newsom issued an executive order calling for the development of a water resilience portfolio that meets the needs of California's communities, economy, and environment through the 21st century. Following the Governor's executive order, on May 2, 2019, the Department of Water Resources (DWR) withdrew the approval for the CWF project, decertified the Environmental Impact Report (EIR), and rescinded various permitting applications including those submitted to the State Water Resources Control Board, U.S. Army Corps of Engineers, and State and federal Endangered Species Acts permits. In light of the executive order, DWR launched a new environmental review and planning process and released a Notice of Preparation of an EIR on January 15, 2020, for the single-tunnel Delta Conveyance Project. The DWR is continuing to develop the draft EIR under the California Environmental Quality Act. A range of reasonable alternatives to consider and analyze in the EIR has been identified and current efforts are



focused on analyzing the alternatives' potential impacts on environmental resources. On December 8, 2020, the Board voted unanimously to fund its share of the environmental planning and pre-construction costs of the Delta Conveyance Project which is estimated at 47.2 percent or \$160.8 million for calendar year 2021 through 2024.

Metropolitan will continue to add storage and conservation resources to its diverse water supply portfolio as well as focus on water quality improvements. In addition, Metropolitan will work to stabilize its traditional imported water supplies. Commitment of the resources to achieve these goals will enable Metropolitan to meet its member agencies' and the region's water reliability and quality needs in a fiscally responsible manner.

### **Awards and Acknowledgments**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Metropolitan for its annual comprehensive financial report (ACFR) for the fiscal year ended June 30, 2020. This was the twenty-fifth consecutive year that Metropolitan has received this prestigious award. In order to be awarded a Certificate of Achievement, Metropolitan published an easily readable and efficiently organized ACFR. This report satisfies both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current ACFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another Certificate of Achievement.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Office of the Assistant General Manager/Chief Financial Officer. I would like to express my appreciation to all staff that assisted and contributed to the preparation of this report. Credit must also be given to the General Manager and the Board for their unfailing support for maintaining the highest standards of professionalism in the management of Metropolitan's finances. Any questions regarding the content of this report may be directed to the Controller, Bernadette Robertson at (213) 217-7547.

Respectfully,



Katano Kasaine  
Assistant General Manager/Chief Financial Officer



Government Finance Officers Association

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**The Metropolitan Water District  
of Southern California**

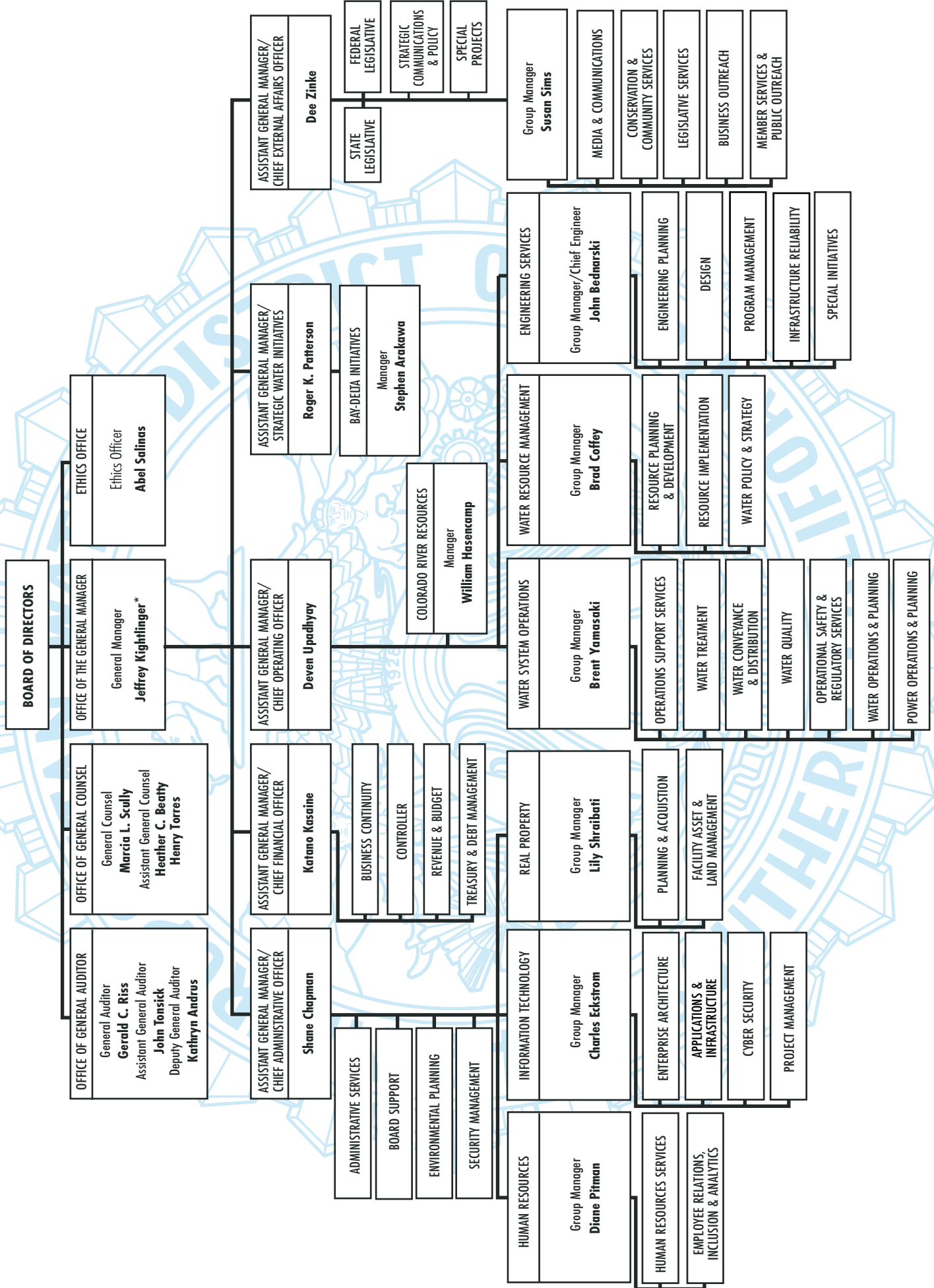
For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2020

*Christopher P. Morill*

Executive Director/CEO

# METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Officers of the Board of Directors  
(As of June 30, 2021)

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Vice Chair  
CYNTHIA KURTZ

Vice Chair  
DAVID D. DE JESUS

Vice Chair  
HEATHER REPENNING

Secretary  
JUDY ABDO

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STEPHEN J. FAESSEL

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MICHAEL CAMACHO

San Fernando  
ADAN ORTEGA

Beverly Hills  
BARRY D. PRESSMAN

Las Virgenes Minicipal Water  
District  
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MARSHA RAMOS

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Santa Ana  
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Municipal Water District of  
Orange County  
DENNIS ERDMAN  
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LINDA ACKERMAN  
SATORU TAMARIBUCHI

Torrance  
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Eastern Municipal Water District  
RANDY A. RECORD

Upper San Gabriel Valley  
Municipal Water District  
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Foothill Municipal Water District  
RICHARD ATWATER

Pasadena  
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West Basin Municipal Water  
District  
HAROLD WILLIAMS  
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JERRY BUTKIEWICZ  
S. GAIL GOLDBERG  
MICHAEL T. HOGAN  
TIM SMITH

Western Municipal Water  
District of Riverside County  
BRENDA DENNSTEDT









KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

## Independent Auditors' Report

The Board of Directors  
Metropolitan Water District of Southern California:

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Metropolitan Water District of Southern California (Metropolitan), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements for the years then ended as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of Metropolitan, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.





## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-20 and the pension and other postemployment benefits supplementary information on pages 104-108 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metropolitan's basic financial statements. The accompanying supplemental information on pages 110-119 and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information and the introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021 on our consideration of Metropolitan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Metropolitan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metropolitan's internal control over financial reporting and compliance.

**KPMG LLP**

Los Angeles, California  
October 18, 2021

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
June 30, 2021 and 2020

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 fiscal years ended June 30, 2021 and 2020. 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 a utility enterprise and maintains its accounting records in accordance with United States generally accepted accounting principles (U.S. GAAP) 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, statements of cash flows, statements of fiduciary net position and statements of changes in fiduciary net position. 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 2020 have been reclassified to conform to the fiscal year 2021 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2021, Metropolitan implemented GASB Statement No. 84 (GASB 84), *Fiduciary Activities*, which resulted in the addition of five fiduciary funds that are reported separately from Metropolitan's proprietary balances in the statements of fiduciary net position and statements of changes in fiduciary net position. Fiscal year 2020 balances for restricted current and non-current cash, interest receivable, accounts payable and accrued expenses, and current and non-current customer deposits and trust funds were adjusted as detailed in Note 1(s) of the basic financial statements. Fiscal year 2019 balances within this Management's Discussion and Analysis were not adjusted for the implementation of this GASB statement.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
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**CONDENSED FINANCIAL INFORMATION**

*Condensed Schedule of Net Position*

(Dollars in millions)	June 30,		
	2021	2020	2019
		As Adjusted Note 1s	
<b>Assets and deferred outflows of resources</b>			
Capital assets, net	\$ 10,537.3	\$ 10,508.4	\$ 10,393.5
Other assets	2,309.0	1,986.5	1,845.0
<b>Total assets</b>	<b>12,846.3</b>	12,494.9	12,238.5
Deferred outflows of resources	167.3	169.1	182.1
<b>Total assets and deferred outflows of resources</b>	<b>13,013.6</b>	12,664.0	12,420.6
<b>Liabilities and deferred inflows of resources</b>			
Long-term liabilities, net of current portion	5,284.1	4,366.9	4,865.4
Other liabilities	492.6	1,289.0	686.9
<b>Total liabilities</b>	<b>5,776.7</b>	5,655.9	5,552.3
Deferred inflows of resources	42.5	68.6	32.1
<b>Total liabilities and deferred inflows of resources</b>	<b>5,819.2</b>	5,724.5	5,584.4
<b>Net position</b>			
Net investment in capital assets, including State Water Project costs	6,141.5	6,121.6	6,131.6
Restricted	532.7	509.0	418.6
Unrestricted	520.2	308.9	286.0
<b>Total net position</b>	<b>\$ 7,194.4</b>	\$ 6,939.5	\$ 6,836.2

**Capital Assets, Net**

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

**Fiscal Year 2021 Compared to 2020.** At June 30, 2021, net capital assets totaled \$10.5 billion, or 81.0 percent of total assets and deferred outflows of resources, and were \$28.9 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of \$277.5 million (including \$7.3 million of capitalized interest) and a net increase of \$141.8 million in participation rights in SWP, offset by depreciation and amortization of \$353.3 million and \$37.1 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred. See the capital assets section on pages 15-16 for additional information.

**Fiscal Year 2020 Compared to 2019.** At June 30, 2020, net capital assets totaled \$10.5 billion, or 83.0 percent of total assets and deferred outflows of resources, and were \$114.9 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of \$339.3 million (including \$9.8 million of capitalized interest) and a net increase of \$144.4 million in participation rights in SWP, offset by depreciation and amortization of \$349.1 million and \$19.7 million retirements of capital assets and write-off of construction in

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
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progress upon determination that no operating assets would result from the cost incurred. See the capital assets section on pages 15-16 for additional information.

### **Other Assets**

Other assets include accounts receivable, inventories, prepaid costs, and cash and investments.

***Fiscal Year 2021 Compared to 2020.*** At June 30, 2021, other assets totaled \$2.3 billion and were \$322.5 million higher than the prior year. Cash and investments were \$229.9 million higher primarily due to \$188.9 million proceeds from the Water Revenue Bonds 2021 Series A. Deposits, prepaid costs, and other was \$47.1 million higher than prior year which included \$25.0 million funding for the Delta Conveyance Project planning and pre-construction costs and and \$16.8 million more costs for the High Desert Bank Program, which was operational for twelve months in fiscal year 2021 compared to three months in fiscal year 2020. Receivables also increased \$44.3 million of which, \$50.2 million related to higher water revenues receivable as fiscal year 2021 May and June water transactions were 56.9 thousand acre feet (TAF) more than the prior year's comparable months.

***Fiscal Year 2020 Compared to 2019.*** At June 30, 2020, other assets totaled \$2.0 billion and were \$141.5 million higher than the prior year. Cash and investments were \$60.2 million higher due to a \$35.6 million draw on the Royal Bank of Canada Short-Term Credit Facility (RBC note) for the purpose of refunding a portion of the outstanding principal on the Subordinate Water Revenue Refunding Bonds 2017 Series B in July 2020 and a \$34.0 million refund of the California WaterFix (CWF) advance funding from the California Department of Water Resources (DWR). Receivables also increased \$60.1 million of which, \$53.1 million related to higher water revenues receivable as fiscal year 2020 May and June water transactions were 50.7 TAF more than the prior year's comparable months. Deposits, prepaid costs, and other was \$25.8 million higher than prior year. The increase included \$38.4 million more prepaid water costs due to \$17.4 million or 151.3 TAF more in various storage programs and \$13.3 million for the High Desert Bank Program that started in fiscal year 2020. In addition, prepaid expenses were \$13.2 million higher. These were partially offset by the \$34.0 million refund from DWR for the CWF advance funding.

### **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.

***Fiscal Year 2021 Compared to 2020.*** At June 30, 2021, deferred outflows totaled \$167.3 million and were \$1.8 million lower than the prior year. The decrease included \$11.7 million lower deferred outflows on effective swaps due to higher interest rates, \$6.3 million lower deferred loss on bond refundings and \$1.1 million lower deferred loss on swap terminations, both of which were due to amortization. These decreases were offset by \$18.0 million higher deferred outflows related to pension, which included \$13.1 million higher deferred outflows related to the net difference between projected and actual earnings on pension plan investments, \$8.2 million higher deferred outflows related to pension contributions subsequent to the measurement date, and \$4.5 million higher difference between actual and expected experience, partially offset by \$7.8 million lower deferred outflows due to changes of actuarial assumption.

***Fiscal Year 2020 Compared to 2019.*** At June 30, 2020, deferred outflows totaled \$169.1 million and were \$13.0 million lower than the prior year. The decrease was primarily due to \$21.7 million lower deferred outflows

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
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related to pension, which included \$39.3 million lower deferred outflows due to changes of actuarial assumption and \$3.3 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by \$11.3 million higher difference between actual and expected experience and \$9.6 million higher deferred outflows related to pension contributions subsequent to the measurement date. In addition, deferred loss on bond refundings was \$5.0 million lower due to scheduled amortization. These decreases were offset by \$11.7 million higher deferred outflows on effective swaps due to lower interest rates.

**Long-term Liabilities, Net of Current Portion**

Long-term liabilities, net of current portion includes long-term debt, long-term revolving notes, customer deposits and trust funds, net pension liability, net OPEB liability, accrued compensated absences, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

***Fiscal Year 2021 Compared to 2020.*** At June 30, 2021, long-term liabilities, net of current portion totaled \$5.3 billion and were \$917.2 million higher than the prior year primarily due to an increase of \$929.3 million in long-term debt, net of current portion. The increase included \$816.4 million lower current portion of long-term debt as compared to prior year, \$188.9 million in new revenue bonds and \$97.9 million increase in premiums and discounts, offset by \$133.8 million principal payments, \$35.6 million of principal paid by the short-term RBC note issued in June 2020, and \$4.5 million of bond refundings, as the new debt issued was less than the amount of debt refunded. See other liabilities section on page 7 and long-term debt section on page 17 for additional information. In addition, net pension liability was \$55.6 million higher due to \$175.0 million interest on the total pension liability and \$37.2 million in service costs, offset by \$90.1 million of pension plan investment earnings and \$66.1 million employer contributions to the pension plan. These increases in long-term liabilities, net of current portion were offset by \$46.8 million lower long-term revolving notes as the Bank of America, N.A. notes (BANA notes) issued for the CWF advance were repaid and \$19.6 million decrease in fair value of interest rate swaps due to higher interest rates as compared to prior year.

***Fiscal Year 2020 Compared to 2019.*** At June 30, 2020, long-term liabilities, net of current portion, totaled \$4.4 billion and were \$498.5 million lower than the prior year primarily due to a decrease of \$487.2 million in long-term debt, net of current portion. The decrease included \$571.0 million higher current portion of long-term debt as compared to prior year, \$141.5 million principal payments and \$41.0 million of bond refundings, as the new debt issued was less than the amount of debt refunded, offset by \$207.3 million in new revenue bonds and \$59.0 million increase in premiums and discounts. See other liabilities section on page 7 and long-term debt section on page 17 for additional information. In addition, net OPEB liability was \$60.3 million lower primarily due to \$50.1 million difference between expected and actual experience, \$32.1 million of employer contributions to the OPEB plan and \$16.2 million of OPEB plan investment earnings, offset by \$31.6 million of interest on the total OPEB liability and \$10.6 million of service costs. These decreases in long-term liabilities, net of current portion were offset by \$35.0 million higher net pension liability primarily due to \$168.1 million interest on the total pension liability and \$35.7 million in service costs, offset by \$114.2 million of pension plan investment earnings and \$56.5 million employer contributions to the pension plan. Furthermore, fair value of interest rate swaps increased \$12.3 million due to lower interest rates as compared to prior year.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
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**Other Liabilities**

Other liabilities represent current liabilities that are due within one year. Current liabilities include accounts payable, accrued liabilities, short-term revolving notes, and the current portion of long-term liabilities.

***Fiscal Year 2021 Compared to 2020.*** At June 30, 2021, other liabilities totaled \$492.6 million and were \$796.4 million lower than the prior year. Current portion of long-term debt decreased by \$816.4 million due to the extension of mandatory tender dates to fiscal year 2024 for the \$271.8 million Special Variable Rate Water Revenue Refunding Bonds (SVRWRRB), 2020 Series B, \$191.2 million Subordinate Water Revenue Refunding Bonds, 2017 Series D and E and \$80.0 million Subordinate Water Revenue Bonds, 2017 Series C. Also contributing to the decrease in current portion of long-term debt was the refunding of \$175.0 million Subordinate Water Revenue Bonds, 2016 Series A which had a mandatory tender date of December 2020, and an extension of the Standby Bond Purchase Agreement (SBPA) from June 2021 to June 2024 for \$90.1 million SVRWRRB, 2018 Series A-1 and A-2. The decrease in the current portion of long-term debt was offset by \$27.4 million higher accounts payable and accrued expenses primarily due to the withdrawal of 116.8 TAF from DWR's Flexible Storage Program in fiscal year 2021.

***Fiscal Year 2020 Compared to 2019.*** At June 30, 2020, other liabilities totaled \$1.3 billion, and were \$602.1 million higher than the prior year. Current portion of long-term debt increased by \$571.0 million due to the addition of \$271.8 million SVRWRRB, 2020 Series B with a mandatory tender date of April 2021, \$191.2 million Subordinate Water Revenue Refunding Bonds, 2017 Series D and E with a mandatory tender date of June 2021, \$175.0 million Subordinate Water Revenue Bonds, 2016 Series A with a mandatory tender date of December 2020, \$90.1 million SVRWRRB, 2018 Series A-1 and A-2 with a SBPA expiring in June 2021 and \$80.0 million Subordinate Water Revenue Bonds, 2017 Series C with a mandatory tender date of June 2021. The increase in current portion of long-term debt was offset by the classification of \$158.9 million back to long-term debt due to the extension of the SBPA that supports the Water Revenue Bonds, 2017 Series A and 2000 Series B-3 to March 2023. In addition, Metropolitan took a \$35.6 million draw from the RBC note for the purpose of refunding subordinate lien debt in July 2020. These increases in other liabilities were offset by \$22.9 million lower accounts payable and accrued expenses as the SWP variable costs were \$24.0 million less due to lower allocation.

**Deferred Inflows of Resources**

Deferred inflows of resources represent deferred inflows related to the net pension liability, net OPEB liability and deferred inflows for effective interest rate swaps.

***Fiscal Year 2021 Compared to 2020.*** At June 30, 2021, deferred inflows of resources totaled \$42.5 million and were \$26.1 million lower than the prior year primarily due to \$19.7 million lower deferred inflows related to pension, which included \$10.8 million lower net difference between projected and actual earnings on pension plan investments, \$4.8 million lower changes of assumptions, and \$4.1 million lower difference between expected and actual experience. Additionally, deferred inflows related to OPEB decreased \$14.3 million, which included \$9.8 million lower differences between expected and actual experience and \$3.7 million net difference between projected and actual earnings on OPEB plan investments. These decreases in deferred outflows of resources were partially offset by \$7.9 million higher deferred inflows on effective swaps due to higher interest rates.



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
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*Fiscal Year 2020 Compared to 2019.* At June 30, 2020, deferred inflows of resources totaled \$68.6 million and were \$36.5 million higher than the prior year primarily due to a \$40.0 million increase in deferred inflows related to OPEB which included \$40.3 million higher differences between expected and actual experience. This increase was partially offset by \$2.9 million lower deferred inflows related to pension which included \$8.9 million lower difference between expected and actual experience and \$4.8 million lower changes of assumptions offset by \$10.8 million higher net difference between projected and actual earnings on pension plan investments.

### **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 SWP, offset by accumulated depreciation and outstanding debt issued for these purposes.

*Fiscal Year 2021 Compared to 2020.* At June 30, 2021, net investment in capital assets, including State Water Project costs totaled \$6.1 billion and was \$19.9 million higher than the prior year. This increase included \$28.9 million net increase in capital assets offset by \$9.0 million increase in outstanding debt and related deferred outflows of resources. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

*Fiscal Year 2020 Compared to 2019.* At June 30, 2020, net investment in capital assets, including State Water Project costs totaled \$6.1 billion and was \$10.0 million lower than the prior year. This decrease included \$124.9 million increase in outstanding debt and related deferred outflows of resources, offset by \$114.9 million net increase in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

### **Restricted Net Position**

Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

*Fiscal Year 2021 Compared to 2020.* At June 30, 2021, restricted net position totaled \$532.7 million which was \$23.7 million higher than fiscal year 2020 due to \$34.9 million increase in restricted for operating expenses primarily due to higher pension and OPEB contribution requirements for fiscal year 2022 partially offset by \$10.8 million of lower restricted for debt service due to savings from refunding transactions.

*Fiscal Year 2020 Compared to 2019.* At June 30, 2020, restricted net position totaled \$509.0 million which was \$90.4 million higher than fiscal year 2019 primarily due to \$51.7 million of higher restricted for debt service resulting from higher principal and interest payment requirements and \$38.4 million increase in restricted for operating expenses as the SWP operations, maintenance, power and replacement (OMP&R) costs are estimated to be higher in fiscal year 2021.

### **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 Metropolitan's Board of Directors (Board).

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
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*Fiscal Year 2021 Compared to 2020.* Unrestricted net position of \$520.2 million increased \$211.3 million from the prior year, which included fiscal year 2021 changes in net position of \$254.9 million offset by \$23.7 million higher restricted for debt service and operating expenses and \$19.9 million higher net investment in capital assets, including State Water Project costs.

*Fiscal Year 2020 Compared to 2019.* Unrestricted net position of \$308.9 million increased \$22.9 million from the prior year, which included fiscal year 2020 changes in net position of \$103.3 million and \$10.0 million of lower net investment in capital assets, including State Water Project costs, offset by \$90.4 million higher restricted for debt service and operating expenses.



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
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**CHANGES IN NET POSITION**

*Condensed Schedule of Revenues, Expenses, and Changes in Net Position*

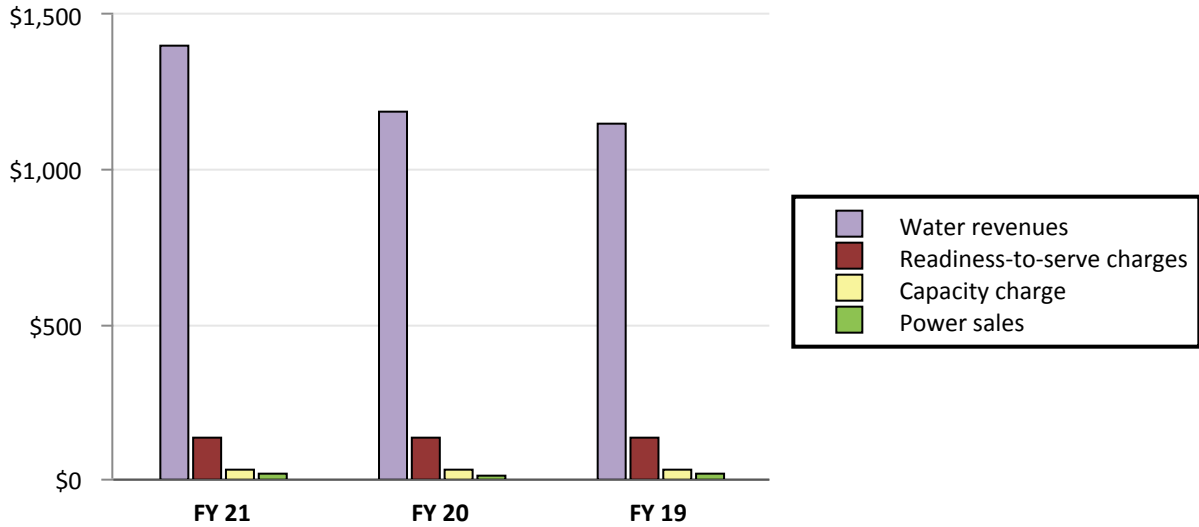
(Dollars in millions)	Fiscal Year Ended June 30,		
	2021	2020	2019
Water revenues	\$ 1,404.7	\$ 1,188.0	\$ 1,148.7
Readiness-to-serve charges	133.0	134.5	136.5
Capacity charge	31.7	30.5	33.0
Power sales	19.0	15.9	18.3
<b>Operating revenues</b>	<b>1,588.4</b>	<b>1,368.9</b>	<b>1,336.5</b>
Taxes, net	160.6	146.9	142.7
Investment income, net	4.1	28.9	36.0
Other	10.4	24.5	10.4
<b>Nonoperating revenues</b>	<b>175.1</b>	<b>200.3</b>	<b>189.1</b>
<b>Total revenues</b>	<b>1,763.5</b>	<b>1,569.2</b>	<b>1,525.6</b>
Power and water costs	(480.9)	(438.7)	(375.8)
Operations and maintenance	(509.8)	(557.4)	(493.9)
Litigation payments	(44.4)	—	—
Depreciation and amortization	(362.8)	(353.0)	(361.1)
<b>Operating expenses</b>	<b>(1,397.9)</b>	<b>(1,349.1)</b>	<b>(1,230.8)</b>
Bond interest, net of amount capitalized	(91.6)	(100.7)	(126.9)
Loss on disposal of plant assets	(13.2)	(10.2)	(13.7)
Other	(6.2)	(5.9)	(5.3)
<b>Nonoperating expenses</b>	<b>(111.0)</b>	<b>(116.8)</b>	<b>(145.9)</b>
<b>Total expenses</b>	<b>(1,508.9)</b>	<b>(1,465.9)</b>	<b>(1,376.7)</b>
<b>Changes in net position before contributions</b>	<b>254.6</b>	<b>103.3</b>	<b>148.9</b>
Capital contributions	0.3	—	0.8
<b>Changes in net position</b>	<b>254.9</b>	<b>103.3</b>	<b>149.7</b>
Net position, beginning of year	6,939.5	6,836.2	6,686.5
<b>Net position, end of year</b>	<b>\$ 7,194.4</b>	<b>\$ 6,939.5</b>	<b>\$ 6,836.2</b>

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED**  
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**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 SWP.

**OPERATING REVENUES**  
 (Dollars in millions)



**Analytical Review of Operating Revenues**

**Fiscal Year 2021 Compared to 2020.** Fiscal year 2021 operating revenues were \$1.6 billion or \$219.5 million more than the prior year. The increase was primarily due to \$216.7 million of higher water revenues, which included \$179.0 million or 206.1 TAF of higher volumes sold and \$37.7 million of higher price.

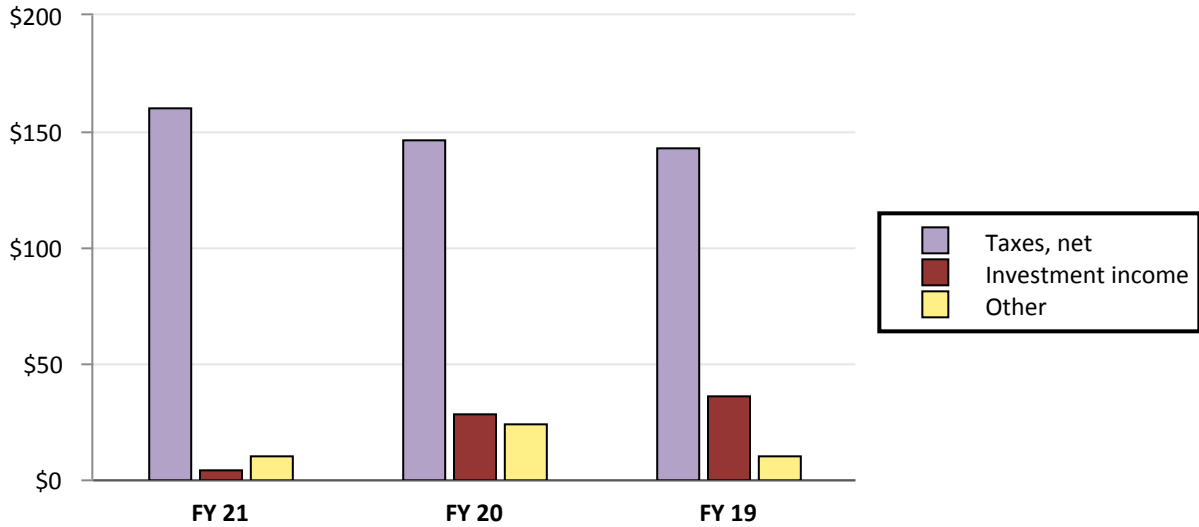
**Fiscal Year 2020 Compared to 2019.** Fiscal year 2020 operating revenues were \$1.4 billion or \$32.4 million more than the prior year. The increase was primarily due to \$39.3 million of higher water revenues, which included \$44.9 million of higher price, offset by \$5.6 million or 6.7 TAF of lower volumes sold.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
 (CONTINUED)  
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**Nonoperating Revenues**

The primary source of nonoperating revenues is property taxes.

**NONOPERATING REVENUES**  
 (Dollars in millions)



**Analytical Review of Nonoperating Revenues**

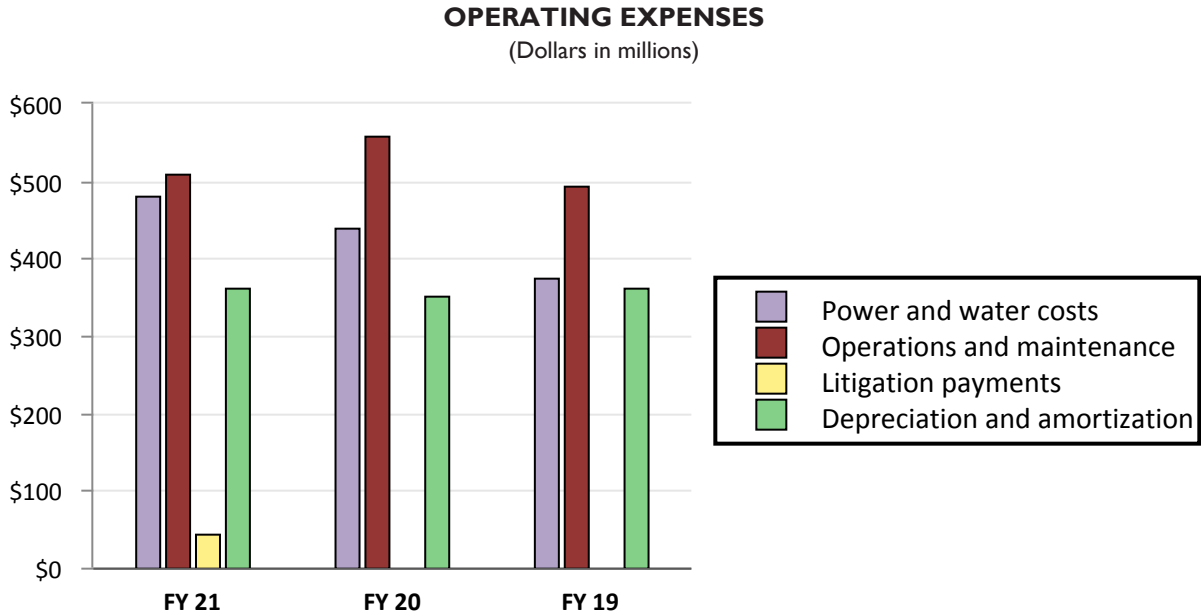
**Fiscal Year 2021 Compared to 2020.** Nonoperating revenues for fiscal year 2021 totaled \$175.1 million and were \$25.2 million lower than the prior year. The decrease was primarily due to \$24.8 million less of investment income which included \$14.5 million unfavorable change in fair value of investments and \$10.8 million lower rate of return. In addition, other revenues were \$14.1 million lower as there were no adjustment for depreciation overstatement in fiscal year 2021. These decreases were offset by \$13.7 million higher property tax revenues due to higher assessed property values and the collection of prior year uncollectible amounts.

**Fiscal Year 2020 Compared to 2019.** Nonoperating revenues for fiscal year 2020 totaled \$200.3 million and were \$11.2 million higher than the prior year. The increase was primarily due to \$14.1 million higher other revenues which included a \$13.4 million adjustment due to an overstatement of depreciation expense in a prior year. In addition, property tax revenue was \$4.2 million higher due to lower delinquencies and higher assessed property values. These increases were offset by \$7.1 million less of investment income primarily due to \$5.1 million lower rate of return.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
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**Operating Expenses**

Operating expenses fall into three primary cost areas: power and water, operations and maintenance (O&M), and depreciation and amortization.



**Analytical Review of Operating Expenses**

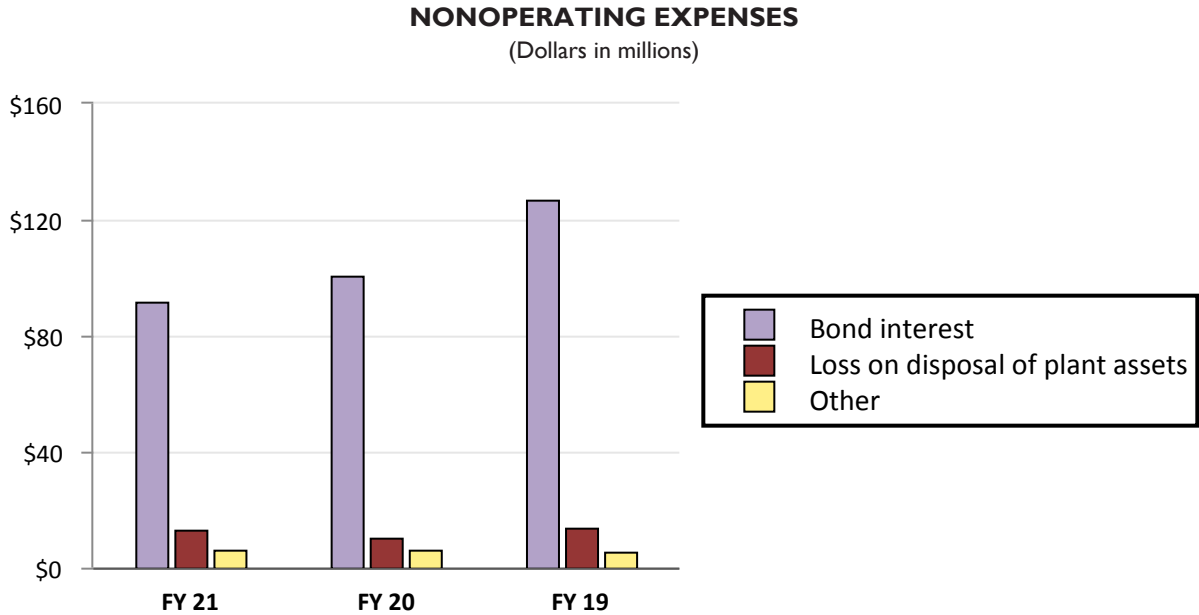
**Fiscal Year 2021 Compared to 2020.** Fiscal year 2021 operating expenses of \$1.4 billion were \$48.8 million higher than the prior year. The increase included \$44.4 million litigation payment to the San Diego County Water Authority, see Note 9(g) for additional information, and \$42.2 million higher power and water expenses primarily due to 206.1 TAF higher water transactions. Additionally, depreciation and amortization expense increased \$9.8 million due to a net increase in capital assets of \$28.9 million. These increases were offset by \$47.6 million lower O&M costs, which included \$24.3 million lower pension expense resulting from lower recognized changes of assumptions in fiscal year 2021 and \$13.3 million lower demand management costs primarily due to lower conservation credits resulting from the COVID-19 pandemic and Board approved costs containment measures to address COVID-19 financial impacts.

**Fiscal Year 2020 Compared to 2019.** Fiscal year 2020 operating expenses of \$1.3 billion were \$118.3 million higher than the prior year. The increase included \$63.5 million higher O&M costs primarily due to \$32.6 million higher labor and benefit costs resulting from negotiations with bargaining units and \$32.5 million higher pension expense primarily due to the differences between projected and actual earnings on pension plan investments were higher than prior year. In addition, power and water costs were \$62.9 million higher due to an increase in the unit cost of water from prior year. These increases were offset by \$8.1 million of lower depreciation and amortization due to the recalculation of depreciation expense related to capitalized interest.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
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**Nonoperating Expenses**

The primary sources of nonoperating expenses are interest expense on bonds, loss on disposal of plant assets and other, net.



**Analytical Review of Nonoperating Expenses**

*Fiscal Year 2021 Compared to 2020.* Fiscal year 2021 nonoperating expenses of \$111.0 million were \$5.8 million lower than the prior year primarily due to \$9.1 million lower bond interest, net of amount capitalized, as a result of bond refunding transactions to take advantage of lower interest rates offset by \$3.0 million higher loss on disposal of plant assets due to write-off of previously capitalized interest on construction.

*Fiscal Year 2020 Compared to 2019.* Fiscal year 2020 nonoperating expenses of \$116.8 million were \$29.1 million lower than the prior year primarily due to \$26.2 million lower bond interest, net of amount capitalized, as a result of bond refunding transactions to take advantage of lower interest rates.

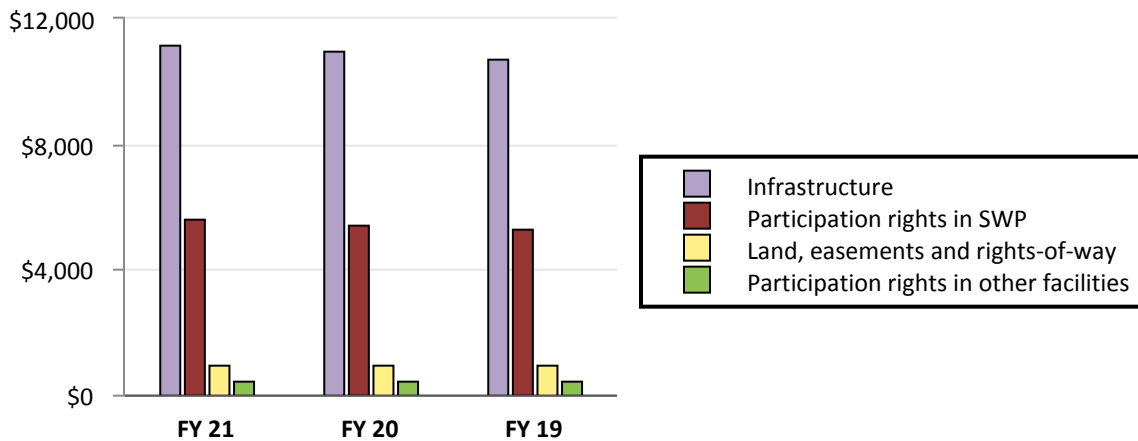
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
 (CONTINUED)  
 June 30, 2021 and 2020

**CAPITAL ASSETS**

Capital assets include Metropolitan’s water infrastructure, land and buildings, as well as participation rights in SWP and various other water programs. More detailed information on capital assets and commitments for construction contracts are presented in Note 2 and Note 9(f) to the basic financial statements, respectively.

Metropolitan’s fiscal year 2022 capital investment plan includes \$250.0 million principally for the Colorado River Aqueduct reliability programs, systems and information technology improvements, distribution system rehabilitation projects, water treatment plants reliability program, system flexibility and supply reliability projects, and the pre-stressed concrete cylinder pipe reliability (PCCP) rehabilitation program.

**GROSS CAPITAL ASSETS**  
 (Dollars in millions)



<i>Schedule of Capital Assets</i> (Dollars in millions)	June 30,		
	2021	2020	2019
Land, easements and rights of way	\$ 986.7	\$ 984.8	\$ 984.8
Construction in progress	811.9	636.2	545.8
Parker power plant and dam	13.0	13.0	13.0
Power recovery plants	220.7	220.2	210.6
Other dams and reservoirs	1,615.4	1,613.5	1,568.3
Water transportation facilities	4,003.1	3,993.4	3,892.6
Pumping plants and facilities	360.2	357.6	303.0
Treatment plants and facilities	3,139.5	3,126.3	3,185.8
Buildings	179.1	178.5	187.4
Other plant assets	802.1	795.8	750.2
Pre-operating expenses of original aqueduct	44.6	44.6	44.6
Participation rights in SWP	5,587.7	5,445.8	5,301.4
Participation rights in other facilities	459.0	459.0	459.0
Gross capital assets	<b>18,223.0</b>	17,868.7	17,446.5
Less accumulated depreciation and amortization	<b>(7,685.7)</b>	(7,360.3)	(7,053.0)
Total capital assets, net	<b>\$ 10,537.3</b>	\$ 10,508.4	\$ 10,393.5
Net increase (decrease) from prior year	<b>\$ 28.9</b>	\$ 114.9	\$ (16.5)
Percent change	<b>0.3%</b>	1.1%	(0.2%)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
(CONTINUED)  
June 30, 2021 and 2020

***Fiscal Year 2021 Compared to 2020.*** Net capital assets totaled approximately \$10.5 billion and increased \$28.9 million over the prior year. The increase included \$277.5 million of construction spending and a net increase of \$141.8 million in participation rights in SWP, offset by depreciation and amortization of \$353.3 million and \$37.1 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred.

The major capital asset additions for fiscal year 2021, excluding capitalized interest, included:

- \$55.3 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.
- \$53.2 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.
- \$46.8 million for the system reliability program, which is designed to improve or modify facilities throughout Metropolitan's service area in order to utilize new processes and/or technologies, and to improve facility safety and overall reliability.
- \$45.2 million for the Colorado River Aqueduct (CRA) reliability program; projects under this program will replace or refurbish components on the CRA system to reliably convey water from the Colorado River to Southern California.
- \$25.4 million for the 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.

***Fiscal Year 2020 Compared to 2019.*** Net capital assets totaled approximately \$10.5 billion and increased \$114.9 million over the prior year. The increase included \$339.3 million of construction spending and a net increase of \$144.4 million in participation rights in SWP, offset by depreciation and amortization of \$349.1 million and \$19.7 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred.

The major capital asset additions for fiscal year 2020, excluding capitalized interest, included:

- \$85.7 million for the PCCP program.
- \$58.7 million for the CRA reliability program.
- \$45.2 million for the improvements in infrastructure reliability at the treatment plants.
- \$44.1 million for the system reliability program.
- \$33.9 million for the distribution system's rehabilitation program.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
 (CONTINUED)  
 June 30, 2021 and 2020

**DEBT ADMINISTRATION – LONG-TERM DEBT**

*Schedule of Long-term Debt, Including Current Portion*

(Dollars in millions)	June 30,		
	2021	2020	2019
General obligation bonds <sup>(1)</sup>	\$ 26.8	\$ 37.3	\$ 48.1
Revenue bonds <sup>(1)</sup>	3,994.3	3,968.8	3,933.2
Revolving notes	—	46.8	46.8
Other, net <sup>(2)</sup>	464.2	366.3	307.3
	<b>\$ 4,485.3</b>	<b>\$ 4,419.2</b>	<b>\$ 4,335.4</b>
Increase (decrease) from prior year	\$ 66.1	\$ 83.8	\$ (171.6)
Percent change	1.5%	1.9%	(3.8%)

<sup>(1)</sup>Includes refunding bonds.

<sup>(2)</sup>Consists of unamortized bond discounts and premiums.

**Fiscal Year 2021 Compared to 2020.** At June 30, 2021, outstanding bonds and other long-term obligations totaled \$4.5 billion, a net increase of \$66.1 million or 1.5 percent from the prior year. The increase included the issuance of \$188.9 million Water Revenue Bonds, 2021 Series A and \$97.9 million higher premiums and discounts due to \$151.1 million increase related to bond refundings, as the premiums on new debt issued was more than the premiums outstanding on the debt refunded offset by \$53.2 million related to scheduled amortization. These increases were offset by \$133.8 million of scheduled principal payments, \$46.8 million decrease in revolving notes due to repayment of the BANA note, \$35.6 million of principal payments funded by the short-term RBC note issued in June 2020 and \$4.5 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

**Fiscal Year 2020 Compared to 2019.** At June 30, 2020, outstanding bonds and other long-term obligations totaled \$4.4 billion, a net increase of \$83.8 million or 1.9 percent from the prior year. The increase included new revenue bond issuance of \$207.3 million and \$59.0 million higher premiums and discounts due to \$104.6 million increase related to bond refundings, as the premiums on new debt issued was more than the premiums outstanding on the debt refunded offset by \$45.6 million related to scheduled amortization. These increases were offset by \$141.5 million of scheduled principal payments and \$41.0 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

Additional information on Metropolitan's long-term debt can be found in Notes 5 and 6 to the basic financial statements.

**CREDIT RATINGS**

Metropolitan's credit ratings at June 30, 2021 are shown below.

	Moody's Investors Service	Standard & Poor's Global	Fitch Ratings
General obligation bonds	Aaa	AAA	AA+
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+
Subordinate water revenue bonds-fixed rate	N/A	AA+	AA+
Subordinate water revenue bonds-variable rate	N/A	A-1+	F1+



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
(CONTINUED)  
June 30, 2021 and 2020

**COVID-19 PANDEMIC**

The late 2019 outbreak of the new highly transmissible strain of coronavirus and the disease it causes (known as COVID-19), has spread across the globe. The World Health Organization (the “WHO”) declared the outbreak of COVID-19 to be a pandemic, and states of emergency were declared in the United States (the “U.S.”), the State of California, and numerous counties throughout the State, including in the six counties all or portions of which comprise the service area of Metropolitan. Metropolitan’s General Manager declared a state of emergency at Metropolitan in March 2020. The COVID-19 pandemic and the governmental actions to respond to and control the outbreak materially altered the behavior of people and disrupted business activity, resulting in a significant contraction of the national, state and local economies. Employment data released since the imposition of governmental restrictions on activities showed a dramatic increase in unemployment rates and, while some recovery of jobs has occurred, unemployment rates remain significantly above pre-pandemic levels. In addition, domestic and international stock markets experienced declines in market value following the onset of the outbreak. Although rebounds in the global financial markets have since occurred, price volatility remains.

With widespread vaccination currently underway worldwide, some of the domestic governmental-imposed “stay at home” orders and restrictions on operations of schools and businesses implemented to respond to and control the outbreak have been eased. The Governor of California has lifted most statewide COVID-19 restrictions on June 15, 2021. Restrictions, however, may be re-imposed in various jurisdictions from time to time as local conditions warrant. It is not known with any level of certainty when a full re-opening of the economy will be achieved and sustained. The negative effects of the COVID-19 pandemic and its aftermath on global, national and local economies is widely expected to continue at least for the foreseeable future.

Metropolitan is monitoring and responding to the COVID-19 pandemic and ongoing developments surrounding it. Metropolitan has taken, and is taking, a number of steps to maintain continuity of its critical and essential business functions and avoid widespread impacts to its workforce from the COVID-19 outbreak. Metropolitan’s water system is deemed federally designated critical infrastructure, entitled to exemptions under governmental “stay at home” orders as needed to maintain continuity of operations. Metropolitan personnel necessary to the operation and delivery of water supplies remain on-site, with staffing strategies being utilized to protect the health of its employees and promote “social distancing.” Enhanced facility cleaning and disinfection practices have been put in place to promote a safe and healthful workplace for these employees. Telecommuting arrangements or paid administrative leave is being implemented for employees performing other functions, and non-essential business travel has been limited.

COVID-19 is not believed to present a threat to the safety of Metropolitan’s treated water supplies. Metropolitan has taken steps to ensure it has the necessary backup equipment, supplies and treatment chemicals in the event of disruptions to the procurement supply chain. To date, Metropolitan’s ability to treat and deliver water has not been impaired. Metropolitan has experienced an increase in certain costs, primarily expenses for personal protective equipment, enhanced cleaning procedures, technology costs to accommodate teleworking and other related expenditures. In aggregate, these increased expenses have been modest and are generally offset by reductions in travel and other office expenses. While Metropolitan initially paused certain construction work on non-essential capital projects at the onset of the COVID-19 outbreak, such activity has resumed and Metropolitan continues to advance a variety of infrastructure and system reliability projects.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
(CONTINUED)  
June 30, 2021 and 2020

Metropolitan also proactively responded to the anticipated effects of the ongoing COVID-19 pandemic likely to be experienced by its member agencies. Following the onset of the pandemic and response actions, many water service providers serving residential, commercial and industrial end-use customers (referred to herein as “retail water service providers”), which includes some Metropolitan member agencies and agencies that purchase water from them, implemented measures to assist their customers facing financial hardship as a result of the COVID-19 outbreak. In addition, as a measure to assure access to water service for citizens likely to be adversely impacted financially due to the economic effects of the ongoing COVID-19 pandemic, on April 2, 2020, Governor Newsom issued an executive order which, among other things, ordered the restoration of water service to residential customers in occupied residences whose service was discontinued for nonpayment during the state of emergency, and suspended the authority of retail water service providers to discontinue water service to residential and qualifying small business customers for non-payment for the duration of the state of emergency. These measures were expected to result in more late or non-payment of utility bills than normal and forecasted for retail water service providers generally, with the potential to create financial stress on retail water service providers, including some Metropolitan member agencies.

In recognition of the changed circumstances and the uncertainties created by the ongoing COVID-19 outbreak, in the weeks following the declaration of a pandemic by the WHO in March 2020, Metropolitan reviewed its preliminary biennial budget initially presented to the Board in February 2020, and modified certain assumptions previously made in the proposed budget. The biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 adopted by the Board on April 14, 2020, reflected these adjustments, which included (i) a reduction in the overall rate increases for calendar years 2021 and 2022 from those previously proposed; (ii) a reduction in capital expenditures for fiscal year 2020-21 in recognition of likely delays in scheduling of construction work as a result of COVID-19; (iii) a reduction in the internal funding objective for the funding of capital program expenditures from current revenues for fiscal year 2020-21; and (iv) to review the adopted budget and rates no later than September 2020 to consider further impacts resulting from the COVID-19 crisis.

As contemplated by the Board's April 14, 2020 action, Metropolitan reviewed the impacts of the COVID-19 pandemic on Metropolitan's biennial budget for fiscal years 2020-21 and 2021-22, and water rates and charges for calendar years 2021 and 2022 at its September 15, 2020 Board meeting. The Board determined to maintain the previously adopted rates and charges for calendar years 2021 and 2022 and approved certain cost containment measures, estimated to reduce Metropolitan expenditures by approximately \$10.7 million in fiscal year 2020-21, and by approximately \$1.0 million in fiscal year 2021-22. The Board also directed staff to develop a payment deferral program for member agencies that record and report significant customer payment delinquencies and likewise grant deferrals to their customers; evaluate potential new revenue-generating programs; and place a moratorium on non-emergency unbudgeted spending.

At its December 8, 2020 meeting, Metropolitan's Board adopted the COVID-19 Member Agency Payment Deferment Program. Under the approved program, Metropolitan will provide up to a six-month deferral of a portion of a requesting member agency's payment obligations owed to Metropolitan for water transactions equal to the percentage of the member agency's own customers' delinquency rates, but not to exceed 10 percent of each monthly obligation. Additionally, under the program, late payments, penalties, and interest will be waived to the deferred amount over a period of up to 12 months. The program is available to all member agencies that meet Board approved eligibility criteria and will apply to invoices for water transactions occurring only from January 1, 2021 to

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**  
(CONTINUED)  
June 30, 2021 and 2020

June 30, 2021. All amounts deferred under the program will be due and payable no later than December 29, 2021. To the extent that member agencies participate in the program, the COVID-19 Member Agency Payment Deferment Program is expected to result in a shift of some revenue collections from fiscal year 2020-21 to fiscal year 2021-22. As of June 30, 2021, no member agencies have applied for the COVID-19 Member Agency Payment Deferment Program.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the “ARP Act”), a \$1.9 trillion economic stimulus package designed to help the United States’ economy recover from the adverse impacts of the COVID-19 pandemic. The ARP Act includes approximately \$350.0 billion in aid to state and local governments, consisting of both direct funding from the United States Department of Treasury and program moneys that will flow from other federal agencies. Half of the aid to state and local governments will be distributed in spring 2021, with the other half following in 2022. Although Metropolitan may seek ARP Act funds from the State, it is unclear at this time how the State will allocate such funds. Metropolitan has applied for a refund of employee tax credits for paid sick and family medical leaves provided due to the COVID-19 pandemic in the second quarter of calendar year 2021.

The COVID-19 outbreak is ongoing and developments will continue. The ultimate degree of impact to Metropolitan’s finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic, including uncertainties relating thereto. The extent of the fiscal impacts on Metropolitan will depend on, among other things, (i) the duration of the stay-at-home orders and the extent to which the disruption to or decline in the local and global economies and financial markets persists; (ii) the effectiveness of and ability to reach wide spread distribution of vaccines and the period of time therefor; (iii) the degree to which business closures, continued increased unemployment, housing foreclosures and/or other economic consequences occur that could reduce water demands in the region and, in turn, Metropolitan’s water transactions, or that could negatively affect future property values in Metropolitan’s service area and/or Metropolitan’s property tax levy receipts which singularly or collectively could reduce Metropolitan’s projected revenues; (iv) the ramifications of future actions that may be taken or required by governmental authorities to respond to the effects of the pandemic, including additional stimulus efforts by the federal government; (v) the pace at which the economy can re-open; and (vi) the speed of the ensuing economic recovery. If the COVID-19 pandemic and/or the economic recovery is prolonged, the likelihood or magnitude of potential adverse impacts to Metropolitan’s finances or operations from the factors discussed herein or from other factors, could be increased. To date, Metropolitan does not believe the impacts of the COVID-19 pandemic will have a material adverse impact on its ability to pay debt service on its bonds or other debt obligations.

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## STATEMENTS OF NET POSITION

	June 30,	
	2021	2020
		As Adjusted Note 1s
(Dollars in thousands)		
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current Assets:</b>		
Cash and investments, at fair value (Notes 1d and 3):		
Unrestricted (cost: \$412,422 and \$430,819 for 2021 and 2020, respectively)	\$ 413,073	\$ 434,297
Restricted (cost: \$644,895 and \$512,296 for 2021 and 2020, respectively)	645,913	517,440
Total cash and investments	<u>1,058,986</u>	<u>951,737</u>
Receivables:		
Water revenues	273,417	223,221
Interest on investments	2,106	3,546
Other, net (Note 1f)	33,422	37,914
Total receivables	<u>308,945</u>	<u>264,681</u>
Inventories (Note 1g)	119,664	118,465
Deposits, prepaid costs, and other (Note 11)	49,550	2,782
Total current assets	<u>1,537,145</u>	<u>1,337,665</u>
<b>Noncurrent Assets:</b>		
Cash and investments, at fair value (Notes 1d and 3):		
Unrestricted (cost: \$371,140 and \$249,902 for 2021 and 2020, respectively)	371,727	251,920
Restricted (cost: \$45,267 and \$42,096 for 2021 and 2020, respectively)	45,483	42,611
Total cash and investments	<u>417,210</u>	<u>294,531</u>
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1h and 9f)	1,798,582	1,620,950
Plant and equipment - depreciable (Notes 1h and 9f)	10,377,748	10,342,849
Participation rights in State Water Project (Notes 1i and 10)	5,587,676	5,445,832
Participation rights in other facilities (Notes 1i and 4)	459,049	459,049
Total capital assets	<u>18,223,055</u>	<u>17,868,680</u>
Less accumulated depreciation and amortization	<u>(7,685,720)</u>	<u>(7,360,295)</u>
Total capital assets, net	<u>10,537,335</u>	<u>10,508,385</u>
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	354,619	354,328
Total other assets	<u>354,619</u>	<u>354,328</u>
Total noncurrent assets	<u>11,309,164</u>	<u>11,157,244</u>
Total assets	<u>12,846,309</u>	<u>12,494,909</u>
<b>Deferred Outflows of Resources (Note 1n):</b>		
Loss on bond refundings	13,306	19,632
Loss on swap terminations	17,904	18,987
Pension related (Notes 1l and 7d)	103,220	85,243
OPEB related (Notes 1m and 8k)	32,897	33,506
Effective swaps	—	11,711
Total deferred outflows of resources	<u>167,327</u>	<u>169,079</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 13,013,636</b>	<b>\$ 12,663,988</b>

See accompanying notes to basic financial statements.

## STATEMENTS OF NET POSITION

	June 30,	
	2021	2020
		As Adjusted Note 1s
(Dollars in thousands)		
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses (Note 1j)	\$ 136,472	\$ 109,078
Short-term revolving notes (Note 5a)	35,645	35,645
Current portion of long-term debt (Notes 5 and 6)	222,692	1,039,054
Current portion of accrued compensated absences (Notes 1k and 6)	25,800	24,700
Current portion of customer deposits and trust funds (Note 6)	3,062	9,036
Current portion of workers' compensation and third party claims (Notes 6 and 14)	4,792	4,122
Current portion of other long-term liabilities (Note 6)	5	5
Accrued bond interest	62,432	65,581
Matured bonds and coupons not presented for payment	1,665	1,725
Total current liabilities	492,565	1,288,946
<b>Noncurrent Liabilities:</b>		
Long-term debt, net of current portion (Notes 5 and 6)	4,262,587	3,333,372
Long-term revolving notes (Notes 5a and 6)	—	46,800
Accrued compensated absences, net of current portion (Notes 1k and 6)	32,117	27,581
Customer deposits and trust funds, net of current portion (Note 6)	43,422	41,873
Net pension liability (Note 7c)	724,587	668,995
Net OPEB liability (Note 8f)	164,731	167,986
Workers' compensation and third party claims, net of current portion (Notes 6 and 14)	5,497	9,480
Fair value of interest rate swaps (Notes 5e and 6)	48,986	68,611
Other long-term liabilities, net of current portion (Note 6)	2,181	2,204
Total noncurrent liabilities	5,284,108	4,366,902
Total liabilities	5,776,673	5,655,848
<b>Commitments and Contingencies</b> (Note 9)	—	—
<b>Deferred Inflows of Resources</b> (Note 1n):		
Effective swaps	7,914	—
Pension related (Notes 1l and 7d)	1,589	21,298
OPEB related (Notes 1m and 8k)	33,025	47,337
Total deferred inflows of resources	42,528	68,635
<b>Total Liabilities and Deferred Inflows of Resources</b>	5,819,201	5,724,483
<b>Net Position</b> (Note 13):		
Net investment in capital assets, including State Water Project costs	6,141,485	6,121,599
Restricted for:		
Debt service	221,588	232,411
Other	311,166	276,638
Unrestricted	520,196	308,857
Total net position	7,194,435	6,939,505
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	\$ 13,013,636	\$ 12,663,988

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**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION**

	Fiscal Year Ended June 30,	
	2021	2020
(Dollars in thousands)		As Adjusted Note 1s
<b>Operating Revenues</b> (Note 1c):		
Water revenues	\$ 1,404,735	\$ 1,187,998
Readiness-to-serve charges	133,000	134,500
Capacity charge	31,653	30,490
Power sales	18,967	15,922
Total operating revenues	<u>1,588,355</u>	<u>1,368,910</u>
<b>Operating Expenses:</b>		
Power and water costs	480,913	438,683
Operations and maintenance	509,755	557,341
Litigation payments (Note 9g)	44,374	—
Total operating expenses	<u>1,035,042</u>	<u>996,024</u>
Operating income before depreciation and amortization	553,313	372,886
Less depreciation and amortization (Note 2)	<u>(362,844)</u>	<u>(353,031)</u>
Operating income	<u>190,469</u>	<u>19,855</u>
<b>Nonoperating Revenues (Expenses)</b> (Note 1p):		
Taxes, net (Note 1e)	160,574	146,902
Bond interest, net of \$7,300 and \$9,800 of interest capitalized in fiscal years 2021 and 2020, respectively (Note 1h)	(91,593)	(100,726)
Investment income, net	4,119	28,868
Loss on disposal of plant assets	(13,175)	(10,166)
Other, net	4,253	18,573
Total nonoperating revenues, net	<u>64,178</u>	<u>83,451</u>
<b>Changes in Net Position Before Contributions</b>	254,647	103,306
Capital contributions (Note 1o)	283	—
Changes in net position	<u>254,930</u>	<u>103,306</u>
Net position, beginning of year	6,939,505	6,836,199
<b>Net position, End of Year</b>	<u>\$ 7,194,435</u>	<u>\$ 6,939,505</u>

See accompanying notes to basic financial statements.



## STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30,	
	2021	2020
<b>Cash Flows from Operating Activities:</b>		
Cash received from water sales	\$ 1,180,207	\$ 1,001,256
Cash received from readiness-to-serve charges	133,361	134,236
Cash received from capacity charge	31,785	30,347
Cash received from power sales	18,959	16,745
Cash received from other exchange transactions	174,201	133,793
Cash paid for operations and maintenance expenses	(240,610)	(267,120)
Cash paid to employees for services	(262,228)	(247,652)
Cash paid for power and water costs	(457,390)	(495,479)
Cash paid for litigation	(44,374)	—
Other cash flows for operating activities	1,852	1,575
Net cash provided by operating activities	535,763	307,701
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from other collections	6,949	7,487
Net cash provided by noncapital financing activities	6,949	7,487
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition and construction of capital assets	(277,741)	(335,526)
Payments for State Water Project costs	(141,844)	(144,399)
Refunds for California WaterFix Project costs	—	34,007
Advance payments for Delta Conveyance Project costs	(25,000)	—
Proceeds from short and long-term debt	255,000	305,645
Payments for bond issuance costs	(2,196)	(4,102)
Principal paid on debt	(133,825)	(141,500)
Interest paid on debt	(148,970)	(140,483)
Proceeds from tax levy	161,107	147,102
Transfer from escrow trust accounts	(3,791)	1,510
Net cash used by capital and related financing activities	(317,260)	(277,746)
<b>Cash Flows from Investing Activities:</b>		
Purchase of investment securities	(3,432,688)	(2,992,894)
Proceeds from sales and maturities of investment securities	3,199,385	2,937,477
Investment income	12,699	18,114
Net cash used by investing activities	(220,604)	(37,303)
Net change in cash	4,848	139
Cash at July 1, 2020 and 2019	161	22
<b>Cash at June 30, 2021 and 2020 (Notes 1b and 3)</b>	<b>\$ 5,009</b>	<b>\$ 161</b>

See accompanying notes to basic financial statements.

## STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30,	
	2021	2020
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 190,469	\$ 19,855
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>		
Depreciation and amortization expense	362,844	353,031
Increase in accounts receivable	(44,201)	(56,702)
Decrease in inventories	29,279	4,538
Increase in deposits, prepaid costs, and other	(21,947)	(55,991)
Decrease in accounts payable, and accrued expenses	(2,701)	(20,571)
Increase in pension liabilities	48,921	30,763
Decrease in OPEB liabilities	(2,864)	(53,106)
(Increase) decrease in deferred outflows related to pension	(15,819)	19,089
Decrease in deferred inflows related to pension	(17,344)	(2,559)
Increase (decrease) in deferred outflows related to OPEB	536	(1,266)
(Decrease) increase in deferred inflows related to OPEB	(12,595)	35,243
Increase in other items	21,185	35,377
Total Adjustments	345,294	287,846
<b>Net cash provided by operating activities</b>	<b>\$ 535,763</b>	<b>\$ 307,701</b>
<b>Significant Noncash Investing, Capital and Financing Activities</b>		
Refunding bonds proceeds received in escrow trust fund	\$ 592,577	\$ 465,703
Debt defeased through escrow trust fund with refunding debt	\$ (508,290)	\$ (465,275)
Capital contributions	\$ 283	\$ —
<b>RECONCILIATION OF CASH AND INVESTMENTS TO CASH</b>		
Unrestricted cash and investments (at June 30, 2021 and 2020 includes \$5,009 and \$161 of cash, respectively)	\$ 784,800	\$ 686,217
Restricted cash and investments	691,396	560,051
Total cash and investments, at fair value (Note 3)	1,476,196	1,246,268
Less: carrying value of investments	(1,471,187)	(1,246,107)
<b>Total Cash (Notes 1b and 3)</b>	<b>\$ 5,009</b>	<b>\$ 161</b>

**STATEMENTS OF FIDUCIARY NET POSITION**

(Dollars in thousands)	Private Purpose Trust Funds		Custodial Funds	
	2021	2020	2021	2020
June 30,				
<b>Assets</b>				
Restricted pooled cash and investments, at fair value (Notes 1d and 3):	\$ 3,177	\$ 3,301	\$ 2,535	\$ 2,551
Interest receivable	—	1	1	4
Total assets	\$ 3,177	\$ 3,302	\$ 2,536	\$ 2,555
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 72	\$ 37	\$ 55	\$ 120
Due to other governments	—	—	27	32
Total liabilities	72	37	82	152
<b>Net Position</b>				
Restricted for organizations and other governments	3,105	3,265	2,454	2,403
Total Liabilities and Net Position	\$ 3,177	\$ 3,302	\$ 2,536	\$ 2,555

See accompanying notes to basic financial statements.

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

(Dollars in thousands)	Private Purpose Trust Funds		Custodial Funds	
	Fiscal Year Ended June 30,			
	2021	2020	2021	2020
<b>Additions</b>				
Contributions from participating agencies	\$ 2,307	\$ 2,731	\$ 277	\$ 493
Return of unspent funds	189	376	—	—
Interest	7	12	29	52
Total additions	<b>2,503</b>	3,119	<b>306</b>	545
<b>Deductions</b>				
Support payments to the Colorado River Board	2,200	2,150	—	—
Expensed equipment	8	—	—	—
Computer systems and software	12	—	—	—
Administrative expenses	2	1	—	—
Travel, training and conferences	—	—	—	23
Support payments for Colorado River system augmentation and conservation	309	453	—	—
Payments to other governments for conservation	—	—	94	77
Professional services	132	234	161	314
Total deductions	<b>2,663</b>	2,838	<b>255</b>	414
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	<b>(160)</b>	281	<b>51</b>	131
Net position, Beginning of Year	<b>3,265</b>	2,984	<b>2,403</b>	2,272
<b>Net position, End of Year</b>	<b>\$ 3,105</b>	\$ 3,265	<b>\$ 2,454</b>	\$ 2,403

See accompanying notes to basic financial statements.

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## **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. Surplus water is sold for other beneficial uses, including agricultural use. 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 pursuant to Sections 52 and 55 of the Act. 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. However, effective January 1, 2020, no member agency shall have fewer than the number of representatives the agency had as of January 1, 2019. 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 fiscal years 2021 or 2020. 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.

Fiduciary funds are displayed by fund type in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position, but are not included in Metropolitan's proprietary financial statements because the assets of these funds are not available to Metropolitan. Metropolitan reports the following fiduciary funds:

- Private-purpose trust funds: These funds are used to account for trust arrangements where the benefits are held for other governments.
- Custodial funds: These funds account for resources held by Metropolitan in a custodial capacity on behalf of other governmental organizations.

### **(b) Principles of Presentation**

Metropolitan operates as an enterprise fund and applies all applicable 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.

**NOTES TO BASIC FINANCIAL STATEMENTS**

**(CONTINUED)**

June 30, 2021 and 2020

Fiduciary funds are used to account for assets held in a trustee or custodial capacity and cannot be used to support Metropolitan's own purpose. Fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting.

**(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. Water rates 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) Fair Value Measurements**

Metropolitan categorizes the fair value measurements for assets and liabilities within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs of assets and liabilities as follows: 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. Metropolitan reports its investments and liabilities using valuation techniques consistent with market and cost approaches to determine the fair value.

**(e) 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 in the SWP (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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**(CONTINUED)**  
June 30, 2021 and 2020

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 made such a finding for fiscal years ended June 30, 2014 through 2021, and maintained the tax rate for those fiscal years at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than general obligation debt service.

**(f) Other Receivables**

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

**(g) Inventories**

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at June 30, 2021 and 2020 were as follows:

(Dollars in thousands)	June 30,	
	2021	2020
Water in storage	\$ 102,935	\$ 103,922
Operating supplies	16,729	14,543
Total inventories	\$ 119,664	\$ 118,465

**(h) Capital Assets**

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, distribution facilities, and miscellaneous assets and 10 to 50 years for treatment plants and hydroelectric power recovery facilities. 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 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.



**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**(i) Participation Rights**

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the SWP 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 Notes 2, 4, and 10.)

**(j) Disaggregation of Payable Balances**

Accounts payable and accrued expenses at June 30, 2021 and 2020 were as follows:

(Dollars in thousands)	June 30,	
	2021	2020
Department of Water Resources (SWP):		
Capital, operating, maintenance, power, replacement, and variable power	\$ 64,320	\$ 48,943
Vendors	46,857	35,479
Accrued power costs	1,797	4,860
Accrued salaries	12,412	10,946
Readiness-to-serve overcollection	1,396	1,436
Conservation credits	9,690	7,414
Total accounts payable and accrued expenses	\$ 136,472	\$ 109,078

**(k) 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.

**(l) 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 California Public Employees' Retirement System (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.

GASB requires 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, 2019

Measurement Date (MD): June 30, 2020

Measurement Period: July 1, 2019 to June 30, 2020

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**(m) 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), the assets of which are held by the California Employer's Retiree Benefit Trust (CERBT), 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.

GASB requires 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, 2019

Measurement Date (MD): June 30, 2020

Measurement Period: July 1, 2019 to June 30, 2020

**(n) Deferred Outflows/Inflows of Resources**

The net investment in capital assets, including State Water Project costs of \$6.1 billion at June 30, 2021 and 2020 includes the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at June 30, 2021 and 2020 were \$13.3 million and \$19.6 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 \$520.2 million and \$308.9 million at June 30, 2021 and 2020, respectively, includes 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 June 30, 2021 and 2020, respectively, were \$17.9 million and \$19.0 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 June 30, 2021 and 2020 were \$103.2 million and \$85.2 million, respectively. The deferred inflows related to pension at June 30, 2021 and 2020 were \$1.6 million and \$21.3 million, respectively. See note 7(d) for additional information.

The deferred outflows related to OPEB at June 30, 2021 and 2020 were \$32.9 million and \$33.5 million, respectively. The deferred inflows related to OPEB at June 30, 2021 and 2020 were \$33.0 million and \$47.3 million, respectively. See notes 8(j) and (k) for additional information.

The deferred inflow from the increase in fair value of interest rate swaps of \$7.9 million at June 30, 2021 and the deferred outflow from the decrease in fair value of interest rate swaps of \$11.7 million at June 30, 2020 would be recognized as an investment gain or loss, respectively, 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 and deferred outflow also would be recognized as an investment gain or loss, respectively, if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

swap is refunded, the deferred inflow and deferred outflow would be reduced and the deferred gain or loss on refunding, respectively, would be increased by the same amount. The deferred gain or loss would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

**(o) 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.

**(p) 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.

**(q) 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.

**(r) Use of Estimates**

The preparation of basic financial statements in conformity with U.S. GAAP 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.

**(s) New Accounting Pronouncements**

Metropolitan implemented the following GASB Statements in fiscal year 2021:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities (GASB 84)*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity that meets the fiduciary criteria of this statement should be reported in a fiduciary fund in the basic financial statements presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of this statement are effective for fiscal year 2021 and must be applied retroactively to the earliest year presented. There was no impact to beginning net position for fiscal year 2020. Balances for Metropolitan were adjusted as follows for fiscal year 2020:

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

(Dollars in thousands)	2020 previously reported	GASB 84 adjustment	2020 adjusted
<b>Current Assets:</b>			
Restricted cash and investments	\$ 519,926	\$ (2,486)	\$ 517,440
Receivable - Interest on investments	3,551	(5)	3,546
<b>Noncurrent Assets:</b>			
Restricted cash and investments	45,977	(3,366)	42,611
Total change in assets	<u>\$</u>	<u>(5,857)</u>	
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	\$ 109,083	\$ (5)	\$ 109,078
Customer deposits and trust funds	11,924	(2,888)	9,036
<b>Noncurrent Liabilities:</b>			
Customer deposits and trust funds	44,837	(2,964)	41,873
Total change in liabilities	<u>\$</u>	<u>(5,857)</u>	

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. This statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization and for reporting component units if a government acquires a 100 percent equity interest in that component unit. The requirements of this statement are effective for fiscal year 2021 but since Metropolitan's only component unit, MWDAFC, had no financial activity, there was no impact 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 year.

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* (effective for fiscal year 2022).
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (effective for fiscal year 2022).
- GASB Statement No. 92, *Omnibus 2020* (effective for fiscal year 2022).
- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (effective for fiscal year 2022).
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* (effective for fiscal year 2022).

The following pronouncement was issued by GASB but was determined to not be applicable to Metropolitan's financial statements:

- GASB Statement No. 91, *Conduit Debt Obligations*.

## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2021 and 2020

**2. CAPITAL ASSETS**

Capital asset activity for the fiscal years ended June 30, 2021 and 2020 was as follows:

(Dollars in thousands)	June 30, 2019	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	\$ 984,825	\$ 902
Construction in progress	545,803	326,418
Total capital assets not being depreciated	<u>1,530,628</u>	<u>327,320</u>
Other capital assets:		
Parker power plant and dam	13,009	—
Power recovery plants	210,577	10,422
Other dams and reservoirs	1,568,330	47,935
Water transportation facilities	3,892,568	119,404
Pumping plants and facilities	303,032	55,464
Treatment plants and facilities	3,185,781	22,995
Power lines and communication facilities	32,678	7,544
Computer systems software	114,810	6,935
Buildings	187,405	15,399
Miscellaneous	497,813	33,361
Major equipment	104,819	6,400
Pre-operating expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	5,301,433	181,880
Participation rights in other facilities (Note 4)	459,049	—
Total other capital assets at historical cost	<u>15,915,899</u>	<u>507,739</u>
Accumulated depreciation and amortization:		
Parker power plant and dam	(12,463)	(163)
Power recovery plants	(102,518)	(3,454)
Other dams and reservoirs	(422,696)	(10,198)
Water transportation facilities	(1,060,509)	(62,180)
Pumping plants and facilities	(109,195)	(8,026)
Treatment plants and facilities	(826,432)	(76,227)
Power lines and communication facilities	(11,495)	(462)
Computer systems software	(111,352)	(2,167)
Buildings	(37,931)	(4,089)
Miscellaneous	(149,591)	(18,829)
Major equipment	(87,544)	(5,747)
Pre-operating expenses of original aqueduct	(42,524)	(1,035)
Participation rights in State Water Project (Note 10)	(3,860,925)	(142,696)
Participation rights in other facilities (Note 4)	(217,873)	(13,780)
Total accumulated depreciation and amortization	<u>(7,053,048)</u>	<u>(349,053)</u>
Other capital assets, net	<u>8,862,851</u>	<u>158,686</u>
Total capital assets, net	<u>\$ 10,393,479</u>	<u>\$ 486,006</u>

Depreciation and amortization was charged as follows:

- Depreciation of water related assets
- Amortization of State Water Project participation rights (Note 10)
- Amortization of other participation rights (Note 4)
- Depreciation and amortization expense related to capital assets
- Plus: Net retirements adjusted to expense
- Total depreciation and amortization expense

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS**

(CONTINUED)

June 30, 2021 and 2020

Reductions		June 30, 2020		Additions		Reductions		June 30, 2021	
\$	(931)	\$	984,796	\$	2,691	\$	(813)	\$	986,674
	(236,067)		636,154		268,970		(93,216)		811,908
	(236,998)		1,620,950		271,661		(94,029)		1,798,582
	—		13,009		—		—		13,009
	(764)		220,235		457		—		220,692
	(2,753)		1,613,512		1,914		(49)		1,615,377
	(18,539)		3,993,433		37,156		(27,528)		4,003,061
	(909)		357,587		2,813		(178)		360,222
	(82,456)		3,126,320		20,812		(7,596)		3,139,536
	(161)		40,061		—		—		40,061
	(3,315)		118,430		8,262		(3,052)		123,640
	(24,298)		178,506		757		(179)		179,084
	(2,110)		529,064		3,881		(5,760)		527,185
	(3,122)		108,097		5,515		(2,326)		111,286
	—		44,595		—		—		44,595
	(37,481)		5,445,832		180,446		(38,602)		5,587,676
	—		459,049		—		—		459,049
	(175,908)		16,247,730		262,013		(85,270)		16,424,473
	—		(12,626)		(163)		—		(12,789)
	764		(105,208)		(4,906)		—		(110,114)
	2,645		(430,249)		(22,545)		46		(452,748)
	10,550		(1,112,139)		(57,419)		14,660		(1,154,898)
	758		(116,463)		(6,939)		178		(123,224)
	17,488		(885,171)		(74,543)		4,794		(954,920)
	161		(11,796)		(493)		—		(12,289)
	1,911		(111,608)		(2,410)		3,052		(110,966)
	4,086		(37,934)		(3,446)		169		(41,211)
	321		(168,099)		(11,873)		2,650		(177,322)
	3,122		(90,169)		(5,775)		2,317		(93,627)
	—		(43,559)		(1,035)		—		(44,594)
	—		(4,003,621)		(147,964)		—		(4,151,585)
	—		(231,653)		(13,780)		—		(245,433)
	41,806		(7,360,295)		(353,291)		27,866		(7,685,720)
	(134,102)		8,887,435		(91,278)		(57,404)		8,738,753
\$	(371,100)	\$	10,508,385	\$	180,383	\$	(151,433)	\$	10,537,335
		\$	192,577					\$	191,547
			142,696						147,964
			13,780						13,780
			349,053						353,291
			3,978						9,553
		\$	353,031					\$	362,844

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**3. 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 3d and 13).

Metropolitan's total deposits and investments are reported at fair value in the following funds:

(Dollars in thousands)	June 30,	
	2021	2020
Proprietary Funds	\$ 1,476,196	\$ 1,246,268
Fiduciary Funds	5,712	5,852
Total deposits and investments	<u>\$ 1,481,908</u>	<u>\$ 1,252,120</u>
Deposits	\$ 5,009	\$ 161
Investments	1,476,899	1,251,959
Total deposits and investments	<u>\$ 1,481,908</u>	<u>\$ 1,252,120</u>

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 June 30, 2021 and 2020, Metropolitan's cash balances with financial institutions were \$5,004,000 and \$156,000 respectively, and cash on hand was \$5,000 at each fiscal 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, Supranationals, asset-backed, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, Government-sponsored enterprise (GSE), California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, money market funds, California Asset Management Program (CAMP), and Local Agency Investment Fund (LAIF).

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June 30, 2021 and 2020

As of June 30, 2021 and 2020, Metropolitan had the following investments at fair value:

(Dollars in thousands)	June 30,	
	2021	2020
Asset-backed securities	\$ 50,465	\$ 42,419
CAMP	372,184	210,343
Federal agency securities	34,707	41,306
GSE	32,373	58,856
LAIF	75,000	75,000
Medium-term corporate notes	180,932	230,027
Money market funds	5,139	167,532
Municipal bonds	7,317	3,524
Negotiable certificates of deposit	266,953	136,265
Prime commercial paper	204,626	74,988
Supranationals	86,842	38,535
U.S. Treasury securities	160,361	173,164
<b>Total investments</b>	<b>\$ 1,476,899</b>	<b>\$ 1,251,959</b>

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. 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.



**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of June 30, 2021 and 2020:

(Dollars in thousands)	Fair Value Measurement Using					
	6/30/2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	6/30/2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level:						
Asset-backed securities	\$ 50,465	\$ 50,465	\$ —	\$ 42,419	\$ 42,419	\$ —
Federal agency securities	34,707	34,707	—	41,306	41,306	—
GSE	32,373	32,373	—	58,856	58,856	—
Medium-term corporate notes	180,932	180,932	—	230,027	230,027	—
Municipal bonds	7,317	7,317	—	3,524	3,524	—
Negotiable certificates of deposit	266,953	266,953	—	136,265	126,262	10,003
Prime commercial paper	204,626	39,979	164,647	74,988	—	74,988
Supranationals	86,842	86,842	—	38,535	38,535	—
U.S. Treasury securities	160,361	160,361	—	173,164	173,164	—
Total investments by fair value level	\$ 1,024,576	\$ 859,929	\$ 164,647	\$ 799,084	\$ 714,093	\$ 84,991
Investments not subject to fair value level:						
CAMP	372,184			210,343		
LAIF	75,000			75,000		
Money market funds <sup>(1)</sup>	5,139			167,532		
Total investments	\$ 1,476,899			\$ 1,251,959		

<sup>(1)</sup> As of June 30, 2021 and 2020, the balance was invested in Dreyfus Gov't Cash Management and Dreyfus AMT-Free Tax Exempt (DGCXX & DEIXX) and BlackRock Treasury Trust (TTXX).

Investments classified in Level 1 of the fair value hierarchy, valued at \$859.9 million and \$714.1 million as of June 30, 2021 and 2020, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling \$164.6 million and \$75.0 million as of June 30, 2021 and 2020, respectively, and negotiable certificates of deposit totaling \$10.0 million as of June 30, 2020, are classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Metropolitan owns investments utilizing a stable one dollar per share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share.

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CAMP and LAIF are carried at fair value, or the value of each participating dollar as provided by CAMP and LAIF, respectively. The fair value of Metropolitan's position in CAMP and LAIF is the same as the value of the pool shares. The pooled funds are not subject to level 1, 2 or 3 of the fair value hierarchy.

**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).

**Liquidity 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. The benchmark duration as of June 30, 2021 and 2020 was 0.23 and the portfolio duration was permitted to vary from the duration by plus or minus 0.50. As of June 30, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2021		2020	
	Fair value	Duration	Fair value	Duration
Asset-backed securities	\$ 47,870	0.64	\$ 42,419	2.17
CAMP	372,184	—	210,343	—
Federal agency securities	32,051	1.60	39,983	1.16
LAIF	75,000	—	75,000	—
Medium-term corporate notes	132,226	0.76	146,084	0.60
Money market funds	1	—	165,428	—
Municipal bonds	6,091	0.42	2,135	2.17
Negotiable certificates of deposit	266,953	0.56	136,265	0.36
Prime commercial paper	204,626	0.23	74,988	0.09
Supranationals	78,068	1.07	38,535	0.43
U.S. Treasury securities	60,145	1.32	120,138	0.41
Total portfolio segment	\$ 1,275,215		\$ 1,051,318	
Portfolio duration		0.43		0.33

**Core 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 fiscal years 2021 and 2020, the benchmark durations were 2.69 and 2.66, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

(Dollars in thousands)	June 30,			
	2021		2020	
	Fair value	Duration	Fair value	Duration
Asset-backed securities	\$ 2,595	1.88	\$ —	—
GSE	32,373	1.63	58,856	1.56
Money market funds	4,662	—	1,756	—
Medium-term corporate notes	48,706	2.72	83,943	2.10
Supranationals	8,774	2.70	—	—
U.S. Treasury securities	99,117	2.73	50,512	3.65
Total portfolio segment	\$ 196,227		\$ 195,067	
Portfolio duration		2.47		2.32

***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 June 30, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	June 30,			
	2021		2020	
	Fair value	Duration	Fair value	Duration
Federal agency securities	\$ 2,656	1.28	\$ 1,323	1.58
Money market funds	476	—	348	—
Municipal bonds	1,226	2.68	1,389	3.22
U.S. Treasury securities	1,099	1.46	2,514	0.97
Total portfolio segment	\$ 5,457		\$ 5,574	
Weighted average duration		1.52		1.61

***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 fair values.

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Presented in the following table is the minimum rating required, if applicable, by investment type pursuant to Metropolitan’s investment policy and State law:

<b>Investment Type</b>	<b>Minimum Rating</b>
U.S. Treasury Federal Agency Obligations GSE	Not applicable.
Bankers' acceptances	A-1 or its equivalent or better by a nationally recognized rating agency (NRSRO).
Prime commercial paper	Highest ranking or highest letter and number rating as provided by a NRSRO.
Negotiable certificates of deposit	A (long-term) or A-1 (short-term) or their equivalent or better by a NRSRO.
Bank deposits	All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
Asset-backed securities	Rating category of at least 'AA' or equivalent or better by a NRSRO.
Supranationals	Rating category of at least 'AA' or equivalent or better by a NRSRO.
CAMP	Rating category of 'AAAm' or its equivalent or better by a NRSRO.
Repurchase agreements	Limited to primary dealers or financial institutions in a rating category of 'A' or its equivalent or better by a NRSRO.
Medium-term corporate notes	Rating category of 'A' or its equivalent or better by a NRSRO.
LAIF	Not applicable.
Money market funds	Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements.
Municipal bonds	A (long-term) or A-1 (short-term) or their equivalent or better by a NRSRO.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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June 30, 2021 and 2020

At June 30, 2021 and 2020, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	June 30,	
		2021	2020
		Fair value	Fair value
Asset-backed securities	AA or higher	\$ 50,465	\$ 42,419
CAMP	AAAm	372,184	210,343
Federal agency securities	N/A <sup>(1)</sup>	34,707	41,306
GSE	N/A <sup>(1)</sup>	32,373	58,856
LAIF	N/A <sup>(2)</sup>	75,000	75,000
Medium-term corporate notes	A <sup>(3)</sup>	180,932	230,027
Money market funds	AAA	5,139	167,532
Municipal bonds	A <sup>(3)</sup>	7,317	3,524
Negotiable certificates of deposit	F1 <sup>(3)</sup>	266,953	136,265
Prime commercial paper	A1/P1 <sup>(3)</sup>	204,626	74,988
Supranationals	AA or higher	86,842	38,535
U.S. Treasury securities	N/A <sup>(1)</sup>	160,361	173,164
<b>Total portfolio</b>		<b>\$ 1,476,899</b>	<b>\$ 1,251,959</b>

<sup>(1)</sup>Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

<sup>(2)</sup>LAIF is not rated.

<sup>(3)</sup>A (long-term) or A-1 (short-term) or better e.g. F1+, A1+, AA, or AAA.

**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 asset-backed securities and money market funds, to 100 percent for federal agency securities, GSE, and U.S. Treasury securities. The percentages of investments that can be purchased by a single issuer is limited to 5 percent for asset-backed securities, banker's acceptances, medium-term corporate notes, municipal bonds, negotiable certificates of deposit, and prime commercial paper.

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of June 30, 2021 and 2020.

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June 30, 2021 and 2020

	Investment Policy Limits	Percent of Portfolio	
		2021	2020
Asset-backed securities	20%	4 %	4 %
CAMP	30%	25 %	17 %
Federal agency securities	100%	2 %	3 %
GSE	100%	2 %	5 %
LAIF	N/A	5 %	6 %
Medium-term corporate notes	30%	12 %	18 %
Money market funds	20%	<1 %	13 %
Municipal bonds	30%	1 %	<1 %
Negotiable certificates of deposit	30%	18 %	11 %
Prime commercial paper	25%	14 %	6 %
Supranationals	30%	6 %	3 %
U.S. Treasury securities	100%	11 %	14 %
<b>Total portfolio</b>		<b>100 %</b>	<b>100 %</b>

At June 30, 2021 and 2020, Metropolitan had the following 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 investments:

(Dollars in thousands)	2021	
CAMP	\$ 372,184	25.20 %
LAIF	\$ 75,000	5.08 %

(Dollars in thousands)	2020	
CAMP	\$ 210,343	16.80 %
Dreyfus Gov't Cash Management <sup>(1)</sup>	\$ 165,511	13.22 %
LAIF	\$ 75,000	5.99 %

<sup>(1)</sup> Invested in Money market funds

**Custodial credit risk.** At June 30, 2021 and 2020, 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 \$372.2 million and \$210.3 million in the CAMP as of June 30, 2021 and 2020, respectively, and \$75.0 million in deposits in LAIF as of June 30, 2021 and 2020.

CAMP is a program created through a joint powers agency as a pooled short-term portfolio and cash management vehicle for California public agencies under California Government Code Section 53601(p). CAMP is governed by a seven member Board of Trustees comprised of finance directors and treasurers of California public agencies. The total amount invested by all public agencies in CAMP was \$6.5 billion as of June 30, 2021 and 2020. Of the amount invested in CAMP, 33.7 percent and 31.3 percent was invested in medium-term and short-term notes and asset-backed securities at June 30, 2021 and 2020, respectively. The average maturity of CAMP investments was 52 days and 53 days as of such dates.

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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 June 30, 2021 and 2020 was \$37.1 billion and \$32.1 billion, respectively. At June 30, 2021 and 2020, the PMIA had a balance of \$193.3 billion and \$101.0 billion, respectively, of which, 2.31 percent and 3.37 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of the LAIF investments as of June 30, 2021 and 2020, was 291 days and 191 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 June 30, 2021 and 2020.

**(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.

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June 30, 2021 and 2020

**4. PARTICIPATION RIGHTS**

Participation rights activity, excluding participation rights in State Water Project, for the fiscal years ended June 30, 2021 and 2020 was as follows:

(Dollars in thousands)	June 30, 2019	Additions
Participation rights:		
Imperial Irrigation District	\$ 112,313	\$ —
Palo Verde Irrigation District	82,804	—
Kern Delta Water District	39,007	—
South County Pipeline	72,371	—
Semitropic Water Storage District	34,259	—
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	459,049	—
Accumulated amortization:		
Imperial Irrigation District	(61,232)	(2,271)
Palo Verde Irrigation District	(33,417)	(2,341)
Kern Delta Water District	(19,459)	(2,172)
South County Pipeline	(24,019)	(913)
Semitropic Water Storage District	(18,869)	(943)
Arvin-Edison Water Storage District	(23,221)	(1,468)
Chino Basin	(14,902)	(1,453)
Orange County	(12,248)	(1,194)
Conjunctive Use Programs	(10,506)	(1,025)
Total	(217,873)	(13,780)
Participations rights, net	\$ 241,176	\$ (13,780)

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Reductions	June 30, 2020	Additions	Reductions	June 30, 2021
\$ —	\$ 112,313	\$ —	\$ —	\$ 112,313
—	82,804	—	—	82,804
—	39,007	—	—	39,007
—	72,371	—	—	72,371
—	34,259	—	—	34,259
—	47,187	—	—	47,187
—	27,500	—	—	27,500
—	23,000	—	—	23,000
—	20,608	—	—	20,608
—	459,049	—	—	459,049
—	(63,503)	(2,270)	—	(65,773)
—	(35,758)	(2,343)	—	(38,101)
—	(21,631)	(2,172)	—	(23,803)
—	(24,932)	(913)	—	(25,845)
—	(19,812)	(942)	—	(20,754)
—	(24,689)	(1,468)	—	(26,157)
—	(16,355)	(1,453)	—	(17,808)
—	(13,442)	(1,194)	—	(14,636)
—	(11,531)	(1,025)	—	(12,556)
—	(231,653)	(13,780)	—	(245,433)
\$ —	\$ 227,396	\$ (13,780)	\$ —	\$ 213,616

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**(a) Imperial Irrigation District**

In December 1988, Metropolitan and the Imperial Irrigation District (IID) entered into a water conservation agreement that became effective in December 1989. Under the terms of the conservation agreement, Metropolitan paid for capital costs and continues to pay annual costs for specific conservation projects within IID. From 1998 to 2003, Metropolitan diverted from the Colorado River a quantity of water equal to the amount of water conserved by the conservation projects, which totaled between 104.9 TAF and 109.5 TAF annually. Under the October 2003 amendment to an agreement and at the request of the Coachella Valley Water District (CVWD), up to 20.0 TAF of the total conserved volume was made available to CVWD. Under the May 2007 amendment to the agreement and a December 2014 letter agreement, at least 85.0 TAF and 105.0 TAF will be/was available in calendar years 2021 and 2020, respectively (see Note 9c). The water must be used in the calendar year the water is conserved, unless stored in a Colorado River reservoir pursuant to a separate agreement.

As capital projects were completed, the costs contributed by Metropolitan were capitalized as participation rights in Metropolitan's accounting records. The construction phase of this program was completed as of September 30, 1998, and the operation and maintenance phase commenced on October 1, 1998. The October 2003 amendment to the agreement extended the term through December 31, 2041 or 270 days beyond the termination of the Quantification Settlement Agreement plus any extension applicable over the agreement (see Note 9e).

Participation rights for this project totaled \$112.3 million as of June 30, 2021 and 2020, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$2.3 million in fiscal years 2021 and 2020.

**(b) Palo Verde Irrigation District**

In August 2004, Metropolitan entered into an agreement with PVID to implement a 35-year land management and crop rotation program. This following program commenced in January 2005 and will extend through July 2040 and will make available up to 130.0 TAF of water in certain years for transfer to Metropolitan from PVID.

Under the terms of the agreement, Metropolitan paid for all program start-up costs that have been capitalized as participation rights. These costs included sign-up payments to individual landowners, funding for a community improvement program and program setup costs.

Participation rights for this program totaled \$82.8 million as of June 30, 2021 and 2020, and are being amortized using the straight-line method over 35 years. Amortization expense totaled \$2.3 million in fiscal years 2021 and 2020.

**(c) Kern Delta Water District**

Metropolitan entered into an agreement with the Kern Delta Water District for the development of a water management program. The agreement includes a Regulation Program and a Transportation Program. Under the terms of the Regulation Program, Kern Delta will regulate the storage and delivery for Metropolitan of up to 250.0 TAF of water and has 166.9 TAF in the program as of June 30, 2021. The program is intended to provide a minimum recharge and return capability of 50.0 TAF annually. Construction of infrastructure is required in order to meet the program's dry year minimum return. The transportation program provides Metropolitan with priority rights to convey water acquired by Metropolitan from third parties through the Kern-Delta facilities to the

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California Aqueduct for ultimate delivery to Metropolitan. This program terminates on December 31, 2029. The facilities became operational in June 2010.

Participation rights for the Kern Delta totaled \$39.0 million as of June 30, 2021 and 2020, and are being amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$2.2 million in fiscal years 2021 and 2020.

**(d) South County Pipeline**

In 1989, Metropolitan entered into an agreement with two member agencies and one of their subagencies to participate in the construction of an upsized version of a 26-mile long pipeline serving the south Orange County portion of its service area. Participation in this project provides Metropolitan capacity to transport its water in the central part of its service area.

Participation rights for this project totaled \$72.4 million as of June 30, 2021 and 2020. These participation rights are amortized using the straight-line method over 80 years, which is the life of the agreement. Amortization expense totaled \$0.9 million in fiscal years 2021 and 2020.

**(e) Semitropic Water Storage District**

In December 1994, Metropolitan entered into a water banking and exchange program with Semitropic Water Storage District and its improvement districts that entitles it to storage, withdrawal, and exchange rights for its SWP supplies. The agreement terminates in November 2035.

In 1999, Metropolitan became fully vested for 35 percent of the one million acre-foot banking project. Metropolitan has a storage allocation of 350.0 TAF and currently has 260.6 TAF in the program as of June 30, 2021. Metropolitan is entitled to a minimum of 31.5 TAF per year of pump back capacity. In addition, assuming a 100 percent SWP allocation, Metropolitan is entitled to a minimum of 46.6 TAF per year of entitlement exchange rights. Finally, Metropolitan has the ability to use other banking partners' rights when they are not being used. As a result, the potential maximum return capability for Metropolitan is estimated at 248.4 TAF per year assuming a 100 percent SWP allocation and usage of the other banking partners' rights. In fiscal year 2015, Metropolitan spent \$5.8 million to increase the return capacity by 13.2 TAF per year. Since then, the additional return capacity has been reduced to 6.7 TAF per year after Metropolitan received reimbursement of \$2.9 million.

Participation rights for this program totaled \$34.3 million as of June 30, 2021 and 2020. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$0.9 million in fiscal years 2021 and 2020.

**(f) Arvin-Edison Water Storage District**

In December 1997, Metropolitan entered into an agreement for a water management program with Arvin-Edison Water Storage District (Arvin-Edison). The agreement includes a regulation program, a transportation program, and a water quality exchange program. Under the terms of the regulation program, Arvin-Edison will regulate the storage and delivery for Metropolitan of up to 350.0 TAF of water and currently has 142.3 TAF in the program at June 30, 2021. The minimum estimated return capability for the Arvin-Edison program varies from 40.0 TAF per

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year to 75.0 TAF per year depending on hydrologic/groundwater conditions. Return water will be delivered to Metropolitan upon request through a new intertie pipeline to the California Aqueduct and by exchange of existing Arvin-Edison supplies in the California Aqueduct. In 2008, Metropolitan amended the agreement to construct the south canal improvement project that will improve the operational flexibility of the program as well as increase the ability to return high quality water to the California Aqueduct. The project was completed in early 2009. The agreement terminates on November 4, 2035 with provisions for automatic extension if all stored water has not been returned.

The agreement also provides a transportation program whereby Metropolitan is provided priority rights to convey water acquired by Metropolitan from third parties through the Arvin-Edison facilities to the California Aqueduct for ultimate delivery to Metropolitan.

Participation rights for the Arvin-Edison program totaled \$47.2 million as of June 30, 2021 and 2020. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.5 million in fiscal years 2021 and 2020.

**(g) Chino Basin**

In June 2003, Metropolitan entered into a groundwater storage agreement with Inland Empire Utilities Agency, Three Valleys Municipal Water District, and the Chino Basin Watermaster. Under the terms of the agreement, Metropolitan may store up to 25.0 TAF per year to a maximum of 100.0 TAF and may withdraw up to 33.0 TAF per year for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 30, 2021, Metropolitan had 22.9 TAF water in storage. The agreement terminates on March 1, 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Chino basin groundwater storage program totaled \$27.5 million as of June 30, 2021 and 2020. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.5 million in fiscal years 2021 and 2020.

**(h) Orange County**

In 2003, Metropolitan entered into a groundwater storage agreement with the Orange County Water District and the Municipal Water District of Orange County to allow Metropolitan to store 66.0 TAF in the Orange County Basin. Metropolitan may store up to 16.5 TAF per year and withdraw up to 22.0 TAF for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. At June 30, 2021, Metropolitan had no water in storage. The program included the construction of wells and barrier improvements for protection of groundwater supplies from seawater intrusion. The agreement terminates in June 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Orange County groundwater storage program totaled \$23.0 million as of June 30, 2021 and 2020. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled \$1.2 million in fiscal years 2021 and 2020.

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**(i) Conjunctive Use Programs**

Conjunctive use is the operation of a groundwater basin in coordination with a surface water system to increase total water supply availability, thus improving the overall reliability of supplies. Metropolitan has entered into seven agreements with its member agencies for conjunctive use programs whereby Metropolitan provides funding for construction of water storage and related facilities in exchange for water storage and withdrawal rights. The conjunctive use programs were funded with State Proposition 13 grant dollars. The seven projects are with Long Beach, Long Beach-Lakewood, Compton, Three Valleys, Three Valleys MWD-La Verne, Foothill MWD, and Western MWD-Elsinore Valley MWD. Collectively, these seven projects allow Metropolitan to store up to 45.9 TAF with storage of 11.5 TAF per year and withdrawal of 15.3 TAF per year for overlying demand during dry, drought, or emergency conditions. As of June 2021, Metropolitan had a total of 11.6 TAF in storage in these seven accounts. The term of each agreement is 25 years, unless the parties agree to extend for an additional maximum period of 25 years. Termination dates range from July 2027 to December 2031. The programs became operational during fiscal year 2009.

Participation rights in these projects totaled \$20.6 million at June 30, 2021 and 2020. These participation rights are amortized using the straight-line method over the remaining lives of the agreements. Amortization expense totaled \$1.0 million in fiscal years 2021 and 2020.

**5. 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 \$4.521 billion and \$4.455 billion at June 30, 2021 and 2020, respectively, represents less than one percent of the June 30, 2021 and 2020 total taxable assessed valuation of \$3,263 billion and \$3,092 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 investment plan, as approved by Metropolitan's Board. There was no commercial paper issued in fiscal years 2021 and 2020 and no commercial paper was outstanding at June 30, 2021 and 2020. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes.

Short-term note issued during the fiscal year ended June 30, 2021 was as follows:

- On June 30, 2021, Metropolitan issued certain notes evidencing a draw of \$35.6 million from the Royal Bank of Canada (RBC) Short Term Credit Facility for the purpose of refunding a portion of Metropolitan's then

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outstanding subordinate lien bonds. The notes have maturity date of June 29, 2022. See Note 16 for additional information.

Short-term note issued during the fiscal year ended June 30, 2020 and repaid during the fiscal year ended June 30, 2021 was as follows:

- On June 30, 2020, Metropolitan issued certain notes evidencing a draw of \$35.6 million from the RBC Short Term Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds. On July 1, 2020, the draw was refunded with proceeds of the Water Revenue Refunding Bonds, 2020 Series C. See note 5(d).

A total of \$35.6 million short-term revolving notes were outstanding at June 30, 2021 and 2020.

There were no long-term notes issued during the fiscal year ended June 30, 2021. Long-term note repaid during the year then ended was as follows:

- On June 16, 2021 Metropolitan prepaid it's \$46.8 million, Short-Term Revenue Refunding Certificates, Series 2019 A from the proceeds of Metropolitan's Variable Rate Water Revenue Refunding Bonds, 2021 A (Federally Taxable), described further in Note 5(d).

Long-term note issued and repaid during the fiscal year ended June 30, 2020 was as follows:

- On October 1, 2019, Metropolitan issued a \$100.0 million note under the RBC Short-Term Revolving Credit Facility (2019 RBC Note), at a rate equal to the SIFMA Index plus 33 basis points. On February 11, 2020, the 2019 RBC Note was repaid with proceeds from the issuance of the Water Revenue Refunding Bonds, Series 2020 A.

There were no long-term revolving notes outstanding at June 30, 2021. A total of \$46.8 million of long-term revolving notes were outstanding at June 30, 2020.

**(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 investment plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled \$850.0 million. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of \$26.8 million and \$37.3 million in general obligation refunding bonds were outstanding at June 30, 2021 and 2020, respectively.

The general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 3.5 percent 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.



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General obligation bond issued during the fiscal year ended June 30, 2021 was as follows:

- On September 1, 2020, Metropolitan issued \$13.7 million, Waterworks General Obligation Refunding Bonds, 2020 Series A, which refunded \$18.7 million of Waterworks General Obligation Refunding Bonds, 2010 Series A and the cost of issuance. This refunding resulted in projected present value savings of \$7.6 million. The true interest cost is 1.64% with a final maturity of March 1, 2037. The bonds are subject to optional redemption provisions.

No general obligation bonds were issued during the fiscal year ended June 30, 2020.

**(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 \$3.994 billion and \$3.969 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2021 and 2020, 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 2051 at interest rates ranging from .46 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 June 30, 2021 was as follows:

- On February 4, 2021, Metropolitan issued \$188.9 million of Water Revenue Bonds, Series 2021 A, at a true interest cost of 2.77 percent, to fund a portion of Metropolitan's Capital Investment Plan and costs of issuance. The maturities extend to October 1, 2051 and are subject to mandatory and optional redemption provisions.

Revenue bond issued during the fiscal year ended June 30, 2020 was as follows:

- On February 11, 2020, Metropolitan issued \$207.3 million of Water Revenue Bonds, 2020 Series A, at a true interest cost of 3.05 percent, to prepay a \$100.0 million note drawn under the RBC Short-Term Credit Facility, and to fund a portion of the capital investment plan and costs of issuance. The maturities extend to October 1, 2049 and are subject to mandatory and optional 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



**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

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refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan's basic financial statements.

Refunding and defeasance transactions during fiscal year 2021 were as follows:

- On July 1, 2020, Metropolitan issued \$268.0 million of Water Revenue Refunding Bonds, Series 2020 C, which refunded \$250.0 million, Water Revenue Bonds, 2010 Authorization, Series A; \$44.3 million, Water Revenue Bonds, 2010 Series B; \$14.0 million, Water Revenue Refunding Bonds, 2014 Series C-2; and, \$6.2 million, Water Revenue Refunding Bonds, 2014 Series G-5. In addition, a \$36.5 million draw on the RBC Short-Term Credit Facility was prepaid from the proceeds. This refunding resulted in projected present value savings of \$80.2 million. The true interest cost was 2.70%. The final maturity is July 1, 2040. The bonds are subject to optional redemption provisions.
- On April 2, 2021, Metropolitan extended the terms of the \$271.8 million Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B (SVRWRRB 2020 Series B). The SVRWRRB 2020 Series B remain in the Long Mode under the 2020B Paying Agent Agreement and bear interest at a Long Rate equal to .46 percent per annum for the Long Period ending on April 2, 2024. The 2020B Senior Revenue Bonds are subject to mandatory tender for purchase on April 2, 2024 the last day of the Long Period. The SVRWRRB 2020 Series B were designated as Self-Liquidity Bonds pursuant to the 2020B Paying Agent Agreement and no standby bond purchase agreement or other liquidity facility is in effect for the purchase of such bonds.
- On June 16, 2021, Metropolitan issued \$222.2 million of Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable), which prepaid \$46.8 million, Short-Term Revenue Refunding Certificates, Series 2019 A, and refunded \$175.0 million, Subordinate Water Revenue Bonds, 2016 Authorization Series A. The 2021 Series A bonds mature on July 1, 2042, and are subject to optional and mandatory redemption provisions.

Refunding and defeasance transactions during fiscal year 2020 were as follows:

- On April 1, 2020, Metropolitan issued \$152.5 million of Subordinate Water Revenue Refunding Bonds, 2020 Series A. Proceeds were used to refund \$9.9 million of Water Revenue Bonds, 2000 Authorization, Series B-3; \$10.0 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D; \$17.3 million of Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D; \$7.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1; \$7.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-2; \$10.4 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1; \$10.4 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-2; \$59.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1; \$59.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-2; and, to fund issuance costs. The Subordinate Water Revenue Refunding Bonds, 2020 Series A have a true interest cost of 0.8 percent, mature on July 1, 2029, and are not subject to optional or mandatory redemption provisions.
- On April 3, 2020, Metropolitan entered into a Bond Purchase Agreement, dated as of April 1, 2020, with Wells Fargo Municipal Capital Strategies, LLC, for the purchase of Metropolitan's \$271.8 million Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B (SVRWRRB 2020 Series B). Proceeds were used to refund \$77.5 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D; \$21.2 million of Special

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Variable Rate Water Revenue Refunding Bonds, 2014 Series D; \$86.6 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1; and, \$86.6 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-2. The SVRWRRB 2020 Series B were issued in a Long Mode under the 2020B Paying Agent Agreement and bear interest at a Long Rate equal to 1.04 percent per annum for the initial Long Period ending on April 2, 2021. The 2020B Senior Revenue Bonds are subject to mandatory tender for purchase on April 2, 2021 the last day of the Long Period. The SVRWRRB 2020 Series B were designated as Self-Liquidity Bonds pursuant to the 2020B Paying Agent Agreement and no standby bond purchase agreement or other liquidity facility is in effect for the purchase of such bonds.

These refundings and defeasances were accomplished to take advantage of lower interest rates, to realize economic savings or to eliminate or mitigate certain risks associated with managing its variable rate debt. The transactions resulted in cash flow savings of \$100.7 million and \$9.2 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of \$87.8 million and \$8.6 million for fiscal years 2021 and 2020, respectively. The net carrying amount of the old debt was equal to the reacquisition price in fiscal year 2021 and 2020. Deferred outflows of loss on bond refundings at June 30, 2021 and 2020 were \$13.3 million and \$19.6 million, respectively, and the deferred outflows on swap terminations for the same periods were \$17.9 million and \$19.0 million, respectively.

**(e) Interest Rate Swaps**

Metropolitan has eight outstanding interest rate swap agreements as of June 30, 2021. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Metropolitan's interest rate swap portfolio as of June 30, 2021, 2020, and 2019 are summarized on the following table.

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Associated Bond Issue <sup>(1)</sup>	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating <sup>(2)</sup>
2002 A Payor	\$ 48,282	09/12/02	3.300 %	57.74% of 1MoLIBOR <sup>(4)</sup>	Aa3/A+/NR
2002 B Payor	18,063	09/12/02	3.300 %	57.74% of 1MoLIBOR	Aa2/A+/AA
2003 Payor C-1 C-3	150,047	12/18/03	3.257 %	61.20% of 1MoLIBOR	Aa2/A+/AA-
2003 Payor C-1 C-3	150,047	12/18/03	3.257 %	61.20% of 1MoLIBOR	Aa2/A+/AA
2004 C Payor	7,760	11/16/04	2.980 %	61.55% of 1MoLIBOR	Aa3/BBB+/A
2004 C Payor	6,350	11/16/04	2.980 %	61.55% of 1MoLIBOR	A3/BBB+/A
2005 Payor	29,058	07/06/05	3.360 %	70.00% of 1MoLIBOR	Aa2/A+/AA
2005 Payor	29,058	07/06/05	3.360 %	70.00% of 1MoLIBOR	A3/BBB+/A
<b>Total swaps</b>	<b>\$ 438,665</b>				

<sup>(1)</sup>These swaps lock in a fixed rate for an equivalent amount of variable rate debt.

<sup>(2)</sup>Credit Ratings - Moody's Investors Service, Standard & Poor's Global, Fitch Ratings, respectively.

<sup>(3)</sup>Excludes accrued interest.

<sup>(4)</sup>London Interbank Offered Rate.

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Swap Termination	Fair Value as of 6/30 <sup>(3)</sup>			Change in Fair Value in FY	
	2021	2020	2019	2021	2020
07/01/25	\$ (3,431)	\$ (5,158)	\$ (5,317)	\$ 1,727	\$ 159
07/01/25	(1,284)	(1,929)	(1,989)	645	60
07/01/30	(17,238)	(23,890)	(19,448)	6,652	(4,442)
07/01/30	(17,238)	(23,890)	(19,449)	6,652	(4,441)
10/01/29	(821)	(1,189)	(897)	368	(292)
10/01/29	(672)	(973)	(734)	301	(239)
07/01/30	(4,151)	(5,791)	(4,220)	1,640	(1,571)
07/01/30	(4,151)	(5,791)	(4,220)	1,640	(1,571)
	\$ (48,986)	\$ (68,611)	\$ (56,274)	\$ 19,625	\$ (12,337)

As with its investments, Metropolitan categorizes its liabilities using fair value measurements within the fair value hierarchy established by U.S. GAAP and are discussed in Note 3.

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Metropolitan has the following recurring fair value measurements as of June 30, 2021 and 2020:

(Dollars in thousands)

Associated Bond Issue	Fair Value Measurements Using			
	6/30/2021	Significant Other Observable Inputs (Level 2)	6/30/2020	Significant Other Observable Inputs (Level 2)
2002 A Payor	\$ (3,431)	\$ (3,431)	\$ (5,158)	\$ (5,158)
2002 B Payor	(1,284)	(1,284)	(1,929)	(1,929)
2003 Payor C-1 C-3	(17,238)	(17,238)	(23,890)	(23,890)
2003 Payor C-1 C-3	(17,238)	(17,238)	(23,890)	(23,890)
2004 C Payor	(821)	(821)	(1,189)	(1,189)
2004 C Payor	(672)	(672)	(973)	(973)
2005 Payor	(4,151)	(4,151)	(5,791)	(5,791)
2005 Payor	(4,151)	(4,151)	(5,791)	(5,791)
Total swaps	\$ (48,986)	\$ (48,986)	\$ (68,611)	\$ (68,611)

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using an income approach that considers benchmark interest rates, yield curves, and credit spreads.

**Pay-Fixed, Receive-Variable**

**Objective of the Swaps:** In order to take advantage of low interest rates in the marketplace, Metropolitan entered into 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. Currently, there are eight pay-fixed, receive-variable interest rate swaps outstanding.

**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 June 30, 2021, 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

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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 June 30, 2021, 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 June 30, 2021.

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 June 30, 2021, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of \$197.2 million or 44.9 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 June 30, 2021, the interest rates of the variable rate debt associated with these swap transactions range from .01 percent to .17 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from .06 percent to .10 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

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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) Swap Payments and Associated Debt**

Using rates as of June 30, 2021, debt service requirements on Metropolitan's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

(Dollars in thousands)	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
Year ending June 30:				
2022	\$ 32,715	\$ 346	\$ 13,199	\$ 46,260
2023	33,260	321	12,224	45,805
2024	34,630	292	11,122	46,044
2025	65,190	240	9,122	74,552
2026	75,770	177	6,733	82,680
2027-2031	197,100	262	9,960	207,322
Total	\$ 438,665	\$ 1,638	\$ 62,360	\$ 502,663

**(g) Variable Rate Bonds**

The variable rate bonds bear interest at daily and weekly rates ranging from .01 percent to .17 percent as of June 30, 2021 and .07 percent to .48 percent as of June 30, 2020. Metropolitan can elect to change the interest rate period of the bonds with certain limitations.

Metropolitan has entered into standby bond purchase agreements (SBPA) with commercial banks to provide liquidity for seven separate variable rate bond issues listed in the table below. Bondholders have the right to tender such variable rate bonds to the paying agent on any business day with same day notice. In the event that tendered bonds are not remarketed, the paying agent will draw on the SBPA to pay such bondholders. The draw on the SBPA creates a new debt obligation between Metropolitan and the Bank, called a Bank Bond.

The Bank Bonds that would be issued under the SBPA would initially bear interest at a per annum interest rate equal to, depending on the applicable SBPA, a Base Rate of either: (a) the highest of the (i) Prime Rate plus one percent, (ii) Federal Funds Rate plus two percent, and (iii) seven percent; or (b) the highest of the (i) Prime Rate, (ii) Federal Funds Rate plus one half of one percent, and (iii) seven and one half percent (with the Base Rate increasing in the case of each of (i), (ii) and (iii) of this clause (b) after 90 days, by one percent). To the extent such bank bonds have not been remarketed or otherwise retired as of the earlier of the 90th day following the draw on the SBPA or the stated expiration date of the related SBPA, Metropolitan's obligation to repay the principal of the Bank Bonds would be payable in semi-annual installments over a period of approximately three or five years, depending on the applicable SBPA. Metropolitan has secured its obligation to repay principal and interest under the SBPAs as a senior lien obligation.

In addition, such bonds are subject to mandatory tender for purchase under certain circumstances, including upon the expiration of the SBPA. Metropolitan intends to either renew the facility or exercise its right to remarket the debt

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as a long-term financing. 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 \$72.0 million and \$34.8 million at June 30, 2021 and 2020, respectively.

Metropolitan has the following seven variable rate bonds that are supported by a SBPA as of June 30, 2021 and 2020:

(Dollars in thousands)

Bond Issue	Amount		Expiration Date	Interest Rate	Current Amount	
	6/30/21	6/30/20			2021	2020
<b>Water Revenue Bonds</b>						
2000 Series B-3	\$ 78,900	\$ 78,900	3/20/23	Reset Daily	\$ —	\$ —
2017 Series A	80,000	80,000	3/20/23	Reset Daily	—	—
<b>Water Revenue Refunding Bonds</b>						
2018 Series A-1, A-2	90,070	90,070	6/04/24 <sup>(1)</sup>	Reset Daily	—	90,070
2016 Series B-1, B-2	82,905	82,905	6/04/24	Reset Daily	—	—
<b>Subordinate Water Revenue Refunding Bonds</b>						
2021 Series A	222,160	—	6/13/25	Reset Daily	—	—
Total	\$ 554,035	\$ 331,875			\$ —	\$ 90,070

<sup>(1)</sup> At 6/30/20, the SBPA associated 2018 Series A-1 and A-2 Water Revenue Refunding Bonds expired 6/25/21.

Metropolitan has the following three and four variable rate bonds that are not supported by a SBPA as of June 30, 2021 and 2020, respectively:

(Dollars in thousands)

Bond Issue	6/30/21	6/30/20	Interest Rate
<b>Subordinate Water Revenue Bonds</b>			
2016 Series A	\$ —	\$ 175,000	1M LIBOR plus % spread
2017 Series C	80,000	80,000	SIFMA Index plus % spread
<b>Subordinate Water Revenue Refunding Bonds</b>			
2017 Series D	95,630	95,630	SIFMA Index plus % spread
2017 Series E	95,625	95,625	SIFMA Index plus % spread
Total	\$ 271,255	\$ 446,255	

The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), and the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), require bondholders to tender their bonds for purchase on the scheduled mandatory tender date of May 21, 2024. A failure by Metropolitan to pay the purchase price 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 Metropolitan's Subordinate Debt Resolutions. Upon the occurrence and continuance of such events of default, the owners of 25



**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

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.

**(h) Long-term Debt Obligation Summary, Net of Long-term Revolving Notes**

Interest rates at June 30, 2021 on all outstanding fixed-rate obligations range from .46 percent to 6.95 percent. Interest on the variable rate debt is reset either daily or weekly based upon market conditions. Future principal and interest payments in accordance with the debt agreements as of June 30, 2021 are as follows:

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2022	\$ 171,935	\$ 134,909	\$ 306,844
2023	175,865	125,474	301,339
2024	457,630	116,875	574,505
2025	185,860	107,792	293,652
2026	158,560	100,410	258,970
2027-2031	830,755	386,056	1,216,811
2032-2036	660,855	242,848	903,703
2037-2041	892,380	135,875	1,028,255
2042-2046	273,195	48,784	321,979
2047-2051	200,875	16,878	217,753
2052	13,185	330	13,515
	<u>\$ 4,021,095</u>	<u>\$ 1,416,231</u>	<u>\$ 5,437,326</u>
Unamortized bond discount and premium, net	464,184		
Total debt	4,485,279		
Less current portion	(222,692)		
Long-term portion of debt	<u>\$ 4,262,587</u>		

**6. LONG-TERM LIABILITIES**

Long-term liability activity for the fiscal years ended June 30, 2021 and 2020 is shown on the following table. Payments on the bonds are made from the restricted debt service funds; other long-term debt and the compensated absences liability will be liquidated primarily with water revenues.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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June 30, 2021 and 2020

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2021 and 2020

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2019	Additions
<b>Waterworks general obligation refunding bonds (Note 5b):</b>				
2010 Series A	3/1/29-3/1/37	3.50%-5.00%	\$ 18,735	\$ —
2014 Series A	3/1/20-3/1/21	5.00 %	12,560	—
2019 Series A	3/1/20-3/1/28	5.00 %	16,755	—
2020 Series A	3/1/29-3/1/37	5.00 %	—	—
Total general obligation and general obligation refunding bonds			48,050	—
<b>Water revenue bonds (Note 5c):</b>				
2000 Series B-3	7/1/29-7/1/35	Variable	88,800	—
2010 Series A	7/1/38-7/1/40	6.95 %	250,000	—
2015 Series A	7/1/18-7/1/45	5.00 %	206,265	—
2016 Subordinate Series A	12/21/2020	Variable	175,000	—
2017 Series A	7/1/41-7/1/47	Variable	80,000	—
2017 Subordinate Series C	5/21/2024	Variable	80,000	—
2018 Subordinate Series B	9/1/23-9/1/28	5.00 %	64,345	—
2020 Series A	10/1/30-10/1/49	5.00 %	—	207,355
2021 Series A	10/1/28-10/1/51	5.00 %	—	—
<b>Water revenue refunding bonds (Note 5d):</b>				
1993 Series A	7/1/19-7/1/21	5.75 %	21,840	—
2010 Series B	7/1/19-7/1/28	2.60%-5.00%	63,800	—
2011 Series B	7/1/19-7/1/20	4.00 %	2,640	—
2011 Series C	10/1/19-10/1/36	2.25%-5.00%	128,750	—
2012 Series A	10/1/23-10/1/36	3.25%-5.00%	181,180	—
2012 Series C	7/1/19-7/1/21	3.00%-5.00%	54,795	—
2012 Series F	7/1/19-7/1/28	3.00%-5.00%	59,335	—
2012 Series G	7/1/20-7/1/31	3.00%-5.00%	111,890	—
2013 Series D	7/1/29-7/1/35	Variable	87,445	—
2014 Series A	7/1/19-7/1/21	4.00%-5.00%	83,865	—
2014 Series C-2-C-3	10/1/20-10/1/21	3.00 %	16,830	—
2014 Series D	7/1/21-7/1/32	Variable	38,465	—
2014 Series E	7/1/21-7/1/24	3.50%-5.00%	86,060	—
2014 Series G-5	7/1/37	3.00%	6,205	—
2015 Series A-1, A-2	7/1/35	Variable	188,900	—
2016 Series A	7/1/28-7/1/37	2.00%-5.00%	239,455	—
2016 Series B-1, B-2	7/1/25-7/1/37	Variable	103,670	—
2017 Subordinate Series A	7/1/20-7/1/27	2.00%-2.50%	238,015	—
2017 Subordinate Series B	8/1/20-8/1/24	3.00%-5.00%	178,220	—
2017 Subordinate Series D	5/21/2024	Variable	95,630	—
2017 Subordinate Series E	5/21/2024	Variable	95,625	—
2018 Series A1, A-2	7/1/19-7/1/37	Variable	210,040	—
2018 Subordinate Series A	7/1/19-7/1/23	5.00 %	99,075	—
2018 Series B	7/1/20-1/1/39	5.00 %	137,485	—
2019 Series A	7/1/30-7/1/39	5.00 %	218,090	—
2019 Subordinate Series A	7/1/20-7/1/29	5.00 %	241,530	—
2020 Subordinate Series A	7/1/23-7/1/29	3.00%-5.00%	—	152,455
2020 Series B	4/2/2024	.46%-1.04 %	—	271,815
2020 Series C	7/1/21-7/1/10	5.00 %	—	—
2021 Subordinate Series A	7/1/37-7/1/42	Variable	—	—
Total water revenue and water revenue refunding bonds			3,933,245	631,625
<b>Other long-term debt (Notes 5a and 5h):</b>				
Revolving notes			46,800	100,000
Unamortized bond discount and premiums, net			307,310	104,554
Total long-term debt			4,335,405	836,179
<b>Other long-term liabilities</b> (see table next page)			169,235	62,634
<b>Total long-term liabilities</b>			\$ 4,504,640	\$ 898,813

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2021 and 2020

Reductions		June 30, 2020	Additions	Reductions		June 30, 2021	Amounts Due Within One Year
\$	—	\$ 18,735	\$ —	\$ (18,735)	\$ —	\$ —	—
	(8,020)	4,540	—	(4,540)	—	—	—
	(2,730)	14,025	—	(860)	13,165	6,655	6,655
	—	—	13,665	—	13,665	—	—
	(10,750)	37,300	13,665	(24,135)	26,830	6,655	6,655
	(9,900)	78,900	—	—	78,900	—	—
	—	250,000	—	(250,000)	—	—	—
	(2,145)	204,120	—	(2,585)	201,535	2,535	2,535
	—	175,000	—	(175,000)	—	—	—
	—	80,000	—	—	80,000	—	—
	—	80,000	—	—	80,000	—	—
	—	64,345	—	—	64,345	—	—
	—	207,355	—	—	207,355	—	—
	—	—	188,890	—	188,890	—	—
	(9,615)	12,225	—	(10,185)	2,040	2,040	2,040
	(7,795)	56,005	—	(56,005)	—	—	—
	(1,295)	1,345	—	(1,345)	—	—	—
	(9,950)	118,800	—	(100)	118,700	10,415	10,415
	—	181,180	—	—	181,180	—	—
	(34,960)	19,835	—	(14,200)	5,635	5,635	5,635
	(10,450)	48,885	—	(11,150)	37,735	11,195	11,195
	—	111,890	—	(22,070)	89,820	1,590	1,590
	(87,445)	—	—	—	—	—	—
	(45,995)	37,870	—	(33,000)	4,870	4,870	4,870
	—	16,830	—	(14,020)	2,810	2,810	2,810
	(38,465)	—	—	—	—	—	—
	—	86,060	—	—	86,060	23,225	23,225
	—	6,205	—	(6,205)	—	—	—
	(188,900)	—	—	—	—	—	—
	—	239,455	—	—	239,455	—	—
	(20,765)	82,905	—	—	82,905	—	—
	—	238,015	—	(5,300)	232,715	13,500	13,500
	—	178,220	—	(35,645)	142,575	35,645	35,645
	—	95,630	—	—	95,630	—	—
	—	95,625	—	—	95,625	—	—
	(119,970)	90,070	—	—	90,070	—	—
	(4,400)	94,675	—	(4,560)	90,115	40,125	40,125
	(3,975)	133,510	—	(4,385)	129,125	4,600	4,600
	—	218,090	—	—	218,090	—	—
	—	241,530	—	(7,870)	233,660	4,780	4,780
	—	152,455	—	—	152,455	—	—
	—	271,815	—	—	271,815	—	—
	—	—	267,995	—	267,995	2,315	2,315
	—	—	222,160	—	222,160	—	—
	(596,025)	3,968,845	679,045	(653,625)	3,994,265	165,280	165,280
	(100,000)	46,800	—	(46,800)	—	—	—
	(45,583)	366,281	151,112	(53,209)	464,184	50,757	50,757
	(752,358)	4,419,226	843,822	(777,769)	4,485,279	222,692	222,692
	(44,257)	187,612	45,028	(66,778)	165,862	33,659	33,659
\$	(796,615)	\$ 4,606,838	\$ 888,850	\$ (844,547)	\$ 4,651,141	\$ 256,351	\$ 256,351

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

(Dollars in thousands)	June 30, 2019	Additions	Reductions	GASB 84 Adjustment Note 1s	June 30, 2020 As Adjusted Note 1s	Additions	Reductions	June 30, 2021	Amounts Due Within One Year
Accrued compensated absences	\$ 48,397	\$ 27,895	\$ (24,011)	\$ —	\$ 52,281	\$ 30,756	\$ (25,120)	\$ 57,917	\$ 25,800
Customer deposits and trust funds	49,397	16,857	(9,493)	(5,852)	50,909	7,166	(11,591)	46,484	3,062
Workers' Compensation and third party claims (Note 14)	12,958	5,545	(4,901)	—	13,602	7,106	(10,419)	10,289	4,792
Fair value of interest rate swaps (Note 5e)	56,274	12,337	—	—	68,611	—	(19,625)	48,986	—
Other long-term liabilities	2,209	—	—	—	2,209	—	(23)	2,186	5
Total other long-term liabilities	\$ 169,235	\$ 62,634	\$ (38,405)	\$ (5,852)	\$ 187,612	\$ 45,028	\$ (66,778)	\$ 165,862	\$ 33,659

**7. 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.

**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.

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**Contribution Description**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Metropolitan is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Metropolitan's total employer contributions were \$74.3 million and \$66.1 million for the fiscal years ended June 30, 2021 and 2020, respectively. The employee contribution rate was 7.25 percent and 6.0 percent of annual pay for PEPRA members for the fiscal years ended June 30, 2021 and 2020, respectively, and 7.0 percent of annual pay for Classic members in both years. Metropolitan contributes the full 7.0 percent for Classic members while PEPRA members contribute the full 7.25 percent and 6.0 percent for the respective years. At June 30, 2021 and 2020, Metropolitan's pickup of the employee's 7.0 percent share were \$11.4 million and \$11.5 million, respectively. Payments made by Metropolitan to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

The Plans' provisions and benefits in effect at June 30, 2021 and 2020 are summarized as follows:

Hire date	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	36 months
Sick leave credit	Yes	Yes
Retirement age	50-67	52-67
Monthly benefits as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Cost of living adjustment	2.0 %	2.0 %
Required employee contribution rates		
2021	7.0 %	7.25 %
2020	7.0 %	6.0 %
Required employer contribution rates		
2021	32.426 %	32.426 %
2020	29.972 %	29.972 %

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

At June 30, 2019 and 2018, the valuation dates for fiscal years 2021 and 2020, respectively, the following current and former employees were covered by the benefit terms:

	2021	2020
Valuation date	6/30/2019	6/30/2018
Inactive employees (or their beneficiaries) currently receiving benefits	2,268	2,203
Inactive employees entitled to but not yet receiving benefits	905	925
Active members	1,818	1,766
<b>Total</b>	<b>4,991</b>	<b>4,894</b>

**(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

Metropolitan's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability at June 30, 2021 and 2020 was measured as of June 30, 2020 and 2019, respectively, using an annual actuarial valuation as of June 30, 2019 and 2018, respectively. The actuarial valuations as of June 30, 2019 and 2018 were rolled forward to June 30, 2020 and 2019, respectively, using standard update procedures.

The total pension liabilities for the measurement dates of June 30, 2020 and 2019 were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Mortality rate table <sup>(1)</sup>	Derived using CalPERS' Membership Data for all Funds
Post-retirement benefit increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

<sup>(1)</sup> The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

All other actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Long-term Expected Rate of Return**

The long-term expected rate of return on pension plan investments of 7.15 percent was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**NOTES TO BASIC FINANCIAL STATEMENTS**

**(CONTINUED)**

June 30, 2021 and 2020

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rates of return by asset class for the measurement dates of June 30, 2020 and 2019.

Asset Class <sup>(1)</sup>	Assumed Asset Allocation	Real Return Years 1-10 <sup>(2)</sup>	Real Return Years 11+ <sup>(3)</sup>
Global Equity	50.00 %	4.80 %	5.98 %
Fixed Income	28.00	1.00	2.62
Inflation Assets	—	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Estate	13.00	3.75	4.93
Liquidity	1.00	—	(0.92)
Total	100.00 %		

<sup>(1)</sup>In the CalPERS Comprehensive Annual Financial Report, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

<sup>(2)</sup>An expected inflation of 2.00 percent used for this period

<sup>(3)</sup>An expected inflation of 2.92 percent used for this period

**Discount Rate**

The discount rate used to measure the total pension liability at June 30, 2020 and 2019 measurement dates was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at a statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.15 percent was applied to all periods of projected benefit payments to determine the total pension liability.



## NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2021 and 2020

**(c) Changes in the Net Pension Liability**

The following tables show the changes in net pension liability recognized over the measurement periods of June 30, 2020 and 2019:

(Dollars in thousands)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
<b>Balance at June 30, 2019 (VD)</b>	<b>\$ 2,479,307</b>	<b>\$ 1,810,312</b>	<b>\$ 668,995</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	37,178	—	37,178
Interest on total pension liability	174,996	—	174,996
Differences between expected and actual experience	13,319	—	13,319
Contribution - Employer	—	66,091	(66,091)
Contribution - Employee	—	16,230	(16,230)
Net investment income	—	90,131	(90,131)
Benefit payments, including refunds of employee contributions	(125,982)	(125,982)	—
Administrative expenses	—	(2,551)	2,551
<b>Net Changes</b>	<b>\$ 99,511</b>	<b>\$ 43,919</b>	<b>\$ 55,592</b>
<b>Balance at June 30, 2020 (MD)</b>	<b>\$ 2,578,818</b>	<b>\$ 1,854,231</b>	<b>\$ 724,587</b>

(Dollars in thousands)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
<b>Balance at June 30, 2018 (VD)</b>	<b>\$ 2,376,778</b>	<b>\$ 1,742,741</b>	<b>\$ 634,037</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	35,739	—	35,739
Interest on total pension liability	168,122	—	168,122
Differences between expected and actual experience	16,205	—	16,205
Contribution - Employer	—	56,497	(56,497)
Contribution - Employee	—	15,631	(15,631)
Net investment income	—	114,220	(114,220)
Benefit payments, including refunds of employee contributions	(117,537)	(117,537)	—
Administrative expenses	—	(1,244)	1,244
Other miscellaneous income	—	4	(4)
<b>Net Changes</b>	<b>\$ 102,529</b>	<b>\$ 67,571</b>	<b>\$ 34,958</b>
<b>Balance at June 30, 2019 (MD)</b>	<b>\$ 2,479,307</b>	<b>\$ 1,810,312</b>	<b>\$ 668,995</b>

**NOTES TO BASIC FINANCIAL STATEMENTS**

*(CONTINUED)*

June 30, 2021 and 2020

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Plan as of the June 30, 2020 and 2019 measurement dates, calculated using the discount rate of 7.15 percent for both years. The table also shows what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

(Dollars in thousands)	2021	2020
Discount Rate -1%	6.15 %	6.15 %
Net Pension Liability	\$ 1,039,946	\$ 975,970
Current Discount Rate	7.15 %	7.15 %
Net Pension Liability	\$ 724,587	\$ 668,995
Discount Rate +1%	8.15 %	8.15 %
Net Pension Liability	\$ 460,599	\$ 412,124

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS GASB 68 Accounting Report for Metropolitan.

**Subsequent Events**

There were no subsequent events that would materially affect the results presented in this disclosure.

**Amortization of Deferred Outflows and Deferred Inflows of Resources**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSIL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

The EARSL for the Plan for the period ending June 30, 2020 measurement date is 3.4 years, which was obtained by dividing the total service years of 16,995 (the sum of remaining service lifetimes of the active employees) by 4,991 (the total number of participants: active, inactive, and retired). The EARSL for the Plan for the June 30, 2019 measurement date is 3.3 years, which was calculated by dividing the total service years of 16,107 by the total number of participants of 4,894. Inactive employees and retirees have remaining service lifetimes equal to zero and total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**(d) Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions**

For the years ended June 30, 2021 and 2020, Metropolitan recognized pension expense of \$92.2 million and \$119.8 million, respectively. At June 30, 2021 and 2020, Metropolitan has deferred outflows and inflows of resources related to pensions as follows:

(Dollars in thousands)	Deferred Outflows of Resources Outflows		Deferred Inflows of Resources Inflows	
	2021	2020	2021	2020
Pension contributions subsequent to measurement date	\$ 74,339	\$ 66,091	\$ —	\$ —
Differences between expected and actual experience	15,785	11,294	(627)	(4,752)
Changes of assumptions	—	7,858	(962)	(5,772)
Net difference between projected and actual earnings on pension plan investments	13,096	—	—	(10,774)
<b>Total</b>	<b>\$ 103,220</b>	<b>\$ 85,243</b>	<b>\$ (1,589)</b>	<b>\$ (21,298)</b>

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal years ended June 30, 2021 and 2020. At June 30, 2021 and 2020, the deferred outflows of resources related to contributions subsequent to the measurement date of \$74.3 million and \$66.1 million, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ending/ended June 30, 2022 and 2021, respectively.

The net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience, and changes of assumptions will be recognized in future pension expense as follows:

(Dollars in thousands)	Deferred Outflows / (Inflows) of Resources
Fiscal year ending June 30,	
2022	\$ (982)
2023	10,023
2024	10,759
2025	7,492
<b>Total</b>	<b>\$ 27,292</b>

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**8. 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 three PPO plans: PERS Care, PERS Choice, and PERS Select; and nine HMO plans through Anthem Blue Cross, Blue Shield, Health Net, Kaiser, Sharp, SmartCare, United Healthcare and Western Health. Metropolitan participates in the 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. This benefit was provided to 1,954 and 1,946 retired Metropolitan employees at June 30, 2021 and 2020, respectively. 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 years 2021 and 2020, Metropolitan contributed up to 100 percent of Anthem HMO Traditional Region 2 basic plan rate for all employees and retirees. During fiscal years 2021 and 2020, Metropolitan contributed the full actuarially determined contribution rate of 10.3 percent or \$23.2 million and 13.8 percent or \$28.1 million, respectively. Employees are not required to contribute to the plan.

**(c) Employees Covered**

At June 30, 2020 and 2019, the measurement dates for fiscal years 2021 and 2020, respectively, the following current and former employees were covered by the benefit terms:

	<b>2021</b>	2020
Measurement Date	<b>6/30/2020</b>	6/30/2019
Inactives employees (or their beneficiaries) currently receiving benefits	<b>1,803</b>	1,759
Inactive employees entitled to but not yet receiving benefits	<b>143</b>	139
Active members	<b>1,867</b>	1,820
Total	<b>3,813</b>	3,718

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**(d) Actuarial Assumptions Used to Determine Total OPEB Liability**

The total OPEB liability used to calculate the net OPEB liability as of June 30, 2021 and 2020 was measured as of June 30, 2020 and 2019, respectively using an actuarial valuation as of June 30, 2019. The actuarial valuation as of June 30, 2019 was rolled forward to the June 30, 2020 measurement date, using standard updated procedures. The June 30, 2019 actuarial valuation was based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal cost
Actuarial assumptions	
Funding policy	Metropolitan pre-funds full ADC
Discount rate	6.75%
Long-term expected rate of return on assets	6.75%
General inflation	2.75% per annum
Crossover test assumptions	Employer contributes full ADC
	Administrative expenses = .05% of assets
Salary increases	3.0% per annum
Mortality, disability, termination, retirement <sup>(1)</sup>	Derived using CalPERS Membership Data
Mortality improvement	Mortality projected fully generational with Society of Actuaries mortality improvement Scale MP2019
Healthcare cost trend rate	Pre-Medicare: 7.25% for 2021, decreasing to 4.0% for 2076 and later
	Medicare: 6.3% for 2021, decreasing to 4.0% for 2076 and later
Healthcare participation for future retirees	Currently covered: 100%; Currently waived: 90%

<sup>(1)</sup>Derived from data collected during 1997 to 2015 CalPERS Experience Study dated December 2015 for the June 30, 2019 actuarial valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 and 2020 are summarized in the following table:

<b>Asset class</b>	<b>Target Allocation</b>	<b>Long-term expected real rate of return</b>
Global equity	59.0 %	4.8 %
Fixed income	25.0	1.5
TIPS	5.0	1.3
Commodities	3.0	0.8
REITs	8.0	3.8
Total	100.0 %	

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**(e) Discount Rate**

The discount rate used to measure the total OPEB liability at June 30, 2020 and 2019 measurement dates was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Metropolitan contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**(f) Changes in the OPEB Liability**

The following tables shows the changes in the net OPEB liability recognized over the measurement periods of June 30, 2020 and 2019:

(Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
<b>Balance at June 30, 2019 (MD)</b>	<b>\$ 434,759</b>	<b>\$ 266,773</b>	<b>\$ 167,986</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	11,061	—	11,061
Interest	29,322	—	29,322
Contribution - employer	—	33,506	(33,506)
Net investment income	—	10,276	(10,276)
Benefit payments	(22,849)	(22,849)	—
Administrative expense	—	(144)	144
<b>Net changes</b>	<b>\$ 17,534</b>	<b>\$ 20,789</b>	<b>\$ (3,255)</b>
<b>Balance at June 30, 2020 (MD)</b>	<b>\$ 452,293</b>	<b>\$ 287,562</b>	<b>\$ 164,731</b>

**NOTES TO BASIC FINANCIAL STATEMENTS**

**(CONTINUED)**

June 30, 2021 and 2020

(Dollars in thousands)	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
<b>Balance at June 30, 2018 (MD)</b>	<b>\$ 468,185</b>	<b>\$ 239,851</b>	<b>\$ 228,334</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	10,635	—	10,635
Interest	31,600	—	31,600
Difference between expected and actual experience	(50,116)	—	(50,116)
Changes of assumptions	(4,217)	—	(4,217)
Contribution - employer	—	32,067	(32,067)
Net investment income	—	16,240	(16,240)
Benefit payments	(21,328)	(21,328)	—
Administrative expense	—	(57)	57
<b>Net changes</b>	<b>\$ (33,426)</b>	<b>\$ 26,922</b>	<b>\$ (60,348)</b>
<b>Balance at June 30, 2019 (MD)</b>	<b>\$ 434,759</b>	<b>\$ 266,773</b>	<b>\$ 167,986</b>

**(g) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the OPEB Plan as of the June 30, 2020 and 2019 measurement dates if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

(Dollars in thousands)	2021		2020	
Discount Rate -1%		5.75 %		5.75 %
Net OPEB Liability	\$	222,863	\$	224,217
Current Discount Rate		6.75 %		6.75 %
Net OPEB Liability	\$	164,731	\$	167,986
Discount Rate +1%		7.75 %		7.75 %
Net OPEB Liability	\$	116,650	\$	121,510

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**(CONTINUED)**

June 30, 2021 and 2020

**(h) Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates**

The following presents the net OPEB liability of the OPEB Plan if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement periods ended June 30, 2020 and 2019:

(Dollars in thousands)	2021	2020
	6.25%/5.3 %	6.5%/5.5 %
Healthcare Trend Rate -1%	<b>decreasing to 3.0 %</b>	decreasing to 3.0 %
Net OPEB Liability	\$ 108,441	\$ 117,114
	7.25%/6.3 %	7.5%/6.5 %
Current Healthcare Trend Rate	<b>decreasing to 4.0 %</b>	decreasing to 4.0 %
Net OPEB Liability	\$ 164,731	\$ 167,986
	8.25%/7.3 %	8.5%/7.5 %
Healthcare Trend Rate +1%	<b>decreasing to 5.0 %</b>	decreasing to 5.0 %
Net OPEB Liability	\$ 233,820	\$ 230,239

**(i) OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERBT Fund financial reports.

**(j) Recognition of Deferred Outflows and Deferred Inflows of Resources**

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period



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**(k) OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the years ended June 30, 2021 and 2020, Metropolitan recognized OPEB expense of \$10.1 million and \$11.8 million, respectively. At June 30, 2021 and 2020, Metropolitan has deferred outflows and inflows of resources related to OPEB as follows:

(Dollars in thousands)	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2021	2020	2021	2020
OPEB contributions subsequent to measurement date	\$ 27,025	\$ 33,506	\$ —	\$ —
Differences between expected and actual experience	—	—	(30,462)	(40,289)
Changes of assumptions	—	—	(2,563)	(3,390)
Net difference between projected and actual earnings on OPEB plan investments	5,872	—	—	(3,658)
<b>Total</b>	<b>\$ 32,897</b>	<b>\$ 33,506</b>	<b>\$ (33,025)</b>	<b>\$ (47,337)</b>

The \$27.0 million and \$33.5 million reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 and 2019 measurement dates, respectively, will be/was recognized as a reduction of the net OPEB liability during the fiscal years ending/ended June 30, 2022 and 2021, respectively.

The net difference between projected and actual earnings on OPEB plan investments, differences between expected and actual experience, and changes of assumptions will be recognized in future expense as follows:

(Dollars in thousands)	Deferred Inflows of Resources
Fiscal year ending June 30,	
2022	\$ (10,660)
2023	(8,928)
2024	(8,406)
2025	841
Total	\$ (27,153)

**9. COMMITMENTS AND CONTINGENCIES****(a) State Water Contract (see Note 10)**

Estimates of Metropolitan's share of the projected fixed costs of the SWP 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:

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(Dollars in thousands)	State Water Contract Payments	
Year ending June 30:		
2022	\$	495,194
2023		531,966
2024		522,470
2025		527,034
2026		518,193

According to the State's latest estimates, Metropolitan's long-term commitments under the contract, for capital and minimum operations and maintenance costs, including interest to the year 2035, are as follows:

(Dollars in thousands)	State Water Long Term Commitments	
Transportation facilities	\$	3,517,260
Conservation facilities		2,716,323
Off-aqueduct power facilities <sup>(1)</sup>		14,345
East Branch enlargement		284,646
Revenue bond surcharge		571,010
Total long-term SWP contract commitments	\$	7,103,584

<sup>(1)</sup>These commitments represent operations and maintenance costs. Metropolitan was relieved of its obligation for capital costs in 2018.

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 permit decisions.

The Delta Stewardship Council (Council) is the California State agency tasked with creating and implementing a comprehensive management plan for the Delta. The Council, created by the 2009 Sacramento-San Joaquin Delta Reform Act, serves as an independent voice for science and policy in the Delta to achieve the state mandated coequal goals for the Delta of ecosystem restoration and water supply reliability. To accomplish its mission, the Council adopted and implements the Delta Plan, which is the state's long-term management plan for the Delta to further the coequal goals, including facilitating, coordinating, and integrating the activities of hundreds of local, state, and federal agencies that have responsibilities directly related to water, ecosystems, land use, recreation, flood control and other functions in the legally defined Delta. The Council is conducting updates to its Delta Plan, including a strategic levee investment policy, updates to the Ecosystem chapter and associated policies and recommendations, and a draft

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climate change adaptation plan for the Delta and Suisun Marsh as part of their Delta Adapts: Creating a Climate Resilient Future initiative. The Delta Adapts plan is intended to help inform and assess specific climate risks and vulnerabilities in the Delta and, in coordination with stakeholders, develop adaptation strategies to address those vulnerabilities.

To avoid endangering State or federally listed species or adversely modifying their critical habitat, the Department of Water Resources (DWR) consults with the California Department of Fish and Wildlife (CDFW) and its federal agency counterparts under the California Endangered Species Act (ESA) and federal ESA regarding the operation of the SWP. If a project may adversely affect a listed species, a formal consultation is held with the state and federal regulatory agencies. The regulatory agency(ies) then issue operating permits under the ESA jurisdiction, a federal biological opinion and a State Incidental Take Permit (ITP). Updated federal biological opinions were approved in February 2020 and CDFW issued a State ITP in March 2020. Both the federal and state permits have been challenged in court by multiple parties including water agencies and non-governmental organization groups. Metropolitan is involved in the federal permit litigation as part of the State Water Contractors, and in the State ITP litigation as Metropolitan, in order to protect its interests that the permits be based on the best available science. The litigation on all eight cases has been ordered to be coordinated in Sacramento County Superior Court.

The Bay Delta Conservation Plan (BDCP) planning process, which began in 2007, was 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 habitat conservation and restoration program for the Delta, including new Delta conveyance infrastructure as one of the conservation measures consisting of multiple new intakes on the Sacramento River connected to existing SWP and Central Valley Project water facilities in the south Delta by two main tunnels. In addition, the BDCP would have provided the basis for long-term 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, and it would have been incorporated into the Delta Plan if it met the requirements of the federal and state ESAs for a Habitat Conservation Plan/Natural Communities Conservation Plan (HCP/NCCP).

On April 30, 2015, the State announced its intent to study three new conveyance-only alternatives that would not be part of an HCP/NCCP, separating the conveyance facilities and habitat restoration measures into two separate efforts namely: California WaterFix (CWF) and California EcoRestore. Under the CWF, the new water conveyance facilities with proposed design changes would be constructed and operated, with federal ESA compliance achieved through section 7 consultation. State and Federal ESA permits were issued in June and July 2017, and the DWR approved CWF on July 21, 2017. Metropolitan and other State Water Contractors approved their respective participation in CWF in 2017 and 2018. On February 12, 2019, Governor Newsom announced that he did not support a two-tunnel Delta Conveyance Project, but supports a single-tunnel project. On April 29, 2019, Governor Newsom issued Executive Order N-10-19, directing several agencies to, among other things, "inventory and assess current planning to modernize conveyance through the Bay Delta with a new single tunnel project." On May 2, 2019, the DWR rescinded its approval of CWF and decertified the Environmental Impact Report (EIR). On January 15, 2020, the DWR issued a Notice of Preparation of an EIR for a single-tunnel project now referred to as the Delta Conveyance Project.

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Eighteen SWP contractors have taken action in November and December 2020 and approved their participation in the planning and pre-construction costs for the Delta Conveyance Project and authorized the execution of a funding agreement with the DWR for such purpose. At its December 8, 2020, Board meeting, Metropolitan's Board authorized the General Manager to execute a funding agreement and committed funding for a Metropolitan participation level of 47.2 percent of the costs of preliminary design, environmental planning and other pre-construction activities to assist in the environmental process for the proposed Delta Conveyance Project. At a 47.2 percent participation level for Metropolitan, its forecasted funding agreement costs will be \$160.8 million for calendar years 2021 through 2024. The DWR is continuing to develop an EIR under the California Environmental Quality Act. A range of reasonable alternatives to consider and analyze in the EIR has been identified and current efforts are focused on analyzing the alternatives' potential impacts on environmental resources. DWR also conducted interviews with stakeholders in February and early March of 2021 on the concept of incorporating a Community Benefits Program as part of the Delta Conveyance Project to help protect and enhance the cultural, recreational, natural resource and agricultural values of the Delta. The DWR is also conducting a tribal consultation process as part of its environmental planning, consistent with State statutes and policies.

**(c) Imperial Irrigation District**

As of June 30, 2021, Metropolitan had advanced a total of \$358.8 million to IID 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 between 85.0 TAF to 105.0 TAF in 2021 and annually thereafter depending upon the amount used by the CVWD. A total of at least 85.0 TAF and up to 105.0 TAF will be/was available in calendar years 2021 and 2020, respectively, for diversion by Metropolitan (see Note 4a).

**(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 (see Note 9e). The amended Transfer Agreement sets the maximum transfer amount at 205.0 TAF in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200.0 TAF per year beginning in 2023.

No facilities exist to provide for delivery of water from IID to SDCWA. In 1998, Metropolitan and SDCWA entered into an agreement for the exchange of the IID water to be acquired by SDCWA under the Transfer Agreement, with water to be delivered by Metropolitan. In 2003, the boards of directors of Metropolitan and SDCWA agreed to an increase in the price that SDCWA would pay to Metropolitan for this exchange of water, in return for Metropolitan's assignment to SDCWA of Metropolitan's rights to water conserved as a result of the lining of the All-American and Coachella Canals and \$235.0 million, as set forth in an amended exchange agreement (Exchange Agreement) and an Allocation Agreement. Under the Exchange Agreement, SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and the conserved canal lining water allocated to SDCWA. In exchange, Metropolitan delivers an equal volume of water from its own sources of supply through its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. SDCWA pays Metropolitan a

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volumetric price for each delivery 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 through Metropolitan's facilities (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 separate lawsuit challenging the rates adopted by Metropolitan's Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a separate 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 separate 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 8, 2018, SDCWA filed a separate 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, Note 9g.

**(e) Quantification Settlement Agreement**

The Quantification Settlement Agreement (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 and restores the opportunity for Metropolitan to receive any special surplus water.

**(f) Construction Programs and Contracts**

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2021 through 2025 totals approximately \$1.4 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdowns constraints, capital spending was planned at \$250.0 million each for fiscal years 2021 and 2022, and \$300.0 million per year for fiscal years 2023 through 2025.

Over the next three years, Capital Investment Plan budget totals approximately \$855.0 million with over \$155.2 million for refurbishment and replacement (R&R) work at Metropolitan's water treatment plants; \$146.3 million targeted for R&R projects for the Colorado River Aqueduct; \$139.7 million on R&R work at pressure control facilities and pipelines throughout the distribution system; \$114.9 million to continue relining of the Prestressed Concrete Cylinder Pipe portions of the Second Lower and Sepulveda feeders; and \$92.1 million on a variety of information technology projects such as the Supervisory Control and Data Acquisition system, plus several headquarters building improvements including the ongoing fire alarm and smoke controls and physical security.

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Metropolitan had commitments under construction contracts in force as follows:

(Dollars in thousands)	June 30,	
	2021	2020
Colorado River Aqueduct pumping plants sump rehabilitation	\$ 21,533	\$ 25,766
Furnishing large-diameter conical plug valves	19,221	20,637
Colorado River Aqueduct pumping plants overhead cranes replacement	13,072	—
MWD headquarters building fire alarm and smoke control improvements	11,980	—
Furnishing butterfly valves for the F.E. Weymouth water treatment plant - schedule 1	4,815	4,866
Furnishing equipment for the Jensen ozone PSU upgrades	3,746	4,100
MWD headquarters building physical security upgrades and improvements	3,566	—
Gene wash reservoir discharge valve replacement	3,016	5,094
Jensen water treatment plant electrical upgrade - stage 2	2,604	12,467
Garvey reservoir sodium hypochlorite feed system	2,357	—
Refurbish filter valve actuators for Diemer water treatment plant	2,086	2,536
Colorado River Aqueduct mile 12 flow monitoring station upgrades	2,022	—
Furnishing membrane filtration systems for the CRA domestic water treatment system	1,206	1,206
Furnishing steel pipe for Casa Loma siphon barrel no. 1	768	6,134
F.E. Weymouth chlorination system upgrades	546	2,002
Garvey reservoir drainage and erosion improvements - areas 6, 7, 8, 10 and 11	520	—
Furnishing horizontal axially split centrifugal pumps for the Greg Avenue pump station	237	1,013
Furnishing earthquake-resistant ductile iron pipe for the Casa Loma siphon barrel no. 1	216	9,238
MWD headquarters building improvements	207	15,557
Greg Avenue pressure control structure - pump modifications and new control building	141	7,639
F.E. Weymouth water treatment plant water quality instrumentation improvements	100	1,845
Diemer west basin and filter building rehabilitation	60	10,294
Colorado River Aqueduct - installation of radial gates at seven facilities	45	5,647
Furnishing butterfly valves for F.E. Weymouth water treatment plant	12	772
Colorado River Aqueduct - discharge line isolation couplings and bulkheads installation	—	14,697
Second Lower Feeder PCCP rehabilitation - reach 2	—	7,414
Jensen water treatment plant - modules 2 and 3 flocculator rehabilitation	—	5,583
Colorado River Aqueduct pumping plants 6.9kV power cables replacement	—	5,437
West Valley Feeder No. 1 De Soto Avenue valve structure upgrades	—	575
Other	1,167	2,455
<b>Total</b>	<b>\$ 95,243</b>	<b>\$ 172,974</b>

*These commitments are being financed with operating revenues and debt financing.*



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**(g) 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 alleged 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 Project (SWP) 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 alleged that all SWP 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 stated 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 SWP costs and the Water Stewardship Rate to water supply rates and not to transportation rates. 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 due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under such 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. 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.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contained allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. 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.

Nine member agencies are real party in interest defendants in the 2010 and 2012 cases, in support of Metropolitan. Following trial of both lawsuits in two phases in the San Francisco Superior Court, concluding on January 23, 2014 and April 30, 2015, respectively, the court issued its final judgment and a peremptory writ of mandate in the cases. Metropolitan appealed the Superior 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 issued 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 SWP transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's

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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 SWP 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 XIII C, §1, subd.(e)), whether or not that Proposition applies to Metropolitan's rates, 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 the prevailing party 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, if any.

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 court's re-determination 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 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 court determined that Metropolitan was 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.



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The Superior Court further ruled that SDCWA was not entitled in the remand proceedings to litigate the issue of “offsetting benefits” (described below) under the wheeling statutes for the parties’ Exchange Agreement. The court found that such claim was both outside the scope of remand and waived.

The court also ruled that SDCWA was 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, and that SDCWA was entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014 and the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action.

Finally, the court confirmed, as the parties agreed, that it would 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 that stage of the cases.

On February 14, 2019, Metropolitan tendered to SDCWA payment of \$44.4 million for the 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 2010 and 2012 cases. This tender was made under compulsion to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan’s rights to appeal. On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. In the post-remand judgment (discussed below), the Superior Court confirmed that Metropolitan’s tender was effective and stopped the accrual of interest in February 2019.

As a result of reorganization of assignments at the San Francisco Superior Court and a motion for peremptory disqualification filed by SDCWA, the 2010 and 2012 cases, as well as the 2016 and 2017 cases described below, were reassigned on September 27, 2019 to Department 304, a different complex department in which the 2014 case was already pending. All cases are now pending before the Honorable Anne-Christine Massullo.

On November 15, 2019, Metropolitan provided a statutory Offer to Compromise to SDCWA to resolve all pending litigation filed by SDCWA. The offer, which was not confidential, was made under California Code of Civil Procedure Section 998 and was deemed withdrawn if not accepted by December 30, 2019. By letter dated December 19, 2019, SDCWA notified Metropolitan that it had determined not to act upon Metropolitan’s Section 998 Offer to Compromise. Metropolitan’s statutory Offer to Compromise was deemed withdrawn. SDCWA made its own settlement offer, which is public but non-statutory. SDCWA’s settlement offer was made subject to acceptance by Metropolitan no later than the close of business on January 31, 2020. The Metropolitan Board reviewed SDCWA’s proposal at its January 14, 2020 Board meeting and took no action.

The Superior Court had scheduled an evidentiary hearing for June 16 to June 18, 2020 on SDCWA’s requested relief based on its rate structure integrity provision claim. Following action of the SDCWA Board of Directors on

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February 27, 2020 (discussed below), SDCWA informed Metropolitan and the court that it was no longer seeking this relief. Accordingly, the evidentiary hearing was canceled.

On August 13, 2020, the Superior Court entered a final judgment in the 2010 and 2012 cases. On August 14, 2020, SDCWA served notice of entry of judgment and notice of the court's peremptory writ of mandate in the cases.

The court entered judgment: (1) on the first three causes of action – for writ of mandate, declaratory relief, and invalidation (the rate challenges) – in SDCWA's favor, because the Court of Appeal found Metropolitan's inclusion of the Water Stewardship Rate as a component of the transportation rates charged under the Exchange Agreement and wheeling rate was unlawful, and ordered issuance of a writ of mandate as described below; (2) on the fourth cause of action – breach of contract – in favor of SDCWA but only with respect to its challenge to Metropolitan's inclusion of the Water Stewardship Rate in the Exchange Agreement price for deliveries in 2011-2014, the court awarded San Diego a total of \$44,373,872.29, comprised of: (A) \$28,678,190.90 in damages; (B) prejudgment interest at the rate of 10 percent per annum through November 18, 2015 in the amount of \$7,484,315.54; and (C) post-judgment interest at the rate of 7 percent per annum from November 19, 2015 until February 15, 2019 (the date of Metropolitan's tender of \$44,373,872.29 to SDCWA), in the amount of \$8,211,365.85; (3) on the fifth cause of action – declaratory relief regarding the rate structure integrity (RSI) provision – in favor of SDCWA as the RSI provision is invalid and unenforceable; (4) on the sixth cause of action – declaratory relief regarding preferential rights calculation – in favor of SDCWA that Metropolitan's previous methodology for calculating preferential rights violates § 135 of the Metropolitan Water District Act; (5) on the previously-dismissed cause of action for breach of fiduciary duty – in favor of Metropolitan; and (6) on the previously dismissed cause of action for breach of the covenant of good faith and fair dealing – in favor of Metropolitan.

The peremptory writ of mandate commands Metropolitan to “enact only legal wheeling and transportation rates in the future and, specifically, not to do the things that [the Court of Appeal] held were unlawful,” and incorporates by reference the Court of Appeal decision; and to “exclude the costs of conservation programs and other demand management programs, enacted in [the 2010 and 2012] cases as the Water Stewardship Rate, from Metropolitan's wheeling rate published in Section 4405 of Metropolitan's Administrative Code and from the transportation rates charged under the [Exchange Agreement].”

Metropolitan filed a notice of appeal of the judgment and the writ on September 11, 2020. Metropolitan's appeal concerns the form of the judgment and the issuance of the writ. The parties have concluded briefing, and oral argument before the California Court of Appeal took place on September 15, 2021. See Note 16, Subsequent events for updates.

After determining it had jurisdiction to determine the prevailing party, if any, after the appeal was filed, on December 16, 2020, the Superior Court heard the parties' cross-motions on the determination of a prevailing party, if any, under the Exchange Agreement's attorneys' fees and costs provision. On January 12, 2021, the court heard the parties' motions to strike or tax each's memorandum of statutory costs, which involves a determination of prevailing party, as to all claims. For both sets of motions, Metropolitan contended that it is the prevailing party entitled to attorneys' fees and costs, or else there is not a prevailing party in these mixed-result cases.

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On January 13, 2021, the court issued an order finding SDCWA is the prevailing party on the contract in the 2010 and 2012 cases, entitled to its attorneys' fees and costs under the contract. On February 10, 2021, the court issued an order awarding SDCWA statutory costs, on the basis it is the prevailing party. On February 25, 2021, Metropolitan filed a notice of appeal of the January 13 and February 10 orders regarding prevailing party and costs. On August 5, 2021, Metropolitan filed its opening appellate brief.

On February 11, 2021, Metropolitan received a demand for payment of the final judgment in the 2010 and 2012 cases. Metropolitan tendered payment to SDCWA on February 16, 2021 in the amount of \$44,373,872.29, which included the award for damages, prejudgment interest through November 19, 2015, and post-judgment interest through February 15, 2019. The payment included \$31.6 million of amounts withdrawn from the Exchange Agreement Set-Aside Fund (the Water Stewardship Rate payments under the Exchange Agreement from 2011 through 2014, and a portion of the statutory interest), and \$12.8 million withdrawn from reserves (the remainder of the statutory interest).

On March 31, 2021, the parties stipulated to the amount of SDCWA's attorneys' fees that may be awarded under the Exchange Agreement, without waiver of Metropolitan's pending appeals. On April 6, 2021, the court entered the stipulated order awarding SDCWA \$13,397,575.66 in attorneys' fees under the Exchange Agreement.

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.

On April 13, 2016, SDCWA filed a new lawsuit that alleged 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 asserted 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 cases' appeals. The amended petition/complaint added 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; requested 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.

On February 27, 2020, the SDCWA Board of Directors authorized its attorneys to dismiss, without prejudice, claims related to payments of the Water Stewardship Rate on supply purchases only and the unquantified claims in the stayed cases relating to cost-of-service grounds and the rate model.

On August 27, 2020, the court granted SDCWA's motion to lift the stays in the 2014 and 2016 cases and to file a further amended petition/complaint. On August 28, 2020, SDCWA filed the amended petitions/complaints in the 2014 and 2016 cases. The amended petitions/complaints added, removed, and retained certain claims. Retained claims include SDCWA's challenge to Metropolitan's Water Stewardship Rate for calendar years 2015 through 2018

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based on its allocation to transportation, with a request for the court to invalidate the transportation rates and the wheeling rate and award damages for breach of the parties' Exchange Agreement as a result. Added claims include a challenge to the wheeling rate and alleged breach of the Exchange Agreement for failure to provide offsetting benefits (only the 2018 case, discussed below, had included an offsetting benefits claim). In its offsetting benefits claim under the Exchange Agreement, SDCWA seeks to reduce the contract price.

On September 28, 2020, Metropolitan filed demurrers to, or in the alternative motions to strike, portions of the amended petitions/complaints in the 2014 and 2016 cases which the court heard on February 10, 2021. The motions sought to remove offsetting benefits claims in both cases as to alleged breach of contract and Metropolitan's wheeling rate, and the declaratory relief claim in the 2016 case as to how Metropolitan may satisfy a judgment. On February 16, 2021, the court denied the demurrers and motions to strike, allowing SDCWA to retain the contested allegations in its petitions/complaints.

On March 22, 2021, Metropolitan filed answers to the amended petitions/complaints in the 2014 and 2016 cases, along with cross-complaints asserting causes of action for declaratory relief with respect to, among other things, that the inclusion of the Water Stewardship Rate in transportation rates is lawful, that the transportation rates as charged under the Exchange Agreement are lawful as to offsetting benefits, and the inapplicability of Proposition 26 to Metropolitan's rates; judicial estoppel with respect to SDCWA's past statements regarding the Exchange Agreement; and for reformation of the Exchange Agreement price in the event the court were to find that the Exchange Agreement is subject to, based on, or incorporates the "offsetting benefits" provisions of the wheeling statutes. On April 23, 2021, SDCWA filed answers to the cross-complaints in the 2014 and 2016 cases.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve 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 alleged the 2018 Readiness-to-Serve Charge and Capacity Charge violated 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 for Writ of Mandate and Complaint to add Metropolitan's Board action of July 11, 2017 to make minor corrections to the Readiness-to-Serve Charge. On July 31, 2018, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. On July 23, 2020, the court entered SDCWA's requested dismissal of the 2017 case. The dismissal is without prejudice, which means SDCWA would not be precluded from re-initiating the case in the future.

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 asserted 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

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the court ordered the case stayed pending final resolution of the 2010 and 2012 cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement alleging Metropolitan charged 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.

On July 28, 2020, the parties filed a stipulation and application to designate the case complex and related to the 2010-2017 cases. On November 13, 2020, the court ordered the case complex and assigned to Judge Massullo's court.

On April 20, 2021, based on the parties' stipulation, the court ordered the stay in the 2018 case lifted and granted SDCWA leave to file an amended petition/complaint. On April 21, 2021, SDCWA filed its Second Amended Petition for Writ of Mandate and Complaint in the 2018 case. SDCWA removed claims in this amended petition/complaint comparably to those it removed in the 2014 and 2016 cases. The amended petition/complaint retains claims concerning the Water Stewardship Rate's inclusion in the wheeling rate and the Exchange Agreement price (notwithstanding that Metropolitan ceased charging the Water Stewardship Rate under the Exchange Agreement in January 2018), the inclusion of California WaterFix costs in the wheeling rate and the Exchange Agreement price, and offsetting benefits with respect to the wheeling rate and the Exchange Agreement price.

On May 25, 2021, Metropolitan filed a motion to strike portions of the amended petition/complaint in the 2018 case. The motion sought to remove allegations regarding: the pre-set wheeling rate, recovery of suspending Water Stewardship Rate charges, and breach of contract as to the Water Stewardship Rate. See Note 16, Subsequent Events for updates.

Eight member agencies are real party in interest defendants in the 2014, 2016, and 2018 cases, in support of Metropolitan. In a Case Management Conference on April 22, 2021, the court stated the 2014, 2016, and 2018 cases will be consolidated and set a trial date in the cases for May 16 through 27, 2022. On June 11, 2021, Metropolitan lodged the administrative record for the three cases. See Note 16, Subsequent Events for updates.

Due to SDCWA's litigation challenging Metropolitan's rates, and pursuant to the Exchange Agreement between Metropolitan and SDCWA, as of June 30, 2021, Metropolitan held \$26.5 million in the Exchange Agreement Set-Aside Fund. This amount includes the disputed Water Stewardship Rate payments for calendar years 2015 through 2017, and interest earned by Metropolitan thereon. The amount held does not include statutory interest, attorneys' fees, costs, or any other amount the court may award.

Metropolitan is unable to assess at this time the likelihood of success of the pending cases, any possible appeals other than those that are pending, or any future claims.



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**(h) 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. The estimated cost of implementing ozone treatment at all five plants is approximately \$1.1 billion.

**(i) 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 SWP 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.

**(j) 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 \$24,000 was expended for post closure maintenance and monitoring activities in fiscal year 2021 while no amounts were expended in fiscal year 2020.

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. At June 30, 2021 and 2020, approximately \$800,000, net of interest receipts and disbursements, was available in this account.

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**10. 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 9a). 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 33 percent and 35 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2021 and 2020, respectively, pertained to its net payment obligations for the SWP. 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.

The State Water Contract provides Metropolitan rights to water through 2052 but Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2085, under similar terms, based on the Agreement in Principle reached in 2014. 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 operating costs of the power facilities regardless of the amount of power generated.

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1i, 2, and 9a). 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 maximum annual contracted deliveries provided by the State of California. Amortization expense totaled \$148.0 million and \$142.7 million in fiscal years 2021 and 2020, respectively.

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**II. DEPOSITS, PREPAID COSTS, AND OTHER**

Balances at June 30, 2021 and 2020 were as follows:

(Dollars in thousands)	June 30,	
	2021	2020
Prepaid water costs	\$ 246,801	\$ 234,768
Prepaid costs-Delta Habitat conservation and conveyance	58,627	58,627
Prepaid costs-Delta Conveyance Project	25,000	—
Prepaid costs-California WaterFix	7,494	7,494
Prepaid expenses	27,418	23,583
Preliminary design/reimbursable projects	20,215	15,693
Other	18,614	16,945
Total deposits, prepaid costs, and other	404,169	357,110
Less current portion	(49,550)	(2,782)
Noncurrent portion	\$ 354,619	\$ 354,328

**(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 SWP 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 June 30, 2021 and 2020, prepaid water costs totaled approximately \$246.8 million and \$234.8 million, respectively, based on volumes of 1,044.8 TAF and 1,114.0 TAF, as of such dates.

**(b) Prepaid Costs—Delta Habitat Conservation and Conveyance**

In March 2009, Metropolitan, other SWP 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 9b) through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. The two-tunnel California WaterFix project shifted to a single tunnel project referred to as the Delta Conveyance Project with the announcement of Governor Newsom on February 12, 2019. Total prepaid costs at June 30, 2021 and 2020 were \$58.6 million.



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The Board approved a 47.2 percent funding commitment for planning and pre-construction costs for the Delta Conveyance Project on December 18, 2020. As a result, Metropolitan remitted \$25.0 million to DWR on January 15, 2021. Total prepaid costs for the Delta Conveyance Project as of June 30, 2021 was \$25.0 million.

**(c) Prepaid Costs—California WaterFix**

In fiscal year 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 was Metropolitan's share (31 percent) of the funding and DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions. However, as a result of the shift to a single tunnel project and DWR's withdrawal of approval of the California WaterFix Project as well as the rescission of other permitting applications (see Note 9b), Metropolitan has requested, on June 27, 2019, that DWR return its contributions that have not been spent as of May 2, 2019. As of June 30, 2021 and 2020, DWR has remitted \$34.0 million of unspent funds and \$.5 million of interest. Total advanced funds at June 30, 2021 and 2020 were \$7.5 million.

**(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.

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**12. 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 June 30, 2021 and 2020, 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. At June 30, 2021 and 2020, 1,670 and 1,641 employees, respectively, participated in the consolidated 401(k) plan. 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.

Contributions to the savings plan were as follows:

(Dollars in thousands)	June 30,	
	2021	2020
Employees	\$ 22,892	\$ 21,846
Metropolitan	10,271	9,606
	<b>\$ 33,163</b>	<b>\$ 31,452</b>
Eligible payroll	\$ 256,585	\$ 246,443
Employee contributions as percent of eligible payroll	8.9 %	8.9 %

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**13. NET POSITION**

Net position is classified as either 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 SWP costs include plant and equipment (Notes 1h and 2), participation rights in State Water Project (Notes 1i, 2, and 10), and participation rights in other facilities (Notes 1i, 2 and 4). Net investment in capital assets, including State Water Project costs were approximately \$6.1 billion at June 30, 2021 and 2020.

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 \$532.7 million and \$509.0 million at June 30, 2021 and 2020, respectively, of which \$221.6 million and \$232.4 million, respectively, were set-aside for principal and interest payments on outstanding debt. The remaining \$311.1 million and \$276.6 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year. 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 \$520.2 million and \$308.9 million at June 30, 2021 and 2020, respectively.

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**14. 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 2021 were unchanged from fiscal year 2020. 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 (IBNR). 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. Changes in the balances of claims liabilities during the past three fiscal years were included in accounts payable as follows:

(Dollars in thousands)	June 30,		
	2021	2020	2019
Unpaid claims, beginning of fiscal year	\$ 13,602	\$ 12,958	\$ 13,579
Incurred claims (including IBNR)	7,106	5,545	5,835
Claim payments and adjustments	(10,419)	(4,901)	(6,456)
Unpaid claims, end of fiscal year	10,289	13,602	12,958
Less current portion	(4,792)	(4,122)	(3,284)
Noncurrent portion	\$ 5,497	\$ 9,480	\$ 9,674

**NOTES TO BASIC FINANCIAL STATEMENTS****(CONTINUED)**

June 30, 2021 and 2020

**15. COVID-19 PANDEMIC**

Metropolitan continues to monitor and respond to the COVID-19 pandemic and ongoing developments surrounding it. Due to the COVID-19 pandemic and measures taken by state and local governments to respond to and control the outbreak, the behavior of businesses and people has been altered in a manner that has significantly slowed economic output throughout the United States, the State and the region. Reduced economic activity and its associated impacts, including as a result of the COVID-19 outbreak itself, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any prolonged recession that may occur, could have a variety of adverse effects on Metropolitan and in the region. Declines in assessed valuations in Metropolitan's service area and/or increases in property tax delinquencies or non-payment resulting from the economic disruption may negatively affect property tax collections and reduce tax levy receipts.

Economic conditions affect aggregate levels of retail water use and may reduce demands in the region and Metropolitan's water transactions and revenues. A protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation of, Metropolitan's capital improvement programs and projects, and may increase the costs of such projects or program or Metropolitan's operations. A sustained deterioration in global stock market values may impact the market value of assets held to fund Metropolitan's pension and other post-employment benefit plans, which could result in future increases in required plan contributions. The extent and period of disruption to or decline in the local and global economies, the effectiveness of and ability to reach wide spread distribution of vaccines and the period of time therefor, the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the effects of the pandemic, including additional stimulus efforts by the federal government, and the pace at which the economy can re-open and the speed of the economic recovery are uncertain, and no assurances can be given that Metropolitan's operations and finances will not be negatively affected.

**16. SUBSEQUENT EVENT****SDCWA v. Metropolitan Cases**

On July 14, 2021, the court heard Metropolitan's motion to strike portions of the amended petition/complaint in the 2018 case and on July 19, 2021, the court denied the motion to strike, allowing SDCWA to retain the contested allegations in its petition/complaint.

On July 29, 2021, Metropolitan filed an answer to the amended petition/complaint in the 2018 case, along with a cross-complaint asserting similar causes of action to those in its cross-complaints in the 2014 and 2016 cases. On August 31, 2021, SDCWA filed an answer to the cross-complaint.

On August 25, 2021 the court entered an order consolidating the 2014, 2016, and 2018 cases for all purposes including trial. On August 31, 2021, SDCWA filed a consolidated answer to the cross-complaint in the three cases.

Metropolitan filed a notice of appeal of the judgment and the writ in the 2010 and 2012 cases on September 11, 2020. Metropolitan's appeal concerned the form of the judgment and the issuance of the writ. Following briefing and oral argument, on September 21, 2021, the California Court of Appeal issued an unpublished opinion affirming the post-remand judgment and peremptory writ of mandate issued by the Superior Court in August 2020 in the 2010 and 2012 cases. The Court of Appeal held: (1) its 2017 decision invalidating allocation of Water Stewardship Rate (WSR) costs to transportation in the Exchange Agreement price and the wheeling rate applied not only to 2011 to 2014, but also

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to 2015 forward; (2) no relief is required to cure the judgment's omission of the court's 2017 decision that allocation of State Water Project costs to transportation is lawful; and (3) the writ is proper and applies to 2015 forward. Accordingly, on September 30, 2021, Metropolitan paid SDCWA for WSR charges under the Exchange Agreement in 2015 to 2017 and pre-judgment statutory interest in the amount of \$35,871,153.70. This payment was made from the Exchange Agreement Set-Aside Fund (the WSR charges and a portion of statutory interest) and unrestricted reserves (the remainder of statutory interest). SDCWA's pending claims in the 2014 and 2016 cases with respect to these WSR charges will be dismissed.

On October 12, 2021, the Board authorized a settlement of OHL USA, Inc. v. The Metropolitan Water District of Southern California case. Accordingly, a settlement agreement is being drawn up for approval of each party. The case is anticipated to be settled in the latter part of October 2021.

**Short-term and Long-term Debt**

On July 8, 2021, Metropolitan issued \$98.4 million, Water Revenue Refunding Bonds, 2021 Series B, which refunded \$89.4 million, Water Revenue Refunding Bonds, 2011 Series C; \$2.8 million, Water Revenue Refunding Bonds, 2014 Series C-3; and pre-paid \$35.6 million of a draw on a Short-Term Revolving Credit Facility provided by Royal Bank of Canada. The 2021 Series B bonds have a true interest cost of 0.85%, mature on October 1, 2036, and are subject to optional redemption provisions.

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**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

(Dollars in thousands)	2021	2020
Measurement date: June 30,	2020	2019
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 37,178	\$ 35,739
Interest on total pension liability	174,996	168,122
Changes of assumptions	—	—
Difference between expected and actual experience	13,319	16,205
Benefit payments, including refunds of employee contributions	(125,982)	(117,537)
Net change in total pension liability	99,511	102,529
Total pension liability - beginning	2,479,307	2,376,778
<b>Total pension liability - ending (a)</b>	<b>\$ 2,578,818</b>	<b>\$ 2,479,307</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contribution - Employer	\$ 66,091	\$ 56,497
Contribution - Employee	16,230	15,631
Net investment income <sup>(1)</sup>	90,131	114,220
Benefit payments, including refunds of employee contributions	(125,982)	(117,537)
Net plan to plan resource management	—	—
Administrative expense	(2,551)	(1,244)
Other miscellaneous income/(expense) <sup>(2)</sup>	—	4
Net change in fiduciary net position	43,919	67,571
Plan fiduciary net position - beginning <sup>(3)</sup>	1,810,312	1,742,741
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 1,854,231</b>	<b>\$ 1,810,312</b>
<b>Plan net pension liability - ending (a) - (b)</b>	<b>\$ 724,587</b>	<b>\$ 668,995</b>
Plan fiduciary net position as a percentage of the total pension liability	71.90 %	73.02 %
Covered payroll	\$ 225,707	\$ 212,558
Plan net pension liability as a percentage of covered payroll	321.03 %	314.74 %

<sup>(1)</sup>2015 amount was net of administrative expenses of \$1,972.

<sup>(2)</sup>During Fiscal Year 2017-18, as a result of GASB 75, CalPERS reported its proportionate share of activity related to post-employment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB 68.

<sup>(3)</sup>Includes any beginning of year adjustment.

<sup>(4)</sup>GASB 68 requires ten years of information be presented but only seven years are available at this time. Additional years' information will be displayed as it becomes available.

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	2019	2018	2017	2016	2015 <sup>(4)</sup>
	2018	2017	2016	2015	2014
\$	33,583	\$ 33,685	\$ 29,142	\$ 28,890	\$ 28,505
	161,023	156,661	152,500	146,852	139,190
	(15,391)	125,734	—	(35,008)	—
	(10,039)	(15,804)	(12,754)	14,665	—
	(107,646)	(100,092)	(92,401)	(86,154)	(81,391)
	61,530	200,184	76,487	69,245	86,304
	2,315,248	2,115,064	2,038,577	1,969,332	1,883,028
<b>\$</b>	<b>2,376,778</b>	<b>\$ 2,315,248</b>	<b>\$ 2,115,064</b>	<b>\$ 2,038,577</b>	<b>\$ 1,969,332</b>
\$	48,780	\$ 42,819	\$ 38,393	\$ 34,306	\$ 33,853
	15,749	14,895	15,034	14,787	15,185
	139,003	171,562	8,304	35,301	236,746
	(107,646)	(100,092)	(92,401)	(86,154)	(81,391)
	(4)	—	—	—	—
	(2,577)	(2,255)	(950)	(1,756)	—
	(4,895)	—	—	—	—
	88,410	126,929	(31,620)	(3,516)	204,393
	1,654,331	1,527,402	1,559,022	1,562,538	1,358,145
<b>\$</b>	<b>1,742,741</b>	<b>\$ 1,654,331</b>	<b>\$ 1,527,402</b>	<b>\$ 1,559,022</b>	<b>\$ 1,562,538</b>
<b>\$</b>	<b>634,037</b>	<b>\$ 660,917</b>	<b>\$ 587,662</b>	<b>\$ 479,555</b>	<b>\$ 406,794</b>
	73.32 %	71.45 %	72.22 %	76.48 %	79.34 %
\$	204,635	\$ 199,186	\$ 195,878	\$ 190,423	\$ 186,850
	309.84 %	331.81 %	300.01 %	251.84 %	217.71 %



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**NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Benefit Changes: The figures above include any liability impact that may have resulted from voluntary benefit changes that occurred after June 30, 2019 valuation date. However, offers of Two Years Additional Service Credit that occurred after June 30, 2019 valuation date are not included in the figure above, unless the liability impact is deemed to be material by the plan actuary.

Changes of Assumptions: There were no changes of assumptions for the 2016, 2019 or 2020 measurement dates. For the 2018 measurement date, demographic assumptions and inflation rate were changed in accordance with CalPERS experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. For the 2017 measurement date, the discount rate was reduced from 7.65 percent to 7.15 percent. For the 2015 measurement date, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). For the 2014 measurement date, amounts reported were based on the 7.5 percent discount rate.

**SCHEDULE OF PENSION CONTRIBUTIONS**

(Dollars in thousands)	2021	2020	2019	2018	2017	2016	2015 <sup>(1)</sup>
Actuarially determined contribution	\$ 74,339	\$ 66,091	\$ 56,497	\$ 48,780	\$ 42,819	\$ 38,393	\$ 34,306
Contributions in relation to the actuarially determined contribution	(74,339)	(66,091)	(56,497)	(48,780)	(42,819)	(38,393)	(34,306)
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 235,294	\$ 225,707	\$ 212,558	\$ 204,635	\$ 199,186	\$ 195,878	\$ 190,423
<b>Contributions as a percentage of covered payroll</b>	<b>31.6 %</b>	<b>29.3 %</b>	<b>26.6 %</b>	<b>15.4 %</b>	<b>21.5 %</b>	<b>19.6 %</b>	<b>18.02 %</b>

<sup>(1)</sup>GASB 68 requires ten years of information be presented but only seven years are available at this time. Additional years' information will be displayed as it becomes available.

See accompanying independent auditors' report

**NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS**

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2021:

Valuation date: June 30, 2018

Actuarial Cost Method	Entry age, level percentage of payroll
Amortization Method/Period	Level percentage of payroll over 20 year period
Asset Valuation Method	Investment gains/losses amortized over a fixed 30-year period spread directly over 5 years.
Discount rate	7.00%
Inflation	2.50%
Mortality, disability, termination, retirement	CalPERS 1997-2015 Experience Study
Mortality improvement	15 years of mortality projection using 90% of Scale MP 2016 from the Society of Actuaries

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**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**

(Dollars in thousands)	2021	2020	2019	2018 <sup>(1)</sup>
Measurement Date: June 30,	2020	2019	2018	2017
<b>TOTAL OPEB LIABILITY</b>				
Service cost	\$ 11,061	\$ 10,635	\$ 10,325	\$ 10,024
Interest	29,322	31,600	30,252	28,951
Changes of assumptions	—	(4,217)	—	—
Difference between expected and actual experience	—	(50,116)	—	—
Benefit payments	(22,849)	(21,328)	(20,487)	(19,525)
Net change in total OPEB liability	17,534	(33,426)	20,090	19,450
Total OPEB liability - beginning	434,759	468,185	448,095	428,645
<b>Total OPEB liability - ending (a)</b>	<b>\$ 452,293</b>	<b>\$ 434,759</b>	<b>\$ 468,185</b>	<b>\$ 448,095</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contribution - employer	\$ 33,506	\$ 32,067	\$ 34,674	\$ 33,646
Net investment income	10,276	16,240	18,538	20,792
Benefit payments	(22,849)	(21,328)	(20,487)	(19,525)
Administrative expense	(144)	(57)	(400)	(107)
Net change in fiduciary net position	20,789	26,922	32,325	34,806
Plan fiduciary net position - beginning	266,773	239,851	207,526	172,720
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 287,562</b>	<b>\$ 266,773</b>	<b>\$ 239,851</b>	<b>\$ 207,526</b>
<b>Plan net OPEB liability - ending (a) - (b)</b>	<b>\$ 164,731</b>	<b>\$ 167,986</b>	<b>\$ 228,334</b>	<b>\$ 240,569</b>
Plan fiduciary net position as a percentage of the total OPEB liability	63.58 %	61.36 %	51.23 %	46.31 %
Covered payroll	\$ 225,707	\$ 212,558	\$ 204,635	\$ 199,186
Plan net OPEB liability as a percentage of covered payroll	72.98 %	79.03 %	111.58 %	120.78 %

<sup>(1)</sup>Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

See accompanying independent auditors' report

**NOTES TO SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**

Benefit Changes: There were no benefit changes for the June 30, 2017 through 2020 measurement dates.

Changes of Assumptions: For the June 30, 2019 measurement date, demographic assumptions were updated to CalPERS 1997-2015 experience study and mortality improvement scale was updated to Scale MP-2019. There were no changes of assumptions for the June 30, 2020, 2018 or 2017 measurement dates.

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**SCHEDULE OF OPEB CONTRIBUTIONS**

(Dollars in thousands)	2021	2020	2019	2018 <sup>(1)</sup>
Actuarially determined contribution	\$ 23,217	\$ 28,148	\$ 27,328	\$ 30,086
Contributions in relation to the actuarially determined contribution	<b>(27,025)</b>	(33,506)	(32,067)	(34,674)
Contribution deficiency (excess)	<b>\$ (3,808)</b>	\$ (5,358)	\$ (4,739)	\$ (4,588)
Covered payroll	<b>\$ 235,294</b>	\$ 225,707	\$ 212,558	\$ 204,635
<b>Contributions as a percentage of covered payroll</b>	<b>11.49 %</b>	14.84 %	15.09 %	16.94 %

<sup>(1)</sup>Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

See accompanying independent auditors' report

**NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS**

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2021 were from the June 30, 2019 actuarial valuation:

Actuarial Cost Method	Entry age, level percentage of payroll
Amortization Method/Period	Level percentage of payroll over 23 year closed period (17 years remaining on measurement date 6/30/20).
Asset Valuation Method	Investment gains/losses spread over 5 year rolling period with corridor of 80% and 120% of fair value
Discount rate	6.75%
Inflation	2.75%
Mortality, disability, termination, retirement	CalPERS 1997-2015 Experience Study
Medical trend	Pre-Medicare - 7.25% for 2021, decreasing to 4.0% for 2076 and later Medicare - 6.3% for 2021, decreasing to 4.0% for 2076 and later
Mortality improvement	Mortality projected fully generational with Scale MP-2019.

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## **FIDUCIARY FUND DESCRIPTIONS**

### **PRIVATE PURPOSE TRUST FUNDS**

#### **Colorado River Authority**

The Colorado River Authority is a separate governmental entity composed of Southern California public agencies formed in 2007 for the purpose of engaging in the study, research and information dissemination among the people of California and representatives of Congress and the State Legislature relative to California's rights to water and other resources from the Colorado River. By means of a Joint Powers Agreement, Metropolitan acts as the trustee for the funds furnished by the public agencies in support of the Colorado River Authority. The Joint Powers Agreement specifies that such moneys will be placed in a special account designated "Colorado River Joint Powers Authority Account" and disbursements from are to be made by Metropolitan in accordance with the agreement.

#### **Delta Conveyance Finance Authority**

The Delta Conveyance Finance Authority (Finance Authority) was created on July 3, 2018 through a Joint Powers Authority, whose members consist of water agencies (member agencies) that contract with the Department of Water Resources (DWR) for the purchase of water. The Finance Authority's original purpose was to assist DWR and member agency participants to finance all or a portion of the two-tunnel California WaterFix (CWF) project. At the direction of Governor Newsom, the CWF project was shifted towards a single tunnel Delta Conveyance Project (Project). The Finance Authority may still assist in the financing of the Project after the completion of the environmental review under the California Environmental Quality Act and National Environmental Policy Act and other permitting activities, which is expected in mid-2024. The Finance Authority's operation is supported by the collection of contributions from its member agencies. Their funds are deposited in Metropolitan's cash and investment pool and disbursed in accordance with the Treasury and Accounting agreement between the Finance Authority and Metropolitan.

#### **Six Agency Committee**

The Six Agency Committee's (Committee) is a member group composed of a member and an alternate member appointed by each of the governing bodies of the six major California public agencies with Colorado River rights and interests. The Committee was created by a Joint Powers Agreement, executed on January 5, 1950 and subsequently amended, to administer funds contributed by the Agencies for purposes that tend to secure their rights in and to the waters of the Colorado River system. In accordance with the purposes of the Joint Powers Agreement, the Committee provides monetary support to the Board in furtherance of its work in safeguarding the Agencies' rights and promoting their interests in and to the water of the Colorado River. Terms and conditions for support of the Colorado River Board are set forth in an annual agreement between the Committee and the Colorado River Board. Funds advanced by the Agencies in accordance with the annual agreement are deposited with Metropolitan, who holds the responsibility to serve as trustee over such funds. Upon completion of the Committee, any funds remaining with the Committee will be ratably refunded to the contributing Agencies.

**FIDUCIARY FUND DESCRIPTIONS (CONTINUED)**

**CUSTODIAL FUNDS**

**Diamond Valley Lake Multi Species Reserve Fund**

The Diamond Valley Lake Multi Species Reserve Fund was created under a Cooperative Management Agreement executed by Metropolitan, the California Department of Fish & Wildlife, the United States Fish & Wildlife service, the Riverside County Habitat Conservation Agency, the Riverside County Regional Park and Open Space District, the County of Riverside, and the Riverside County Park Facilities Corporation for impacts related to Metropolitan's construction of the Diamond Valley Lake reservoir. The Cooperative Management Agreement provides for the acquisition, management, operation and maintenance of certain lands located in the southwestern portion of Riverside County in conformance with and to fulfill the requirements of the Southwestern Riverside Multi-Species Habitat Conservation Plan. The Southwestern Riverside Multi-Species Reserve initially comprised land owned by Metropolitan and the Riverside County Park Facilities Corporation, and now includes Riverside County Habitat Agency and United States Bureau of Land Management property. In accordance with the Cooperative Management Agreement, funds are deposited in Metropolitan's cash and investment pool and disbursements of funds are made by Metropolitan in accordance with the agreement. The balances reported in the Diamond Valley Lake Multi Species Reserve Fund in Metropolitan's fiduciary fund statements exclude Metropolitan's share based on the percentage of Metropolitan owned land in the Multi Species Reserve and do not reflect the balance of funds available for its management

**Water Utility Climate Alliance Membership**

The Water Utility Climate Alliance (WUCA) is an association of water utility agencies formed with a mission to provide leadership and collaboration on climate change issues affecting water agencies across the United States. The organization comprises 12 of the nation's largest water providers, including Metropolitan, who agreed to contribute funds to finance WUCA approved expenditures through a Fiscal Agent Agreement. In accordance with the Fiscal Agent Agreement, Metropolitan was designated as the Fiscal Agent for the contributions made by member agencies and the funds are deposited in Metropolitan's interest-bearing cash and investment accounts. Disbursement of funds from the available WUCA resources are made by Metropolitan in accordance with the Fiscal Agent Agreement. The balances reported in the WUCA fund in Metropolitan's fiduciary fund statements exclude Metropolitan's share of contributions and do not reflect the balance of funds available for WUCA.

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**COMBINING STATEMENTS OF FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS**

	June 30, 2021				Total Private Purpose Trust Funds
(Dollars in thousands)	<b>Colorado River Association</b>	<b>Delta Conveyance Finance Authority</b>	<b>Six Agency Committee</b>		
<b>Assets</b>					
Restricted pooled cash and investments, at fair value (Notes 1d and 3):	\$ 500	\$ 559	\$ 2,118	\$	<b>3,177</b>
Interest receivable	—	—	—		—
Total assets	\$ 500	\$ 559	\$ 2,118	\$	<b>3,177</b>
 <b>Liabilities</b>					
Accounts payable and accrued expenses	\$ —	\$ 7	\$ 65	\$	<b>72</b>
Total liabilities	—	7	65		<b>72</b>
 <b>Net Position</b>					
Restricted for organizations and other governments	500	552	2,053		<b>3,105</b>
Total Liabilities and Net Position	\$ 500	\$ 559	\$ 2,118	\$	<b>3,177</b>

See accompanying Independent Auditors' Report.

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**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF FIDUCIARY NET POSITION**  
**PRIVATE PURPOSE TRUST FUNDS (CONTINUED)**

	June 30, 2020			
(Dollars in thousands)	<b>Colorado River Association</b>	<b>Delta Conveyance Finance Authority</b>	<b>Six Agency Committee</b>	<b>Total Private Purpose Trust Funds</b>
<b>Assets</b>				
Restricted pooled cash and investments, at fair value (Notes 1d and 3):	\$ 501	\$ 621	\$ 2,179	\$ 3,301
Interest receivable	—	1	—	1
Total assets	\$ 501	\$ 622	\$ 2,179	\$ 3,302
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ —	\$ 5	\$ 32	\$ 37
Total liabilities	—	5	32	37
<b>Net Position</b>				
Restricted for organizations and other governments	501	617	2,147	3,265
Total Liabilities and Net Position	\$ 501	\$ 622	\$ 2,179	\$ 3,302

See accompanying Independent Auditors' Report.



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF CHANGES IN  
FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS**

	Fiscal Year Ended June 30, 2021			
(Dollars in thousands)	Colorado River Association	Delta Conveyance Finance Authority	Six Agency Committee	Total Private Purpose Trust Funds
<b>Additions</b>				
Contributions from participating agencies	\$ —	\$ —	\$ 2,307	\$ 2,307
Return of unspent funds	—	—	189	189
Interest	—	7	—	7
Total additions	—	7	2,496	2,503
<b>Deductions</b>				
Support payments to the Colorado River Board	—	—	2,200	2,200
Expensed equipment	—	—	8	8
Computer systems and software	—	—	12	12
Administrative expenses	1	—	1	2
Support payments for Colorado River system augmentation and conservation	—	—	309	309
Professional services	—	72	60	132
Total deductions	1	72	2,590	2,663
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	<b>(1)</b>	<b>(65)</b>	<b>(94)</b>	<b>(160)</b>
Net position, Beginning of Year	501	617	2,147	3,265
<b>Net position, End of Year</b>	<b>\$ 500</b>	<b>\$ 552</b>	<b>\$ 2,053</b>	<b>\$ 3,105</b>

See accompanying Independent Auditors' Report.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF CHANGES IN  
FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS (CONTINUED)**

	Fiscal Year Ended June 30, 2020			
(Dollars in thousands)	<b>Colorado River Association</b>	<b>Delta Conveyance Finance Authority</b>	<b>Six Agency Committee</b>	<b>Total Private Purpose Trust Funds</b>
<b>Additions</b>				
Contributions from participating agencies	\$ —	\$ 550	\$ 2,181	\$ 2,731
Return of unspent funds	—	—	376	376
Interest	—	12	—	12
Total additions	—	562	2,557	3,119
<b>Deductions</b>				
Support payments to the Colorado River Board	—	—	2,150	2,150
Expensed equipment	—	—	—	—
Computer systems and software	—	—	—	—
Administrative expenses	1	—	—	1
Support payments for Colorado River system augmentation and conservation	—	—	453	453
Professional services	—	172	62	234
Total deductions	1	172	2,665	2,838
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	(1)	390	(108)	281
Net position, Beginning of Year	502	227	2,255	2,984
<b>Net position, End of Year</b>	\$ 501	\$ 617	\$ 2,147	\$ 3,265

See accompanying Independent Auditors' Report.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF FIDUCIARY NET POSITION  
CUSTODIAL FUNDS**

	Fiscal Year Ended June 30, 2021		
	<b>Diamond Valley Lake Multi Species Reserve Fund</b>	<b>Water Utility Climate Alliance Membership</b>	<b>Total Custodial Funds</b>
(Dollars in thousands)			
<b>Assets</b>			
Restricted pooled cash and investments, at fair value (Notes 1d and 3):	\$ 2,095	\$ 440	\$ 2,535
Interest receivable	1	—	1
Total assets	\$ 2,096	\$ 440	\$ 2,536
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ —	\$ 55	\$ 55
Due to other governments	27	—	27
Total liabilities	27	55	82
<b>Net Position</b>			
Restricted for organizations and other governments	2,069	385	2,454
Total Liabilities and Net Position	\$ 2,096	\$ 440	\$ 2,536

See accompanying Independent Auditors' Report.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF FIDUCIARY NET POSITION  
CUSTODIAL FUNDS (CONTINUED)**

	Fiscal Year Ended June 30, 2020		
	Diamond Valley Lake Multi Species Reserve Fund	Water Utility Climate Alliance Membership	Total Custodial Funds
(Dollars in thousands)			
<b>Assets</b>			
Restricted pooled cash and investments, at fair value (Notes 1d and 3):	\$ 2,124	\$ 427	\$ 2,551
Interest receivable	3	1	4
Total assets	\$ 2,127	\$ 428	\$ 2,555
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ —	\$ 120	\$ 120
Due to other governments	32	—	32
Total liabilities	32	120	152
<b>Net Position</b>			
Restricted for organizations and other governments	2,095	308	2,403
Total Liabilities and Net Position	\$ 2,127	\$ 428	\$ 2,555

See accompanying Independent Auditors' Report.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF CHANGES IN  
FIDUCIARY NET POSITION  
CUSTODIAL FUNDS**

	Fiscal Year Ended June 30, 2021		
(Dollars in thousands)	<b>Diamond Valley Lake Multi Species Reserve Fund</b>	<b>Water Utility Climate Alliance Membership</b>	<b>Total Custodial Funds</b>
<b>Additions</b>			
Contributions from participating agencies	\$ 44	\$ 233	\$ 277
Interest	24	5	29
Total additions	68	238	306
 <b>Deductions</b>			
Travel, training and conferences	—	—	—
Payments to other governments for conservation	94	—	94
Professional services	—	161	161
Total deductions	94	161	255
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	(26)	77	51
Net position, Beginning of Year	2,095	308	2,403
<b>Net position, End of Year</b>	\$ 2,069	\$ 385	\$ 2,454

See accompanying Independent Auditors' Report.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
**SUPPLEMENTAL INFORMATION—UNAUDITED**  
**(CONTINUED)**  
June 30, 2021 and 2020

**COMBINING STATEMENTS OF CHANGES IN  
FIDUCIARY NET POSITION  
CUSTODIAL FUNDS (CONTINUED)**

	Fiscal Year Ended June 30, 2020		
(Dollars in thousands)	Diamond Valley Lake Multi Species Reserve Fund	Water Utility Climate Alliance Membership	Total Custodial Funds
<b>Additions</b>			
Contributions from participating agencies	\$ 44	\$ 449	\$ 493
Interest	45	7	52
Total additions	89	456	545
<b>Deductions</b>			
Travel, training and conferences	—	23	23
Payments to other governments for conservation	77	—	77
Professional services	—	314	314
Total deductions	77	337	414
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	12	119	131
Net position, Beginning of Year	2,083	189	2,272
<b>Net position, End of Year</b>	\$ 2,095	\$ 308	\$ 2,403

See accompanying Independent Auditors' Report.



## STATISTICAL SECTION

This part of Metropolitan’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Metropolitan’s overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	120
<i>These schedules contain trend information to help the reader understand how Metropolitan’s financial performance and well-being have changed over time.</i>	
Revenue Capacity	122
<i>These schedules contain information to help the reader assess Metropolitan’s most significant own-source revenue, water sales. Schedules with information about Metropolitan’s property taxes are presented as well.</i>	
Debt Capacity	128
<i>These schedules present information to help the reader assess the affordability of Metropolitan’s current levels of outstanding debt and Metropolitan’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information	132
<i>These schedules offer demographic indicators to help the reader understand the environment within which Metropolitan’s financial activities take place.</i>	
Operating Information	134
<i>These schedules contain service and infrastructure data to help the reader understand how the information in Metropolitan’s financial report relates to the service Metropolitan provides.</i>	

Sources: Unless otherwise noted, the information in these schedules was derived from the comprehensive annual financial report for the relevant year.





## The Metropolitan Water District of Southern California

### Table 1

**Ten-Year Summary of Net Position by Component (Unaudited)-Accrual Basis <sup>(1)</sup>**  
(Dollars in millions)

	Fiscal Year Ended June 30,									
	2021	2020 <sup>(6)</sup>	2019	2018 <sup>(2), (3)</sup>	2017 <sup>(3)</sup>	2016	2015 <sup>(4)</sup>	2014	2013 <sup>(5)</sup>	2012 <sup>(5)</sup>
	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted
Net investment in capital assets, including State Water Project costs	\$ 6,141.5	\$ 6,121.6	\$ 6,131.6	\$ 5,968.8	\$ 6,067.0	\$ 5,772.4	\$ 5,572.5	\$ 5,593.0	\$ 5,399.5	\$ 5,293.3
Restricted for:										
Debt service	221.6	232.4	180.7	201.4	224.6	199.5	263.2	171.6	205.2	195.5
Other expenses	311.1	276.6	237.9	206.2	182.4	183.3	178.8	147.7	170.1	174.9
Unrestricted	520.2	308.9	286.0	310.1	283.7	528.6	867.2	1,288.7	1,025.4	763.4
<b>Total Net Position</b>	<b>\$ 7,194.4</b>	<b>\$ 6,939.5</b>	<b>\$ 6,836.2</b>	<b>\$ 6,686.5</b>	<b>\$ 6,757.7</b>	<b>\$ 6,683.8</b>	<b>\$ 6,881.7</b>	<b>\$ 7,201.0</b>	<b>\$ 6,800.2</b>	<b>\$ 6,427.1</b>

- <sup>(1)</sup> Metropolitan implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, in fiscal year 2012. This pronouncement requires that the difference between assets and liabilities be reported as net position, therefore, net assets are now referred to as net position.
- <sup>(2)</sup> Adjustment relates to Metropolitan's implementation of GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. GASB 75 requires the reporting of a net Other Postemployment Benefit (OPEB) liability in the basic financial statements when an organization's OPEB liability exceeds the net position available for paying benefits. Fiscal years 2012 through 2017 have not been adjusted.
- <sup>(3)</sup> Net investment in capital assets, including State Water Project costs, restricted for other expenses and unrestricted net position in fiscal years 2018 and 2017 were adjusted to conform to fiscal year 2019 presentation. Fiscal years 2012 through 2016 were not adjusted.
- <sup>(4)</sup> Adjustment relates to Metropolitan's implementation of GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB 68 requires the reporting of net pension liability in the basic financial statements when an organization's pension liability exceeds the net position available for paying benefits while GASB 71 requires the recognition of beginning deferred outflow of resources for pension contributions made after the measurement date. Fiscal years 2012 through 2014 have not been adjusted.
- <sup>(5)</sup> Adjustment relates to the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This pronouncement requires debt issuance costs (except prepaid insurance costs) to be recognized as expense in the period incurred.
- <sup>(6)</sup> Adjustment relates to the adoption of GASB Statement No. 84, *Fiduciary Activities*. This pronouncement requires fiduciary activities meeting specific criteria to be reported in fiduciary funds.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

**The Metropolitan Water District of Southern California  
Table 2**

**Ten-Year Summary of Changes in Net Position (Unaudited)-Accrual Basis <sup>(1)</sup>  
(Dollars in millions)**

	Fiscal Year Ended June 30,										2012 <sup>(4)</sup>
	2021	2020	2019	2018 <sup>(2)</sup>	2017	2016	2015 <sup>(3)</sup>	2014	2013	2012 <sup>(4)</sup>	As Adjusted
Water revenues <sup>(5)</sup>	\$ 1,404.7	\$ 1,188.0	\$ 1,148.7	\$ 1,285.2	\$ 1,150.5	\$ 1,166.0	\$ 1,382.9	\$ 1,484.7	\$ 1,282.5	\$ 1,282.5	\$ 1,125.3
Readiness-to-serve charges	133.0	134.5	136.5	137.5	144.0	155.5	162.0	154.0	144.0	144.0	135.5
Capacity charge	31.7	30.5	33.0	34.6	39.7	44.7	37.5	28.4	28.7	28.7	33.0
Power sales	19.0	15.9	18.3	23.7	20.9	7.5	8.4	14.6	24.5	24.5	31.5
<b>Operating revenues</b>	<b>1,588.4</b>	<b>1,368.9</b>	<b>1,336.5</b>	<b>1,481.0</b>	<b>1,355.1</b>	<b>1,373.7</b>	<b>1,590.8</b>	<b>1,681.7</b>	<b>1,479.7</b>	<b>1,479.7</b>	<b>1,323.3</b>
Taxes, net	160.6	146.9	142.7	127.3	115.4	107.9	102.3	94.5	94.8	94.8	79.2
Investment income (loss)	4.1	28.9	36.0	10.6	6.2	19.4	(3.6)	5.7	(0.4)	(0.4)	4.1
Other	10.4	24.5	10.4	12.9	7.3	10.2	5.4	—	6.1	6.1	0.6
<b>Nonoperating revenues</b>	<b>175.1</b>	<b>200.3</b>	<b>189.1</b>	<b>150.8</b>	<b>128.9</b>	<b>137.5</b>	<b>104.1</b>	<b>100.2</b>	<b>100.5</b>	<b>100.5</b>	<b>83.9</b>
<b>Total revenues</b>	<b>1,763.5</b>	<b>1,569.2</b>	<b>1,525.6</b>	<b>1,631.8</b>	<b>1,484.0</b>	<b>1,511.2</b>	<b>1,694.9</b>	<b>1,781.9</b>	<b>1,580.2</b>	<b>1,580.2</b>	<b>1,407.2</b>
Power and water costs	(480.9)	(438.7)	(375.8)	(446.5)	(455.4)	(552.3)	(473.6)	(510.1)	(371.3)	(371.3)	(384.0)
Operations and maintenance	(509.8)	(557.4)	(493.9)	(507.4)	(487.5)	(650.1)	(543.4)	(439.7)	(419.8)	(419.8)	(433.5)
Litigation payments	(44.4)	—	—	—	—	—	—	—	—	—	—
Depreciation and amortization	(362.8)	(353.0)	(361.1)	(330.3)	(301.7)	(376.5)	(374.8)	(261.5)	(265.4)	(265.4)	(290.1)
<b>Operating expenses</b>	<b>(1,397.9)</b>	<b>(1,349.1)</b>	<b>(1,230.8)</b>	<b>(1,284.2)</b>	<b>(1,244.6)</b>	<b>(1,378.9)</b>	<b>(1,391.8)</b>	<b>(1,211.3)</b>	<b>(1,056.5)</b>	<b>(1,056.5)</b>	<b>(1,107.6)</b>
Bond interest, net of amount capitalized	(91.6)	(100.7)	(126.9)	(124.5)	(134.6)	(126.9)	(132.5)	(146.7)	(150.2)	(150.2)	(135.8)
Interest and adjustments on OAPF <sup>(6)</sup>	—	—	—	—	(0.6)	(0.8)	(1.2)	(1.6)	(2.1)	(2.1)	(2.6)
Loss on disposal of plant assets	(13.2)	(10.2)	(13.7)	(88.7)	(20.9)	—	—	—	—	—	—
Other	(6.2)	(5.9)	(5.3)	(68.2)	(9.4)	(4.6)	—	(23.7)	—	—	—
<b>Nonoperating expenses</b>	<b>(111.0)</b>	<b>(116.8)</b>	<b>(145.9)</b>	<b>(281.4)</b>	<b>(165.5)</b>	<b>(132.3)</b>	<b>(133.7)</b>	<b>(172.0)</b>	<b>(152.3)</b>	<b>(152.3)</b>	<b>(138.4)</b>
<b>Total expenses</b>	<b>(1,508.9)</b>	<b>(1,465.9)</b>	<b>(1,376.7)</b>	<b>(1,565.6)</b>	<b>(1,410.1)</b>	<b>(1,711.2)</b>	<b>(1,525.5)</b>	<b>(1,383.3)</b>	<b>(1,208.8)</b>	<b>(1,208.8)</b>	<b>(1,246.0)</b>
Capital contributions	0.3	—	0.8	1.5	—	2.1	2.3	2.2	1.7	1.7	13.6
<b>Changes in net position</b>	<b>\$ 254.9</b>	<b>\$ 103.3</b>	<b>\$ 149.7</b>	<b>\$ 67.7</b>	<b>\$ 73.9</b>	<b>\$ (197.9)</b>	<b>\$ 171.7</b>	<b>\$ 400.8</b>	<b>\$ 373.1</b>	<b>\$ 373.1</b>	<b>\$ 174.8</b>

<sup>(1)</sup> Metropolitan implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, in fiscal year 2012. This pronouncement requires that the difference between assets and liabilities be reported as net position, therefore, net assets are now referred to as net position.

<sup>(2)</sup> Metropolitan implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. GASB 75 requires the reporting of a net Other Postemployment Benefit (OPEB) liability in the basic financial statements when an organization's OPEB liability exceeds the net position available for paying benefits. Fiscal years 2012 through 2017 have not been adjusted.

<sup>(3)</sup> Metropolitan implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 71*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB 68 requires the reporting of net pension liability in the basic financial statements when an organization's pension liability exceeds the net position available for paying benefits while GASB 71 requires the recognition of beginning deferred outflow of resources for pension contributions made after the measurement date. Fiscal years 2012 through 2014 have not been adjusted.

<sup>(4)</sup> Adjustment relates to the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This pronouncement requires debt insurance costs (except prepaid insurance costs) to be recognized as expense in the period incurred.

<sup>(5)</sup> Water revenues includes revenues from water sales, exchanges, and wheeling.

<sup>(6)</sup> Off-Aqueduct Power Facilities. The State relieved Metropolitan of its obligation during the year ended June 30, 2018.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

**The Metropolitan Water District of Southern California**

**Table 3**

**Ten-Year Summary of Water Revenues by Component (Unaudited)-Accrual Basis  
(Dollars in thousands)**

Fiscal Year Ended June 30,	Water Sales <sup>(1)</sup>				Total
	Treated	Untreated	Tier 2 <sup>(2) (3)</sup>	Exchange	
2021	\$ 840,130.7	\$ 397,566.6	\$ —	\$ 167,038.1	\$ 1,404,735.4
2020	754,496.5	293,438.7	—	140,062.6	1,187,997.8
2019	727,511.1	318,940.9	—	102,221.8	1,148,673.8
2018	805,392.6	383,632.6	—	96,139.0	1,285,164.2
2017	704,254.2	358,841.4	—	87,437.0	1,150,532.6
2016	681,045.9	401,837.7	(1,180.3)	84,337.0	1,166,040.3
2015	805,798.0	489,016.4	9,252.8	78,830.9	1,382,898.1
2014	884,280.0	501,778.9	17,210.8	81,346.5	1,484,616.2
2013	805,277.9	399,865.2	2,914.9	74,469.7	1,282,527.7
2012	743,721.2	288,545.4	—	90,923.2	1,123,189.8

<sup>(1)</sup> Water sales rates vary based on the program. See Table 4 for rates.

<sup>(2)</sup> Tier 2 dollars reflect the premium paid by the member agency for water taken in excess of their maximum purchase commitment. Either treated/untreated or both could have caused the agency to exceed their maximum.

<sup>(3)</sup> The 2016 credit resulted from a correction of water sales between member agencies.

See accompanying Independent Auditors' Report.

**The Metropolitan Water District of Southern California**  
**Table 4**  
**Ten-Year Summary of Water Revenues Rate Structure (Unaudited)**  
**(Dollars per acre-foot-unless otherwise specified)**

	Calendar Year <sup>(1)</sup>									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Tier 1 Supply Rate	\$ 243	\$ 208	\$ 209	\$ 209	\$ 201	\$ 156	\$ 158	\$ 148	\$ 140	\$ 106
Tier 2 Supply Rate	285	295	295	295	295	290	290	290	290	290
System Access Rate	373	346	326	299	289	259	257	243	223	217
Water Stewardship Rate	—	65	69	55	52	41	41	41	41	43
System Power Rate	161	136	127	132	124	138	126	161	189	136
Full Service Untreated:										
Tier 1	777	755	731	695	666	594	582	593	593	560
Tier 2	819	842	817	781	760	728	714	735	743	686
Replenishment Water Rate: <sup>(2)</sup>										
Untreated	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	442
Treated	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	651
Interim Agricultural Water Program <sup>(3)</sup>										
Untreated	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	537
Treated	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	765
Treatment Surcharge	327	323	319	320	313	348	341	297	254	234
Full Service Treated:										
Tier 1	1,104	1,078	1,050	1,015	979	942	923	890	847	794
Tier 2	1,146	1,165	1,136	1,101	1,073	1,076	1,055	1,032	997	920
Delta Supply Surcharge <sup>(4)</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	58
Readiness-to-Serve Charge (\$ millions)	130	136	133	140	135	153	158	166	142	146
Capacity Charge (\$ per cubic foot second)	10,700	8,800	8,600	8,700	8,000	10,900	11,100	8,600	6,400	7,400

<sup>(1)</sup> Rates are set on a calendar year basis.

<sup>(2)</sup> The Replenishment program was discontinued after 2012.

<sup>(3)</sup> The Interim Agricultural Water Program was discontinued after 2012.

<sup>(4)</sup> The Delta Supply Surcharge was suspended after 2012.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

# The Metropolitan Water District of Southern California

## Table 5

### Principal Water Revenue Customers (Unaudited) - Accrual Basis (Dollars in thousands)

	Fiscal Year Ended			Fiscal Year Ended		
	June 30, 2021			June 30, 2012		
	Amount	%	Rank	Amount	%	Rank
<b>Treated Water Sales</b>						
<i>Member Agency</i>						
West Basin MWD	\$ 118,070.5	14.0 %	1	\$ 87,113.1	11.7 %	2
MWD of Orange County	117,729.7	14.0	2	156,000.3	21.0	1
Calleguas MWD	103,963.8	12.4	3	78,808.8	10.6	4
City of Los Angeles	85,555.0	10.2	4	48,364.9	6.5	6
Eastern MWD	70,311.7	8.4	5	48,448.2	6.5	5
Subtotal	<u>\$ 495,630.7</u>	<u>59.0 %</u>		<u>\$ 418,735.3</u>	<u>56.3 %</u>	
Total Treated Water Sales	<u>\$ 840,130.7</u>	<u>100.0 %</u>		<u>\$ 743,721.2</u>	<u>100.0 %</u>	
<b>Untreated Water Sales</b>						
<i>Member Agency</i>						
City of Los Angeles	\$ 182,628.8	45.9 %	1	\$ 81,314.6	28.2 %	2
Inland Empire Utility Agency	54,515.6	13.7	2	38,556.1	13.4	3
Upper San Gabriel Valley Municipal Water	41,445.8	10.4	3	10,109.7	3.5	8
Subtotal	<u>\$ 278,590.2</u>	<u>70.0 %</u>		<u>\$ 129,980.4</u>	<u>45.1 %</u>	
Total Untreated Water Sales	<u>\$ 397,566.6</u>	<u>100.0 %</u>		<u>\$ 288,545.4</u>	<u>100.0 %</u>	
<b>Tier 2 Sales</b>						
<i>Member Agency</i>						
City of Santa Ana	\$ —	— %		\$ 82.5	85.5 %	1
Subtotal	<u>\$ —</u>	<u>— %</u>		<u>\$ 82.5</u>	<u>85.5 %</u>	
Total Tier 2 Sales	<u>\$ —</u>	<u>— %</u>		<u>\$ 96.5</u>	<u>100.0 %</u>	
<b>Exchange</b>						
<i>Member Agency</i>						
San Diego County Water Authority	\$ 150,182.9	89.9 %	1	\$ 63,379.3	69.7 %	1
Subtotal	<u>\$ 150,182.9</u>	<u>89.9 %</u>		<u>\$ 63,379.3</u>	<u>69.7 %</u>	
Total Exchange	<u>\$ 167,038.1</u>	<u>100.0 %</u>		<u>\$ 90,923.2</u>	<u>100.0 %</u>	
<b>Total Water Revenue</b>	<u><b>\$ 1,404,735.4</b></u>			<u><b>\$ 1,123,286.3</b></u>		

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

## The Metropolitan Water District of Southern California

Table 6

### Ten-Year Summary of Property Tax Levies and Collections (Unaudited)-Cash Basis (Dollars in thousands)

Fiscal Year Ended June 30,	Tax Collections			Outstanding Delinquent Taxes <sup>(2)</sup>	Percent of Current Taxes Collected to Total Tax Levy	Percent of Total Tax Collections to Total Tax Levy	Percent of Delinquent Taxes to Total Tax Levy
	Total Tax Levy	Current	Delinquent				
2021	\$ 153,026	\$ 153,026	\$ 8,081	\$	100.0	105.3	—
2020	143,646	143,646	3,456	—	100.0	102.4	—
2019	130,566	130,566 <sup>(3)</sup>	14,588 <sup>(3)</sup>	—	100.0 <sup>(3)</sup>	111.2	—
2018	121,647	121,647 <sup>(3)</sup>	8,019 <sup>(3)</sup>	—	100.0 <sup>(3)</sup>	106.6	—
2017	112,727	112,727 <sup>(3)</sup>	2,410 <sup>(3)</sup>	—	100.0 <sup>(3)</sup>	102.1	—
2016	104,829	104,829	5,825	—	100.0	105.6	—
2015	100,066	97,687	5,320	2,379	97.6	102.9	2.4
2014	94,963	94,963	3,744	—	100.0	103.9	—
2013	92,247	89,576	7,078	2,671	97.1	104.8	2.9
2012	94,810	80,775	9,478	4,076	85.2	95.2	4.3

<sup>(1)</sup> Total tax collections exclude cash payments on new annexations.

<sup>(2)</sup> Delinquent taxes shown are net of the "Allowance for Uncollectibles" determined by historical trends of collections and payments.

<sup>(3)</sup> In fiscal year 2020, current and delinquent tax collections were revised for fiscal years 2017 through 2019 but total tax collections was not affected by the changes.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

**The Metropolitan Water District of Southern California**

**Table 7**

**Ten-Year Summary of Assessed Valuations and Property Tax Rates (Unaudited)  
(Dollars in billions)**

Fiscal Year Ended June 30,	Gross Assessed Valuation <sup>(1)</sup>	Homeowner's Exemption	Net Assessed Valuation	Secured Property Percentage Tax Rate
2021	\$ 3,263.3	\$ 15.1	\$ 3,248.2	0.0035 %
2020	3,092.4	15.3	3,077.1	0.0035
2019	2,916.6	15.4	2,901.2	0.0035
2018	2,740.6	15.6	2,725.0	0.0035
2017	2,583.4	15.8	2,567.6	0.0035
2016	2,451.0	15.9	2,435.1	0.0035
2015	2,315.0	16.2	2,298.8	0.0035
2014	2,183.4	16.4	2,167.0	0.0035
2013	2,097.4	16.7	2,080.7	0.0035
2012	2,067.5	16.9	2,050.6	0.0037

(1) Gross assessed valuations (before deduction of Homeowner's and Business Inventory Exemptions), as of August each year, of all secured and unsecured property within Metropolitan's service area, as certified by the County Auditor-Controllers for the respective counties.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer



**The Metropolitan Water District of Southern California**  
**Table 8**  
**Ten-Year Summary of Assessed Valuation Within Metropolitan's Service Area - By Counties (Unaudited)**  
**(Dollars in billions)**

County	Fiscal Year Ended June 30,																			
	2021	2020		2019		2018		2017		2016		2015		2014		2013		2012		
	AV <sup>(1)</sup>	% <sup>(2)</sup>	AV	%	AV	%	AV	%	AV	%	AV	%	AV	%	AV	%	AV	%	AV	%
Los Angeles	\$ 1,593.5	48.8	\$ 1,504.9	48.7	\$ 1,415.3	48.5	\$ 1,327.5	48.5	\$ 1,251.3	48.4	\$ 1,185.4	48.4	\$ 1,117.4	48.3	\$ 1,060.8	48.6	\$ 1,012.5	48.3	\$ 989.1	47.9
Orange	655.0	20.1	625.2	20.2	591.4	20.3	557.1	20.3	524.5	20.3	498.3	20.3	470.7	20.3	441.9	20.2	426.6	20.3	419.2	20.3
San Diego	566.4	17.4	537.7	17.4	508.6	17.4	479.7	17.5	452.0	17.5	427.9	17.5	405.0	17.5	381.7	17.5	369.0	17.6	370.4	17.9
Riverside	209.0	6.4	196.2	6.3	184.6	6.3	172.9	6.3	163.1	6.3	154.7	6.3	146.3	6.3	133.7	6.1	129.0	6.2	129.2	6.2
San Bernardino	127.1	3.9	120.2	3.9	113.0	3.9	104.2	3.8	97.8	3.8	93.9	3.8	89.1	3.8	83.5	3.8	80.9	3.8	80.4	3.9
Ventura	112.3	3.4	108.2	3.5	103.7	3.6	99.2	3.6	94.7	3.7	90.8	3.7	86.5	3.8	81.8	3.8	79.4	3.8	79.2	3.8
<b>Total</b>	<b>\$ 3,263.3</b>	<b>100.0</b>	<b>\$ 3,092.4</b>	<b>100.0</b>	<b>\$ 2,916.6</b>	<b>100.0</b>	<b>\$ 2,740.6</b>	<b>100.0</b>	<b>\$ 2,583.4</b>	<b>100.0</b>	<b>\$ 2,451.0</b>	<b>100.0</b>	<b>\$ 2,315.0</b>	<b>100.0</b>	<b>\$ 2,183.4</b>	<b>100.0</b>	<b>\$ 2,097.4</b>	<b>100.0</b>	<b>\$ 2,067.5</b>	<b>100.0</b>

(1) Assessed Valuation.

(2) Percent of Total Assessed Valuation within Metropolitan.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

**The Metropolitan Water District of Southern California**  
**Table 9**  
**Ten-Year Summary of Ratios of General Obligation Debt to Net Assessed Valuations, Total Outstanding Debt to Total Household Income, and**  
**Amounts of Total and Net Outstanding Debt per Capita (Unaudited)**  
**(Amounts in thousands)**

Fiscal Year Ended June 30,	Population <sup>(1)</sup>	Net Assessed Valuations (NAV)	General Obligation (G.O.) Debt	Revenue Bond Debt	Notes and Loans	Unamortized Bond Discounts and Premiums, net <sup>(2)</sup>	Total Outstanding Debt	Accumulated Resources Restricted for Repayment of Principal	Net Total Outstanding Debt	Ratio of G.O. Debt to NAV	Net Outstanding Debt per Capita
2021	19,037	\$ 3,248,320,002	\$ 26,830	\$ 3,994,265	35,645	\$ 464,184	\$ 4,520,924	\$ (11,810)	\$ 4,409,114	0.00 %	\$ 231.6
2020	19,035	3,077,116,471	37,300	3,968,845	82,445	366,281	4,454,871	(123,940)	4,330,931	0.00	227.5
2019	19,052	2,901,199,673	48,050	3,933,245	46,800	307,310	4,335,405	(116,825)	4,218,580	0.00	221.4
2018	19,039	2,725,018,457	60,600	4,233,860	—	212,499	4,506,959	(96,725) <sup>(3)</sup>	4,410,234 <sup>(3)</sup>	0.00	231.6
2017	18,981	2,567,616,063	74,905	4,301,985	—	202,848	4,579,738	(114,730)	4,465,008	0.00	235.2
2016	18,886	2,435,059,261	92,865	4,188,950	9,153	232,467	4,523,435	(153,270)	4,370,165	0.00	231.4
2015	18,791	2,298,791,445	110,420	4,157,105	10,684	200,028	4,478,237	(98,595)	4,379,642	0.00	233.1
2014	18,672	2,167,044,473	132,275	4,271,540	11,675	200,896	4,616,386	(82,285)	4,534,101	0.01	242.8
2013	18,537	2,080,710,578	165,085	4,450,650	12,161	210,283	4,838,179	(110,535)	4,727,644	0.01	255.0
2012	18,405	2,050,548,909	196,545	4,607,125	13,117	194,282	5,011,069	(104,230)	4,906,839	0.01	266.6

Fiscal Year Ended June 30,	Population <sup>(1)</sup>	Total Household Income (THI) <sup>(2)</sup>	General Obligation (G.O.) Debt	Revenue Bond Debt	Notes and Loans	Unamortized Bond Discounts and Premiums, net <sup>(2)</sup>	Total Outstanding Debt	Ratio of Total Outstanding Debt to THI	Total Outstanding Debt per Capita
2021	19,037	\$ n/a	\$ 26,830	\$ 3,994,265	35,645	\$ 464,184	\$ 4,520,924	n/a %	\$ 237.5
2020	19,035	n/a	37,300	3,968,845	82,445	366,281	4,454,871	n/a	234.0
2019	19,052	1,356,188,374	48,050	3,933,245	46,800	307,310	4,335,405	0.32	227.6
2018	19,039	1,303,104,347	60,600	4,233,860	—	212,499	4,506,959	0.35	236.7
2017	18,981	1,224,898,669	74,905	4,301,985	—	202,848	4,579,738	0.37	241.3
2016	18,886	1,155,679,001	92,865	4,188,950	9,153	232,467	4,523,435	0.39	239.5
2015	18,791	1,107,415,207	110,420	4,157,105	10,684	200,028	4,478,237	0.40	238.3
2014	18,672	1,025,884,337	132,275	4,271,540	11,675	200,896	4,616,386	0.45	247.2
2013	18,537	984,899,139	165,085	4,450,650	12,161	210,283	4,838,179	0.49	261.0
2012	18,405	936,274,391	196,545	4,607,125	13,117	194,282	5,011,069	0.54	272.3

<sup>(1)</sup> Population data is reported for Metropolitan's service area. Amounts reflect revisions based on current data from the State of California Department of Finance and/or revisions to the service area boundaries.

<sup>(2)</sup> Deferred amount on bond refundings were reclassified as deferred outflow of resources beginning fiscal year 2012 as a result of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, implementation.

<sup>(3)</sup> Accumulated Resources Restricted for Repayment of Principal for fiscal year 2018 were corrected in fiscal year 2020 resulting in revisions to previously reported amounts for, Net Total Outstanding Debt.

<sup>(4)</sup> THI is based on population data and per capita income for Metropolitan's six county service area. Population data is from the State of California Department of Finance and per capita income data is from the U.S. Department of Commerce. Amounts reflect revisions based on current data available.

n/a: not available

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer and State of California Department of Finance

# The Metropolitan Water District of Southern California

## Table 10

### Direct and Overlapping Bonded Debt (Unaudited)

As of June 30, 2021

2020-21 Assessed Valuation	\$ 3,263,355,524,486	Percentage Applicable	Debt June 30, 2021
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Community College Districts		Various	\$ 13,298,211,316
Los Angeles Unified School District		99.606	10,821,748,653
San Diego Unified School District		99.960	4,482,833,730
Other Unified School Districts		Various	15,784,379,066
High School and School Districts		Various	7,738,884,501
City of Los Angeles		99.995	627,428,627
Other Cities		Various	194,039,836
Irvine Ranch Water District Improvement Districts		100	527,700,000
Santa Margarita Water District Improvement Districts		100	34,410,000
Other Water Districts		Various	30,112,195
Healthcare Districts		Various	647,791,206
Other Special Districts		Various	9,986,879
Community Facilities Districts		Various	7,407,185,252
1915 Act Bonds and Other Special Assessment District Bonds		Various	1,105,266,130
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 62,709,977,391
<b>METROPOLITAN WATER DISTRICT TOTAL DIRECT DEBT</b>			<b>\$ 26,830,000</b>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 62,736,807,391
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
Los Angeles County Obligations		93.250	\$ 2,446,015,226
Orange County Obligations		99.919	878,800,798
Riverside County Obligations		66.669	1,066,104,445
San Bernardino County Obligations		50.839	226,884,586
San Diego County Obligations		96.702	599,837,672
Ventura County Obligations		76.521	250,694,274
City of Anaheim General Fund Obligations		99.881	645,550,495
City of Long Beach General Fund Obligations and Pension Obligation Bonds		100	91,780,000
City of Los Angeles General Fund Obligations		99.995	1,436,892,612
City of Pasadena General Fund and Pension Obligation Bonds		100	532,563,634
City of San Diego General Fund Obligations		99.949	593,501,589
Other City General Fund Obligations		Various	6,691,451,323
Water District General Fund Obligations		Various	61,984,727
Los Angeles Unified School District Certificates of Participation		99.606	130,453,978
Other School District General Fund Obligations		Various	1,972,958,376
Other Special District General Fund Obligations		Various	47,542,751
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$ 17,673,016,486
Less: Obligations supported from other revenue sources			876,027,263
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$ 16,796,989,223
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):			\$ 5,693,640,393
GROSS COMBINED TOTAL DEBT			\$ 86,103,464,270 <sup>(1)</sup>
NET COMBINED TOTAL DEBT			\$ 85,227,437,007

<sup>(1)</sup> Debt instruments included are general obligation bonds, lease revenue bonds and certificates of participation (when supported by the general fund), pension obligation bonds, 1915 Act special assessment bonds and Mello-Roos Act special assessment bonds. Excluded are enterprise revenue bonds, mortgage revenue bonds, tax and revenue anticipation notes and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2020-21 Assessed Valuation:

<b>Direct Debt (\$26,830,000)</b>	<b>0.001%</b>
Total Direct and Overlapping Tax and Assessment Debt	1.92 %
Gross Combined Total Debt	2.64 %
Net Combined Total Debt	2.61 %

Ratios to Redevelopment Incremental Valuation:

\$ 461,324,899,154

Total Overlapping Tax Increment Debt	1.23 %
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See accompanying Independent Auditors' Report.

**The Metropolitan Water District of Southern California**  
**Table 11**  
**Ten-Year Summary of Legal Debt Margin Information (Unaudited)**  
**(Dollars in millions)**

	Fiscal Year Ended June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013 <sup>(4)</sup>	2012 <sup>(4)</sup>
<b>15 Percent of Assessed Value<sup>(1a)</sup></b>									As Adjusted	
Debt limit	\$ 489,492	\$ 463,864	\$ 437,493	\$ 411,095	\$ 387,508	\$ 367,651	\$ 347,242	\$ 327,508	\$ 314,606	\$ 310,122
Debt applicable to the limit <sup>(2)</sup>	4,521	4,455	4,335	4,507	4,842	4,773	4,478	4,616	4,838	5,011
Legal debt margin	\$ 484,971	\$ 459,409	\$ 433,158	\$ 406,588	\$ 382,666	\$ 362,878	\$ 342,764	\$ 322,892	\$ 309,768	\$ 305,111
Total debt applicable to the limit as a percentage of debt limit	0.92 %	0.96 %	0.99 %	1.10 %	1.25 %	1.30 %	1.29 %	1.41 %	1.54 %	1.62 %
<b>100 Percent of Equity<sup>(1b)</sup></b>										
Debt limit <sup>(3)</sup>	\$ 7,194	\$ 6,940	\$ 6,836	\$ 6,686	\$ 6,758	\$ 6,684	\$ 6,882	\$ 7,201	\$ 6,800	\$ 6,427
Debt applicable to the limit <sup>(2)</sup>	3,994	3,969	3,933	4,234	4,302	4,189	4,157	4,272	4,451	4,607
Legal debt margin	\$ 3,200	\$ 2,971	\$ 2,903	\$ 2,452	\$ 2,456	\$ 2,495	\$ 2,725	\$ 2,929	\$ 2,349	\$ 1,820
Total debt applicable to the limit as a percentage of debt limit	55.52 %	57.19 %	57.53 %	63.33 %	63.66 %	62.67 %	60.40 %	59.32 %	65.46 %	71.68 %

**Legal Debt Margin Calculations for Fiscal Year Ended June 30, 2021**

<b>15 Percent of Assessed Value</b>	
2020-21 taxable assessed valuation	\$ 3,263,282
Debt limit (15% of total assessed value)	\$ 489,492
Applicable debt outstanding as of June 30, 2021	\$ 4,521
Legal debt margin	\$ 484,971
<b>100 Percent of Equity (Net Position)</b>	
Net position of Metropolitan as of June 30, 2021	\$ 7,194
Debt limit (100% of equity/net position)	\$ 7,194
Revenue bonds outstanding as of June 30, 2021	\$ 3,994
Legal debt margin	\$ 3,200

<sup>(1a)</sup> The Metropolitan Water District Act (Act) provides for two limitations on indebtedness, which may be incurred by Metropolitan:

<sup>(1b)</sup> Indebtedness is limited to 15 percent of the assessed value of all taxable property within Metropolitan.

<sup>(2)</sup> Revenue bonds limited to 100 percent of equity (net position) as of the end of the last fiscal year prior to the issuance of such bonds.

<sup>(3)</sup> The Act defines the calculations for debt limits based on gross debt outstanding. Accordingly, debt applicable to the limit is not netted for applicable reserves.

<sup>(4)</sup> Adjustment relates to reclassification of outstanding debt from net investment in capital assets to restricted for debt service beginning fiscal year 2012.

<sup>(5)</sup> Adjustment relates to implementation of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

# The Metropolitan Water District of Southern California

Table 12

## Ten-Year Summary of Revenue Bond Debt Service Coverage <sup>(1)</sup> (Unaudited) (Dollars in millions)

	Fiscal Year Ended June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Water Revenues <sup>(2)</sup>	\$ 1,405	\$ 1,188	\$ 1,149	\$ 1,285	\$ 1,151	\$ 1,166	\$ 1,383	\$ 1,485	\$ 1,283	\$ 1,062
Additional Revenues <sup>(2)</sup>	165	165	170	172	184	200	199	182	173	168
Total Revenues	1,570	1,353	1,319	1,457	1,335	1,366	1,582	1,667	1,456	1,230
Operating Expenses <sup>(3)</sup>	(1,029)	(1,026)	(916)	(963)	(927)	(1,201)	(1,005)	(854)	(793)	(792)
Net Operating Revenues	541	327	403	494	408	165	577	813	663	438
Power Sales & Other <sup>(4)</sup>	32	30	40	52	72	252	171	34	48	87
Interest on Investments <sup>(5)</sup>	10	20	34	8	4	18	13	19	(2)	11
Adjusted Net Operating Revenues	583	377	477	554	484	435	761	866	709	536
Senior and Subordinate Bonds Debt Service <sup>(6)</sup>	(279)	(272)	(333)	(340)	(306)	(309)	(280)	(343)	(298)	(297)
Subordinate Revenue Obligations	—	—	—	—	(2)	(1)	(1)	(1)	(1)	(1)
Funds Available from Operations	\$ 304	\$ 105	\$ 144	\$ 214	\$ 176	\$ 125	\$ 480	\$ 522	\$ 410	\$ 238
<b>Ratios</b>										
Debt Service Coverage on all Senior and Subordinate Bonds <sup>(7)</sup>	2.09	1.39	1.43	1.63	1.58	1.41	2.72	2.52	2.38	1.81
Bonds and Additional Bonds Debt Service Coverage <sup>(8)</sup>	—	—	—	—	1.57	1.41	2.71	2.51	2.37	1.80

<sup>(1)</sup> Prepared on a modified accrual basis for fiscal years 2013-2021 and on a cash basis for fiscal year 2012.

<sup>(2)</sup> Water Revenues include revenues from water sales, exchanges, and wheeling.

<sup>(3)</sup> Operating expenses are calculated on a modified accrual basis for fiscal years 2013-2021 and on a cash basis for fiscal year 2012 and include only the expenses applicable to the debt service coverage calculation. Therefore, operating expenses in this table don't tie to Total operating expenses per the Statement of Revenues, Expenses and Changes in Net Position.

<sup>(4)</sup> Fiscal years 2018, 2017, 2016, and 2015 include \$1 million, \$33 million, \$222 million, and \$142 million, respectively, in transfers from revenue reserves to fund conservation credit expenses.

<sup>(5)</sup> Excludes interest applicable to Bond Construction accounts, Excess Earning account(s), and Other Trust accounts.

<sup>(6)</sup> Previously reported as Bonds and Additional Bonds Debt Service for fiscal years 2012-2017.

<sup>(7)</sup> Previously reported as Bonds and Additional Bonds Debt Service Coverage for fiscal years 2012-2017.

<sup>(8)</sup> Previously reported as Debt Service Coverage on all Obligations for fiscal years 2012-2017. The State Revolving Fund Loan was paid off at the end of fiscal year 2017, therefore the ratio is the same as Debt Service Coverage on all Senior and Subordinate Bonds and is not presented beginning with fiscal year 2018.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer

**The Metropolitan Water District of Southern California  
Table 13**

**Ten-Year Summary of Demographic Statistics (Unaudited)**

	Calendar Year									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>Population (in thousands) <sup>(1)</sup></b>										
Los Angeles County	10,172	10,211	10,277	10,223	10,215	10,192	10,069	10,020	9,912	9,858
Orange County	3,191	3,195	3,195	3,189	3,182	3,165	3,133	3,105	3,072	3,044
Riverside County	2,449	2,428	2,409	2,383	2,362	2,331	2,295	2,268	2,244	2,227
San Bernardino County	2,184	2,176	2,161	2,147	2,145	2,128	2,092	2,076	2,065	2,060
San Diego County	3,352	3,347	3,339	3,315	3,297	3,276	3,212	3,182	3,147	3,131
Ventura County	841	844	848	849	854	853	844	840	834	830
<b>Per Capita Income <sup>(2)</sup></b>										
Los Angeles County	n/a	\$ 65,094	\$ 62,224	\$ 58,419	\$ 55,624	\$ 53,521	\$ 49,366	\$ 46,530	\$ 44,474	\$ 42,564
Orange County	n/a	71,711	69,268	65,400	60,360	57,749	55,200	54,519	52,342	50,544
Riverside County	n/a	42,418	40,637	39,261	36,782	35,589	33,945	33,278	31,742	29,927
San Bernardino County	n/a	42,043	40,316	38,816	36,835	35,431	32,932	32,747	32,072	29,998
San Diego County	n/a	63,729	61,386	57,913	55,168	53,298	51,711	51,384	49,719	46,800
Ventura County	n/a	64,715	61,712	59,178	55,779	54,155	50,928	50,507	48,837	45,855
<b>Median Household Income <sup>(3)</sup></b>										
Los Angeles County	n/a	\$ 72,797	\$ 68,093	\$ 65,006	\$ 61,338	\$ 59,134	\$ 55,746	\$ 54,529	\$ 53,001	\$ 52,280
Orange County	n/a	95,934	89,759	86,217	81,827	78,428	76,306	74,163	71,983	72,293
Riverside County	n/a	73,260	66,964	63,944	60,134	58,292	57,006	54,095	52,651	52,883
San Bernardino County	n/a	67,903	63,857	60,420	56,337	53,803	52,041	52,323	50,770	51,247
San Diego County	n/a	83,985	79,079	76,207	70,824	67,320	66,192	61,426	60,330	59,477
Ventura County	n/a	92,236	84,566	82,857	80,135	80,032	75,449	77,363	71,517	74,263
<b>Unemployment Rate <sup>(4)</sup></b>										
Los Angeles County	12.8 %	4.6 %	4.7 %	4.8 %	5.3 %	6.6 %	8.2 %	9.8 %	10.9 %	12.3 %
Orange County	8.8	2.8	3.0	3.5	4.0	4.4	5.5	6.5	7.6	8.8
Riverside County	9.9	4.2	4.5	5.3	6.1	6.7	8.2	10.3	12.1	13.7
San Bernardino County	9.4	3.9	4.1	5.0	5.8	6.4	8.0	10.3	11.9	13.4
San Diego County	9.2	3.3	3.4	4.0	4.7	5.2	6.4	7.8	8.9	10.0
Ventura County	8.6	3.7	3.8	4.5	5.2	5.6	6.6	7.9	9.1	10.1

n/a: not available

Sources:

<sup>(1)</sup> Data from State of California Department of Finance (Dof). The most recent calendar year for which information is available is 2020. Includes population for the entire county. Amounts from prior years reflect revisions based on current data from State of California Department of Finance.

<sup>(2)</sup> Data from U.S. Department of Commerce. The most recent calendar year for which information is available is 2019.

<sup>(3)</sup> Data from U.S. Census Bureau (American Community Survey). The most recent calendar year for which information is available is 2019.

<sup>(4)</sup> Data from U.S. Bureau of Labor Statistics and State of California Employment Development Department (EDD). The most recent calendar year for which information is available is 2020. Rates from prior years reflect revisions based on current data.

**The Metropolitan Water District of Southern California**  
**Table 14**  
**Principal Employers within Service Area (Unaudited)**

Company or Organization	Calendar Year					
	2020			2011		
	Employees	Rank	Percentage of total employment	Employees	Rank	Percentage of total employment
Taco Bell Corp	210,000	1	10.21 %	166,000	1	8.17 %
Walt Disney Co	203,000	2	9.87	156,000	2	7.67
Alorica Inc	100,000	3	4.86	n/a	n/a	n/a
Chipotle Mexican Grill Inc	88,000	4	4.28	n/a	n/a	n/a
Gores Group	84,000	5	4.08	84,000	5	4.13
Dole Food Co Inc	74,800	6	3.64	71,100	6	3.50
AECOM	54,000	7	2.62	45,000	9	2.21
Board of Trustees California State University	47,000	8	2.28	47,000	7	2.31
Los Angeles International Airport	45,000	9	2.19	n/a	n/a	n/a
32nd St Naval Station	42,951	10	2.09	n/a	n/a	n/a
	<u>948,751</u>		<u>46.12 %</u>	<u>569,100</u>		<u>27.99 %</u>
Total Employment	2,057,107			2,032,835		

n/a: not available

Note: The most recent year for which information is available is 2020. Population includes companies with employees of 10,000 or more.

See accompanying Independent Auditors' Report.

Source: Data Axle (formerly Infogroup)

## The Metropolitan Water District of Southern California Table 15

### Ten-Year Summary of Operating Information (Unaudited)

**Mission Statement:** The mission of the Metropolitan Water District of Southern California 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.

	Fiscal Year Ended June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
<b>Acre-feet <sup>(1)</sup> water sold:</b>										
Treated	771	705	707	788	736	731	892	1,029	984	981
Untreated	520	381	449	553	573	683	829	846	685	561
Exchange	304	277	221	219	178	179	180	180	183	157
<b>Total</b>	<b>1,595</b>	<b>1,363</b>	<b>1,377</b>	<b>1,560</b>	<b>1,487</b>	<b>1,593</b>	<b>1,901</b>	<b>2,055</b>	<b>1,852</b>	<b>1,699</b>
<b>Acre-feet <sup>(1)</sup> water sold by usage:</b>										
Domestic and municipal uses	1,522	1,255	1,352	1,481	1,454	1,569	1,858	2,039	1,829	1,488
Agricultural uses	—	—	—	—	—	—	—	—	23	28
Replenishment and other	73	108	25	79	33	24	43	16	—	183
<b>Total</b>	<b>1,595</b>	<b>1,363</b>	<b>1,377</b>	<b>1,560</b>	<b>1,487</b>	<b>1,593</b>	<b>1,901</b>	<b>2,055</b>	<b>1,852</b>	<b>1,699</b>
<b>Source of Water Supplies-Acre-feet <sup>(1), (2), (3):</sup></b>										
Local Supplies	1,794.5	1,731.6	1,667.8	1,742.9	1,717.2	1,679.9	1,711.7	1,925.6	1,896.1	1,776.0
L.A. Aqueduct	138.8	281.9	312.7	307.7	224.7	57.9	57.7	61.0	113.4	266.6
Colorado River Aqueduct	891.1	410.0	601.8	494.6	594.6	1,086.5	1,184.4	1,103.0	640.0	437.8
State Water Project (California Aqueduct)	633.3	1,036.4	921.8	1,222.5	1,242.7	691.7	592.4	805.8	1,162.0	1,339.8
<b>Total</b>	<b>3,457.7</b>	<b>3,459.9</b>	<b>3,504.1</b>	<b>3,767.7</b>	<b>3,779.2</b>	<b>3,516.0</b>	<b>3,546.2</b>	<b>3,895.4</b>	<b>3,811.5</b>	<b>3,820.2</b>
Number of employees	1,879	1,876	1,877	1,832	1,794	1,772	1,770	1,765	1,746	1,767
Colorado River Aqueduct (miles)	242	242	242	242	242	242	242	242	242	242
Distribution System Pipeline (miles) <sup>(4)</sup>	830	830	830	830	830	830	830	830	819	819
Storage Capacity (thousand acre-feet)	1,072	1,072	1,072	1,072	1,072	1,072	1,072	1,072	1,072	1,072
Pumping Plants	6	6	6	6	6	6	6	6	6	6
Water Filtration Plants	5	5	5	5	5	5	5	5	5	5
Hydroelectric Plants	15	16	16	16	16	16	16	16	16	16

<sup>(1)</sup> Water volumes are reported in thousand acre-feet.

<sup>(2)</sup> Reflects regional sources of water supply within Metropolitan's service area.

<sup>(3)</sup> Actual production data from prior years are updated based on the most current available information.

<sup>(4)</sup> The increase in distribution system pipeline is due to the Inland Feeder becoming operational.

See accompanying Independent Auditors' Report.

Source: Office of the Chief Financial Officer



**The Metropolitan Water District of Southern California**  
**Table 16**  
**Projects Completed as of June 30, 2021 (Unaudited)**

Completion Date	Contract/ Spec. No.	Project	Bid Amount <sup>(1)</sup>	Final Amount
7/30/20	1893/1893	Electrical Upgrades at 15 Structures in the Orange County Region	\$ 2,606,700	\$ 2,611,056
9/14/20	M-3014/M-3014	Underground Storage Tank Modifications at Metropolitan Headquarters Building	51,855	164,227
10/12/20	1880/1837	Orange County Region Service Center	9,257,483	9,717,619
10/26/20	1882/1864	Weymouth Domestic Water System Improvements	3,740,000	3,965,000
11/13/20	M-3033/M-3033	Colorado River Aqueduct (CRA) Housing - Fencing Installation	191,027	191,027
11/19/20	1915/1809	CRA Pumping Plants 6.9 kV Power Cable Replacement <sup>(2)</sup>	16,452,832	11,927,829
1/8/21	1943/1943	East Orange County Feeder No. 2 Service Connection A-06 Rehabilitation	594,480	552,541
2/22/21	M-3041/M-3041	Weymouth Sedalia Property Grading and Drainage Improvements	38,000	38,000
3/2/21	M-3036/M-3036	Skinner Survey Building Roof Replacement	81,500	81,500
3/24/21	1931/1830	Joseph Jensen Water Treatment Plant Modules 2 and 3 Flocculator Rehabilitation	8,888,000	8,896,191
5/4/21	1923/1834	CRA Discharge Line Isolation Coupling and Bulkhead Installation	32,946,000	32,946,000
5/14/21	1988/1988	Allen-McColloch Pipeline PCCP 2021 Urgent Relining	2,435,000	2,452,375
5/18/21	1979/1979	Diamond Valley Lake Floating Wave Attenuator Repair <sup>(2)</sup>	276,373	274,600
5/20/21	1924/1821	Orange County Region Erosion Control Improvements - Stage 1 <sup>(2)</sup>	429,295	560,597
5/27/21	1972/1972	Lake Perris Bypass Pipeline Relining	5,410,000	5,410,000
5/27/21	1977/1977	Lakeview Pipeline Improvements <sup>(2)</sup>	3,270,000	3,270,000
6/4/21	1902/1902	Second Lower Feeder PCCP Rehabilitation - Reach 2	53,273,196	58,063,181
6/18/21	1911/1828	Greg Avenue Pressure Control Structure - Pump Modification and New Control Building <sup>(2)</sup>	20,975,000	22,433,506

<sup>(1)</sup> Bid amount represents the original approved contract amount and does not include approved change orders.

<sup>(2)</sup> Final contract amounts represent actual earnings through end of June 2021 and may change as resolution of pending issues are finalized.

See accompanying Independent Auditors' Report.

Source: Engineering Services Group

## The Metropolitan Water District of Southern California Table 17

Major Construction Contracts in Progress as of June 30, 2021 (Unaudited)-Accrual Basis

Contract No.	Project	Percentage Complete through 6/30/2021	Estimated Contract Completion Date	Contract Earnings through 6/30/2021 <sup>(1)</sup>	Bid Amount <sup>(2)</sup>
1878	Gene Wash Reservoir Discharge Valve Replacement	43%	November 2021	\$ 2,302,659	\$ 5,316,900
1883	F. E. Weymouth Water Treatment Plant Chlorination Systems Upgrades	93%	August 2021	8,180,099	8,487,170
1884	Garvey Reservoir Sodium Hypochlorite Feed System	3%	July 2022	61,250	2,418,149
1900	Diemer Water Treatment Plant West Basin and Filter Building Rehabilitation	99%	July 2021	39,818,691	38,539,196
1905	Metropolitan Headquarters Building Improvements	93%	July 2022	48,524,905	43,998,000
1908	Colorado River Aqueduct (CRA) Pumping Plants - Sump Rehabilitation	20%	July 2022	5,388,610	26,900,000
1914	Joseph Jensen Water Treatment Plant Electrical Upgrade - Stage 2	83%	August 2022	12,483,886	14,784,000
1920	CRA - Installation of Radial Gates at Seven Facilities	99%	August 2021	10,456,211	10,439,354
1921	F. E. Weymouth Water Treatment Plant Water Quality Instrumentation Improvements	97%	August 2021	2,873,402	2,944,000
1926	CRA Mile 12 Flow Monitoring Station Upgrades	—	July 2022	—	2,022,000
1938	Metropolitan Headquarters Building Physical Security Improvements	39%	February 2022	2,277,501	5,822,000
1945	Lake Mathews IT Disaster Recovery Facility Upgrades	40%	October 2021	179,140	448,900
1946	CRA Pumping Plants - Overhead Crane Replacement	3%	September 2023	347,300	13,419,000
1962	Metropolitan Headquarters Building Fire Alarm & Smoke Control Improvements	14%	January 2023	2,018,650	13,999,000
1970	Garvey Reservoir Drainage and Erosion Improvements - Areas 6, 7, 8, 10, and 11	60%	November 2021	774,830	1,294,800

(1) Earnings reflected represent the value of work performed by the contractor as of the date indicated and include contract retention and other similar deductions from amounts earned by the contractor but otherwise required to be withheld by Metropolitan by law or contract.

(2) Bid amount represents the original approved contract amount and does not include approved change orders.

See accompanying Independent Auditors' Report.

Source: Engineering Services Group