METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Financial Statements and Supplemental Schedules

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Table of Contents

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 Metropolitan Water District of Southern California (Metropolitan), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Metropolitan'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 an opinion 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows 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 management's discussion and analysis on pages 3-19 and the pension and other postemployment benefits supplementary information on pages 98–101 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.

KPMG LLP

Los Angeles, California
October 12, 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, 2020 and 2019. 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, and statements of cash flows. The statements of net position include all of Metropolitan's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project (SWP) costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal year 2019 have been reclassified to conform to the fiscal year 2020 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2018, Metropolitan implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses the accounting and financial reporting for postemployment benefits other than pensions (OPEB). As of July 1, 2017, Metropolitan restated the beginning net position in the amount of $138.9 million to record the beginning deferred OPEB contributions and net OPEB liability.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

	June 30,		
(Dollars in millions)	**2020**	2019	2018
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,508.4**	$ 10,393.5	$ 10,410.0
Other assets	**1,992.3**	1,845.0	1,818.2
Total assets	**12,500.7**	12,238.5	12,228.2
Deferred outflows of resources	**169.1**	182.1	239.6
Total assets and deferred outflows of resources	**12,669.8**	12,420.6	12,467.8
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**4,369.9**	4,865.4	5,235.0
Other liabilities	**1,291.8**	686.9	502.9
Total liabilities	**5,661.7**	5,552.3	5,737.9
Deferred inflows of resources	**68.6**	32.1	43.4
Total liabilities and deferred inflows of resources	**5,730.3**	5,584.4	5,781.3
Net position			
Net investment in capital assets, including State Water Project costs	**6,121.6**	6,131.6	5,968.8
Restricted	**473.1**	418.6	407.6
Unrestricted	**344.8**	286.0	310.1
Total net position	**$ 6,939.5**	$ 6,836.2	$ 6,686.5

Capital Assets, Net

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

Fiscal Year 2020 Compared to 2019. At June 30, 2020, net capital assets totaled $10.5 billion, or 82.9 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 progress upon determination that no operating assets would result from the cost incurred. See the capital assets section on pages 14-15 for additional information.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, net capital assets totaled $10.4 billion, or 83.7 percent of total assets and deferred outflows of resources, and were $16.5 million lower than the prior year. This decrease included depreciation and amortization of $352.1 million and $32.3 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred, offset by Metropolitan's continued expenditures on the capital investment plan of $227.7 million (including $4.7 million of capitalized interest) and net capital payments for participation rights in SWP and other facilities of $140.2 million. See the capital assets section on pages 14-15 for additional information.

Other Assets

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

Fiscal Year 2020 Compared to 2019. At June 30, 2020, other assets totaled $2.0 billion and were $147.3 million higher than the prior year. Cash and investments were $66.0 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 49.9 thousand acre feet (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.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, other assets totaled $1.8 billion and were $26.8 million higher than the prior year. Deposits, prepaid costs, and other was $62.6 million higher primarily due to $41.5 million of prepaid costs related to the CWF advance funding agreement with DWR and an $11.2 million increase in Palos Verde Irrigation District (PVID) land fallowing cost. Inventory was $25.3 million higher due to an increase in water storage of 89.9 TAF. These increases were primarily offset by $55.7 million lower receivables of which, $51.2 million related to lower water revenues receivable as fiscal year 2019 May and June water transactions were 71.6 TAF less than the prior year's comparable months.

Deferred Outflows of Resources

Deferred outflows of resources include deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability and net OPEB liability, and deferred outflows for effective interest rate swaps.

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 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.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, deferred outflows totaled $182.1 million and were $57.5 million lower than the prior year. The decrease was primarily due to $31.5 million lower deferred outflows related to pension, which included $39.3 million lower deferred outflows due to changes of actuarial assumption and $16.4 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by $25.1 million higher deferred outflows related to pension contributions subsequent to the measurement date. In addition, deferred loss on bond refundings was $14.4 million lower due to $8.7 million of refunding transactions and $5.7 million of scheduled amortization and deferred outflows related to loss on swap terminations was $8.9 million lower due to $6.1 million of refunding transactions and $2.8 million of scheduled amortization.

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 2020 Compared to 2019. At June 30, 2020, long-term liabilities, net of current portion totaled $4.4 billion and were $495.5 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 below and long-term debt section on page 16 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.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, long-term liabilities, net of current portion, totaled $4.9 billion and were $369.6 million lower than the prior year. The decrease in long-term debt, net of current portion of $389.0 million included $171.2 million of bond refundings, as the new debt issued was less than the amount of debt refunded, $142.0 million principal payments and $170.6 million more current portion of long-term debt as compared to prior year. See other liabilities section below and long-term debt section on page 16 for additional information. In addition, net pension liability was $26.9 million lower primarily due $139.0 million of pension plan investment earnings and employer contributions to the pension plan of $48.8 million, offset by $161.0 million interest on the total pension liability. Net OPEB liability was also $12.2 million lower primarily due to $34.7 million of employer contributions to the OPEB plan and $18.5 million of OPEB plan investment earnings, offset by $30.3 million of interest on the total OPEB liability and $10.3 million of service costs. These decreases in long-term liabilities were offset by the $46.8 million Bank of America, N.A. notes (BANA notes) issued for the CWF advance funding and $11.9 million higher fair value of interest rate swaps due to lower interest rates as compared to prior year.

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 2020 Compared to 2019. At June 30, 2020, other liabilities totaled $1.3 billion and were $604.9 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 Special Variable Rate Water Revenue Refunding Bonds (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 Standby Bond Purchase Agreement (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.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, other liabilities totaled $686.9 million, and were $184.0 million higher than the prior year primarily due to $170.6 million more current portion of long-term debt as the outstanding Water Revenue Bonds 2000 Series B-3 and 2017 Series A in the amount of $88.8 million and $80.0 million, respectively, were supported by a SBPA that expired in March 2020.

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 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.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, deferred inflows of resources totaled $32.1 million and were $11.3 million lower than the prior year primarily due to an $18.0 million decrease in effective swaps due to lower interest rates, offset by $6.4 million higher deferred inflows related to pension which included $8.4 million higher changes of assumptions and $2.0 million lower difference between expected and actual experience.

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 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 14-15 and 16, respectively.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, net investment in capital assets, including State Water Project costs totaled $6.1 billion and was $162.8 million higher than the prior year. This increase included $179.3 million decrease in outstanding debt and related deferred outflows of resources offset by $16.5 million net decrease in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 14-15 and 16, 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 2020 Compared to 2019. At June 30, 2020, restricted net position totaled $473.1 million which was $54.5 million higher than fiscal year 2019 primarily due to $38.4 million increase in restricted for operating expenses as labor and benefit costs are estimated to be higher in fiscal year 2021 due to negotiated labor increases, higher pension contribution requirement and increase in benefit premiums, offset by $15.8 million of lower restricted for debt service due to savings from refunding transactions.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, restricted net position totaled $418.6 million which was $11.0 million higher than fiscal year 2018 primarily due to $32.2 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 2020, offset by $20.6 million of lower restricted for debt service.

Unrestricted Net Position

Unrestricted net position consists of net position items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Certain unrestricted net position items have been designated for purposes authorized by the Board.

Fiscal Year 2020 Compared to 2019. Unrestricted net position of $344.8 million increased $58.8 million from the prior year, which included fiscal year 2020 changes in net position of $103.3 million and $10.0 million lower net investment in capital assets, including State Water Project costs offset by $54.5 million higher restricted for debt service and operating expenses.

Fiscal Year 2019 Compared to 2018. Unrestricted net position of $286.0 million decreased $24.1 million from the prior year, which included $162.8 million of higher net investment in capital assets, including State Water Project costs and $11.0 million higher restricted for debt service and operating expenses partially offset by the fiscal year 2019 changes in net position of $149.7 million.

CHANGES IN NET POSITION

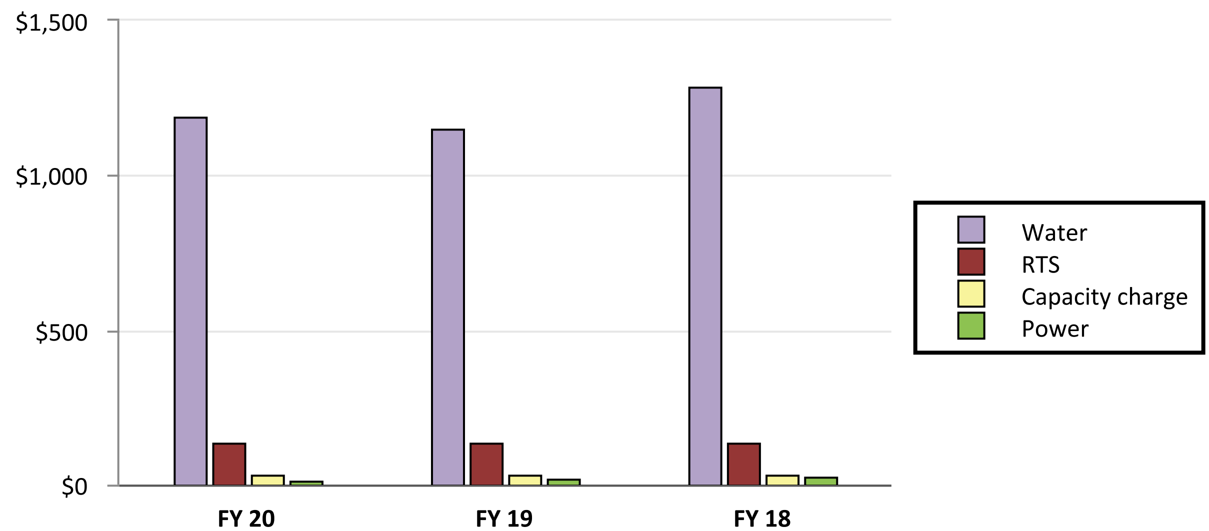
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended June 30,		
(Dollars in millions)	**2020**	2019	2018
Water revenues	**$ 1,188.0**	$ 1,148.7	$ 1,285.2
Readiness-to-serve charges	**134.5**	136.5	137.5
Capacity charge	**30.5**	33.0	34.6
Power sales	**15.9**	18.3	23.7
Operating revenues	**1,368.9**	1,336.5	1,481.0
Taxes, net	**146.9**	142.7	127.3
Investment income, net	**28.9**	36.0	10.6
Other	**24.5**	10.4	12.9
Nonoperating revenues	**200.3**	189.1	150.8
Total revenues	**1,569.2**	1,525.6	1,631.8
Power and water costs	**(438.7)**	(375.8)	(446.5)
Operations and maintenance	**(557.4)**	(493.9)	(507.4)
Depreciation and amortization	**(353.0)**	(361.1)	(330.3)
Operating expenses	**(1,349.1)**	(1,230.8)	(1,284.2)
Bond interest, net of amount capitalized	**(100.7)**	(126.9)	(124.5)
Loss on disposal of plant assets	**(10.2)**	(13.7)	(88.7)
Other	**(5.9)**	(5.3)	(68.2)
Nonoperating expenses	**(116.8)**	(145.9)	(281.4)
Total expenses	**(1,465.9)**	(1,376.7)	(1,565.6)
Changes in net position before contributions	**103.3**	148.9	66.2
Capital contributions	**—**	0.8	1.5
Changes in net position	**103.3**	149.7	67.7
Net Position			
Beginning of year, as previously reported	**6,836.2**	6,686.5	6,757.7
Cumulative effect of change in accounting principle	**—**	—	(138.9)
Beginning of year, as restated	**6,836.2**	6,686.5	6,618.8
Net position, end of year	**$ 6,939.5**	$ 6,836.2	$ 6,686.5

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

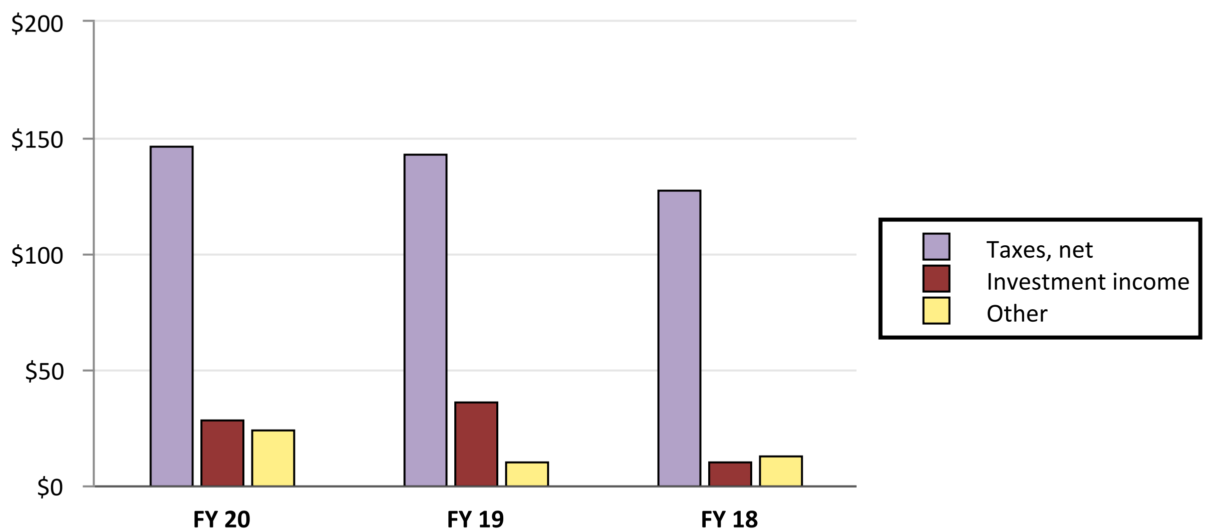
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 operating revenues were $1.4 billion or $32.4 million more than the prior year. The increase was primarily due to $39.3 million of higher water revenues, which included $38.6 million of higher price and $0.7 million or 0.9 TAF of higher volumes sold.

Fiscal Year 2019 Compared to 2018. Fiscal year 2019 operating revenues were $1.3 billion or $144.5 million less than the prior year. The decrease was primarily due to $136.5 million of lower water revenues, which included $153.5 million or 192.7 TAF of lower volumes sold offset by $17.0 million of higher price.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.

NONOPERATING REVENUES
(Dollars in millions)



Analytical Review of Nonoperating Revenues

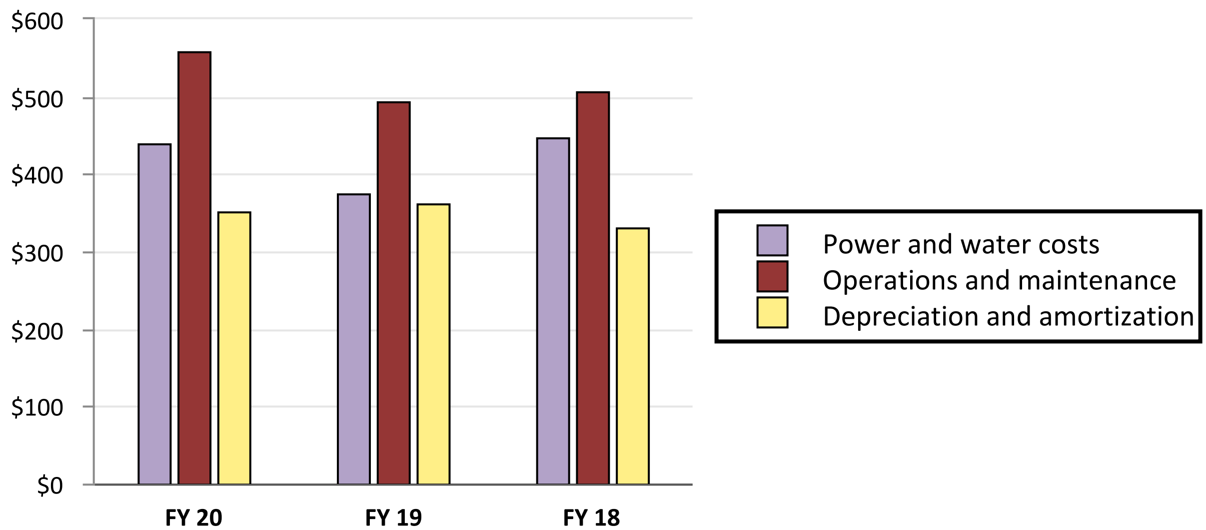
Fiscal Year 2020 Compared to 2019. Nonoperating revenues for fiscal year 2020 totaled $200.3 million and were $11.2 million higher than the prior year. The increase was primarily due to $14.1 million higher other revenues which included a $13.4 million adjustment due to an overstatement of depreciation 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.

Fiscal Year 2019 Compared to 2018. Nonoperating revenues for fiscal year 2019 totaled $189.1 million and were $38.3 million higher than the prior year. The increase was primarily due to $25.4 million more of investment income, which included a $14.8 million favorable change in fair value of investments and $7.3 million higher rate of return. In addition, property tax revenue increased $15.4 million due to lower delinquencies and higher assessments resulting from increased property values.

Operating Expenses

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

OPERATING EXPENSES
(Dollars in millions)



Analytical Review of Operating Expenses

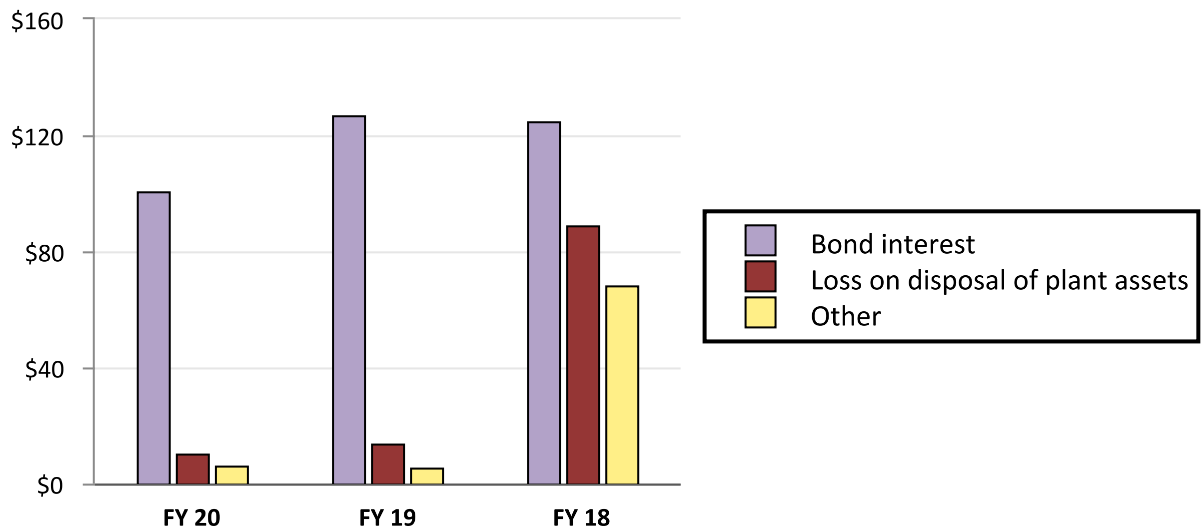
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 operating expenses of $1.3 billion were $118.3 million higher than the prior year. The increase included $63.5 million higher O&M costs primarily due to $32.6 million higher labor and benefit costs resulting from negotiations with bargaining units and $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.

Fiscal Year 2019 Compared to 2018. Fiscal year 2019 operating expenses of $1.2 billion were $53.4 million lower than the prior year. The decrease was primarily due to $70.7 million lower power and water costs, which included $48.5 million cost reduction due to 192.7 TAF less water sold and $35.2 million lower SWP minimum OMP&R costs related to an over collection of prior year's charges. The decrease was offset by $30.8 million of higher depreciation and amortization due to a net increase in depreciable capital assets of $320.5 million.

Nonoperating Expenses

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

NONOPERATING EXPENSES
(Dollars in millions)



Analytical Review of Nonoperating Expenses

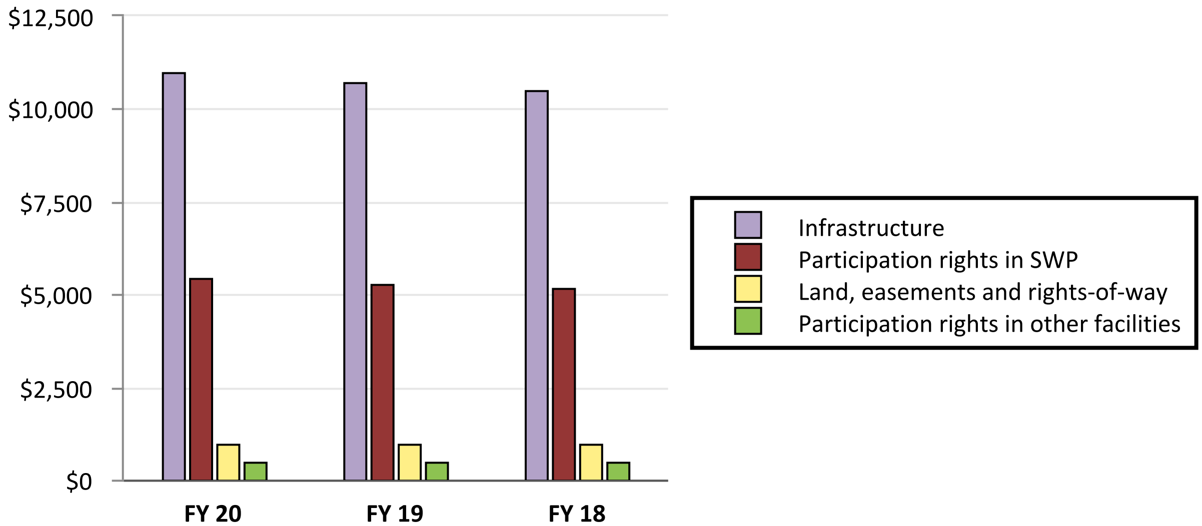
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 nonoperating expenses of $116.8 million were $29.1 million lower than the prior year primarily due to $26.2 million lower bond interest, net of amount capitalized, as a result of bond refunding transactions to take advantage of lower interest rates.

Fiscal Year 2019 Compared to 2018. Fiscal year 2019 nonoperating expenses of $145.9 million were $135.5 million lower than the prior year. The decrease was primarily due to $75.0 million less loss on disposal of plant assets related to the write-off of Skinner Modules 4, 5 and 6 in the prior year. In addition, other expenses decreased $62.9 million due to $39.1 million less write-off of construction in progress programs and $24.0 million less recalculation of previously capitalized interest on construction in the prior year.

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.

GROSS CAPITAL ASSETS
(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	June 30, 2020	2019	2018
Land, easements and rights of way	$ **984.8**	$ 984.8	$ 994.8
Construction in progress	**636.2**	545.8	691.8
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**220.2**	210.6	216.2
Other dams and reservoirs	**1,613.5**	1,568.3	1,560.7
Water transportation facilities	**3,993.4**	3,892.6	3,820.7
Pumping plants and facilities	**357.6**	303.0	302.4
Treatment plants and facilities	**3,126.3**	3,185.8	2,969.8
Buildings	**178.5**	187.4	162.5
Other plant assets	**795.8**	750.2	745.1
Pre-operating expenses of original aqueduct	**44.6**	44.6	44.6
Participation rights in SWP	**5,445.8**	5,301.4	5,160.7
Participation rights in other facilities	**459.0**	459.0	459.5
Gross capital assets	**17,868.7**	17,446.5	17,141.8
Less accumulated depreciation and amortization	**(7,360.3)**	(7,053.0)	(6,731.8)
Total capital assets, net	$ **10,508.4**	$ 10,393.5	$ 10,410.0
Net increase (decrease) from prior year	$ **114.9**	$ (16.5)	$ (124.1)
Percent change	**1.1%**	(0.2%)	(1.2%)

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 the current year, excluding capitalized interest, included:

- $85.7 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to ensure long-term reliability of Metropolitan's PCCP lines water delivery.
- $58.7 million for the supply reliability and system expansion program; this program is designed to improve the reliability and flexibility of delivering Colorado River water during drought or other SWP delivery constraints.
- $45.2 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.
- $44.1 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.
- $33.9 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.

Metropolitan's fiscal year 2021 capital investment plan includes $250.0 million principally for the Colorado River Aqueduct reliability programs, water treatment plants reliability program, systems and information technology improvements, distribution system and rehabilitation projects, and the PCCP rehabilitation program.

Fiscal Year 2019 Compared to 2018. Net capital assets totaled approximately $10.4 billion and decreased $16.5 million over the prior year. The decrease included depreciation and amortization of $352.1 million and $32.3 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred, offset by $227.7 million of construction spending and a net increase of $140.2 million in participation rights in SWP and other facilities.

The major capital asset additions for fiscal year 2019, excluding capitalized interest, included:

- $46.4 million for the distribution system's rehabilitation program.
- $37.9 million for the improvements in infrastructure reliability at the treatment plants.
- $34.5 million for the PCCP program.
- $26.3 million for the supply reliability and system expansion program.
- $24.2 million for the system reliability program.

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	June 30,		
(Dollars in millions)	**2020**	2019	2018
General obligation bonds[(1)]	**$ 37.3**	$ 48.1	$ 60.6
Revenue bonds[(1)]	**3,968.8**	3,933.2	4,233.9
Revolving notes	**46.8**	46.8	—
Other, net[(2)]	**366.3**	307.3	212.5
	$ 4,419.2	$ 4,335.4	$ 4,507.0
Increase (decrease) from prior year	**$ 83.8**	$ (171.6)	$ (72.7)
Percent change	**1.9%**	(3.8%)	(1.6%)

[(1)]*Includes refunding bonds.*
[(2)]*Consists of unamortized bond discounts and premiums.*

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.

Fiscal Year 2019 Compared to 2018. At June 30, 2019, outstanding bonds and other long-term obligations totaled $4.3 billion, a net decrease of $171.6 million or 3.8 percent from the prior year. The decrease was due to $171.2 million of bond refundings, as the new debt issued was less than the amount of debt refunded and $142.0 million of scheduled principal payments. These decreases were offset by $94.8 million increase in premiums and discounts, which included $129.3 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 $34.5 million related to scheduled amortization. In addition, revolving notes increased $46.8 million related to the BANA notes issued for the CWF advance funding.

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, 2020 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+

COVID-19 PANDEMIC

The spread of the novel strain of coronavirus and the disease it causes (now known as "COVID-19") is having significant negative impacts throughout the world, including in Southern California. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been 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. On March 17, 2020, Metropolitan's General Manager declared a state of emergency at Metropolitan. The purposes behind these declarations are to initiate emergency response protocols, coordinate and formalize emergency actions across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

The outbreak resulted in the implementation of "stay-at-home" (or "safer-at-home") orders by State and local governments for citizens to remain at home except for certain essential purposes, the imposition of restrictions on mass gatherings and the widespread temporary closings of businesses, universities and schools (including within the jurisdiction of Metropolitan and its member agencies). Although a gradual re-opening of various sectors has subsequently commenced in accordance with the Governor's re-opening plan (based upon local conditions in each county), the pandemic and governmental response has materially altered the behavior of people, disrupted business activity and resulted in a significant contraction of the U.S., State and regional economies. Employment data released since the imposition of the restrictions have shown a dramatic increase in unemployment rates. In addition, stock markets in the U.S. and globally experienced significant declines in the fourth quarter of fiscal year 2020 following the onset of COVID-19 outbreak that have been attributed to COVID-19 concerns, although some recovery has occurred in the subsequent months. On June 9, 2020, the National Bureau of Economic Research determined that the U.S. had entered into a recession in the prior months.

Metropolitan has taken, and is taking, a number of steps to protect the health of its employees, maintain continuity of its critical and essential business functions and avoid widespread impacts to its workforce from the COVID-19 outbreak. Metropolitan's Pandemic Action Plan is in effect. The following actions have been undertaken and are underway. A pandemic task force met regularly in the fourth quarter of fiscal year 2020 to review and update plans, prepare and implement action plans and coordinate Metropolitan's overall response activities. Further, in March 2020, Metropolitan's Emergency Operations Center (EOC) was activated in a virtual mode to monitor the spread of COVID-19 and coordinate emergency response activities throughout the organization and with other agencies. The EOC was demobilized as of June 30, 2020. Staff continues to communicate with county health agencies and the State, monitoring media reports and preparing and implementing action plans, as needed. Metropolitan's Water System is in a federally designated critical infrastructure sector with exemptions under Governor Newsom's Statewide "stay-at-home" order as needed to maintain continuity of operations. Personnel necessary to the operation and delivery of water supplies remain on-site, with staffing strategies being utilized to promote "social distancing." Enhanced facility cleaning and disinfection practices have also been put in place to promote a safe and healthful workplace for these employees. Telecommuting arrangements and paid administrative leave for employees performing other functions were implemented in March 2020 along with limiting non-essential business travel. It is anticipated that these employees will continue telecommuting at least through the end of calendar year 2020.

COVID-19 is not believed to present a threat to the safety of Metropolitan's treated water supplies. Metropolitan has also taken steps to ensure it has the necessary backup equipment, supplies and treatment chemicals in the event of disruptions to the supply chain for these items. To date, Metropolitan's ability to treat and deliver water has not been impaired.

Metropolitan is assessing the effects the ongoing COVID-19 outbreak will have on Metropolitan and its business and operations, as well as in the region, including the adverse financial impacts likely to be experienced by its member agencies. While Metropolitan continued to work on a variety of infrastructure and system reliability projects, certain Metropolitan projects and initiatives were initially paused as a result of the COVID-19 pandemic. Metropolitan has subsequently resumed its construction activities where the work can be done in keeping with best practices for pandemic safety. More broadly, press reports and analyses have suggested that 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, anticipate their customers are likely to be adversely impacted financially. As a measure to help mitigate such financial impacts and assure access to water service, on April 2, 2020, Governor Newsom issued an executive order which, among other things, orders the restoration of water service to residential customers in occupied residences whose service was discontinued for nonpayment during the state of emergency, and suspends the authority of retail water service providers to discontinue water service to residential and qualifying small business customers for non-payment. Voluntary measures may also be taken by retail water service providers in the State to assist their customers facing financial hardship as a result of the COVID-19 outbreak. The financial impacts to retail water customers and measures taken to assist them may result in more non-payment of utility bills than normal and forecasted, which is likely to further 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 World Health Organization on March 11, 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, reflect these adjustments, which include (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. On September 15, 2020, the Board approved a cost-cutting plan to reduce Metropolitan expenditures by $10.7 million and $1.0 million in fiscal years 2021 and 2022, respectively. The Board also directed Metropolitan staff to develop a penalty-free payment deferment program, evaluate potential new revenue-generating programs, and place a moratorium on non-emergency unbudgeted spending.

The COVID-19 outbreak is ongoing and developments will continue. The 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 to (i) the duration and severity of the outbreak; (ii) the extent of the disruption to or decline in the local and global economies and financial markets; (iii) the degree to which business closures, increased unemployment, housing foreclosures and/or other economic consequences may reduce water demands in the region and Metropolitan's water transactions, or negatively affect future property values in Metropolitan's service area and/or Metropolitan's property tax levy receipts, and reduce Metropolitan's revenues; (iv) the extent to which a protracted disruption in the manufacturing or construction industry may affect supply chains or further delay construction schedules for, or the implementation of, Metropolitan's capital improvement programs and projects, or the costs of such programs or projects or Metropolitan's water system operations; and (v) what additional actions may be taken or required by governmental authorities to contain and respond to the outbreak and what the costs or impacts of such actions may be. It is expected that restrictions and limitations instituted related to COVID-19 will likely remain in place for some period, that the ongoing economic downturn may continue for many months and that the recovery may be prolonged. As a result, Metropolitan's finances and operations may be adversely impacted by COVID-19.

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1d and 3):		
Unrestricted (cost: $430,819 and $459,590 for 2020 and 2019, respectively)	**$ 434,297**	$ 460,854
Restricted (cost: $515,761 and $425,332 for 2020 and 2019, respectively)	**519,926**	426,503
Total cash and investments	**954,223**	887,357
Receivables:		
Water revenues	**223,221**	170,130
Interest on investments	**3,551**	4,725
Other, net (Note 1f)	**37,914**	29,737
Total receivables	**264,686**	204,592
Inventories (Note 1g)	**118,465**	123,003
Deposits, prepaid costs, and other (Note 11)	**2,782**	2,040
Total current assets	**1,340,156**	1,216,992
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1d and 3):		
Unrestricted (cost: $249,902 and $255,885 for 2020 and 2019, respectively)	**251,920**	256,590
Restricted (cost: $45,422 and $41,856 for 2020 and 2019, respectively)	**45,977**	42,158
Total cash and investments	**297,897**	298,748
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1h and 9f)	**1,620,950**	1,530,628
Plant and equipment - depreciable (Notes 1h and 9f)	**10,342,849**	10,155,417
Participation rights in State Water Project (Notes 1i, 2 and 10)	**5,445,832**	5,301,433
Participation rights in other facilities (Notes 1i, 2 and 4)	**459,049**	459,049
Total capital assets	**17,868,680**	17,446,527
Less accumulated depreciation and amortization	**(7,360,295)**	(7,053,048)
Total capital assets, net	**10,508,385**	10,393,479
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	**354,328**	329,244
Total other assets	**354,328**	329,244
Total noncurrent assets	**11,160,610**	11,021,471
Total assets	**12,500,766**	12,238,463
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1n)	**19,632**	24,629
Loss on swap terminations (Note 1n)	**18,987**	18,500
Pension related (Notes 1l, 1n, and 7d)	**85,243**	106,935
OPEB related (Notes 1m, 1n, and 8k)	**33,506**	32,067
Effective swaps (Note 1n)	**11,711**	—
Total deferred outflows of resources	**169,079**	182,131
Total Assets and Deferred Outflows of Resources	**$ 12,669,845**	$ 12,420,594

See accompanying notes to basic financial statements

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1j)	**$ 109,083**	$ 131,952
Short-term revolving notes (Note 5a)	**35,645**	—
Current portion of long-term debt (Notes 5 and 6)	**1,039,054**	468,037
Current portion of accrued compensated absences (Notes 1k and 6)	**24,700**	22,000
Current portion of customer deposits and trust funds (Note 6)	**11,924**	8,335
Current portion of workers' compensation and third party claims (Notes 6 and 14)	**4,122**	3,284
Current portion of other long-term liabilities (Note 6)	**5**	5
Accrued bond interest	**65,581**	51,558
Matured bonds and coupons not presented for payment	**1,725**	1,754
Total current liabilities	**1,291,839**	686,925
Noncurrent Liabilities:		
Long-term debt, net of current portion (Notes 5 and 6)	**3,333,372**	3,820,568
Long-term revolving notes (Notes 5a and 6)	**46,800**	46,800
Accrued compensated absences, net of current portion (Notes 1k and 6)	**27,581**	26,397
Customer deposits and trust funds, net of current portion (Note 6)	**44,837**	41,062
Net pension liability (Note 7c)	**668,995**	634,037
Net OPEB liability (Note 8f)	**167,986**	228,334
Workers' compensation and third party claims, net of current portion (Notes 6 and 14)	**9,480**	9,674
Fair value of interest rate swaps (Notes 5e and 6)	**68,611**	56,274
Other long-term liabilities, net of current portion (Note 6)	**2,204**	2,204
Total noncurrent liabilities	**4,369,866**	4,865,350
Total liabilities	**5,661,705**	5,552,275
Commitments and Contingencies (Note 9)	**—**	—
Deferred Inflows of Resources:		
Effective swaps (Note 1n)	**—**	626
Pension related (Notes 1l, 1n and 7d)	**21,298**	24,206
OPEB related (Notes 1m, 1n, and 8k)	**47,337**	7,288
Total deferred inflows of resources	**68,635**	32,120
Total Liabilities and Deferred Inflows of Resources	**5,730,340**	5,584,395
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	**6,121,599**	6,131,572
Restricted for:		
Debt service	**196,478**	180,724
Other	**276,638**	237,893
Unrestricted	**344,790**	286,010
Total net position	**6,939,505**	6,836,199
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 12,669,845**	$ 12,420,594

This page intentionally left blank.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended June 30,	
(Dollars in thousands)	**2020**	2019
Operating Revenues (Note 1c):		
Water revenues	**$ 1,187,998**	$ 1,148,674
Readiness-to-serve charges	**134,500**	136,500
Capacity charge	**30,490**	33,024
Power sales	**15,922**	18,257
Total operating revenues	**1,368,910**	1,336,455
Operating Expenses:		
Power and water costs	**438,683**	375,780
Operations and maintenance	**557,341**	493,962
Total operating expenses	**996,024**	869,742
Operating income before depreciation and amortization	**372,886**	466,713
Less depreciation and amortization (Note 2)	**(353,031)**	(361,091)
Operating income	**19,855**	105,622
Nonoperating Revenues (Expenses) (Note 1p):		
Taxes, net (Note 1e)	**146,902**	142,683
Bond interest, net of $9,800 and $4,700 of interest capitalized in fiscal years 2020 and 2019, respectively (Note 1h)	**(100,726)**	(126,925)
Investment income, net	**28,868**	36,003
Loss on disposal of plant assets	**(10,166)**	(13,678)
Other, net	**18,573**	5,169
Total nonoperating revenues, net	**83,451**	43,252
Changes in Net Position Before Contributions	**103,306**	148,874
Capital contributions (Note 1o)	**—**	840
Changes in net position	**103,306**	149,714
Net position, beginning of year	**6,836,199**	6,686,485
Net position, End of Year	**$ 6,939,505**	$ 6,836,199

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30, 2020	2019
Cash Flows from Operating Activities:		
Cash received from water sales	**$ 1,001,256**	$ 1,101,721
Cash received from readiness-to-serve charges	**134,236**	137,158
Cash received from capacity charge	**30,347**	33,293
Cash received from power sales	**16,745**	17,536
Cash received from other exchange transactions	**133,793**	97,855
Cash paid for operations and maintenance expenses	**(267,120)**	(268,692)
Cash paid to employees for services	**(247,652)**	(226,645)
Cash paid for power and water costs	**(495,479)**	(378,180)
Other cash flows for operating activities	**1,575**	1,618
Net cash provided by operating activities	**307,701**	515,664
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**7,487**	10,047
Net cash provided by noncapital financing activities	**7,487**	10,047
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(335,526)**	(231,747)
Payments for State Water Project costs	**(144,399)**	(140,688)
Refunds (advance payments) for California WaterFix Project costs	**34,007**	(41,500)
Proceeds from short and long-term debt	**305,645**	46,833
Payments for bond issuance costs	**(4,102)**	(3,418)
Principal paid on debt	**(141,500)**	(175,973)
Interest paid on debt	**(140,483)**	(184,487)
Proceeds from tax levy	**147,102**	145,154
Transfer from escrow trust accounts	**1,510**	10,571
Payments of rebatable arbitrage	**—**	(10)
Proceeds from sale of capital assets	**—**	9,730
Net cash used by capital and related financing activities	**(277,746)**	(565,535)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(2,992,894)**	(6,377,345)
Proceeds from sales and maturities of investment securities	**2,937,477**	6,223,438
Investment income	**18,114**	31,374
Net cash used by investing activities	**(37,303)**	(122,533)
Net change in cash	**139**	(162,357)
Cash at July 1, 2019 and 2018	**22**	162,379
Cash at June 30, 2020 and 2019 (Notes 1b and 3a)	**$ 161**	$ 22

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30, 2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	**$ 19,855**	$ 105,622
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	**353,031**	361,091
(Increase) decrease in accounts receivable	**(61,172)**	51,464
Decrease (increase) in inventories	**4,538**	(25,276)
Increase in deposits, prepaid costs, and other	**(21,985)**	(21,007)
(Decrease) increase in accounts payable, and accrued expenses	**(20,571)**	30,175
Increase (decrease) in pension liabilities	**30,763**	(22,943)
Decrease in OPEB liabilities	**(53,106)**	(10,522)
Decrease in deferred outflows related to pension	**19,089**	27,064
(Decrease) increase in deferred inflows related to pension	**(2,559)**	5,478
(Increase) decrease in deferred outflows related to OPEB	**(1,266)**	2,242
Increase in deferred inflows related to OPEB	**35,243**	310
Increase in other items	**5,841**	11,966
Total Adjustments	**287,846**	410,042
Net cash provided by operating activities	**$ 307,701**	$ 515,664
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	**$ 465,703**	$ 808,053
Debt defeased through escrow trust fund with refunding debt	**$ (465,275)**	$ (785,030)
Deferred gain on refunding debt	**$ —**	$ 8,694
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at June 30, 2020 and 2019 includes $161 and $22 of cash, respectively)	**$ 686,217**	$ 717,444
Restricted cash and investments	**565,903**	468,661
Total cash and investments, at fair value	**1,252,120**	1,186,105
Less: carrying value of investments	**(1,251,959)**	(1,186,083)
Total Cash (Notes 1b and 3a)	**$ 161**	$ 22

This page intentionally left blank.

1. 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 2020 or 2019. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan 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.

(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 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 2020, 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, 2020 and 2019 were as follows:

(Dollars in thousands)	June 30, 2020		June 30, 2019	
Water in storage	**$**	**103,922**	$	109,612
Operating supplies		**14,543**		13,391
Total inventories	**$**	**118,465**	$	123,003

(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.

(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, 2020 and 2019 were as follows:

	June 30,	
(Dollars in thousands)	**2020**	2019
Department of Water Resources (SWP):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 48,943**	$ 72,910
Vendors	**35,484**	42,989
Accrued power costs	**4,860**	1,578
Accrued salaries	**10,946**	8,699
Readiness-to-serve overcollection	**1,436**	1,368
Conservation credits	**7,414**	4,408
Total accounts payable and accrued expenses	**$ 109,083**	$ 131,952

(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, 2018
Measurement Date (MD): June 30, 2019
Measurement Period: July 1, 2018 to June 30, 2019

(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, 2019
Measurement Period: July 1, 2018 to June 30, 2019

(n) Deferred Outflows/Inflows of Resources

The net investment in capital assets, including State Water Project costs of $6.1 billion at June 30, 2020 and 2019, includes the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at June 30, 2020 and 2019 were $19.6 million and $24.6 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 $344.8 million and $286.0 million at June 30, 2020 and 2019, 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, 2020 and 2019, respectively, were $19.0 million and $18.5 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, 2020 and 2019 were $85.2 million and $106.9 million, respectively. The deferred inflows related to pension at June 30, 2020 and 2019 were $21.3 million and $24.2 million, respectively. See note 7(d) for additional information.

The deferred outflows related to OPEB at June 30, 2020 and 2019 were $33.5 million and $32.1 million, respectively. The deferred inflows related to OPEB at June 30, 2020 and 2019 were $47.3 million and $7.3 million, respectively. See notes 8(j) and (k) for additional information.

The deferred outflow from the decrease in fair value of interest rate swaps of $11.7 million at June 30, 2020 and the deferred inflow from the increase in fair value of interest rate swaps of $0.6 million at June 30, 2019, would be recognized as an investment loss or gain, 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 outflow and deferred inflow also would be recognized as an investment loss or gain, respectively, if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow and deferred inflow would be reduced and the deferred loss or gain on refunding, respectively, would be increased by the same amount. The deferred loss or gain 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

In May 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance,* with the primary objective of providing temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. As a result of GASB 95, all GASB Statements that would have been applicable in fiscal year 2020 were delayed until fiscal year 2021 or later, as noted below.

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. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* (effective for fiscal year 2021).
- 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 pronouncements were issued by GASB but were determined to not be applicable to Metropolitan's financial statements:

- GASB Statement No. 84, *Fiduciary Activities.*
- GASB Statement No. 91, *Conduit Debt Obligations.*

2. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2020 and 2019 was as follows:

(Dollars in thousands)	June 30, 2018	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	$ 994,837	$ 2,965
Construction in progress	691,765	218,423
Total capital assets not being depreciated	1,686,602	221,388
Other capital assets:		
Parker power plant and dam	13,009	—
Power recovery plants	216,154	468
Other dams and reservoirs	1,560,703	7,862
Water transportation facilities	3,820,681	89,490
Pumping plants and facilities	302,346	1,115
Treatment plants and facilities	2,969,778	223,818
Power lines and communication facilities	32,678	—
Computer systems software	115,056	—
Buildings	162,546	24,859
Miscellaneous	495,044	8,559
Major equipment	102,315	6,352
Pre-operating expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	5,160,746	177,022
Participation rights in other facilities (Note 4)	459,489	—
Total other capital assets at historical cost	15,455,140	539,545
Accumulated depreciation and amortization:		
Parker power plant and dam	(12,300)	(163)
Power recovery plants	(102,267)	(4,540)
Other dams and reservoirs	(402,128)	(20,803)
Water transportation facilities	(1,014,774)	(56,015)
Pumping plants and facilities	(104,183)	(5,441)
Treatment plants and facilities	(747,983)	(85,698)
Power lines and communication facilities	(11,095)	(400)
Computer systems software	(109,398)	(2,200)
Buildings	(34,709)	(3,222)
Miscellaneous	(142,134)	(11,755)
Major equipment	(86,029)	(5,351)
Pre-operating expenses of original aqueduct	(41,489)	(1,035)
Participation rights in State Water Project (Note 10)	(3,719,225)	(141,700)
Participation rights in other facilities (Note 4)	(204,077)	(13,796)
Total accumulated depreciation and amortization	(6,731,791)	(352,119)
Other capital assets, net	8,723,349	187,426
Total capital assets, net	$ 10,409,951	$ 408,814
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		

Reductions	June 30, 2019	**Additions**	**Reductions**	**June 30, 2020**
$ (12,977)	$ 984,825	**$ 902**	**$ (931)**	**$ 984,796**
(364,385)	545,803	**326,418**	**(236,067)**	**636,154**
(377,362)	1,530,628	**327,320**	**(236,998)**	**1,620,950**
—	13,009	**—**	**—**	**13,009**
(6,045)	210,577	**10,422**	**(764)**	**220,235**
(235)	1,568,330	**47,935**	**(2,753)**	**1,613,512**
(17,603)	3,892,568	**119,404**	**(18,539)**	**3,993,433**
(429)	303,032	**55,464**	**(909)**	**357,587**
(7,815)	3,185,781	**22,995**	**(82,456)**	**3,126,320**
—	32,678	**7,544**	**(161)**	**40,061**
(246)	114,810	**6,935**	**(3,315)**	**118,430**
—	187,405	**15,399**	**(24,298)**	**178,506**
(5,790)	497,813	**33,361**	**(2,110)**	**529,064**
(3,848)	104,819	**6,400**	**(3,122)**	**108,097**
—	44,595	**—**	**—**	**44,595**
(36,335)	5,301,433	**181,880**	**(37,481)**	**5,445,832**
(440)	459,049	**—**	**—**	**459,049**
(78,786)	15,915,899	**507,739**	**(175,908)**	**16,247,730**
—	(12,463)	**(163)**	**—**	**(12,626)**
4,289	(102,518)	**(3,454)**	**764**	**(105,208)**
235	(422,696)	**(10,198)**	**2,645**	**(430,249)**
10,280	(1,060,509)	**(62,180)**	**10,550**	**(1,112,139)**
429	(109,195)	**(8,026)**	**758**	**(116,463)**
7,249	(826,432)	**(76,227)**	**17,488**	**(885,171)**
—	(11,495)	**(462)**	**161**	**(11,796)**
246	(111,352)	**(2,167)**	**1,911**	**(111,608)**
—	(37,931)	**(4,089)**	**4,086**	**(37,934)**
4,298	(149,591)	**(18,829)**	**321**	**(168,099)**
3,836	(87,544)	**(5,747)**	**3,122**	**(90,169)**
—	(42,524)	**(1,035)**	**—**	**(43,559)**
—	(3,860,925)	**(142,696)**	**—**	**(4,003,621)**
—	(217,873)	**(13,780)**	**—**	**(231,653)**
30,862	(7,053,048)	**(349,053)**	**41,806**	**(7,360,295)**
(47,924)	8,862,851	**158,686**	**(134,102)**	**8,887,435**
$ (425,286)	$ 10,393,479	**$ 486,006**	**$ (371,100)**	**$ 10,508,385**
	$ 196,623			**$ 192,577**
	141,700			**142,696**
	13,796			**13,780**
	352,119			**349,053**
	8,972			**3,978**
	$ 361,091			**$ 353,031**

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).

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, 2020 and 2019, Metropolitan's cash balances with financial institutions were $156,000 and $17,000 respectively, and cash on hand was $5,000 at each year-end.

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, 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). As of June 30, 2020 and 2019, Metropolitan had the following investments at fair value:

	June 30,	
(Dollars in thousands)	**2020**	2019
U.S. Treasury securities	**$ 173,164**	$ 88,340
Federal agency securities	**41,306**	82,406
Asset backed securities	**42,419**	—
Supranationals	**38,535**	—
Prime commercial paper	**74,988**	134,176
Medium-term corporate notes	**230,027**	277,392
Negotiable certificates of deposit	**136,265**	230,648
Money market funds	**167,532**	241,988
GSE	**58,856**	64,022
Municipal bonds	**3,524**	2,111
CAMP	**210,343**	—
LAIF	**75,000**	65,000
Total investments	**$ 1,251,959**	$ 1,186,083

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.

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of June 30, 2020 and 2019:

	Fair Value Measurement Using					
(Dollars in thousands)	**6/30/2020**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	6/30/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level:						
U.S. Treasury securities	**$ 173,164**	**$ 173,164**	**$ —**	$ 88,340	$ 88,340	$ —
Federal agency securities	**41,306**	**41,306**	**—**	82,406	82,406	—
Asset backed securities	**42,419**	**42,419**	**—**	—	—	—
Supranationals	**38,535**	**38,535**	**—**	—	—	—
Prime commercial paper	**74,988**	**—**	**74,988**	134,176	—	134,176
Medium-term corporate notes	**230,027**	**230,027**	**—**	277,392	277,392	—
Negotiable certificates of deposit	**136,265**	**126,262**	**10,003**	230,648	170,596	60,052
GSE	**58,856**	**58,856**	**—**	64,022	64,022	—
Municipal bonds	**3,524**	**3,524**	**—**	2,111	2,111	—
Total investments by fair value level	**$ 799,084**	**$ 714,093**	**$ 84,991**	$ 879,095	$ 684,867	$ 194,228
Investments not subject to fair value level:						
Money market funds [1]	**167,532**			241,988		
CAMP	**210,343**			—		
LAIF	**75,000**			65,000		
Total investments	**$ 1,251,959**			$ 1,186,083		

[1] As of June 30, 2020 and 2019, 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 $714.1 million and $684.9 million as of June 30, 2020 and 2019, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling $75.0 million and $134.2 million and negotiable certificates of deposit totaling $10.0 million and $60.1 million, as of June 30, 2020 and 2019, respectively, 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.

Interest rate risk. In accordance with Metropolitan's investment policy, interest rate risk was managed by limiting the duration of the various portfolio segments. Each segment has limitations on the amount of duration exposure (see the following for specific durations).

Internally Managed Segment

This segment of the portfolio was managed against the Intercontinental Exchange Bank of America Merrill Lynch (ICE BoAML) 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For fiscal years 2020 and 2019, the benchmark duration was 0.23 and the portfolio duration was permitted to vary from the duration by plus or minus 0.50. As of June 30, 2020 and 2019, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2020		2019	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 120,138**	**0.41**	$ 33,900	1.26
Federal agency securities	**39,983**	**1.16**	82,157	0.57
Asset backed securities	**42,419**	**2.17**	—	—
Supranationals	**38,535**	**0.43**	—	—
Prime commercial paper	**74,988**	**0.09**	134,176	0.22
Medium-term corporate notes	**146,084**	**0.60**	207,391	0.77
Negotiable certificates of deposit	**136,265**	**0.36**	230,648	0.33
Money market funds	**165,428**	**—**	241,039	—
Municipal bonds	**2,135**	**2.17**	768	5.05
CAMP	**210,343**	**—**	—	—
LAIF	**75,000**	**—**	65,000	—
Total portfolio segment	**$ 1,051,318**		$ 995,079	
Portfolio duration		**0.33**		0.36

Externally Managed Segment

This segment of the portfolio was managed against the ICE BoAML, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For fiscal years 2020 and 2019, the benchmark durations were 2.66 and 2.61, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2020 and 2019, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2020		2019	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 50,512**	**3.65**	$ 50,873	2.08
Medium-term corporate notes	**83,943**	**2.10**	70,001	2.36
Money market funds	**1,756**	**—**	194	—
GSE	**58,856**	**1.56**	64,022	2.20
Total portfolio segment	**$ 195,067**		$ 185,090	
Portfolio duration		2.32		2.22

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, 2020 and 2019, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2020		2019	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 2,514**	**0.97**	$ 3,567	1.24
Federal agency securities	**1,323**	**1.58**	249	0.77
Money market funds	**348**	**—**	755	—
Municipal bonds	**1,389**	**3.22**	1,343	4.13
Total portfolio segment	**$ 5,574**		$ 5,914	
Weighted average duration		**1.61**		1.71

Credit risk. Credit risk was managed by purchasing investments with the nationally recognized credit ratings specified in Metropolitan's investment policy. Additionally, the policy required monitoring the credit ratings of securities held in the portfolio, and if the securities' credit ratings were downgraded, evaluating for potential sale. For certain securities, additional requirements included consideration of net worth, length of time in business, and specified market values.

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

Investment Type	**Minimum Rating**
U.S. Treasury Federal Agency Obligations	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) their equivalent or better by a NRSRO.
Time 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 GSE	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) their equivalent or better by a NRSRO.

At June 30, 2020 and 2019, Metropolitan's portfolio was invested in the following securities by rating:

		June 30,	
		2020	2019
(Dollars in thousands)	Rating	**Fair value**	Fair value
U.S. Treasury securities	N/A[(1)]	**$ 173,164**	$ 88,340
Federal agency securities	N/A[(1)]	**41,306**	82,406
Asset backed securities	AA or higher	**42,419**	—
Supranationals	AA or higher	**38,535**	—
Prime commercial paper	A1/P1[(2)]	**74,988**	134,176
Medium-term corporate notes	A[(2),(3)]	**230,027**	277,392
Negotiable certificates of deposit	F1[(2)]	**136,265**	230,648
Money market funds	AAA	**167,532**	241,988
GSE	AAA	**58,856**	64,022
Municipal bonds	A[(2)]	**3,524**	2,111
CAMP	AAAm	**210,343**	—
LAIF	N/A[(4)]	**75,000**	65,000
Total portfolio		**$ 1,251,959**	$ 1,186,083

[(1)]*Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.*
[(2)]*A (long-term) or A-1 (short-term) or better e.g. F1+, A1+, AA, or AAA.*
[(3)]*In March 2020, Daimler Finance and Delta Airlines securities were downgraded by S&P from A- to BBB+ and A- to BBB-, respectively. Management had determined to hold both securities to maturity.*
[(4)]*LAIF is not rated.*

Concentration of credit risk. In accordance with Metropolitan's investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent, for CAMP, money market funds and repurchase agreements, to 100 percent for GSE, U.S. Treasury and federal agency securities. The percentages of investments that can be purchased by a single issuer, within each security type, ranged from 5 percent, for asset-backed securities, to 10 percent for bankers' acceptances.

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of June 30, 2020 and 2019.

	Investment Policy Limits	Percent of Portfolio	
		2020	2019
U.S. Treasury securities	100%	**14 %**	8 %
Federal agency securities	100%	**3 %**	7 %
Asset backed securities	20%	**4 %**	— %
Supranationals	30%	**3 %**	— %
Prime commercial paper	25%	**6 %**	11 %
Medium-term corporate notes	30%	**18 %**	23 %
Negotiable certificates of deposit	30%	**11 %**	20 %
Money market funds	20%	**13 %**	20 %
GSE	20%(1)	**5 %**	5 %
Municipal bonds	30%	**— %**	— %
CAMP	20%	**17 %**	— %
LAIF	N/A	**6 %**	6 %
Total portfolio		**100 %**	100 %

(1)Mortgage-backed securities included in GSE are limited to 100% of the investment portfolio in accordance with Metropolitan's investment policy.

At June 30, 2020 and 2019, 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)		**2020**	
LAIF	**$**	**75,000**	**5.99 %**
Dreyfus Gov't Cash Management(1)	**$**	**165,511**	**13.22 %**
CAMP	**$**	**210,343**	**16.80 %**

(1)Invested in Money market funds

(Dollars in thousands)		2019	
LAIF	$	65,000	5.48 %
Federal National Mortgage Association(1)	$	60,064	5.06 %

(1)Invested in Federal agency securities

Custodial credit risk. At June 30, 2020 and 2019, 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 $210.3 million and $75.0 million in deposits in the CAMP and LAIF, respectively, as of June 30, 2020 and $65.0 million in deposits in the LAIF as of June 30, 2019.

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 as of June 30, 2020 was $6.5 billion, of which, 30.3 percent was invested in medium-term and short-term notes and asset-backed securities. The average maturity of CAMP investments was 53 days.

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, 2020 and 2019 was $32.1 billion and $24.6 billion, respectively. At June 30, 2020 and 2019, the PMIA had a balance of $101.0 billion and $105.7 billion, respectively, of which, 3.37 percent and 1.77 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, 2020 and 2019, was 191 days and 173 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, 2020 and 2019.

(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.

This page intentionally left blank.

4. PARTICIPATION RIGHTS

Participation rights activity, excluding participation rights in State Water Project, for the fiscal years ended June 30, 2020 and 2019 was as follows:

(Dollars in thousands)	June 30, 2018	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	34,699	—
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	459,489	—
Accumulated amortization:		
Imperial Irrigation District	(58,962)	(2,270)
Palo Verde Irrigation District	(31,074)	(2,343)
Kern Delta Water District	(17,287)	(2,172)
South County Pipeline	(23,107)	(912)
Semitropic Water Storage District	(17,911)	(958)
Arvin-Edison Water Storage District	(21,754)	(1,467)
Chino Basin	(13,448)	(1,454)
Orange County	(11,053)	(1,195)
Conjunctive Use Programs	(9,481)	(1,025)
Total	(204,077)	(13,796)
Participations rights, net	$ 255,412	$ (13,796)

Reductions	June 30, 2019	**Additions**	**Reductions**	**June 30, 2020**
$ —	$ 112,313	**$ —**	**$ —**	**$ 112,313**
—	82,804	**—**	**—**	**82,804**
—	39,007	**—**	**—**	**39,007**
—	72,371	**—**	**—**	**72,371**
(440)	34,259	**—**	**—**	**34,259**
—	47,187	**—**	**—**	**47,187**
—	27,500	**—**	**—**	**27,500**
—	23,000	**—**	**—**	**23,000**
—	20,608	**—**	**—**	**20,608**
(440)	459,049	**—**	**—**	**459,049**
—	(61,232)	**(2,271)**	**—**	**(63,503)**
—	(33,417)	**(2,341)**	**—**	**(35,758)**
—	(19,459)	**(2,172)**	**—**	**(21,631)**
—	(24,019)	**(913)**	**—**	**(24,932)**
—	(18,869)	**(943)**	**—**	**(19,812)**
—	(23,221)	**(1,468)**	**—**	**(24,689)**
—	(14,902)	**(1,453)**	**—**	**(16,355)**
—	(12,248)	**(1,194)**	**—**	**(13,442)**
—	(10,506)	**(1,025)**	**—**	**(11,531)**
—	(217,873)	**(13,780)**	**—**	**(231,653)**
$ (440)	$ 241,176	**$ (13,780)**	**$ —**	**$ 227,396**

(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 2020 and 2019, 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, 2020 and 2019, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2.3 million in fiscal years 2020 and 2019.

(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 fallowing 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, 2020 and 2019, and are being amortized using the straight-line method over 35 years. Amortization expense totaled $2.3 million in fiscal years 2020 and 2019.

(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 183.3 TAF in the program as of June 30, 2020. 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

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, 2020 and 2019, 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 2020 and 2019.

(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, 2020 and 2019. 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 2020 and 2019.

(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, 2020. 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 223.0 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, 2020 and 2019. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $0.9 million and $1.0 million in fiscal years 2020 and 2019, respectively.

(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, 2020. The minimum estimated return capability for the Arvin-Edison program varies from 40.0 TAF per 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, 2020 and 2019. 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 2020 and 2019.

(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 2020, Metropolitan had 45.9 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, 2020 and 2019. 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 2020 and 2019.

(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, 2020, 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, 2020 and 2019. 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 2020 and 2019.

(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 2020, Metropolitan had a total of 11.7 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, 2020 and 2019. 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 2020 and 2019.

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 $4.419 billion and $4.335 billion at June 30, 2020 and 2019, respectively, represents less than one percent of the June 30, 2020 and 2019 total taxable assessed valuation of $3,092 billion and $2,917 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 2020 and 2019 and no commercial paper was outstanding at June 30, 2020 and 2019. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes (see Notes 5c and 5g).

Short-term note issued during the fiscal year ended June 30, 2020 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.

There was no short-term note issued during the fiscal year ended June 30, 2019.

A total of $35.6 million short-term revolving notes were outstanding at June 30, 2020. No short-term revolving notes were outstanding at June 30, 2019.

Long-term note issued 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 (RBC Note), at a rate equal to the SIFMA Index plus 33 basis points. On February 11, 2020, the RBC Note was repaid with proceeds from the issuance of the Water Revenue Refunding Bonds, Series 2020 A.

Long-term note issued during the fiscal year ended June 30, 2019 was as follows:

- On August 1, 2018, Metropolitan entered into a Note Purchase and Continuing Covenant Agreement with Bank of America N.A. (BANA, and the 2018 BANA Agreement), for the purchase by BANA and sale by Metropolitan of up to $86.0 million of Metropolitan's Short-Term Revenue Certificates, 2018 Series A (the Series 2018 Notes). Proceeds were used to provide advances or contributions of money to pay for costs related to the California WaterFix. The Series 2018 Notes will bear interest at a variable rate of interest, at a spread of 32 basis points to one-month LIBOR. Under the 2018 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2018 BANA Agreement as a Subordinate Lien Parity Obligation.

A total of $46.8 million of long-term revolving notes were outstanding at June 30, 2020 and 2019.

(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 $37.3 million and $48.1 million in general obligation refunding bonds were outstanding at June 30, 2020 and 2019, 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.

No general obligation bonds were issued during the fiscal years ended June 30, 2020 and 2019.

(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 $3.969 billion and $3.933 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2020 and 2019, 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 2045 at interest rates ranging from 1.04 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, 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.

There were no revenue bonds issued during the fiscal year ended June 30, 2019.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and short-term notes to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and revolving notes previously issued. The net proceeds from these sales were used to redeem the refunded bonds and fund certain swap termination payments or to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan's basic financial statements.

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 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.

Refunding and defeasance transactions during fiscal year 2019 were as follows:

- On January 28, 2019, Metropolitan sold $16.8 million of Waterworks General Obligation Refunding Bonds, 2019 Series A, to refund $20.9 million, Waterworks General Obligation Refunding Bonds, 2009 Series A. The maturities extend to March 1, 2028 and are not subject to redemption provisions prior to maturity.
- On December 20, 2018, Metropolitan issued $137.5 million of Water Revenue Refunding Bonds, 2018 Series B, to refund $169.8 million of Water Revenue Bonds, 2008 Authorization, Series A. The maturity extends to January 1, 2039 and is subject to optional redemption provisions.
- On June 6, 2019, Metropolitan sold $218.1 million of Water Revenue Refunding Bonds, 2019 Series A to refund $5.4 million of Water Revenue Bonds, 2008 Authorization, Series B, $18.7 million of Water Revenue Bonds, 2008 Authorization, Series C, $29.6 million of Water Revenue Bonds, 2008 Authorization, Series D, $106.7 million of Water Revenue Refunding Bonds, 2009 Series B, $91.2 million of Water Revenue Refunding Bonds, 2009 Series C, $31.0 million of Water Revenue Refunding Bonds, 2009 Series D, $6.6 million of Water Revenue Refunding Bonds, 2009 Series E, and $13.0 million of Water Revenue Refunding Bonds, 2014 Series C-1. The maturities extends to July 1, 2039 and are subject to optional redemption provisions.
- On June 27, 2019, Metropolitan issued $241.5 million of Subordinate Water Revenue Refunding Bonds, 2019 Series A to refund $59.7 million of Water Revenue Bonds, 2008 Authorization, Series C, $220.4 million of Water Revenue Bonds, 2008 Authorization, Series D, and $11.6 million of Water Revenue Refunding Bonds, 2014 Series G-4. The maturities extend to July 1, 2029, and are not subject to redemption provisions prior to maturity.

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 $9.2 million and $182.0 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $8.6 million and $165.2 million for fiscal years 2020 and 2019, respectively. The net carrying amount of the old debt was equal to the reacquisition price in fiscal year 2020 and in fiscal year 2019, the carrying amount of the old debt exceeded the reacquisition price by $7.7 million, which is deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is less. Deferred outflows of loss on bond refundings at June 30, 2020 and 2019 were $19.6 million and $24.6 million, respectively, and the deferred outflows on swap terminations for the same periods were $19.0 million and $18.5 million, respectively.

(e) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of June 30, 2020. 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, 2020, 2019, and 2018 are summarized on the following table.

(Dollars in thousands)

Associated Bond Issue [1]		Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating[2]
2002 A Payor	$	75,838	09/12/02	3.300 %	57.74% of 1MoLIBOR[4]	A3/BBB+/A
2002 B Payor		28,372	09/12/02	3.300 %	57.74% of 1MoLIBOR	Aa2/A+/AA
2003 Payor C-1 C-3		158,597	12/18/03	3.257 %	61.20% of 1MoLIBOR	Aa2/A+/AA-
2003 Payor C-1 C-3		158,597	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	A3/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
Total swaps	$	493,630				

[1]*These swaps lock in a fixed rate for an equivalent amount of variable rate debt.*

[2]*Credit Ratings - Moody's Investors Service, Standard & Poor's Global, Fitch Ratings, respectively.*

[3]*Excludes accrued interest.*

[4]*London Interbank Offered Rate.*

	Fair Value as of 6/30[3]			Change in Fair Value in FY	
Swap Termination	**2020**	2019	2018	**2020**	2019
07/01/25	**$ (5,158)**	$ (5,317)	$ (4,977)	**$ 159**	$ (340)
07/01/25	**(1,929)**	(1,989)	(1,863)	**60**	(126)
07/01/30	**(23,890)**	(19,448)	(15,259)	**(4,442)**	(4,189)
07/01/30	**(23,890)**	(19,449)	(15,260)	**(4,441)**	(4,189)
10/01/29	**(1,189)**	(897)	(658)	**(292)**	(239)
10/01/29	**(973)**	(734)	(538)	**(239)**	(196)
07/01/30	**(5,791)**	(4,220)	(2,928)	**(1,571)**	(1,292)
07/01/30	**(5,791)**	(4,220)	(2,928)	**(1,571)**	(1,292)
	$ (68,611)	$ (56,274)	$ (44,411)	**$ (12,337)**	$ (11,863)

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.

Metropolitan has the following recurring fair value measurements as of June 30, 2020 and 2019:

(Dollars in thousands)

		Fair Value Measurements Using		
Associated Bond Issue	**6/30/2020**	**Significant Other Observable Inputs (Level 2)**	6/30/2019	Significant Other Observable Inputs (Level 2)
2002 A Payor	**$ (5,158)**	**$ (5,158)**	$ (5,317)	$ (5,317)
2002 B Payor	**(1,929)**	**(1,929)**	(1,989)	(1,989)
2003 Payor C-1 C-3	**(23,890)**	**(23,890)**	(19,448)	(19,448)
2003 Payor C-1 C-3	**(23,890)**	**(23,890)**	(19,449)	(19,449)
2004 C Payor	**(1,189)**	**(1,189)**	(897)	(897)
2004 C Payor	**(973)**	**(973)**	(734)	(734)
2005 Payor	**(5,791)**	**(5,791)**	(4,220)	(4,220)
2005 Payor	**(5,791)**	**(5,791)**	(4,220)	(4,220)
Total swaps	**$ (68,611)**	**$ (68,611)**	$ (56,274)	$ (56,274)

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 eight separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

Terms: The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

Fair Values: At June 30, 2020, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of June 30, 2020, 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, 2020.

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, 2020, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $216.0 million or 43.8 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa2/A+/AA by Moody's, Standard & Poor's Global, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of June 30, 2020, the interest rates of the variable rate debt associated with these swap transactions range from .07 percent to .48 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from .09 percent to .21 percent.

Termination Risk: Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.

(f) Swap Payments and Associated Debt

Using rates as of June 30, 2020, 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.

	Variable Rate Bonds		Interest Rate	
(Dollars in thousands)	Principal	Interest	Swaps, Net	Total
Year ending June 30:				
2021	$ 54,965	$ 1,300	$ 14,498	$ 70,763
2022	32,715	1,167	13,012	46,894
2023	33,260	1,080	12,048	46,388
2024	34,630	983	10,959	46,572
2025	65,190	807	8,981	74,978
2026-2030	242,035	1,473	16,321	259,829
2031-2032	30,835	7	81	30,923
Total	$ 493,630	$ 6,817	$ 75,900	$ 576,347

(g) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from .07 percent to .48 percent as of June 30, 2020 and 1.45 percent to 2.72 percent as of June 30, 2019. 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 six 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 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 $34.8 million and $45.4 million at June 30, 2020 and 2019, respectively.

Metropolitan has the following six variable rate bonds that are supported by a SBPA as of June 30, 2020 and 2019:

(Dollars in thousands)

	Amount		Expiration	Interest	Current Amount	
Bond Issue	**6/30/20**	6/30/19	**Date**	**Rate**	**2020**	2019
Water Revenue Bonds						
2000 Series B-3	$ 78,900	$ 88,800	3/20/23	Reset Daily	**$ —**	$ 88,800
2017 Series A	80,000	80,000	3/20/23	Reset Daily	**—**	80,000
Water Revenue Refunding Bonds						
2018 Series A-1, A-2	90,070	210,040	6/25/21	Reset Daily	**90,070**	—
2016 Series B-1, B-2	82,905	103,670	7/19/21	Reset Daily	**—**	—
Total	$ 331,875	$ 482,510			**$ 90,070**	$ 168,800

Metropolitan has the following four and eight variable rate bonds that are not supported by a SBPA as of June 30, 2020 and 2019, respectively:

(Dollars in thousands)

Bond Issue	**6/30/20**	6/30/19	**Interest Rate**
Water Revenue Refunding Bonds			
2013 Series D	**$ —**	$ 87,445	Reset Weekly
2014 Series D	**—**	38,465	Reset Weekly
2015 Series A-1, A-2	**—**	188,900	Reset Weekly
Subordinate Water Revenue Bonds			
2016 Series A	**175,000**	175,000	1M LIBOR plus % spread
2017 Series C	**80,000**	80,000	SIFMA Index plus % spread
Subordinate Water Revenue Refunding Bonds			
2017 Series D	**95,630**	95,630	SIFMA Index plus % spread
2017 Series E	**95,625**	95,625	SIFMA Index plus % spread
Total	**$ 446,255**	$ 761,065	

The Subordinate Water Revenue Bonds, 2016 Series A were issued by Metropolitan through a Continuing Covenant Agreement with BANA (2016 BANA Agreement). The Subordinate 2016 Series A bonds will bear interest at a variable rate at a spread of 32 basis points to one-month LIBOR. The Subordinate 2016 Series A bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2020, or if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. A failure by Metropolitan to pay the purchase price of such bonds on the mandatory tender date would constitute an event of default under Metropolitan's Subordinate Debt Resolutions if not remedied within five business days. Metropolitan intends to either extend the 2016 BANA Agreement or remarket the bonds in the public debt market prior to the scheduled mandatory tender date. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

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 June 21, 2021. 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 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.

As of June 30, 2020 and 2019, Metropolitan had the following variable rate self-liquidity bonds not supported by a SBPA but are supported by a Revolving Credit Agreement (RCA):

(Dollars in thousands)

Bond Issue	Amount 6/30/20	Amount 6/30/19	Expiration Date	Interest Rate	Borrowing Amount 6/30/19	Current Amount 6/30/20	Current Amount 6/30/19
Water Revenue Refunding Bonds							
2013 Series D	$ —	$ 87,445	6/23/23	Reset Weekly	$ 87,445	$ —	$ —
2014 Series D	—	38,465	6/23/23	Reset Weekly	38,465	—	—
2015 Series A-1, A-2	—	188,900	6/23/23	Reset Weekly	74,090	—	114,810
Total	$ —	$ 314,810			$ 200,000	$ —	$ 114,810

As of June 30, 2019, the four series of the variable rate self-liquidity bonds that were not supported by a SBPA had no long-term take out provisions therefore, the entire principal amount of $314.8 million, could be tendered for purchase upon one week's notice from bondholders. However, on June 25, 2018, Metropolitan entered into a RCA, under which Metropolitan could borrow up to $200.0 million, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. Borrowings made by Metropolitan under the RCA initially bear interest at a fluctuating per annum interest rate equal to, at Metropolitan's discretion, either: (a) one month LIBOR plus one and a half percent; or (b) the higher of (i) the Federal Funds Rate plus one half of one percent, and (ii) the Prime Rate (increasing in any case periodically, beginning after 90 days). The RCA permitted repayment of any borrowed principal funds over ten semi-annual installments beginning 180 days after the funds are borrowed. The RCA had a stated expiration date of June 23, 2023. As a result of the RCA, $114.8 million was reported as current liabilities as of June 30, 2019. On April 3, 2020, the four series of variable rate self-liquidity bonds were refunded and on April 17, 2020, Metropolitan terminated the RCA.

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

Interest rates at June 30, 2020 on all outstanding fixed-rate obligations range from 1.04 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, 2020 are as follows:

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2021	$ 991,630	$ 148,466	$ 1,140,096
2022	255,810	136,540	392,350
2023	339,345	125,542	464,887
2024	187,250	112,588	299,838
2025	182,810	100,631	283,441
2026-2030	874,370	389,045	1,263,415
2031-2035	420,110	248,840	668,950
2036-2040	484,240	151,258	635,498
2041-2045	193,365	32,500	225,865
2046-2050	77,215	9,526	86,741
	$ 4,006,145	$ 1,454,936	$ 5,461,081

Unamortized bond discount and premium, net	366,281
Total debt	4,372,426
Less current portion	(1,039,054)
Long-term portion of debt	$ 3,333,372

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2020 and 2019 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.

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2018	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2009 Series A	3/1/19-3/1/28	5.00 %	$ 20,865	$ —
2010 Series A	3/1/29-3/1/37	3.50%-5.00%	18,735	—
2014 Series A	3/1/19-3/1/21	5.00 %	21,000	—
2019 Series A	3/1/20-3/1/28	5.00 %	—	16,755
Total general obligation and general obligation refunding bonds			60,600	16,755
Water revenue bonds (Note 5c):				
2000 Series B-3	7/1/29-7/1/35	Variable	88,800	—
2008 Series A	1/1/19-1/1/39	3.25%-5.00%	169,795	—
2008 Series B	7/1/18-7/1/20	3.125%-4.00%	7,905	—
2008 Series C	7/1/26-7/1/39	5.752%-6.250%	78,385	—
2008 Series D	7/1/21-7/1/39	5.906%-6.538%	250,000	—
2010 Series A	7/1/38-7/1/40	6.95 %	250,000	—
2015 Series A	7/1/18-7/1/45	5.00 %	208,255	—
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	6/21/2021	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 %	—	—
Water revenue refunding bonds (Note 5d):				
1993 Series A	7/1/19-7/1/21	5.75 %	49,140	—
2009 Series B	7/1/20-7/1/30	4.00%-5.25%	106,690	—
2009 Series C	7/1/29-7/1/35	5.00 %	91,165	—
2009 Series D	7/1/18-7/1/21	3.25%-5.00%	40,740	—
2009 Series E	7/1/18-7/1/20	4.00%-5.00%	9,730	—
2010 Series B	7/1/18-7/1/28	2.60%-5.00%	69,155	—
2011 Series B	7/1/18-7/1/20	4.00 %	3,885	—
2011 Series C	10/1/18-10/1/36	2.25%-5.00%	138,280	—
2012 Series A	10/1/23-10/1/36	3.25%-5.00%	181,180	—
2012 Series C	7/1/18-7/1/21	3.00%-5.00%	104,930	—
2012 Series F	7/1/18-7/1/28	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	7/1/18-7/1/21	4.00%-5.00%	95,935	—
2014 Series B	7/1/18	1.49 %	10,575	—
2014 Series C-1-C-3	10/1/19-10/1/21	3.00 %	30,335	—
2014 Series D	7/1/18-7/1/32	Variable	38,465	—
2014 Series E	7/1/21-7/1/24	3.50%-5.00%	86,060	—
2014 Series G-2-G-5	7/1/37	2.00%-3.00%	17,810	—
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	6/21/2021	Variable	95,630	—
2017 Subordinate Series E	6/21/2021	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%	—	—
2020 Series B	4/2/2021	1.04 %	—	—
Total water revenue and water revenue refunding bonds			4,233,860	597,105
Other long-term debt (Notes 5a and 5h):				
Revolving notes			—	—
Unamortized bond discount and premiums, net			212,499	146,302
Total long-term debt			4,506,959	806,962
Other long-term liabilities (see table next page)			156,897	52,120
Total long-term liabilities			$ 4,663,856	$ 859,082

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2020 and 2019

Reductions	June 30, 2019	**Additions**	**Reductions**	**June 30, 2020**	**Amounts Due Within One Year**
$ (20,865)	$ —	$ —	$ —	$ —	$ —
—	18,735	—	—	18,735	—
(8,440)	12,560	—	(8,020)	4,540	(4,540)
—	16,755	—	(2,730)	14,025	(860)
(29,305)	48,050	—	(10,750)	37,300	(5,400)
—	88,800	—	(9,900)	78,900	—
(169,795)	—	—	—	—	—
(7,905)	—	—	—	—	—
(78,385)	—	—	—	—	—
(250,000)	—	—	—	—	—
—	250,000	—	—	250,000	—
(1,990)	206,265	—	(2,145)	204,120	(2,585)
—	175,000	—	—	175,000	(175,000)
—	80,000	—	—	80,000	—
—	80,000	—	—	80,000	(80,000)
—	64,345	—	—	64,345	—
—	—	207,355	—	207,355	—
(27,300)	21,840	—	(9,615)	12,225	(10,185)
(106,690)	—	—	—	—	—
(91,165)	—	—	—	—	—
(40,740)	—	—	—	—	—
(9,730)	—	—	—	—	—
(5,355)	63,800	—	(7,795)	56,005	(11,675)
(1,245)	2,640	—	(1,295)	1,345	(1,345)
(9,530)	128,750	—	(9,950)	118,800	(100)
—	181,180	—	—	181,180	—
(50,135)	54,795	—	(34,960)	19,835	(14,200)
—	59,335	—	(10,450)	48,885	(11,150)
—	111,890	—	—	111,890	(22,070)
—	87,445	—	(87,445)	—	—
(12,070)	83,865	—	(45,995)	37,870	(33,000)
(10,575)	—	—	—	—	—
(13,505)	16,830	—	—	16,830	(14,020)
—	38,465	—	(38,465)	—	—
—	86,060	—	—	86,060	—
(11,605)	6,205	—	—	6,205	—
—	188,900	—	(188,900)	—	—
—	239,455	—	—	239,455	—
—	103,670	—	(20,765)	82,905	—
—	238,015	—	—	238,015	(5,300)
—	178,220	—	—	178,220	(35,645)
—	95,630	—	—	95,630	(95,630)
—	95,625	—	—	95,625	(95,625)
—	210,040	—	(119,970)	90,070	(90,070)
—	99,075	—	(4,400)	94,675	(4,560)
—	137,485	—	(3,975)	133,510	(4,385)
—	218,090	—	—	218,090	—
—	241,530	—	—	241,530	(7,870)
—	—	152,455	—	152,455	—
—	—	271,815	—	271,815	(271,815)
(897,720)	3,933,245	631,625	(596,025)	3,968,845	(986,230)
—	46,800	100,000	(100,000)	46,800	—
(51,491)	307,310	104,554	(45,583)	366,281	(47,424)
(978,516)	4,335,405	836,179	(752,358)	4,419,226	(1,039,054)
(39,782)	169,235	62,634	(38,405)	193,464	(40,751)
$ (1,018,298)	$ 4,504,640	$ 898,813	$ (790,763)	$ 4,612,690	$ (1,079,805)

(Dollars in thousands)	June 30, 2018	Additions	Reductions	June 30, 2019	**Additions**	**Reductions**	**June 30, 2020**	**Amounts Due Within One Year**
Accrued compensated absences	$ 47,645	$ 24,929	$ (24,177)	$ 48,397	**$ 27,895**	**$ (24,011)**	**$ 52,281**	**$ (24,700)**
Customer deposits and trust funds	46,172	9,493	(6,268)	49,397	**16,857**	**(9,493)**	**56,761**	**(11,924)**
Workers' Compensation and third party claims (Note 14)	13,579	5,835	(6,456)	12,958	**5,545**	**(4,901)**	**13,602**	**(4,122)**
Fair value of interest rate swaps (Note 5e)	44,411	11,863	—	56,274	**12,337**	**—**	**68,611**	**—**
Other long-term liabilities	5,090	—	(2,881)	2,209	**—**	**—**	**2,209**	**(5)**
Total other long-term liabilities	$ 156,897	$ 52,120	$ (39,782)	$ 169,235	**$ 62,634**	**$ (38,405)**	**$ 193,464**	**$ (40,751)**

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.

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 $66.1 million and $56.5 million for the fiscal years ended June 30, 2020 and 2019, respectively. The employee contribution rate was 6.0 percent of annual pay for PEPRA members for the fiscal years ended June 30, 2020 and 2019, 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 6.0 percent. At June 30, 2020 and 2019, Metropolitan's pickup of the employee's 7.0 percent share were $11.5 million and $11.8 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, 2020 and 2019 are summarized as follows:

	Miscellaneous	
Hire date	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		
2020	7.0 %	6.0 %
2019	7.0 %	6.0 %
Required employer contribution rates		
2020	29.972 %	29.972 %
2019	25.971 %	25.971 %

At June 30, 2018 and 2017, the valuation dates for fiscal years 2020 and 2019, respectively, the following current and former employees were covered by the benefit terms:

	2020	2019
Valuation date	**6/30/2018**	6/30/2017
Inactive employees (or their beneficiaries) currently receiving benefits	**2,203**	2,136
Inactive employees entitled to but not yet receiving benefits	**925**	932
Active members	**1,766**	1,746
Total	**4,894**	4,814

(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, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively, using an annual actuarial valuation as of June 30, 2018 and 2017, respectively. The actuarial valuations as of June 30, 2018 and 2017 were rolled forward to June 30, 2019 and 2018, respectively, using standard update procedures.

The total pension liabilities for the measurement dates of June 30, 2019 and 2018 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% in 2019 and 2018
Inflation	2.50% in 2019 and 2018
Salary increases	Varies by entry age and service
Mortality rate table[(1),(2)]	Derived using CalPERS' Membership Data for all Funds
Post-retirement benefit increase	The lesser of contract COLA or 2.50% in 2019 and contract COLA up to 2.00% in 2018, until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter in 2019 and 2018.

[(1)] *For the June 30, 2019 measurement date, 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.*

[(2)] *For the June 30, 2018 measurement date, the mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.*

All other actuarial assumptions used in the June 30, 2018 and 2017 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.

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. Taking into account 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, 2019 and 2018.

Asset Class[(1)]	Current Target Allocation	Real Return Years 1-10[(2)]	Real Return Years 11+[(3)]
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 %**		

[(1)]*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.*
[(2)]*An expected inflation of 2.0 percent used for this period*
[(3)]*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, 2019 and 2018 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 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.

(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, 2019 and 2018:

	Increase (Decrease)		
(Dollars in thousands)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2018 (VD)	**$ 2,376,778**	**$ 1,742,741**	**$ 634,037**
Changes recognized for the measurement period:			
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)
Net Changes	**$ 102,529**	**$ 67,571**	**$ 34,958**
Balance at June 30, 2019 (MD)	**$ 2,479,307**	**$ 1,810,312**	**$ 668,995**

(Dollars in thousands)	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2017 (VD)	**$ 2,315,248**	**$ 1,654,331**	**$ 660,917**
Changes recognized for the measurement period:			
Service cost	33,583	—	33,583
Interest on total pension liability	161,023	—	161,023
Differences between expected and actual experience	(10,039)	—	(10,039)
Changes of assumptions	(15,391)	—	(15,391)
Net plan to plan resources movement	—	(4)	4
Contribution - Employer	—	48,780	(48,780)
Contribution - Employee	—	15,749	(15,749)
Net investment income	—	139,003	(139,003)
Benefit payments, including refunds of employee contributions	(107,646)	(107,646)	—
Administrative expenses	—	(2,577)	2,577
Other miscellaneous expense[(1)]	—	(4,895)	4,895
Net Changes	**$ 61,530**	**$ 88,410**	**$ (26,880)**
Balance at June 30, 2018 (MD)	**$ 2,376,778**	**$ 1,742,741**	**$ 634,037**

[(1)]*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.*

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, 2019 and 2018 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)	**2020**	2019
Discount Rate -1%	**6.15 %**	6.15 %
Net Pension Liability	**$ 975,970**	$ 931,668
Current Discount Rate	**7.15 %**	7.15 %
Net Pension Liability	**$ 668,995**	$ 634,037
Discount Rate +1%	**8.15 %**	8.15 %
Net Pension Liability	**$ 412,124**	$ 384,526

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 (EARSL) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The EARSL for the Plan for the period ending June 30, 2019 measurement date is 3.3 years, which was obtained by dividing the total service years of 16,107 (the sum of remaining service lifetimes of the active employees) by 4,894 (the total number of participants: active, inactive, and retired). The EARSL for the Plan for the June 30, 2018 measurement date is 3.2 years, which was calculated by dividing the total service years of 15,612 by the total number of participants of 4,814. 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, 2020 and 2019, Metropolitan recognized pension expense of $119.8 million and $84.8 million, respectively. At June 30, 2020 and 2019, Metropolitan has deferred outflows and inflows of resources related to pensions as follows:

(Dollars in thousands)	Deferred Outflows of Resources Outflows 2020	2019	Deferred Inflows of Resources Inflows 2020	2019
Pension contributions subsequent to measurement date	**$ 66,091**	$ 56,497	**$ —**	$ —
Differences between expected and actual experience	**11,294**	—	**(4,752)**	(13,625)
Changes of assumptions	**7,858**	47,150	**(5,772)**	(10,581)
Net difference between projected and actual earnings on pension plan investments	**—**	3,288	**(10,774)**	—
Total	**$ 85,243**	$ 106,935	**$ (21,298)**	$ (24,206)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal years ended June 30, 2020 and 2019. At June 30, 2020 and 2019, the deferred outflows of resources related to contributions subsequent to the measurement date of $66.1 million and $56.5 million, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ending/ended June 30, 2021 and 2020, 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,	
2021	$ 9,932
2022	(12,392)
2023	(1,386)
2024	1,700

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 PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. 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 1,976 and 1,898 retired Metropolitan employees at June 30, 2020 and 2019, 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 2020 and 2019, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. During fiscal years 2020 and 2019, Metropolitan contributed the full actuarially determined contribution rate of 13.8 percent or $28.1 million and $27.3 million, respectively. Employees are not required to contribute to the plan.

(c) Employees Covered

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

	2020	2019
Measurement Date	**6/30/2019**	6/30/2018
Inactives employees (or their beneficiaries) currently receiving benefits	**1,759**	1,569
Inactive employees entitled to but not yet receiving benefits	**139**	137
Active members	**1,820**	1,698
Total	**3,718**	3,404

(d) Actuarial Assumptions Used to Determine Total OPEB Liability

The total OPEB liability used to calculate the net OPEB liability as of June 30, 2020 and 2019 was measured as of June 30, 2019 and 2018, respectively using an actuarial valuation as of June 30, 2019 and 2017, respectively. The actuarial valuation as of June 30, 2017 was rolled forward to the June 30, 2018 measurement date, using standard updated procedures. The June 30, 2019 and 2017 actuarial valuations were 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[(1)]	Derived using CalPERS Membership Data	
Mortality improvement	Mortality projected fully generational with Society of Actuaries mortality improvement Scale MP-19 and MP-17 in the 2019 and 2017 valuations, respectively.	
Healthcare cost trend rate	2019 valuation:	2017 valuation:
	Pre-Medicare: 7.25% for 2021, decreasing to 4.0% for 2076 and later	Pre-Medicare: 7.5% for 2020, decreasing to 4.0% for 2076 and later
	Medicare: 6.3% for 2021, decreasing to 4.0% for 2076 and later	Medicare: 6.5% for 2020, decreasing to 4.0% for 2076 and later
Healthcare participation for future retirees	Currently covered: 100%; Currently waived: 90%	

[(1)]Derived from data collected during 1997 to 2015 CalPERS Experience Study dated December 2015 for the June 30, 2019 actuarial valuation. For the June 30, 2017 actuarial valuation, pre-retirement mortality information was derived from data collected during the 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality and pre-retirement turnover information were derived from the 2007 to 2011 CalPERS Experience Study.

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, 2020 and 2019 are summarized in the following table:

Asset class	Target Allocation		Long-term expected real rate of return	
	2020	**2019**	**2020**	**2019**
Global equity	**59.0 %**	**57.0 %**	**4.8 %**	**4.8 %**
Fixed income	**25.0**	**27.0**	**1.5**	**1.5**
TIPS	**5.0**	**5.0**	**1.3**	**1.3**
Commodities	**3.0**	**3.0**	**0.8**	**0.8**
REITs	**8.0**	**8.0**	**3.8**	**3.8**
Total	**100.0 %**	**100.0 %**		

(e) Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2019 and 2018 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, 2019 and 2018:

	Increase (Decrease)		
(Dollars in thousands)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2018 (MD)	**$ 468,185**	**$ 239,851**	**$ 228,334**
Changes recognized for the measurement period:			
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
Net changes	**$ (33,426)**	**$ 26,922**	**$ (60,348)**
Balance at June 30, 2019 (MD)	**$ 434,759**	**$ 266,773**	**$ 167,986**

(Dollars in thousands)	Increase (Decrease) Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2017 (MD)	**$ 448,095**	**$ 207,526**	**$ 240,569**
Changes recognized for the measurement period:			
Service cost	10,325	—	10,325
Interest	30,252	—	30,252
Contribution - employer	—	34,674	(34,674)
Net investment income	—	18,538	(18,538)
Benefit payments	(20,487)	(20,487)	—
Administrative expense	—	(400)	400
Net changes	**$ 20,090**	**$ 32,325**	**$ (12,235)**
Balance at June 30, 2018 (MD)	**$ 468,185**	**$ 239,851**	**$ 228,334**

(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, 2019 and 2018 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)	**2020**	2019
Discount Rate -1%	**5.75 %**	5.75 %
Net OPEB Liability	**$ 224,217**	$ 288,683
Current Discount Rate	**6.75 %**	6.75 %
Net OPEB Liability	**$ 167,986**	$ 228,334
Discount Rate +1%	**7.75 %**	7.75 %
Net OPEB Liability	**$ 121,510**	$ 178,349

(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, 2019 and 2018:

(Dollars in thousands)		**2020**		2019
		6.5%/5.5 %		6.5%/5.5 %
Healthcare Trend Rate -1%		**decreasing to 3.0 %**		decreasing to 3.0 %
Net OPEB Liability	**$**	**117,114**	$	170,535
		7.5%/6.5 %		7.5%/6.5 %
Current Healthcare Trend Rate		**decreasing to 4.0 %**		decreasing to 4.0 %
Net OPEB Liability	**$**	**167,986**	$	228,334
		8.5%/7.5 %		8.5%/7.5 %
Healthcare Trend Rate +1%		**decreasing to 5.0 %**		decreasing to 5.0 %
Net OPEB Liability	**$**	**230,239**	$	298,893

(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

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

For the years ended June 30, 2020 and 2019, Metropolitan recognized OPEB expense of $11.8 million and $22.8 million, respectively. At June 30, 2020 and 2019, Metropolitan has deferred outflows and inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
(Dollars in thousands)	**2020**	2019	**2020**	2019
OPEB contributions subsequent to measurement date	**$ 33,506**	$ 32,067	**$ —**	$ —
Differences between expected and actual experience	**—**	—	**(40,289)**	—
Changes of assumptions	**—**	—	**(3,390)**	—
Net difference between projected and actual earnings on OPEB plan investments	**—**	—	**(3,658)**	(7,288)
Total	**$ 33,506**	$ 32,067	**$ (47,337)**	$ (7,288)

The $33.5 million and $32.1 million reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 and 2018 measurement dates, respectively, will be/was recognized as a reduction of the net OPEB liability during the fiscal years ending/ended June 30, 2021 and 2020, respectively. The $47.3 million and $7.3 million reported as deferred inflows of resources related to OPEB at June 30, 2020 and 2019, respectively, will be recognized as expense as follows:

(Dollars in thousands)	**Deferred Inflows of Resources**
Fiscal year ending June 30,	
2021	$ (12,565)
2022	(12,565)
2023	(10,833)
2024	(10,311)
2025	(1,063)

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:

(Dollars in thousands)		State Water Contract Payments
Year ending June 30:		
2021	$	469,187
2022		480,909
2023		496,922
2024		495,033
2025		504,279

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	$	3,866,223
Conservation facilities		2,453,016
Off-aqueduct power facilities(1)		6,077
East Branch enlargement		312,977
Revenue bond surcharge		608,129
Total long-term SWP contract commitments	$	7,246,422

(1)*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 decisions.

In September 2006, then Governor Schwarzenegger established a Delta Vision Process to identify a strategy for managing the Delta as a sustainable resource. The process was tied to legislation that created a Blue Ribbon Task Force (BRTF) and cabinet-level committee tasked with developing a durable vision for sustainable management of the Delta over the long-term which addressed a full array of issues, including land use, infrastructure, flood protection, and natural resources including water supply. The BRTF released its final Delta Vision Strategic Plan in October 2008 and a final implementation report was submitted to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The Delta Plan anticipated the need for periodic reviews and updates in response to changing circumstances and conditions in the Delta. The DSC amended the Delta Plan in February 2016 to include an initial set of performance measures in September 2016 to exempt single-year water transfers from consideration as covered actions. DSC adopted three amendments to the Delta Plan in April 2018. The Preliminary Draft Amendment to Chapter 4 (Ecosystem) was released in November 2019. The DSC anticipates the adoption of the amendment in 2021.

To avoid endangering State or federally listed species or adversely modifying their critical habitat, the Department of Water Resources consults with the California Department of Fish and Wildlife Service (CDFW) or its federal agency counterparts under the California Endangered Species Act (ESA) and federal ESA regarding the operation of the State Water Project. 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 their ESA jurisdiction, a federal biological opinion and a State Incidental Take Permit (ITP). Updated federal biological opinions were approved in February 2020 and a State ITP was issued by CDFW in March 2020. Both the federal and State permits have subsequently 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 Bay Delta Conservation Plan (BDCP), which began in 2007, is a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta. In addition, the BDCP would provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program. On April 30, 2015, the state announced its intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. On February 12, 2019, Governor Newsom announced the shift to a single tunnel project now referred to as the Delta Conveyance Project. With the release of the Notice of Preparation (NOP) on January 15, 2020, DWR initiated the California Environmental Quality Act scoping period which concluded on April 17, 2020 after an extended 93-day public comment period. The information received will be considered in formulating alternatives to the proposed project and in the development of the Draft Environmental Impact Report expected for release between early 2021 and mid-2022.

The DWR submitted a revised permit application on June 15, 2020 to request authorization for the proposed Delta Conveyance project activities in the waters of the United States. The Section 404 permit application was submitted in order to formally engage the U.S. Army Corps of Engineer (USACE) in early coordination with DWR's California Environmental Quality Act process regarding environmental review under USACE's process for compliance with the National Environmental Policy Act and the Clean Water Act and Rivers and Harbors Act.

On April 29, 2019, Governor Newsom issued an executive order calling for the development of a water resilience portfolio meeting the needs of California's communities, economy, and environment through the 21st century. This includes the governor's vision for a modern water supply infrastructure, a more climate resilient water supply for people and the environment, and the SWP in particular must be updated to respond to climate change.

(c) Imperial Irrigation District

As of June 30, 2020, Metropolitan had advanced a total of $350.9 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 2020 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 2020 and 2019, 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 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 is forecasted at $200.0 million for fiscal year 2021, $225.0 million for fiscal year 2022, and $300.0 million per year for fiscal years 2023 through 2025.

Over the next three years, Capital Investment Plan budget totals approximately $800.0 million with over $157.1 million targeted for mechanical and electrical refurbishment and replacement (R&R) projects for the Colorado River Aqueduct; $120.5 million for R&R work at Metropolitan's water treatment plants; $122.9 million on a variety of information technology projects such as the Supervisory Control and Data Acquisition system, plus several security and support building improvements including the ongoing structural upgrades to the Los Angeles headquarters building; $106.4 million on R&R work at pressure control facilities and pipelines throughout the distribution system; and $108.7 million to continue relining of the Prestressed Concrete Cylinder Pipe portions of the Allen McColloch and Rialto Pipelines, and Calabasas, Second Lower, and Sepulveda feeders.

Metropolitan had commitments under construction contracts in force as follows:

	June 30,	
(Dollars in thousands)	**2020**	2019
Colorado River Aqueduct pumping plants sump rehabilitation	**$ 25,766**	$ 26,497
Furnishing large-diameter conical plug valves	**20,637**	—
MWD headquarters building improvements	**15,557**	36,470
Colorado River Aqueduct - discharge line isolation couplings and bulkheads installation	**14,697**	—
Jensen water treatment plant electrical upgrade - stage 2	**12,467**	—
Diemer west basin and filter building rehabilitation	**10,294**	27,607
Furnishing earthquake-resistant ductile iron pipe for the Casa Loma siphon barrel no. 1	**9,238**	—
Greg Avenue pressure control structure - pump modifications and new control building	**7,639**	18,360
Second Lower Feeder PCCP rehabilitation - reach 2	**7,414**	52,273
Furnishing steel pipe for Casa Loma siphon barrel no. 1	**6,134**	—
Colorado River Aqueduct - installation of radial gates at seven facilities	**5,647**	—
Jensen water treatment plant - modules 2 and 3 flocculator rehabilitation	**5,583**	8,888
Colorado River Aqueduct pumping plants 6.9kV power cables replacement	**5,437**	16,289
Gene wash reservoir discharge valve replacement	**5,094**	—
Furnishing butterfly valves for the F.E. Weymouth water treatment plant - schedule 1	**4,866**	—
Furnishing equipment for the Jensen ozone PSU upgrades	**4,100**	—
Refurbish filter valve actuators for Diemer water treatment plant	**2,536**	3,222
F.E. Weymouth chlorination system upgrades	**2,002**	7,614
F.E. Weymouth water treatment plant water quality instrumentation improvements	**1,845**	—
Furnishing membrane filtration systems for the CRA domestic water treatment system	**1,206**	—
Furnishing horizontal axially split centrifugal pumps for the Greg Avenue pump station	**1,013**	1,314
Furnishing butterfly valves for F.E. Weymouth water treatment plant	**772**	772
West Valley Feeder No. 1 De Soto Avenue valve structure upgrades	**575**	—
F.E. Weymouth domestic water systems improvement	**311**	2,666
Orange County region service center	**270**	4,872
Furnishing one double column vertical machining center for La Verne shops	**198**	1,964
Furnishing lubricated plug valves for Second Lower Feeder	**18**	1,499
Mills electrical upgrades - stage 1A	**10**	782
Electrical upgrades at 15 structures in the Orange County region	**10**	2,456
Orange County feeder and extension relining - reach 2	**—**	3,512
Second Lower Feeder PCCP rehabilitation - reach 4	**—**	2,673
Intake pumping plant 2.4kV power line relocation	**—**	1,574
Palos Verdes reservoir cover and liner replacement	**—**	1,200
Colorado River Aqueduct uninterruptible power supply replacement	**—**	708
Other	**1,638**	2,659
Total	**$ 172,974**	**$ 225,871**

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

(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 alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all 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 states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates. Rates in effect in prior years are not challenged in this lawsuit. SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims were for breach of the water Exchange Agreement between Metropolitan and SDCWA (see Note 9d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under this Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies; and illegality of the rate structure integrity provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. The rate structure integrity provision permitted the Board to terminate incentives payable under conservation and local resources incentive agreements between Metropolitan and a member agency due to certain actions by the member agency to challenge the rates that are the source of incentive payments. In June 2011, Metropolitan's Board authorized termination of two incentive agreements with SDCWA under the rate structure integrity provision in such agreements after SDCWA filed its initial complaint challenging Metropolitan's rates. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contained additional allegations but no new causes of action.

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.

Following trial of both lawsuits in two phases, concluding on January 23, 2014 and April 30, 2015, respectively, the Superior Court of the State of California, County of San Francisco (the "Superior Court"), issued its Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan appealed the trial court's decision in each case, and SDCWA filed a cross-appeal of the court's ruling on the rate structure integrity claim and an attorneys' fees order.

On June 21, 2017, the California Court of Appeal released its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its SWP transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's price term, and that Metropolitan may also lawfully include the System Access Rate in its wheeling rate, reversing the trial court decision on this issue. The Court held Metropolitan's allocation of the 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 XIIIC, §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 SDCWA to attorneys' fees for the second phase of the case concerning breach of contract; but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court's ruling that Metropolitan improperly excludes SDCWA's payments under the Exchange Agreement in Metropolitan's calculation of SDCWA's preferential rights. The court also ruled that SDCWA had the constitutional right to challenge the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements, and found that the rate structure integrity provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

On September 27, 2017, the California Supreme Court denied SDCWA's petition for review, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final.

On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision. With respect to the Superior Court's 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 Superior Court ruled that it will award SDCWA $28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The Superior Court determined that

Metropolitan is not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that from SDCWA's damages.

The Superior Court further ruled that SDCWA is not entitled in the remand proceedings to litigate the issue of "offsetting benefits" under the wheeling statutes for the parties' Exchange Agreement. The Superior Court found that such claim is both outside the scope of remand and waived.

The Superior Court also ruled that SDCWA is entitled to judgment on its declaratory relief cause of action declaring the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements invalid and unenforceable, SDCWA is entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014, and the parties shall also litigate in further proceedings the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action.

Finally, the Superior Court confirmed, as the parties agreed, that it will conduct further proceedings for a redetermination of the prevailing party and attorneys' fees in this matter.

On September 14, 2018, Metropolitan filed a Petition for Writ of Mandate with the California Court of Appeal, requesting the court to require the Superior Court to recalculate contract damages for breach of the Exchange Agreement from years 2011 through 2014, to include a set-off for the additional sums SDCWA would have paid had Metropolitan collected the Water Stewardship Rate through its full service sales as SDCWA argued was correct. On November 1, 2018, the Court of Appeal determined that it would not review the issue at this stage of the cases. Metropolitan may raise this issue again on any later appeal from the cases' final judgment.

The court had scheduled an evidentiary hearing for June 16 to June 18, 2020 on SDCWA's requested relief based on its rate structure integrity clause claim. Following action of the SDCWA Board of Directors on February 27, 2020 (discussed further below), SDCWA informed Metropolitan and the court that it was no longer seeking this relief. Accordingly, the evidentiary hearing was canceled. 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, 2020, Metropolitan held $58.0 million in a designated fund, the Exchange Agreement Set-Aside Fund. This amount includes the disputed Water Stewardship Rate payments for calendar years 2011 through the present, and interest earned by Metropolitan thereon. The amount held does not include statutory prejudgment interest or any post-judgment interest, attorneys' fees, or costs the Court may award. The Set-Aside Fund also does not include any amounts applicable to the rate structure integrity provision declaratory relief cause of action, because that claim does not involve disputed payments under the Exchange Agreement.

On February 14, 2019, Metropolitan tendered to SDCWA payment of $44.4 million for the San Francisco Superior Court's contract damages award for Water Stewardship Rate payments from 2011 through 2014, plus statutory interest through February 15, 2019, with a reservation of appeal rights, in the San Diego County Water Authority v. Metropolitan Water District of Southern California, et al., 2010 and 2012 actions. This tender was made under compulsion to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan's rights to appeal, including its right to challenge the amount of the damages award. The tendered payment included $31.6 million of amounts withdrawn from the Exchange Agreement Set-Aside Fund and $12.8 million withdrawn from reserves (representing statutory interest). On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. The returned funds were credited back to the Exchange Agreement Set-Aside Fund and Metropolitan reserves in the amounts drawn. The balance in the Exchange Agreement Set-Aside Fund set forth above includes the returned funds. In the 2010-2012 Judgment, the court confirmed that Metropolitan's tender was effective and stopped the accrual of interest in February 2019.

On August 29, 2019, as a result of changes in reorganization of assignments at the San Francisco Superior Court, the 2010, 2012, 2016, and 2017 SDCWA v. Metropolitan cases were reassigned to a different department of the Court. SDCWA filed a motion for peremptory disqualification of the new judge and on September 6, 2019, the motion was sustained. On September 27, 2019, the 2010, 2012, 2016, and 2017 cases were assigned to Department 304, a different complex department in which the 2014 case is already pending.

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. See Note 16, Subsequent Events for updates. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. Following a stipulated order issued by the court on November 10, 2016, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases' appeals. The amended petition/complaint adds allegations of the same Exchange Agreement breach as in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts; requests a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees. See Note 16, Subsequent Events for updates. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA's 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleges the 2018 Readiness-to-Serve Charge and Capacity Charge violate the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a first amended petition/complaint to add 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. See Note 16, Subsequent Events for updates.

On June 8, 2018, SDCWA filed a new lawsuit that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, et seq., which SDCWA contends (and Metropolitan disputes) applies to the parties' Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan's California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. Following a stipulated order issued by the San Francisco Superior Court on January 10, 2019, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement 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. This 2018 lawsuit has not yet been assigned to a department in the San Francisco Superior Court. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

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 is now 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.

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. The above-mentioned amended petitions/complaints in the 2014 and 2016 cases added, removed, and retained certain claims. Retained claims include SDCWA's challenge to Metropolitan's Water Stewardship Rate for calendar years 2015 through 2018 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 stayed 2018 case had previously included an offsetting benefits claim). SDCWA has not yet dismissed claims in the 2018 case. Metropolitan has not yet assessed the impact of authorized dismissals. Metropolitan is unable to assess at this time the likelihood of success of these cases, any possible appeals or any future claims.

(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. No amounts were expended for post closure maintenance and monitoring activities in fiscal year 2020 and approximately $5,000 was expended in fiscal year 2019.

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, 2020 and 2019, approximately $800,000 net of interest receipts and disbursements was available in this account.

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 35 percent and 32 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2020 and 2019, 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 $142.7 million and $141.7 million in fiscal years 2020 and 2019, respectively.

11. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at June 30, 2020 and 2019 were as follows:

	June 30,	
(Dollars in thousands)	**2020**	2019
Prepaid water costs	**$ 234,768**	$ 196,488
Prepaid costs-Delta Habitat conservation and conveyance	**58,627**	58,627
Prepaid costs-California WaterFix	**7,494**	41,500
Prepaid expenses	**23,583**	10,365
Preliminary design/reimbursable projects	**15,693**	13,116
Other	**16,945**	11,188
Total deposits, prepaid costs, and other	**357,110**	331,284
Less current portion	**(2,782)**	(2,040)
Noncurrent portion	**$ 354,328**	$ 329,244

(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, 2020 and 2019, prepaid water costs totaled approximately $234.8 million and $196.5 million, respectively, based on volumes of 1,114.0 TAF and 963.0 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, 2020 and 2019 were $58.6 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, 2020, DWR has remitted $34.0 million of unspent funds and $.5 million of interest. Total advanced funds at June 30, 2020 and 2019 were $7.5 million and $41.5 million, respectively.

(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.

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, 2020 and 2019, 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, 2020 and 2019, 1,641 and 1,584 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:

	June 30,	
(Dollars in thousands)	**2020**	2019
Employees	**$ 21,846**	$ 21,180
Metropolitan	**9,606**	9,135
	$ 31,452	$ 30,315
Eligible payroll	**$ 246,443**	$ 234,018
Employee contributions as percent of eligible payroll	**8.9 %**	9.1 %

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, 2020 and 2019.

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 $473.1 million and $418.6 million at June 30, 2020 and 2019, respectively, of which $196.5 million and $180.7 million, respectively, represents principal and interest set aside for the next bond payment. The remaining $276.6 million and $237.9 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 $344.8 million and $286.0 million at June 30, 2020 and 2019, respectively.

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 2020 were unchanged from fiscal year 2019. 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:

	June 30,		
(Dollars in thousands)	**2020**	2019	2018
Unpaid claims, beginning of fiscal year	**$ 12,958**	$ 13,579	$ 15,677
Incurred claims (including IBNR)	**5,545**	5,835	6,140
Claim payments and adjustments	**(4,901)**	(6,456)	(8,238)
Unpaid claims, end of fiscal year	**13,602**	12,958	13,579
Less current portion	**(4,122)**	(3,284)	(4,083)
Noncurrent portion	**$ 9,480**	$ 9,674	$ 9,496

15. COVID-19 PANDEMIC

Metropolitan is assessing the effects that the ongoing COVID-19 outbreak, and measures taken by State and local governments to slow the virus' spread, will have on Metropolitan and its business and operations, as well as in the region that comprises Metropolitan's service area. While federal and state governments, including California, have enacted legislation and have taken executive actions designed to mitigate the negative public health and economic impacts of the COVID-19 pandemic, Metropolitan is unable to predict whether such interventions will have the intended effects. 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 of taxes as a result of 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 water 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 water system operations. 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 duration and severity of the outbreak, and the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the outbreak 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 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 August 13, 2020, the San Francisco Superior Court entered a final judgment in the 2010 and 2012 SDCWA v. Metropolitan cases (the "2010-2012 Judgment"). On August 14, 2020, SDCWA served notice of entry of judgment and notice of the court's peremptory writ of mandate in the cases.

In the 2010-2012 Judgment, 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 San Diego), in the amount of $8,211,365.85; (3) on the fifth cause of action – declaratory relief regarding the Rate Structure Integrity (RSI) clause – in favor of SDCWA as the RSI clause 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 2010-2012 Judgment and the writ on September 11, 2020.

The court will hear cross-motions on the determination of a prevailing party in the 2010 and 2012 cases, if any, on November 12, 2020, followed by attorneys' fees proceedings if the court determines there is a prevailing party. On January 12, 2021, the court will hear Metropolitan's motion to strike SDCWA's memorandum of costs, and SDCWA's motion to strike or tax Metropolitan's memorandum of costs, which also involve a determination of prevailing party. Metropolitan contends 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. The determinations as to any prevailing party, attorneys' fees, and costs will also be subject to appeal after entry of the final order.

On August 27, 2020, the court granted SDCWA's motion to lift the stays in the 2014 and 2016 SDCWA v. Metropolitan cases and to file a further amended petition/complaint. SDCWA filed the amended petitions/ complaints on August 28, 2020. On September 28, 2020, Metropolitan filed demurrers to, or in the alternative motions to strike, portions of the amended petitions/complaints, which is set for hearing on February 10, 2021. The pleadings seek to remove offsetting benefits claims in both cases as to alleged breach of contract and Metropolitan's wheeling rate, and a declaratory relief claim in the 2016 case as to how Metropolitan may satisfy a judgment.

Short-term and Long-term Debt

On July 1, 2020, Metropolitan issued $268.0 million of Water Revenue Refunding Bonds, 2020 Series C. Bond proceeds refunded $350.2 million of the following outstanding bonds: $250.0 million of Water Revenue Bonds 2010 Authorization; Series A, $44.3 million of Water Revenue Refunding Bonds. 2010 Series B; $14.0 million of Water Revenue Refunding Bonds, 2014 Series C-2; $6.2 million of Water Revenue Refunding Bonds, 2014 Series G-5; $35.6 million of Index Notes (Taxable and New Money), Subseries B-2; and funded costs of issuance. The maturities extend to July 1, 2040, and the bonds are subject to optional redemption provisions.

On September 1, 2020, Metropolitan issued $13.7 million of Waterworks General Obligation Refunding Bonds, 2020 Series A. Bond proceeds refunded the $18.7 million of Waterworks General Obligation Refunding Bonds, 2010 Series A, and the costs of issuance. Maturities extend to March 1, 2037, and the bonds are subject to optional redemption provision.

(Dollars in thousands)	**2020**	2019	2018	2017	2016	2015[5]
TOTAL PENSION LIABILITY						
Service cost	**$ 35,739**	$ 33,583	$ 33,685	$ 29,142	$ 28,890	$ 28,505
Interest on total pension liability	**168,122**	161,023	156,661	152,500	146,852	139,190
Changes of assumptions	**—**	(15,391)	125,734	—	(35,008)	—
Difference between expected and actual experience	**16,205**	(10,039)	(15,804)	(12,754)	14,665	—
Benefit payments, including refunds of employee contributions	**(117,537)**	(107,646)	(100,092)	(92,401)	(86,154)	(81,391)
Net change in total pension liability	**102,529**	61,530	200,184	76,487	69,245	86,304
Total pension liability - beginning	**2,376,778**	2,315,248	2,115,064	2,038,577	1,969,332	1,883,028
Total pension liability - ending (a)	**$ 2,479,307**	$ 2,376,778	$ 2,315,248	$ 2,115,064	$ 2,038,577	$ 1,969,332
PLAN FIDUCIARY NET POSITION						
Contribution - Employer	**$ 56,497**	$ 48,780	$ 42,819	$ 38,393	$ 34,306	$ 33,853
Contribution - Employee	**15,631**	15,749	14,895	15,034	14,787	15,185
Net investment income[1]	**114,220**	139,003	171,562	8,304	35,301	236,746
Benefit payments, including refunds of employee contributions	**(117,537)**	(107,646)	(100,092)	(92,401)	(86,154)	(81,391)
Net plan to plan resource management	**—**	(4)	—	—	—	—
Administrative expense	**(1,244)**	(2,577)	(2,255)	(950)	(1,756)	—
Other miscellaneous income/(expense)[2]	**4**	(4,895)	—	—	—	—
Net change in fiduciary net position	**67,571**	88,410	126,929	(31,620)	(3,516)	204,393
Plan fiduciary net position - beginning[3]	**1,742,741**	1,654,331	1,527,402	1,559,022	1,562,538	1,358,145
Plan fiduciary net position - ending (b)	**$ 1,810,312**	$ 1,742,741	$ 1,654,331	$ 1,527,402	$ 1,559,022	$ 1,562,538
Plan net pension liability - ending (a) - (b)	**$ 668,995**	$ 634,037	$ 660,917	$ 587,662	$ 479,555	$ 406,794
Plan fiduciary net position as a percentage of the total pension liability	**73.02 %**	73.32 %	71.45 %	72.22 %	76.48 %	79.34 %
Covered payroll[4]	**$ 212,558**	$ 204,635	$ 199,186	$ 195,878	$ 190,423	$ 186,850
Plan net pension liability as a percentage of covered payroll	**314.74 %**	309.84 %	331.81 %	300.01 %	251.84 %	217.71 %

(1) 2015 amount was net of administrative expenses of $1,972.

(2) 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.

(3) Includes any beginning of year adjustment.

(4) Includes one year's payroll growth using 2.75 percent payroll growth assumption for fiscal years ended June 30, 2018-19; 3.00 percent payroll growth assumption for fiscal years ended June 30, 2014-17.

(5) GASB 68 requires ten years of information be presented but only six years are available at this time. Additional years' information will be displayed as it becomes available.

See accompanying independent auditor's report

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2018 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: None in 2019. In 2018, 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. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, 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). In 2014, amounts reported were based on the 7.5 percent discount rate.

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

[1] GASB 68 requires ten years of information be presented but only six years are available at this time. Additional years' information will be displayed as it becomes available.

See accompanying independent auditor's report

Notes to Schedule:

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2020:

Valuation date: June 30, 2017

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	7.25%
Inflation	2.625%
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

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED

(CONTINUED)

June 30, 2020 and 2019

(Dollars in thousands)	2020	2019	2018[1]
TOTAL OPEB LIABILITY			
Service cost	**$ 10,635**	$ 10,325	$ 10,024
Interest	**31,600**	30,252	28,951
Changes of assumptions	**(4,217)**	—	—
Difference between expected and actual experience	**(50,116)**	—	—
Benefit payments	**(21,328)**	(20,487)	(19,525)
Net change in total OPEB liability	**(33,426)**	20,090	19,450
Total OPEB liability - beginning	**468,185**	448,095	428,645
Total OPEB liability - ending (a)	**$ 434,759**	$ 468,185	$ 448,095
PLAN FIDUCIARY NET POSITION			
Contribution - employer	**$ 32,067**	$ 34,674	$ 33,646
Net investment income	**16,240**	18,538	20,792
Benefit payments	**(21,328)**	(20,487)	(19,525)
Administrative expense	**(57)**	(400)	(107)
Net change in fiduciary net position	**26,922**	32,325	34,806
Plan fiduciary net position - beginning	**239,851**	207,526	172,720
Plan fiduciary net position - ending (b)	**$ 266,773**	$ 239,851	$ 207,526
Plan net OPEB liability - ending (a) - (b)	**$ 167,986**	$ 228,334	$ 240,569
Plan fiduciary net position as a percentage of the total OPEB liability	**61.36 %**	51.23 %	46.31 %
Covered payroll	**$ 212,558**	$ 204,635	$ 199,186
Plan net OPEB liability as a percentage of covered payroll	**79.03 %**	111.58 %	120.78 %

[1]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 auditor's report

Schedule of Plan Contributions

(Dollars in thousands)		2020		2019		2018[1]
Actuarially determined contribution	**$**	**28,148**	$	27,328	$	30,086
Contributions in relation to the actuarially determined contribution		**(33,506)**		(32,067)		(34,674)
Contribution deficiency (excess)	**$**	**(5,358)**	$	(4,739)	$	(4,588)
Covered payroll	**$**	**225,707**	$	212,558	$	204,635
Contributions as a percentage of covered payroll		**14.84 %**		15.09 %		16.94 %

[1] *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 auditor's report

Notes to Schedule:

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2020 were from the June 30, 2017 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 6/30/20).
Asset Valuation Method	Investment gains/losses spread over 5 year rolling period with corridor of 80% and 120% of market value
Discount rate	6.75%
Inflation	2.75%
Mortality, disability, termination, retirement	CalPERS 1997-2011 Experience Study
Medical trend	Pre-Medicare - 7.5% for 2020, decreasing to 4.0% for 2076 and later Medicare - 6.5% for 2020, decreasing to 4.0% for 2076 and later
Mortality improvement	Mortality projected fully generational with Scale MP-2017.