

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 5, 2020

NEW ISSUE  
(FULL BOOK-ENTRY)

RATINGS:  
See "RATINGS" herein.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to Metropolitan, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2020A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2020A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the 2020A Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."



**\$151,465,000\***  
**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
**Subordinate Water Revenue Refunding Bonds,**  
**2020 Series A**

**Dated: Date of Delivery**

**Due: July 1, as shown on the inside cover page**

The Metropolitan Water District of Southern California ("Metropolitan") is issuing its \$151,465,000\* Subordinate Water Revenue Refunding Bonds, 2020 Series A (the "2020A Bonds") to refund a portion of its outstanding Senior Bonds and to pay certain costs of issuance of the 2020A Bonds. See "PLAN OF REFUNDING." *Capitalized terms used on this cover page not otherwise defined will have the meaning set forth herein.*

The 2020A Bonds will mature in the principal amounts on the dates and in the years, and will bear interest at the respective per annum rates of interest, as set forth on the inside cover page hereof. The 2020A Bonds are being issued as fully registered bonds, in book-entry only form, in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2020A Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2020. See "DESCRIPTION OF THE 2020A BONDS."

The 2020A Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Principal of and interest on the 2020A Bonds will be payable directly to DTC. Upon receipt of payments of such principal and interest, DTC is obligated to remit such payments to its DTC participants for subsequent disbursements to the beneficial owners of the 2020A Bonds. See APPENDIX 3- "BOOK-ENTRY ONLY SYSTEM."

The 2020A Bonds are not subject to redemption prior to their maturity.

The 2020A Bonds are special limited obligations of Metropolitan payable as to principal and interest solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt (which includes Senior Bonds and Senior Obligations) heretofore or hereafter issued or incurred by Metropolitan and on parity with other Subordinate Bonds and First Tier Parity Obligations heretofore or hereafter issued or incurred by Metropolitan as described herein. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of December 1, 2019, Metropolitan had outstanding \$1.26 billion aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations, payable from Net Operating Revenues on parity with the 2020A Bonds. As of December 1, 2019, Metropolitan had outstanding \$2.54 billion aggregate principal amount of Senior Bonds (including the Senior Bonds to be refunded by the 2020A Bonds), as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2020A Bonds. Metropolitan expects to issue and deliver \$207,355,000 aggregate principal amount of additional Senior Bonds on or about February 11, 2020. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS."

The 2020A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2020A Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2020A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues as described in this Official Statement. Metropolitan will not fund a reserve fund for the 2020A Bonds.

The 2020A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Hawkins Delafield & Wood LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for Metropolitan by its General Counsel, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. Norton Rose Fulbright US LLP is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2020A Bonds. Public Resources Advisory Group is serving as Municipal Advisor to Metropolitan in connection with the issuance of the 2020A Bonds. Metropolitan anticipates that the 2020A Bonds will be available for delivery through the facilities of The Depository Trust Company by Fast Automated Securities Transfer (FAST) on or about March 2, 2020.

**BofA Securities**

**Ramirez & Co., Inc.**

Dated: \_\_\_\_\_, 2020

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

## MATURITY SCHEDULE\*

**\$151,465,000\***

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
Subordinate Water Revenue Refunding Bonds,  
2020 Series A**

Maturity (July 1)*	Principal Amount*	Interest Rate	Yield	Price	CUSIP No.† (Base: 59266T)
2023	\$13,275,000				
2024	13,600,000				
2025	23,035,000				
2026	24,030,000				
2027	32,485,000				
2028	3,335,000				
2029	41,705,000				

\* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. CUSIP numbers have been assigned by an independent company not affiliated with Metropolitan and are included solely for the convenience of the holders of the 2020A Bonds. Metropolitan is not responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the 2020A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2020A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the 2020A Bonds.

**MAJOR WATER CONVEYANCE FACILITIES  
TO SOUTHERN CALIFORNIA**



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**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
**Officers of the Board of Directors**

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**Vice Chair**  
JERRY BUTKIEWICZ

**Vice Chair**  
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**Vice Chair**  
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**Torrance**  
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Water District**  
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District**  
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**Foothill Municipal Water  
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RICHARD W. ATWATER

**Inland Empire Utilities  
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MICHAEL CAMACHO

**Las Virgenes Municipal  
Water District**  
GLEN D. PETERSON

**Municipal Water District of  
Orange County**  
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BRETT R. BARBRE  
LARRY D. DICK  
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**West Basin Municipal Water  
District**  
GLORIA D. GRAY  
HAROLD WILLIAMS

**Western Municipal Water  
District of Riverside County**  
DONALD GALLEANO

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**Management**

**JEFFREY KIGHTLINGER**  
*General Manager*

**MARCIA SCULLY**  
*General Counsel*

**GERALD C. RISS**  
*General Auditor*

**ABEL SALINAS**  
*Ethics Officer*

**DEVEN UPADHYAY**  
*Assistant General  
Manager/Chief  
Operating Officer*

**SHANE CHAPMAN**  
*Assistant General  
Manager/Chief  
Administrative Officer*

**KATANO KASAINÉ**  
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**ROGER K. PATTERSON**  
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Manager/Strategic Water  
Initiatives*

**DEE ZINKE**  
*Assistant General Manager/Chief External Affairs Officer*

**ROSA A. CASTRO**  
*Board Executive Secretary*

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**Special Services**

**Bond Counsel**

Hawkins Delafield & Wood LLP  
Los Angeles, California

**Disclosure Counsel**

Norton Rose Fulbright US LLP  
Los Angeles, California

**Municipal Advisor**

Public Resources Advisory Group  
Los Angeles, California

**Fiscal Agent**

Katano Kasaine  
Metropolitan Treasurer

This Official Statement does not constitute an offer to sell the 2020A Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Official Statement is not to be construed as a contract with the purchasers of the 2020A Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the offering of the 2020A Bonds, and if given or made, investors must not rely on such information or representations.

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

The Underwriters have provided the following two paragraphs for inclusion in this Official Statement:

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

The Underwriters may offer and sell 2020A Bonds to certain dealers and others at prices lower or yields higher than the offering prices or yields shown on the inside cover page hereof and such public offering prices or yields may be changed from time to time by the Underwriters.

CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association, and are set forth herein for convenience of reference only. These data are not intended to create a database and do not serve in any way as a substitute for CUSIP Global Services. None of Metropolitan, its Municipal Advisor or the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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

Metropolitan maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2020A Bonds.

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## SUMMARY STATEMENT

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

### **The Metropolitan Water District of Southern California**

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

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

### **Incorporation by Reference of 2020 Official Statement**

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated January 27, 2020, relating to its Water Revenue Bonds, 2020 Series A (the “2020 Official Statement”), which includes the following:

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

2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS’ REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)” (referred to herein as “Referenced Appendix B”); and

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

Metropolitan includes by this specific reference into this Official Statement the Referenced Appendix A, the Referenced Appendix B and the Referenced Appendix E. The 2020 Official Statement is on file with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access system (the “EMMA System”) and can be accessed at <http://emma.msrb.org/>.

## **Economy of Metropolitan's Service Area**

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

## **Authorization for the 2020A Bonds**

Metropolitan is issuing its \$151,465,000\* Subordinate Water Revenue Refunding Bonds, 2020 Series A (the "2020A Bonds") pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Article 11 of Chapter 3 (commencing with Section 53580) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 (the "Act"), and Resolution 9199 adopted by the Board on March 8, 2016, as amended and supplemented (the "Master Subordinate Resolution"), including by Resolution 9200 adopted by the Board on March 8, 2016 (the "First Supplemental Subordinate Resolution" and, together with the Master Subordinate Resolution, the "Subordinate Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Subordinate Bonds issued by Metropolitan pursuant to the Subordinate Resolutions are referred to in this Official Statement as the "Subordinate Bonds." As described herein, the 2020A Bonds when issued will be payable as to principal thereof and interest thereon on a parity with Metropolitan's outstanding Subordinate Bonds and any additional Subordinate Bonds issued by Metropolitan under the Master Subordinate Resolution and with other outstanding and future obligations of Metropolitan payable on parity with the Subordinate Bonds ("First Tier Parity Obligations," and collectively with the Subordinate Bonds, "Subordinate Obligations").

Metropolitan's Board adopted Resolution 8329 on July 9, 1991, as amended and supplemented (the "Senior Debt Resolution"), authorizing the issuance of water revenue bonds (the "Senior Bonds") and parity obligations (the "Senior Obligations," and together with the Senior Bonds, "Senior Debt") payable and secured on a senior basis to the Subordinate Bonds, subject to the limitations, terms and conditions of the Senior Debt Resolution. The 2020A Bonds when issued will be payable as to principal thereof and interest thereon on a basis subordinate to Metropolitan's outstanding Senior Bonds and any additional Senior Bonds issued by Metropolitan under the Senior Debt Resolution and with other outstanding and future Senior Obligations of Metropolitan payable on parity with the Senior Bonds.

## **Purpose of the 2020A Bonds**

Metropolitan is issuing its 2020A Bonds to refund a portion of its outstanding Senior Bonds and to pay certain costs of issuance of the 2020A Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

## **General Terms of the 2020A Bonds**

The 2020A Bonds will be dated the date of their delivery. The 2020A Bonds will be issued in the aggregate principal amount, will mature in the principal amounts on the dates and in the years, and will bear interest at the respective per annum rates of interest, all as set forth on the inside cover page of this Official Statement. Metropolitan will issue the 2020A Bonds as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Metropolitan will pay interest on the 2020A Bonds on January 1 and July 1 of each year, commencing July 1, 2020. See "DESCRIPTION OF THE 2020A BONDS."

The 2020A Bonds are not subject to redemption prior to their maturity.

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\* Preliminary, subject to change.

## **Book-Entry Only System**

Metropolitan will issue the 2020A Bonds as fully registered bonds and will register the 2020A Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2020A Bonds. Purchasers will not receive certificates representing the 2020A Bonds purchased by them. Principal of and interest on the 2020A Bonds will be paid directly to DTC as the registered owner of the 2020A Bonds. Upon receipt of payments of principal or interest, DTC is obligated to remit those payments to DTC’s Direct Participants (as defined in APPENDIX 3– “BOOK-ENTRY ONLY SYSTEM”) for subsequent disbursement to each actual purchaser of an ownership interest in the 2020A Bonds. See APPENDIX 3– “BOOK-ENTRY ONLY SYSTEM.”

## **Security for the 2020A Bonds**

The 2020A Bonds are special limited obligations of Metropolitan payable as to principal and interest thereon solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of December 1, 2019, Metropolitan had outstanding \$1.26 billion aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations, payable from Net Operating Revenues on parity with the 2020A Bonds. As of December 1, 2019, Metropolitan had outstanding \$2.54 billion aggregate principal amount of Senior Bonds (including the Senior Bonds to be refunded by the 2020A Bonds), as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2020A Bonds. As described under “INTRODUCTION – Additional Senior Bonds Being Issued by Metropolitan,” on or about February 11, 2020, Metropolitan expects to issue and deliver its \$207,355,000 principal amount of Water Revenue Bonds, 2020 Series A (the “2020A Senior Bonds”) for the primary purpose of providing funds to pay (and to reimburse Metropolitan for) certain costs of acquisition, construction and improvements to the Water System and to refinance and retire certain outstanding senior short-term notes issued for such purposes. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS.”

The 2020A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2020A Bonds or the interest thereon. The obligation to pay the principal of and interest on the 2020A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Official Statement.

Metropolitan will not fund a reserve fund for the 2020A Bonds.

## **Rate Covenant**

Metropolitan covenants under the Master Subordinate Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts: (1) Operating Expenses; (2) the Bond Obligation (as such term is defined in the Senior Debt Resolution) and interest on Senior Debt as the same shall become due and payable; and (3) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Subordinate Bonds (whether Serial or Term Bonds) and amounts payable on First Tier Parity Obligations and Second Tier Subordinate Obligations as they become due and payable. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Rate Covenant.”

## **Additional Indebtedness**

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

As provided in the Subordinate Resolutions, Metropolitan may issue or incur additional Subordinate Bonds and First Tier Parity Obligations payable from Net Operating Revenues and secured on parity with the 2020A Bonds and the Outstanding Subordinate Bonds and other Subordinate Obligations to finance the costs of improvements to the Water System and other lawful purposes or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Additional Indebtedness under the Master Subordinate Resolution.”

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a senior basis to the 2020A Bonds, other Subordinate Bonds and other Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

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

## **Continuing Disclosure**

Metropolitan has agreed, in connection with the issuance of the 2020A Bonds, to provide or to cause to be provided to the MSRB, through the EMMA System, certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events with respect to the 2020A Bonds. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 (the “Rule”) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” and APPENDIX 5– “FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

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

## **Miscellaneous**

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

## OFFICIAL STATEMENT

**\$151,465,000\***

### **THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA Subordinate Water Revenue Refunding Bonds, 2020 Series A**

#### INTRODUCTION

##### **General; Purpose**

This Official Statement (which includes the cover page and inside cover page hereof, the Summary Statement and appendices hereto or incorporated herein) provides information concerning The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the sale by Metropolitan of its \$151,465,000\* Subordinate Water Revenue Refunding Bonds, 2020 Series A (the “2020A Bonds”).

Metropolitan is issuing its 2020A Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Article 11 of Chapter 3 (commencing with Section 53580) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 (the “Act”), and Resolution 9199 adopted by the Board of Directors of Metropolitan (the “Board”) on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including as amended and supplemented by Resolution 9200 adopted by the Board on March 8, 2016 (the “First Supplemental Subordinate Resolution” and, together with the Master Subordinate Resolution, the “Subordinate Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Subordinate water revenue bonds issued by Metropolitan pursuant to the Subordinate Resolutions are referred to in this Official Statement as the “Subordinate Bonds.”

Metropolitan’s Board adopted Resolution 8329 on July 9, 1991, as amended and supplemented (the “Senior Debt Resolution”), authorizing the issuance of water revenue bonds (the “Senior Bonds”) and parity obligations (the “Senior Obligations” and together with the Senior Bonds, “Senior Debt”) payable and secured on a senior basis to the Subordinate Bonds, subject to the limitations, terms and conditions of the Senior Debt Resolution.

Metropolitan is issuing the 2020A Bonds to refund a portion of its outstanding Senior Bonds and to pay certain costs of issuance of the 2020A Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

##### **Security for the 2020A Bonds**

The 2020A Bonds are special limited obligations of Metropolitan and will be payable as to principal and interest thereon solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of Metropolitan’s outstanding Senior Bonds and any additional Senior Bonds issued by Metropolitan under the Senior Debt Resolution and with other outstanding and future Senior Obligations of Metropolitan payable on parity with the Senior Bonds. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described in this Official Statement. As of December 1, 2019, Metropolitan had outstanding \$2.54 billion aggregate principal amount of Senior Bonds (including the Senior Bonds to be refunded by the 2020A Bonds), as well as certain other Senior Obligations, payable from Net Operating

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\* Preliminary, subject to change.

Revenues prior to the payment of the 2020A Bonds. Metropolitan's outstanding Senior Bonds and Senior Obligations as of December 1, 2019 are described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations." As described under "– Additional Senior Bonds Being Issued by Metropolitan" below, on February 11, 2020, Metropolitan expects to issue and deliver \$207,355,000 principal amount of additional Senior Bonds.

The 2020A Bonds will be payable from Net Operating Revenues on parity with Metropolitan's other outstanding and future Subordinate Bonds issued by Metropolitan under the Master Subordinate Resolution and with other outstanding and future obligations of Metropolitan payable on parity with the Subordinate Bonds ("First Tier Parity Obligations," and collectively with the Subordinate Bonds, "Subordinate Obligations"). As of December 1, 2019, Metropolitan had outstanding \$1.26 billion aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations, payable from Net Operating Revenues on parity with the 2020A Bonds. Metropolitan's outstanding Subordinate Bonds and Subordinate Obligations as of December 1, 2019 are described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations."

Under the Master Subordinate Resolution, Metropolitan is not prohibited from issuing additional Senior Bonds and Senior Obligations payable and secured on a senior basis to the Outstanding Subordinate Bonds and the 2020A Bonds, except subject to the limitations, terms and conditions of the Senior Debt Resolution. As provided in the Subordinate Resolutions, Metropolitan may issue additional Subordinate Bonds and First Tier Parity Obligations payable and secured on parity with the Outstanding Subordinate Bonds and the 2020A Bonds, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Additional Indebtedness under the Master Subordinate Resolution." See also "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings" for a discussion of potential additional Senior Debt and Subordinate Obligations that Metropolitan currently expects to issue or incur.

The 2020A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2020A Bonds or the interest thereon. The obligation to pay the principal of, redemption premium, if any, and interest on the 2020A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Official Statement.

Metropolitan will not fund a reserve fund for the 2020A Bonds.

### **Additional Senior Bonds Being Issued by Metropolitan**

On January 27, 2020, Metropolitan entered into a bond purchase contract for the sale of \$207,355,000 principal amount of its Water Revenue Bonds, 2020 Series A (the "2020A Senior Bonds"). The 2020A Senior Bonds are being issued by Metropolitan for the purpose of providing funds to pay (and to reimburse Metropolitan for) certain costs of acquisition, construction and improvements to the Water System and to refinance and retire certain outstanding senior short-term notes in the aggregate principal amount of \$100,000,000 issued for such purposes. The 2020A Senior Bonds are expected to be issued and delivered by Metropolitan on or about February 11, 2020.

After giving effect to the issuance of the 2020A Senior Bonds, upon the delivery of the 2020A Bonds and the refunding of the Senior Bonds being refunded thereby, Metropolitan will have outstanding approximately \$2.55\* billion principal amount of Senior Bonds.

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\* Preliminary, subject to change.



## **Incorporation by Reference of 2020 Official Statement**

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated January 27, 2020, relating to its 2020A Senior Bonds (the “2020 Official Statement”), which includes the following:

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

2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITORS’ REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018 AND BASIC FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)” (referred to herein as “Referenced Appendix B”); and

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

Metropolitan includes by this specific reference into this Official Statement the Referenced Appendix A, the Referenced Appendix B and the Referenced Appendix E. The 2020 Official Statement is on file with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access system (the “EMMA System”) and can be accessed at <http://emma.msrb.org/>.

## **Miscellaneous; Summaries Not Definitive**

This Introduction is not a summary of this Official Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California, including the Act, the Senior Debt Resolution, the Subordinate Resolutions, and all resolutions, documents, statutes, reports and other materials referred to in this Official Statement do not purport to be complete and each such summary and reference is qualified in its entirety by reference to the complete provisions thereof. The source of information herein is Metropolitan unless otherwise stated. Capitalized terms used herein and not otherwise defined will have the meanings ascribed thereto in the Subordinate Resolutions. A summary of certain provisions of the Subordinate Resolutions and a list of selected defined terms are set forth in APPENDIX 1– “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.”

## **PLAN OF REFUNDING**

The proceeds of the 2020A Bonds will be applied, together with certain other available funds, (a) to refund portions of the outstanding maturities of the following Series of variable rate Senior Bonds: (i) Water Revenue Bonds, 2000 Authorization, Series B-3, (ii) Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D, (iii) Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D, (iv) Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and 2015 Series A-2, (v) Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and 2016 Series B-2, and (vi) Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1 and 2018 Series A-2; and (b) to pay certain costs of issuance of the 2020A Bonds.

The following table details the Series, maturity dates and principal amounts of the Senior Bonds to be refunded (collectively, the “Refunded Bonds”). **All refunded bonds, maturities, dates and amounts are subject to change by Metropolitan in its sole discretion.**

**Refunded Bonds\***

<b>Series</b>	<b>Issue Date</b>	<b>CUSIP (Base No. 59266)</b>	<b>Maturity Date (July 1)</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount to be Redeemed</b>
Water Revenue Bonds, 2000 Authorization Series B-3 <sup>(1)</sup>	09/20/2000	3XH6	2035	\$ 88,800,000	\$ 9,900,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D <sup>(2)</sup>	06/03/2013	TKD2	2035	\$ 87,445,000	\$ 9,980,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D <sup>(3)</sup>	05/29/2014	TKS9	2032	\$ 38,465,000	\$ 17,285,000
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 <sup>(4)</sup>	07/01/2015	TLJ8	2035	\$ 94,450,000	\$ 7,865,000
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-2 <sup>(5)</sup>	07/01/2015	TLK5	2035	\$ 94,450,000	\$ 7,865,000
Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 <sup>(6)</sup>	09/20/2016	TMQ1	2037	\$ 51,835,000	\$ 10,385,000

(1) Principal amount refunded is to be credited against the mandatory sinking account payment due for such Term Bond in the year 2029.

(2) Principal amount refunded is to be credited against the mandatory sinking account payment due for such Term Bond in the year 2029.

(3) Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2021 and 2027 through 2029.

(4) Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2028 and 2029.

(5) Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2028 and 2029.

(6) Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2025 through 2027.

*(table continued on next page)*

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\* Preliminary, subject to change.

<b>Refunded Bonds*</b>					
<b>Series</b>	<b>Issue Date</b>	<b>CUSIP (Base No. 59266)</b>	<b>Maturity Date (July 1)</b>	<b>Principal Amount Outstanding</b>	<b>Principal Amount to be Redeemed</b>
Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-2 <sup>(7)</sup>	09/20/2016	TMS7	2037	\$ 51,835,000	\$ 10,380,000
Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1 <sup>(8)</sup>	06/27/2018	TPD7	2037	\$104,935,000	\$ 59,900,000
Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-2 <sup>(9)</sup>	06/27/2018	TPE5	2037	\$104,935,000	\$ 59,900,000

<sup>(7)</sup> Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2025 through 2027.

<sup>(8)</sup> Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2020 through 2029.

<sup>(9)</sup> Principal amount refunded is to be credited against the mandatory sinking account payments due for such Term Bond in the years 2020 through 2029.

The Refunded Bonds identified in the table above are expected to be redeemed on the date of delivery of the 2020A Bonds, at a redemption price of 100% of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium.

Pursuant to the terms of the Resolutions and the paying agent agreements for the Refunded Bonds, the refunding of the Refunded Bonds will be effected by depositing a portion of the proceeds of the 2020A Bonds, together with other available monies, in the respective Redemption Funds created and established under the paying agent agreements for the Refunded Bonds to be applied on the date of delivery of the 2020A Bonds to pay the redemption prices of such Refunded Bonds (*i.e.*, 100% of the principal amount thereof), plus any interest accrued and unpaid thereon.

\* Preliminary, subject to change.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of proceeds of the 2020A Bonds, and other available moneys, rounded to the nearest dollar, are shown below:

*Estimated Sources of Funds:*

Principal Amount of 2020A Bonds .....	\$
Original Issue [Premium/Discount].....	
Release from Refunded Bonds Funds and Accounts.....	
Total .....	\$

*Estimated Uses of Funds:*

Redemption of Refunded Bonds <sup>(1)</sup> .....	\$
Underwriters' Discount .....	
Costs of Issuance <sup>(2)</sup> .....	
Total .....	\$

<sup>(1)</sup> Represents amounts deposited or applied for payment of principal. Accrued interest to the date of redemption of the Refunded Bonds will be paid from funds provided by Metropolitan.

<sup>(2)</sup> Includes rating agency fees, Municipal Advisory fees, legal fees, printing costs and other costs of issuance.

**DESCRIPTION OF THE 2020A BONDS**

**General**

The 2020A Bonds will be dated the date of their delivery. The 2020A Bonds will be issued in the aggregate principal amount, will mature in the principal amounts on the dates and in the years, and will bear interest at the respective per annum rates of interest, as set forth on the inside cover page hereof. Interest on the 2020A Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Metropolitan will issue the 2020A Bonds as fully registered bonds in denominations of \$5,000 or any integral multiple thereof, in book-entry only form, and will register the 2020A Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). See “– Book-Entry Only System” below. See also APPENDIX 3– “BOOK-ENTRY ONLY SYSTEM.”

Metropolitan will pay interest on the 2020A Bonds on January 1 and July 1 of each year, commencing on July 1, 2020. Interest on the 2020A Bonds will be payable on each such Interest Payment Date to the registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the 2020A Bonds, the close of business on the fifteenth (15th) day of each month preceding an Interest Payment Date.

Pursuant to the Subordinate Resolutions, the Treasurer of Metropolitan has been appointed and serves as Fiscal Agent for the payment, registration and transfer of Metropolitan’s Subordinate Bonds, including the 2020A Bonds. Effective April 1, 2018, Metropolitan has entered into an Omnibus Paying Agent Agreement with Wells Fargo Bank, National Association, as paying agent (“Wells Fargo”), pursuant to which Metropolitan has appointed Wells Fargo to act as agent of the Fiscal Agent for the purpose of performing the duties and responsibilities of the Fiscal Agent under the Subordinate Resolutions with respect to the Subordinate Bonds (including the 2020A Bonds), including: the obligation of the Fiscal Agent to make payments in respect of the 2020A Bonds; the obligation of the Fiscal Agent to maintain a bond register for the registration and transfer of 2020A Bonds; and the obligation of the Fiscal Agent to transfer and exchange 2020A Bonds.

## **Book-Entry Only System**

Metropolitan will issue the 2020A Bonds as fully registered bonds, registered in the name of Cede & Co., as nominee of DTC. The 2020A Bonds will be available to Beneficial Owners (as further defined in APPENDIX 3– “BOOK–ENTRY ONLY SYSTEM”) only under the book-entry system maintained by DTC. Beneficial Owners of 2020A Bonds will not receive physical certificates representing their interests in the 2020A Bonds. So long as the 2020A Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners will mean Cede & Co., and will not mean the ultimate purchasers of the 2020A Bonds. Payments made by Metropolitan of principal of and interest on the 2020A Bonds will be paid by Wells Fargo as agent of the Fiscal Agent directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2020A Bonds. Disbursement of such payments to DTC’s Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC’s Direct Participants and Indirect Participants (“Participants”). See APPENDIX 3– “BOOK–ENTRY ONLY SYSTEM.”

Metropolitan and the Fiscal Agent (or the agent thereof) will have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2020A Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2020A Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of or interest on, the 2020A Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) to the extent applicable, the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2020A Bonds are redeemed in part. See APPENDIX 3– “BOOK–ENTRY ONLY SYSTEM.”

## **No Redemption**

The 2020A Bonds are not subject to call and redemption prior to their respective stated maturity dates.

## **SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS**

### **Security for the 2020A Bonds**

The 2020A Bonds are special limited obligations of Metropolitan payable as to principal, redemption premium, if any, and interest thereon solely from and secured by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Under the Master Subordinate Resolution, Metropolitan has further pledged to secure the payment of the principal, redemption premium, if any, and interest on the Subordinate Bonds, including the 2020A Bonds, all amounts (including proceeds of the Subordinate Bonds) held by the Treasurer of Metropolitan in the Subordinate Bond Service Fund, subject only to the provisions of the Master Subordinate Resolution permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution. See APPENDIX 1– “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.” See also “– Subordinate Bond Service Fund” below.

As defined in the Master Subordinate Resolution:

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

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

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

As described herein, Metropolitan has adopted the Senior Debt Resolution authorizing the issuance of Senior Bonds and Senior Obligations (collectively referred to herein as Senior Debt) payable and secured on a senior basis to the Subordinate Bonds, subject to the limitations, terms and conditions of the Senior Debt Resolution. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations” for a description of Metropolitan’s outstanding Senior Debt as of December 1, 2019. See also APPENDIX 2– “SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION” for a summary of the terms of the Senior Debt Resolution.

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

The 2020A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2020A Bonds or the interest thereon. The obligation to pay the principal of, redemption premium, if any, and interest on the 2020A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Official Statement.

## **Rate Covenant**

Metropolitan covenants in the Master Subordinate Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the

Subordinate Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts (collectively, the “Rate Covenant Amounts”):

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

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

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

### **No Reserve Fund**

Metropolitan will not fund a reserve fund for the 2020A Bonds. **Amounts held or to be held in a reserve fund or account established for any Senior Bonds or any other Series of Subordinate Bonds or any insurance policy, surety bond, letter of credit or other credit facility credited to a reserve fund or account established for any Senior Bonds or any other Series of Subordinate Bonds will not be available or drawn upon to pay principal of or interest on the 2020A Bonds.**

### **Outstanding Senior Bonds and Senior Obligations**

As of December 1, 2019, Metropolitan had outstanding \$2.54 billion aggregate principal amount of Senior Bonds issued under the Senior Debt Resolution (approximately \$193,460,000\* of which are being refunded by the 2020A Bonds). As described under “INTRODUCTION – Additional Senior Bonds Being Issued by Metropolitan,” Metropolitan expects to issue and deliver \$207,355,000 principal amount of its 2020A Senior Bonds on or about February 11, 2020 for the purpose of providing funds to pay (and to

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\* Preliminary, subject to change.

reimburse Metropolitan for) certain costs of acquisition, construction and improvements to the Water System and to refinance and retire certain outstanding senior short-term notes issued for such purposes. Metropolitan's outstanding Senior Bonds include fixed rate bonds, variable rate Self-Liquidity Bonds and Liquidity-Supported Bonds, Term Mode Bonds, and Build America Bonds, as more fully described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations," "– Term Mode Bonds" and "– Build America Bonds." The Senior Bonds, including any Senior Bonds hereafter issued in accordance with the Senior Debt Resolution, and all Senior Obligations of Metropolitan on parity therewith are payable from Net Operating Revenues prior to the payment of Metropolitan's Subordinate Bonds, including the 2020A Bonds, and other Subordinate Obligations.

Metropolitan has entered into a short-term revolving credit facility (the "RBC Short-Term Revolving Credit Facility") that it secured as a Senior Obligation. Under the RBC Short-Term Revolving Credit Facility, Metropolitan may borrow, pay down and re-borrow, through the issuance and sale from time to time of short-term notes, an aggregate amount outstanding at any time of up to \$200 million. As of December 1, 2019, Metropolitan had \$100.0 million in outstanding senior short-term notes under the RBC Short-Term Revolving Credit Facility (which outstanding senior short-term notes are expected to be refinanced and retired in full with proceeds of Metropolitan's 2020A Senior Bonds as described herein). See "INTRODUCTION – Additional Senior Bonds Being Issued by Metropolitan." See also Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations" for a description of the RBC Short-Term Revolving Credit Facility.

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

As provided in the Senior Debt Resolution, Metropolitan may issue additional Senior Bonds and Senior Obligations payable and secured on a basis senior and prior to the payment of the Subordinate Bonds, including the 2020A Bonds, and other Subordinate Obligations, subject to the limitations, terms and conditions of the Senior Debt Resolution. See APPENDIX 2– "SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION – Covenants – Limits on Additional Debt."

### **Outstanding Subordinate Obligations**

Upon the issuance of the 2020A Bonds, Metropolitan will have outstanding, in addition to the 2020A Bonds, \$1.26 billion aggregate principal amount of other Subordinate Bonds issued under the Subordinate Resolutions. In addition to fixed rate bonds, Metropolitan's outstanding Subordinate Bonds include Index Tender Bonds, as more fully described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations." The other outstanding Subordinate Bonds, including any additional Subordinate Bonds hereafter issued in accordance with the Subordinate Resolutions, and all First Tier Parity Obligations of Metropolitan are payable from Net Operating Revenues on parity with the 2020A Bonds.

Metropolitan's Subordinate Water Revenue Bonds, 2016 Authorization Series A (the "2016A Subordinate Bonds") were issued in a direct purchase arrangement with Bank of America, N.A. ("BANA"). In connection with the issuance of the 2016A Subordinate Bonds, Metropolitan entered into a Continuing Covenant Agreement (the "2016 BANA Agreement") with BANA to provide for the purchase by BANA of



the 2016A Subordinate Bonds. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds, including the 2020A Bonds, and all other Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations” for a description of the 2016A Subordinate Bonds and the 2016 BANA Agreement.

Metropolitan has also entered into two note purchase and continuing covenant agreements with BANA (the “Subordinate Refunding Note Purchase Agreement” and the “2019 Subordinate Note Purchase Agreement,” respectively, and together, the “Subordinate Note Purchase Agreements”). The Subordinate Refunding Note Purchase Agreement provided for the purchase by BANA of Metropolitan’s \$46.8 million principal amount of Short-Term Revenue Refunding Certificates, Series 2019 A (the “2019A Subordinate Short-Term Refunding Notes”). As of December 1, 2019, Metropolitan had \$46.8 million in outstanding notes under the Subordinate Refunding Note Purchase Agreement. Under the 2019 Subordinate Note Purchase Agreement, Metropolitan may borrow, through the issuance and sale from time to time of short-term notes to be purchased by BANA, additional subordinate short-term notes in an aggregate principal amount not to exceed \$39.2 million. As of December 1, 2019, Metropolitan had \$0 in outstanding notes under the 2019 Subordinate Note Purchase Agreement. Metropolitan has secured its obligations to repay notes evidencing borrowings under each of the Subordinate Note Purchase Agreements as First Tier Parity Obligations payable on parity with the Subordinate Bonds, including the 2020A Bonds, and all other Subordinate Obligations. See also Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – *Subordinate Short-Term Certificates*” for a description of the Subordinate Note Purchase Agreements.

Metropolitan has, and may in the future, enter into one or more self-liquidity revolving credit agreements (“Self-Liquidity Revolving Credit Agreements”) which may be drawn upon for the purpose of paying the purchase price of any Self-Liquidity Bonds. Under the terms of Metropolitan’s existing Self-Liquidity Revolving Credit Agreement with the Industrial and Commercial Bank of China Limited, New York Branch (the “ICBC Self-Liquidity Revolving Credit Agreement”), Metropolitan may borrow up to \$200 million for the purpose of paying the purchase price of tendered Self-Liquidity Bonds, including any Senior Bonds and/or Subordinate Bonds of Metropolitan that are part of Metropolitan’s self-liquidity program. As of December 1, 2019, all of Metropolitan’s Self-Liquidity Bonds are Parity Bonds. As of such date, Metropolitan had made no borrowings under the ICBC Self-Liquidity Revolving Credit Agreement. Metropolitan has secured its obligation to pay principal and interest under the ICBC Self-Liquidity Revolving Credit Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds, including the 2020A Bonds, and all other Subordinate Obligations. In addition, in order to secure Metropolitan’s obligations under the ICBC Self-Liquidity Revolving Credit Agreement, Metropolitan has pledged to the repayment of such obligations any principal and interest it receives from Senior Bonds that are Self-Liquidity Bonds which it purchases from borrowings under the ICBC Self-Liquidity Revolving Credit Agreement. Metropolitan may in the future secure its obligation to pay principal and interest under any additional Self-Liquidity Revolving Credit Agreement it may enter into either senior to or on parity with the outstanding Subordinate Bonds and First Tier Parity Obligations under the Subordinate Resolutions. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – *Self-Liquidity Revolving Credit Agreement*” for a description of the ICBC Self-Liquidity Revolving Credit Agreement.

Under some circumstances, the interest rate swap agreements referred to under “– Outstanding Senior Bonds and Senior Obligations” above are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Such termination payments are secured in some cases on a basis on parity with, and in other cases on a basis senior in payment priority to, the Subordinate Bonds, including the 2020A Bonds, and the other Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

## **Additional Indebtedness under the Master Subordinate Resolution**

Metropolitan covenants in the Master Subordinate Resolution that, except for existing and future Senior Debt, no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Subordinate Bonds, including the 2020A Bonds, and First Tier Parity Obligations.

In addition, Metropolitan covenants in the Master Subordinate Resolution that, except Subordinate Bonds and First Tier Parity Obligations to the extent incurred to pay or discharge Outstanding Senior Debt, Subordinate Bonds or First Tier Parity Obligations and which do not result in an increase in the Average Annual Debt Service on all Senior Debt, Subordinate Bonds or First Tier Parity Obligations to be Outstanding after the issuance of such Subordinate Bonds or First Tier Parity Obligations, and except for any Subordinate Bonds or First Tier Parity Obligations issued or incurred in connection with any Commercial Paper Program or Revolving Credit Agreement, Metropolitan shall not issue or incur any additional Subordinate Bonds or First Tier Parity Obligations unless, among other things, Metropolitan delivers a Certificate to the Fiscal Agent, to the effect that, as of the Calculation Date (which date shall not be any earlier than 60 days preceding the date of delivery of the Subordinate Bonds or incurrence of First Tier Parity Obligations):

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

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

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

due and payable and at the times and in the manner as required in the Subordinate Resolutions or the instruments creating any First Tier Parity Obligations and Second Tier Subordinate Obligations.

Under the Act, the amount of outstanding bonds and other evidences of indebtedness may not exceed 15% of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of December 1, 2019, Metropolitan's outstanding bonds and other evidences of indebtedness, in the aggregate amount of \$4.00 billion, constituted approximately 0.13% of the fiscal year 2019-20 taxable assessed valuation of \$3,092.4 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100% of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2019 were \$6.84 billion. The aggregate amount of revenue bonds outstanding as of December 1, 2019 was \$3.81 billion.

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

### **Subordinate Bond Service Fund**

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

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

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

No deposit need be made into the Principal Account on any date so long as there will be in such fund moneys sufficient to pay the Subordinate Bond Obligations and Mandatory Sinking Account Payments required to be made on such Principal Payment Date. On each Principal Payment Date or as soon as

practicable thereafter, any excess amounts in the Principal Account not needed to pay Subordinate Bond Obligation or Mandatory Sinking Account Payments on such Principal Payment Date will be transferred to the Water Revenue Fund.

## **THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

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

Metropolitan has described its finances and operations in detail in Referenced Appendix A and Referenced Appendix B. In addition, Metropolitan has presented selected demographic and economic information for its service area in Referenced Appendix E. Metropolitan includes by specific reference into this Official Statement each of Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2020 Official Statement, including Referenced Appendix A, Referenced Appendix B and Referenced Appendix E, is on file with the EMMA System and can be accessed at <http://emma.msrb.org/>. To obtain information essential to making an informed investment decision, potential investors must read the entire Official Statement, including the appendices, Referenced Appendix A, Referenced Appendix B and Referenced Appendix E in their entirety.

## **OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO**

### **Operating Revenues**

Water transactions (which includes water sales, wheeling and exchanges) comprise Metropolitan's principal source of revenues. Water revenues include revenues from water sales, wheeling and exchanges received by Metropolitan from charges for water transactions. Other significant revenue sources include charges for the availability of water, including, without limitation, Metropolitan's readiness-to-serve charge, standby charge, and capacity charge. See Referenced Appendix A under the captions "METROPOLITAN REVENUES – Water Revenues," "– Rate Structure" and "– Other Charges." In meeting the requirements of the Subordinate Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and Interest Subsidy Payments that may be received by Metropolitan in connection with any existing and future Build America Bonds. Metropolitan previously issued three series of Senior Bonds which it designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009, one series of which remains outstanding in the aggregate principal amount of \$250,000,000. No assurances are provided that Metropolitan will receive all or any portion of the Interest Subsidy Payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. For a description of Metropolitan's outstanding Build America Bonds, including reductions that have occurred in the amount of Interest Subsidy Payments Metropolitan had expected to receive from the United States Treasury as a result of sequestration, see Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Build America Bonds." *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2020A Bonds. For a description of "Operating Revenues" and the effect of Operating Expenses on the amount of revenues available for payment of the 2020A Bonds, see "SECURITY

AND SOURCES OF PAYMENT FOR THE 2020A BONDS.” See also APPENDIX 1–“SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS.” For information on Metropolitan’s revenues and expenses, including historical and projected revenues and expenses, see Referenced Appendix A under the captions “METROPOLITAN REVENUES,” “METROPOLITAN EXPENSES,” and “HISTORICAL AND PROJECTED REVENUES AND EXPENSES.” See also Metropolitan’s financial statements contained in Referenced Appendix B.

### **Existing Bonds and Obligations Payable from Net Operating Revenues**

Metropolitan covenants in the Master Subordinate Resolution that except for Senior Debt, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Outstanding Subordinate Bonds or First Tier Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Additional Indebtedness Under the Master Subordinate Resolution.”

Metropolitan has issued and incurred Senior Debt, including Senior Bonds pursuant to the Senior Debt Resolution which were outstanding as of December 1, 2019 in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Revenue Bonds,” and certain Senior Obligations which are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations.” See also “– Anticipated Financings” below. Principal of and interest on the 2020A Bonds will be payable from Net Operating Revenues on a basis subordinate to the Senior Bonds and Senior Obligations.

Metropolitan has issued Subordinate Bonds (which upon their delivery will include the 2020A Bonds) pursuant to the applicable Subordinate Resolutions, which Subordinate Bonds were outstanding as of December 1, 2019 in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations,” and has incurred certain First Tier Parity Obligations which are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.” Principal of and interest on the 2020A Bonds will be payable from Net Operating Revenues on parity with the other Subordinate Bonds and First Tier Parity Obligations.

### **Anticipated Financings**

Metropolitan anticipates that it will issue revenue bonds, notes or other evidences of indebtedness under the Senior Debt Resolution in addition to the outstanding Senior Bonds and Senior Obligations to finance or reimburse the costs of improvements to its Water System and for other lawful purposes and to refund outstanding revenue bonds from time to time depending on market conditions and other factors. Metropolitan also anticipates it will also issue or incur future Subordinate Bonds and other First Tier Parity Obligations under the Master Subordinate Resolution in addition to the 2020A Bonds and the outstanding Subordinate Bonds and other Subordinate Obligations, subject to the limitations in the Act. Metropolitan’s current Capital Investment Plan is described in Referenced Appendix A under the caption “CAPITAL INVESTMENT PLAN.”

The Senior Debt Resolution and Master Subordinate Resolution each permit subsequent authorizations of additional bonds as described herein. The Senior Debt Resolution and Master Subordinate Resolution establish limitations on the issuance of additional obligations payable from Net Operating Revenues senior to and on parity with the 2020A Bonds as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS.”

On June 13, 2017, Metropolitan’s Board adopted Ordinance 150 (the “2017 Revenue Bond Ordinance”) determining that the interests of Metropolitan required the use of up to an aggregate principal amount of \$400,000,000 of revenue bonds to fund a portion of its capital expenditures. As of December 1, 2019, Metropolitan had issued \$107,645,000 principal amount of revenue bonds utilizing a portion of the authorization under the 2017 Revenue Bond Ordinance. On December 10, 2019, the Board authorized the issuance of Metropolitan’s 2020A Senior Bonds utilizing a portion of the authorization under the 2017 Revenue Bond Ordinance to fund a portion of Metropolitan’s capital expenditures through fiscal year 2019-20 and retire certain outstanding senior short-term notes issued for such purposes. On January 27, 2020, Metropolitan entered into a bond purchase contract for the sale of the 2020A Senior Bonds in the aggregate principal amount of \$207,355,000. The 2020A Senior Bonds are expected to be issued and delivered by Metropolitan on or about February 11, 2020. (See “INTRODUCTION – Additional Senior Bonds Being Issued by Metropolitan.”) The issuance of the balance of the \$400,000,000 aggregate principal amount of revenue bonds under the 2017 Revenue Bond Ordinance is subject to Board approval in future supplemental bond authorizations. The Board may from time to time in the future adopt other ordinances supporting the authorization of the issuance of additional revenue bonds, including Senior Bonds and/or Subordinate Bonds.

From time to time Metropolitan may enter into interest rate swaps, pursuant to which, for example, fixed rate obligations are synthetically converted to variable rate obligations or vice versa. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

### **Debt Service Requirements**

The following table shows the estimated annual debt service requirements for Metropolitan’s outstanding Senior Bonds, Subordinate Bonds and the 2020A Bonds.

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**The Metropolitan Water District of Southern California**  
**Estimated Debt Service Requirements for Water Revenue Bonds**

<b>Fiscal Year Ending June 30</b>	<b>Outstanding Senior Bonds Debt Service <sup>(1)(2)(3)(5)</sup></b>	<b>Outstanding Subordinate Bonds Debt Service <sup>(4)(5)</sup></b>	<b>2020A Bonds Principal</b>	<b>2020A Bonds Interest</b>	<b>Total Subordinate Bonds Debt Service <sup>(4)(5)</sup></b>	<b>Total <sup>(5)(6)</sup></b>
2021	\$ 230,035,822	\$ 61,378,053				
2022	190,463,692	99,511,291				
2023	179,277,379	110,697,703				
2024	202,221,244	87,751,429				
2025	183,667,776	106,305,244				
2026	174,308,734	115,661,363				
2027	189,125,872	100,846,050				
2028	192,044,335	97,929,175				
2029	222,322,644	53,068,302				
2030	196,306,431	59,351,854				
2031	211,519,960	50,169,801				
2032	223,134,617	38,557,343				
2033	188,920,167	72,767,531				
2034	190,463,899	71,227,734				
2035	211,784,623	49,906,481				
2036	214,680,103	47,010,525				
2037	172,323,376	89,363,559				
2038	171,630,068	34,717,822				
2039	143,234,618	9,097,722				
2040	143,160,188	9,172,506				
2041	143,085,895	9,244,253				
2042	32,250,588	41,896,825				
2043	32,206,428	42,061,138				
2044	32,158,606	42,237,266				
2045	32,115,219	42,414,628				
2046	32,069,328	68,262,081				
2047	32,001,409	31,373,659				
2048	31,931,947	31,349,125				
2049	16,400,500	4,268,878				
2050	16,400,000	--				
<b>Total <sup>(6)</sup></b>	<b>\$4,231,245,469</b>	<b>\$1,677,599,340</b>				

Source: Metropolitan.

- (1) Assumes the issuance and delivery of the 2020A Senior Bonds. Includes the Refunded Bonds. Does not include any debt service for the RBC Short-Term Revolving Credit Facility. See Referenced Appendix A under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Outstanding Senior Bonds and Senior Obligations."
- (2) Indicated amounts reflect the stated interest rate on Metropolitan's outstanding Build America Bonds, and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Build America Bonds.
- (3) Assumes each Series of Term Mode Bonds are remarketed to a variable rate after the initial call protection date for such Series. Interest after the initial call protection date is calculated at an assumed interest rate of 2.25% per annum.
- (4) Assumes that approximately \$10.1 million of the 2023 maturity of Metropolitan's Subordinate Water Revenue Refunding Bonds, 2019 Series A is refunded with variable rate bonds prior to its maturity date, with the refunding bonds amortizing in 2037 and interest thereon at an assumed 2.25% per annum. Assumes that the 2028 maturity of Metropolitan's Subordinate Water Revenue Bonds, 2018 Series B is largely refunded with variable rate bonds prior to its maturity date, with the refunding bonds amortizing in the years 2033-2049 and interest thereon at an assumed 2.25% per annum. Assumes Metropolitan's Subordinate Water Revenue Refunding Bonds, 2017 Series B are refunded with variable rate bonds at their respective July 1 optional redemption dates, with the refunding bonds amortizing on July 1 in the years 2028-2033 and interest thereon at an assumed 2.25% per annum. Actual amortization of refunding bonds and rates may differ from those set forth in this footnote. Interest on the Subordinate Bonds that are Index Tender Bonds is calculated at an assumed interest rate of 2.25% per annum. Does not include any debt service for short-term notes under the Subordinate Note Purchase Agreements or any debt service for any obligations under the ICBC Self-Liquidity Revolving Credit Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Outstanding Subordinate Obligations."

(Footnotes to table continue on next page)

*(Footnotes to table continued from prior page)*

- (5) Of Metropolitan's \$1.2 billion principal amount of outstanding variable rate bonds reflected in this table (\$797.2 million of Senior Bonds (a portion of which are being refunded by the 2020A Bonds) and \$446.3 million of Subordinate Bonds), interest on \$493.6 million aggregate amount of such variable rate bonds is hedged by interest rate swap agreements. Senior Bonds debt service is calculated taking into account the assumed fixed payor rates of interest to be paid under the respective interest rate swap agreements. For the remaining variable rate bonds, interest is calculated at an assumed interest rate of 2.25% per annum.
- (6) Totals are rounded. Actual debt service may differ from assumptions utilized in preparing this table.

### **Summary of Net Operating Revenues**

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

### **Debt Service Coverage**

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

### **Financial Reserve Policy**

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

### **Metropolitan's Investment Portfolio**

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

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

## **ACCOUNTING AND BUDGET MATTERS**

### **Accounting Policies**

Metropolitan operates as a utility enterprise and is accounted for as an enterprise fund. A summary of Metropolitan's significant accounting policies is contained in Note 1 to Metropolitan's full accrual basis financial statements for the Fiscal Years ended June 30, 2019 and June 30, 2018. See Referenced Appendix B.



## **Budgetary Accounting Method**

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

## **Financial Statements**

The Basic Financial Statements of Metropolitan for the Fiscal Years ended June 30, 2019 and June 30, 2018 and Basic Financial Statements for the Three Months Ended September 30, 2019 and 2018 (Unaudited) are included in Referenced Appendix B. Metropolitan routinely prepares unaudited quarterly financial statements, and although Metropolitan is not obligated to do so, such unaudited quarterly financial statements are generally filed by Metropolitan voluntarily with the MSRB's EMMA System, when available (typically approximately two months after the end of the relevant fiscal quarterly period). Such filing of Metropolitan's unaudited quarterly financial statements is not required pursuant to any continuing disclosure undertaking by Metropolitan relating to its outstanding Bonds, and Metropolitan, does not have and has not incurred any obligation to continue to provide any such ongoing filing of its quarterly unaudited financial statements.

The Financial Statements for the Fiscal Years ended June 30, 2019 and June 30, 2018 have been audited by KPMG LLP, Metropolitan's independent auditor (the "Independent Auditor"), as stated in its Independent Auditors' Report, dated October 14, 2019, which is included in Referenced Appendix B. Metropolitan has not requested the consent of the Independent Auditor, nor has the Independent Auditor consented, to the inclusion of the Financial Statements or the Independent Auditors' Report in Referenced Appendix B. KPMG LLP, Metropolitan's Independent Auditor, has not been engaged to perform and has not performed, since the date of its Independent Auditors' Report included in Referenced Appendix B, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

The financial and statistical information otherwise contained and incorporated in this Official Statement is included herein for informational purposes only and a complete review of the audited Financial Statements and the Notes to such Financial Statements set forth in Referenced Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other financial information or data included in this Official Statement, other than the audited Financial Statements for the Fiscal Years ended June 30, 2019 and June 30, 2018 included in Referenced Appendix B.

## **Budget System**

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

## **RISK FACTORS**

*The ability of Metropolitan to pay principal of and interest on the 2020A Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2020A Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2020A Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Official Statement, including the appendices hereto and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E incorporated herein, to obtain information essential to making an informed investment decision.*

### **Limited Obligations**

The 2020A Bonds are special limited obligations of Metropolitan payable as to principal, redemption premium, if any, and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. The 2020A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2020A Bonds or the interest thereon. The obligation to pay the principal of, redemption premium, if any, and interest on the 2020A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Official Statement.

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, and interest on all Senior Debt and on the 2020A Bonds and all other Subordinate Bonds and other Subordinate Obligations. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its member agencies and to establish, maintain and collect rates and charges sufficient to pay for Operating Expenses and debt service.

### **2020A Bonds Subordinate to Senior Debt**

The pledge and lien securing the 2020A Bonds and other Subordinate Obligations is subordinate to the pledge and lien securing the Senior Debt. In addition, under the Senior Debt Resolution, Metropolitan is required to make monthly deposits from Net Operating Revenues into funds and accounts created under the Senior Debt Resolution equal to estimates of future principal and interest payments before Metropolitan may use Net Operating Revenues to pay principal of or interest on the 2020A Bonds and other Subordinate Obligations.

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

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

due, it may significantly reduce the amount of Net Operating Revenues available to pay debt service on the 2020A Bonds and other Subordinate Obligations.

### **Refinancing Risks in Connection with Certain Subordinate Bonds**

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

### **Risks Relating to Water Transactions**

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

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

periods that affect Metropolitan’s water transactions. See Referenced Appendix A under the caption “METROPOLITAN REVENUES – Financial Reserve Policy.”

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

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

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

***Actions to Manage Risks Relating to Water Transactions.*** Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. To address supply shortages due to periods of prolonged drought conditions and/or environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues, which may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Rate Covenant.” See also Referenced

Appendix A under the captions “METROPOLITAN’S WATER SUPPLY” and “CAPITAL INVESTMENT PLAN.” Wet weather and economic conditions in the region can also impact retail water use and reduce demand for imported water purchased from Metropolitan. A reduction in water deliveries to Metropolitan’s member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS – Rate Covenant.”

### **Earthquakes, Floods, Wildfires and Other Natural Disasters**

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

### **Cybersecurity; Other Safety and Security Risks**

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

### **Limitations on Remedies**

Upon the occurrence and continuance of an Event of Default under the Subordinate Resolutions, the Owners of the Subordinate Bonds (including the 2020A Bonds) have limited remedies and, except for limited circumstances, the Owners of the Subordinate Bonds do not have the right to accelerate the payment of principal of or interest on the Subordinate Bonds (including the 2020A Bonds). See APPENDIX 1– “SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS – MASTER SUBORDINATE RESOLUTION – Defaults and Remedies.”

In addition, the rights of the Owners of the 2020A Bonds are subject to the limitations on legal remedies against public entities in the State of California, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

## **Tax Law Proposals**

Existing law may change so as to reduce or eliminate the benefit to Beneficial Owners of the 2020A Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. See “TAX MATTERS.”

## **LITIGATION**

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, (b) the validity of the 2020A Bonds or the power and authority of Metropolitan to issue the 2020A Bonds, or (c) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Subordinate Resolutions.

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

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

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to Metropolitan, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2020A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2020A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by Metropolitan in connection with the 2020A Bonds, and Bond Counsel has assumed compliance by Metropolitan with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2020A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to Metropolitan, under existing statutes, interest on the 2020A Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the 2020A Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of

any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2020A Bonds.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2020A Bonds in order that interest on the 2020A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2020A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2020A Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. Metropolitan has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2020A Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2020A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a 2020A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2020A Bonds.

Prospective owners of the 2020A Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the 2020A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

### **Original Issue Discount**

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a 2020A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the 2020A Bonds. In general, the issue price for each maturity of 2020A Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel further is of the opinion that, for any 2020A Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the 2020A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount

Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such 2020A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2020A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2020A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2020A Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.



## **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2020A Bonds under federal or state law or otherwise prevent beneficial owners of the 2020A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2020A Bonds.

Prospective purchasers of the 2020A Bonds should consult their own tax advisors regarding the foregoing matters.

## **UNDERWRITING**

The 2020A Bonds are being purchased by BofA Securities, Inc., as representative of itself and Samuel A. Ramirez & Co., Inc. (together, the “Underwriters”), pursuant to and subject to the conditions set forth in the Bond Purchase Contract between Metropolitan and the Underwriters (the “Bond Purchase Contract”). Subject to the terms of the Bond Purchase Contract, the Underwriters will purchase the 2020A Bonds at a purchase price of \$\_\_\_\_\_, which represents the \$\_\_\_\_\_ principal amount of the 2020A Bonds, plus original issue premium of \$\_\_\_\_\_, less an Underwriters’ discount of \$\_\_\_\_\_. The Underwriters are obligated to purchase all of the 2020A Bonds if they purchase any 2020A Bonds.

The public offering prices or yields may be changed from time to time by the Underwriters. The Underwriters may offer and sell 2020A Bonds to certain dealers and others at prices lower or yields higher than the respective offering prices or yields shown on the inside cover page hereof.

BofA Securities, Inc., one of the underwriters of the 2020A Bonds, has entered into a separate agreement with its affiliate, Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”). As part of this arrangement, BofA Securities, Inc., may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the 2020A Bonds.

## **CERTAIN RELATIONSHIPS**

The Underwriters have provided the following paragraphs for inclusion in this Official Statement:

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Metropolitan, for which they received or will receive customary fees and expenses.

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

## **MUNICIPAL ADVISOR**

Metropolitan has retained Public Resources Advisory Group, Los Angeles, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the 2020A Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement. Certain fees of the Municipal Advisor are contingent upon the issuance and delivery of the 2020A Bonds.

## **LEGAL MATTERS**

Hawkins Delafield & Wood LLP, Bond Counsel to Metropolitan, will render its opinion with respect to the 2020A Bonds, substantially in the form set forth in APPENDIX 4— “FORM OF OPINION OF BOND COUNSEL.” Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. Norton Rose Fulbright US LLP, Los Angeles, California, is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2020A Bonds. Bond Counsel and Disclosure Counsel will receive compensation that is contingent upon the issuance and delivery of the 2020A Bonds.

## **RATINGS**

S&P Global Ratings and Fitch Ratings have assigned the 2020A Bonds their long-term ratings of “AA+” and “AA+,” respectively. Such credit ratings reflect only the views of the applicable organizations and any desired explanation of the significance of any such credit rating should be obtained from the rating agency furnishing the same, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; and Fitch Ratings, 33 Whitehall Street, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Any such credit rating may not continue for any given period and may be revised downward or withdrawn entirely by the rating agency furnishing the same, if in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of any such credit rating could have an adverse effect on the market price of the 2020A Bonds.

## **CONTINUING DISCLOSURE**

Metropolitan has agreed to execute a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”), which provides for disclosure obligations on the part of Metropolitan for so long as the 2020A Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2020A Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriters in complying with the Rule. See APPENDIX 5— “FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

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

**MISCELLANEOUS**

The terms of the 2020A Bonds are set forth in the Subordinate Resolutions and the Bond Purchase Contract. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012; telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Assistant General Manager/Chief Financial Officer.

The attached appendices, and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E incorporated herein, are integral parts of this Official Statement and should be read in their entirety. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

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

THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

By: \_\_\_\_\_  
General Manager

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**APPENDIX 1**

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

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## APPENDIX 1

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### SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS

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

#### DEFINITIONS

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

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

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

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

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

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

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

“Assumed EPP Period” means, with respect to any Excluded Principal Payment, a period following the date of the applicable Excluded Principal Payment equal to the lesser of (a) 30 years and (b) the period between the date of such Excluded Principal Payment and 40 years from the Calculation Date, or such different period following

the applicable Excluded Principal Payment that Metropolitan specifies on or before the applicable Calculation Date in a Certificate of Metropolitan, which is not less than five years and which ends no later than 40 years from the Calculation Date.

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

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

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

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

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

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

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

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

“Bond Register” means the Bond Register as defined in the Master Subordinate Resolution.

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

“Business Day” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, (2) for



purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized or obligated by law or executive order to be closed, and, if specified in a Supplemental Resolution, (3) a day upon which the principal office of Metropolitan is authorized to be closed.

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

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

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

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

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

“Code” means the Internal Revenue Code of 1986, as amended.

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

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

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

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

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

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

“Covered Obligations” means Senior Debt, Bonds and First Tier Parity Obligations.

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

portion thereof, or any combination of the foregoing. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

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

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

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

otherwise be included into the definition of Debt Service for either the Supporting Debt and Supported Debt and will only include the one that causes the amount of Average Annual Debt Service to be the highest; and (j) if Metropolitan issues Covered Obligations and payments of principal and interest and Purchase Obligations of such Covered Obligations are secured as Covered Obligations of any kind, then any Purchase Obligations secured as Covered Obligations will be disregarded and not included in any calculation under the definition of Debt Service in the Master Subordinate Resolution.

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

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

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

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

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

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

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

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

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

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

“Fiscal Agent” means the Treasurer of Metropolitan.

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

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

“Interest Payment Date” means, with respect to any Bonds, any date on which interest on such Bonds becomes due and payable.

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

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

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

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

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

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

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

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

“Outstanding” means (1) when used as of any particular time with reference to Bonds (subject to the provisions of the Master Subordinate Resolution), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Master Subordinate Resolution except (A) Bonds theretofore canceled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of Metropolitan will have been discharged in accordance with the Master Subordinate Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Master

Subordinate Resolution; and (D) Bonds no longer deemed to be outstanding under the Master Subordinate Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Senior Debt, all Senior Debt deemed outstanding within the meaning of the respective Senior Debt Resolutions; (3) when used as of any particular time with reference to First Tier Parity Obligations, all First Tier Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such First Tier Parity Obligations; and (4) when used as of any particular time with reference to Second Tier Subordinate Obligations, all Second Tier Subordinate Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Second Tier Subordinate Obligations.

“Owner” or “Bondholder” or “Bondowner,” whenever used in the Master Subordinate Resolution with respect to a Bond, means the Person in whose name such Bond is registered. When the term “Owner” is used in reference to any First Tier Parity Obligations or Second Tier Subordinate Obligations, it means the Person or Persons who are entitled to payments that are secured by such First Tier Parity Obligation or Second Tier Subordinate Obligations.

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

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

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

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

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

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

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

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

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

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

“Refunding Bonds” means all Bonds whether issued in one or more Series, authorized pursuant to the Master Subordinate Resolution, to the extent the proceeds thereof are used to pay or to provide for the payment of

Senior Debt, Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or any other obligations or indebtedness of Metropolitan.

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

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

“Representation Letter” means each representation letter from Metropolitan to the Securities Depository as described in the First Supplemental Subordinate Resolution.

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

“Reserve Fund” means a Subordinate Water Revenue Refunding Bonds Reserve Fund established for a Series of Subordinate Refunding Bonds pursuant to the First Supplemental Subordinate Resolution.

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

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

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

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

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

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

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

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

“State Water Contract” means that certain contract entitled “A Contract between the State of California Department of Water Resources and The Metropolitan Water District of Southern California for a Supply of Water,” dated November 4, 1960, as amended from time to time.

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

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

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

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

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

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

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

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

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

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

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

“Unrestricted Reserves” means any financial reserves of Metropolitan that are available to Metropolitan for its general purposes and that are not restricted to a particular purpose by a designation of the Board, the Senior Debt Resolution, the Master Subordinate Resolution, or by applicable law.

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

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

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

## **MASTER SUBORDINATE RESOLUTION**

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

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

### **The Bonds**

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

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

Bond Register. The Fiscal Agent for each Series of Bonds will keep or cause to be kept at its designated office sufficient books for the registration and transfer of the Bonds of that Series, which will at all times be open to



inspection during normal business hours by Metropolitan; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Master Subordinate Resolution.

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

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

## **Issuance of Bonds**

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

A Supplemental Resolution authorizing one or more Series of Bonds will specify, among other things: (i) the authorized principal amount and distinguishing designation of such Series; (ii) the general purpose or purposes for which such Series of Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the Bonds of such Series; (iii) the date or dates, and the maturity date or dates of the Bonds of such Series, and the principal amount maturing on each maturity date and any Mandatory Sinking Account Payments for the Bonds of such Series; (iv) the interest rate or rates on the Bonds of such Series (which may be a rate of zero) and the

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

General Provisions for the Issuance of Bonds. The Bonds of each Series will be executed by Metropolitan for issuance under the Master Subordinate Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to Metropolitan on its order, but only upon receipt by that Fiscal Agent of the following: (a) a copy of the Master Subordinate Resolution, including the Supplemental Resolution creating such Series, certified by the Secretary of the Board; (b) an opinion of Bond Counsel to the effect that (i) the Bonds of such Series are valid and binding limited obligations of Metropolitan enforceable against Metropolitan in accordance with their terms, and (ii) that the Master Subordinate Resolution, including the Supplemental Resolution creating such Series, is a valid and binding obligation of Metropolitan enforceable in accordance with its terms; provided that such opinions may be qualified to the extent that the enforceability of the Bonds and the Master Subordinate Resolution, including the Supplemental Resolution creating such Series, may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles; and (c) an order of Metropolitan as to the delivery of such Series of Bonds.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by Metropolitan in an aggregate, principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of any or all of the following: (1) all or any portion of the principal or Redemption Price of the Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or any obligation or indebtedness of Metropolitan to be refunded (including the purchase price of any Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded); (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness and the cost of issuance of such Refunding Bonds; (3) interest on all Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness to be refunded to the date such Bonds, First Tier Parity

Obligations, Second Tier Subordinate Obligations or Senior Debt will be called for redemption or paid at maturity; and (4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded.

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

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

## **Redemption of Bonds**

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

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

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

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

## **Revenues**

Pledge of Net Operating Revenues. The Bonds of each Series are special limited obligations of Metropolitan and are secured by a pledge of and will be a charge upon and will be payable, as to the principal and Accreted Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) Net Operating Revenues, subordinate to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions and on parity with the First Tier Parity Obligations, and (ii) the other funds, assets and security, if any, described under the Master Subordinate Resolution and under the Supplemental Resolution creating that Series. Metropolitan pledges and places a charge upon all Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions, to secure the payment of the principal and Accreted Value of, premium, if any, and interest on the Bonds and First Tier Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Master Subordinate Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master

Subordinate Resolution, and the Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions, constitute a trust for the security and payment of the interest and any premium on and principal and Accreted Value of the Bonds and First Tier Parity Obligations. Metropolitan pledges and places a charge upon all Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions, and the lien thereon of the Bonds and the payment of the First Tier Parity Obligations, to secure the payment of Second Tier Subordinate Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Master Subordinate Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution, and the Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions and the lien thereon of the Bonds and First Tier Parity Obligations, constitute a trust for the security and payment of the Second Tier Subordinate Obligations. There are pledged by the Master Subordinate Resolution to secure the payment of the principal and Accreted Value of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Subordinate Bond Service Fund, subject only to the provisions of the Master Subordinate Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Subordinate Resolution. The pledges of Net Operating Revenues made in the Master Subordinate Resolution will be irrevocable until no Bonds, First Tier Parity Obligations or Second Tier Subordinate Obligations are Outstanding.

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

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

1. Water Revenue Fund (the “Water Revenue Fund”);
2. Water Revenue Subordinate Bonds, Bond Service Fund (the “Subordinate Bond Service Fund”), including an Interest Account (the “Interest Account”) and the Principal Account (the “Principal Account”) therein; and
3. To the extent required by any Supplemental Resolution, any Reserve Fund (a “Reserve Fund”).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Covenants of Metropolitan**

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

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

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

Maintenance and Operation of the Water System. Metropolitan will cause the Water System to be maintained in good repair, working order, and condition at all times and will continuously operate the Water System in an efficient and economical manner so that all lawful orders of any governmental agency or authority having

jurisdiction in the premises will be compiled with, but Metropolitan will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Water System.

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

Rates and Charges. In determining the amounts payable with respect to any of the rate covenant amounts and the amounts of rates and charges, Metropolitan may make such allowances for contingencies and error in estimates and may incorporate and use such reasonable assumptions as Metropolitan determines are appropriate and reasonable.

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

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

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

Certificate at any time at which there are Bonds or First Tier Parity Obligations Outstanding under such Commercial Paper Program, including under any Commercial Paper Support.

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

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

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

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

(3) Any Additional Revenues for the NOR Period.

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

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



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

### **The Fiscal Agent**

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

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

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

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

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

a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

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

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

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

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

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

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

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

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

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

### **Modification or Amendment of the Master Subordinate Resolution**

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

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

It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent will approve the substance thereof. It will not be

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

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

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

Consents Effective on Tender. Notwithstanding any provision of the Master Subordinate Resolution to the contrary, the Owners of any Series of Bonds will be deemed to consent to any modification or amendment of the Master Subordinate Resolution and for any other purposes if (a) such amendment becomes effective upon or after the date on which, under the terms and conditions of the Supplemental Resolution under which the Bonds of such Series were issued, the Owners of all Bonds of such Series are required to tender their Bonds for purchase, (b) such amendment does not affect the right of the tendering Owners to receive the payment of the purchase price payable upon such mandatory tender for purchase of the Bonds of such Series, and (c) the content to the amendment is included in a notice of mandatory tender delivered to the Owners.

Amendment to Name of the Bonds and Resolution. Notwithstanding any provision of the Master Subordinate Resolution to the contrary, Metropolitan may modify or amend the name of the Bonds and the name of the Master Subordinate Resolution without the consent of the Owners of the Bonds from time to time and at any time by filing with each Fiscal Agent a Supplemental Resolution and a Certificate of Metropolitan certifying that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt.

Effect of Supplemental Resolution. From and after the time any Supplemental Resolution becomes effective pursuant to the Master Subordinate Resolution, the Master Subordinate Resolution will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Master Subordinate Resolution of Metropolitan, each Fiscal Agent and all Owners of Bonds, First Tier Parity Obligations

and Second Tier Subordinate Obligations Outstanding will thereafter be determined, exercised and enforced under the Master Subordinate Resolution subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution will be deemed to be part of the terms and conditions of the Master Subordinate Resolution for any and all purposes.

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

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

#### **Defeasance**

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

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

and discharge of any Bond as provided in the Master Subordinate Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond. Metropolitan may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which Metropolitan may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

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

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

## **Defaults and Remedies**

Events of Default. Each of the following events will be an “Event of Default”: (a) default by Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise); (b) default by Metropolitan in the due and punctual payment of the interest on any Bond; (c) failure of Metropolitan to pay any First Tier Parity Obligation when due and payable and such failure continues for a period of 5 Business Days following written notice by any Owner of

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

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

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

Subordinate Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either will have been elected by or their election will have been approved by or concurred in, and such committee will then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, will be filed with the Authorized Representative.

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

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

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

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

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

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



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

## **Miscellaneous**

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

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

Successor Is Deemed Included in All References to Predecessor. Whenever in the Master Subordinate Resolution either Metropolitan, the Treasurer or any Fiscal Agent is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Master Subordinate Resolution contained by or on behalf of Metropolitan or any Fiscal Agent will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

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

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

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

Severability of Invalid Provisions. If any one or more of the provisions contained in the Master Subordinate Resolution or in the Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Master Subordinate Resolution and such invalidity, illegality or unenforceability will not affect any other provision of the

Master Subordinate Resolution, and the Master Subordinate Resolution will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Master Subordinate Resolution. The Board declares by the Master Subordinate Resolution that it would have adopted the Master Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase of the Master Subordinate Resolution and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Master Subordinate Resolution may be held illegal, invalid or unenforceable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **FIRST SUPPLEMENTAL SUBORDINATE RESOLUTION**

### **The Subordinate Refunding Bonds**

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

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

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

## **Sale of Subordinate Refunding Bonds; Application; Funds; Covenants**

### Establishment and Application of Escrow Funds.

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

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

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

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

Establishment and Application of Excess Earnings Funds. To ensure proper compliance with the tax covenants contained in the First Supplemental Subordinate Resolution, if required by the related Tax and Nonarbitrage Certificate, Metropolitan will establish and the Treasurer will maintain a fund for each Series of Subordinate Refunding Bonds issued under the First Supplemental Subordinate Resolution, which fund will be separate from any other fund or account established and maintained under the First Supplemental Subordinate Resolution or under the Master Subordinate Resolution and will be designated as the “Subordinate Water Revenue Refunding Bonds Excess Earnings Fund” and will bear such additional designation as will be determined by an Authorized Representative. All money at any time deposited in the Excess Earnings Fund for such Series of Subordinate Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series will be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor any Owner of Subordinate Refunding Bonds of such Series will have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund will be governed by the First Supplemental Subordinate Resolution and by the Tax and Nonarbitrage Certificate with respect to such Series. The Treasurer will invest all amounts held in any such Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money will not be transferred from the Excess Earnings Fund established for a Series of Subordinate Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

Tax Covenants. Except with respect to Subordinate Refunding Bonds the interest of which is included in the gross income of the Owners thereof, to maintain the exclusion from gross income of the interest on the Subordinate Refunding Bonds for federal income tax purposes, Metropolitan has covenanted to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and Metropolitan has agreed to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate which by reference is incorporated in the First Supplemental Subordinate Resolution, as a source of guidance for compliance with such provisions.

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

## **Undertakings**

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

accordance with the terms of a related Continuing Disclosure Certificate, if any, delivered by Metropolitan in connection with such Series of Subordinate Refunding Bonds.

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

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

### **Miscellaneous**

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

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

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

**APPENDIX 2**

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

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## APPENDIX 2

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

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

#### **Definitions**

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

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

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

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

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

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

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

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation

Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond was compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

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

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

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

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

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

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

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

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

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

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

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

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

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

“Expenditures” means cash disbursements of Metropolitan.

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

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

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

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

“General Manager” means the General Manager of Metropolitan.

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

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

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

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

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

(c) if the Parity Obligations or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Obligations or Bonds, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the lesser of (i) the then current “prime rate” of the provider of the Credit Facility and (ii) the maximum rate permitted on the Parity Obligations or Bonds;

(d) principal and interest payments on Parity Obligations and Bonds will be excluded to the extent such payments are to be paid from amounts on deposit (and investment earnings thereon) as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Obligations or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest;

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

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

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

(i) 0 and

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

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

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

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

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

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

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

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

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

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

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

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

“Outstanding” means (1) when used as of any particular time with reference to Bonds (excluding, solely for the purpose of determining whether the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, or waiver, those Bonds which are owned by or held by or for the account of Metropolitan), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Senior Debt Resolution except (A) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of Metropolitan has been discharged in accordance with the Senior Debt Resolution; (C) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Senior Debt Resolution; and (D) Bonds no longer deemed to be outstanding under the Senior Debt Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Prior Lien Bonds, all Prior Lien Bonds deemed outstanding within the meaning of the respective Prior Lien Bonds Resolutions; and (3) when used as of any particular time with reference to Parity Obligations, all Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Parity Obligations.

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

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

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

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

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

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

“Prior Lien Bonds Resolutions” means the resolutions of Metropolitan with respect to Metropolitan’s Waterworks Refunding Revenue Bonds, Issue of 1978; Metropolitan’s Waterworks Revenue Bonds, Issue of 1979; Metropolitan’s Waterworks Revenue Bonds, Issue of 1983; and Metropolitan’s Waterworks Refunding Revenue Bonds, Issue of 1986.

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

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

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

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

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

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

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

“State” means the State of California.

“State Water Contract” means that certain contract entitled “A Contract Between the State of California Department of Water Resources and The Metropolitan Water District of Southern California for a Supply of Water,” dated November 4, 1960, as amended from time to time.

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

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

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

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

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

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

## **General**

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

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

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

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

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

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

Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Senior Debt Resolution as definitive Bonds authenticated and delivered under the Senior Debt Resolution.

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

### **Supplemental Resolutions; Additional Bonds**

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

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

### **Redemption of Bonds**

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

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



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

## **Revenues**

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

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

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

1. Water Revenue Fund (the "Water Revenue Fund");
2. Operation and Maintenance Fund (the "Operation and Maintenance Fund");
3. Water Revenue Bonds, Bond Service Fund (the "Bond Service Fund"); and
4. Revenue Remainder Fund (the "Revenue Remainder Fund").

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

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

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

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

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

Series will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of Metropolitan. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of Metropolitan.

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

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

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

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

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

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

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

redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers.

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

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

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

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

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

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

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

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

## **Covenants**

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

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

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

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

Metropolitan has covenanted that any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain or sale under threat thereof which adversely affects the adequacy of Net Operating Revenues to pay principal and Accreted Value of and interest on the Bonds or any Parity Obligations will either be used for the acquisition and/or construction of improvements and extensions of the Water System or will be placed in the Bond Service Fund or the Redemption Fund and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Senior Debt Resolution.

Insurance. Metropolitan has covenanted that it will at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Water System will be used for repairing or rebuilding the damaged or destroyed Water System, and to the extent not so applied, will be applied to the retirement of any Outstanding Bonds.

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

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

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

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

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

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

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

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

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operation and Maintenance Expenditures) which may arise from any additions to and extensions and improvements of the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 24-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the certificate of Metropolitan.

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

(c) Any Additional Revenues.

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

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

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

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

## **The Fiscal Agent**

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

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

Notwithstanding the foregoing, the Treasurer or the Controller may only be removed as a Fiscal Agent by a resolution of the Board.

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

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

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

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

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

Liability of Fiscal Agent. The recitals of facts in the Senior Debt Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of Metropolitan, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Senior Debt Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Senior Debt Resolution thereon, or as to the financial or technical feasibility of any Project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Senior Debt Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Senior Debt Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Senior Debt Resolution. A Fiscal Agent and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent



and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of Metropolitan, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of Metropolitan and make disbursements for Metropolitan and enter into any commercial or business arrangement therewith, without limitation.

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

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

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

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

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

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

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

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

with matters required to be proven or ascertained in connection with its administration of the duties created by the Senior Debt Resolution.

### **Amendments to Senior Debt Resolution**

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

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

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

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

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

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

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

## **Defeasance**

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

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

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

Metropolitan will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Senior Debt Resolution and the continuing duties of the Fiscal Agent for such Series under the Senior Debt Resolution. Upon defeasance and discharge of any Bond as provided in the Senior Debt Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond.

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

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

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

## Defaults and Remedies

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

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

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

approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Senior Debt Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either will have been elected by or their election will have been approved by or concurred in, and such committee will then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, will be filed with the Authorized Representative.

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

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

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

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

## **Miscellaneous**

Liability of Metropolitan Limited to Net Operating Revenues. Notwithstanding anything in the Senior Debt Resolution or in the Bonds contained, Metropolitan will not be required to advance any moneys derived from

any source other than the Net Operating Revenues and other money, assets and security pledged under the Senior Debt Resolution for any of the purposes in the Senior Debt Resolution mentioned, whether for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or for any other purpose of the Senior Debt Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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



**APPENDIX 3**

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**BOOK-ENTRY ONLY SYSTEM**

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## APPENDIX 3

### BOOK-ENTRY ONLY SYSTEM

#### Introduction

Unless otherwise noted, the information contained under “– General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described under “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website. The Beneficial Owners of the 2020A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF METROPOLITAN NOR THE FISCAL AGENT (OR THE AGENT THEREOF) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2020A BONDS UNDER THE SUBORDINATE RESOLUTIONS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2020A BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2020A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2020A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

#### General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2020A Bonds. The 2020A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2020A Bonds and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to DTC’s system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a

Direct Participant, either directly or indirectly (“Indirect Participants”). S&P Global Ratings has rated DTC “AA+.” DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information set forth on such website is not incorporated herein by reference.

Purchases of the 2020A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2020A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2020A Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2020A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2020A Bonds, except in the event that use of the book-entry system for the 2020A Bonds is discontinued.

To facilitate subsequent transfers, all 2020A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2020A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2020A Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2020A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2020A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2020A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2020A Bonds documents. For example, Beneficial Owners of the 2020A Bonds may wish to ascertain that the nominee holding the 2020A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2020A Bonds of like maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2020A Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2020A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2020A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent (or its agent), on the payable date in accordance with

their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent (or its agent) or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2020A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NONE OF METROPOLITAN NOR THE FISCAL AGENT (OR THE AGENT THEREOF) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Metropolitan and the Fiscal Agent (or its agent) cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2020A Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Metropolitan and the Fiscal Agent (or its agent) are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2020A Bonds or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2020A Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2020A Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2020A Bond certificates will be printed and delivered to DTC.

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

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2020A BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT (OR ITS AGENT) AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.

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**APPENDIX 4**

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**FORM OF OPINION OF BOND COUNSEL**

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## APPENDIX 4

### FORM OF OPINION OF BOND COUNSEL

*Upon issuance of the 2020A Bonds, Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to The Metropolitan Water District of Southern California, will render its approving opinion with respect to the 2020A Bonds in substantially the following form:*

[Closing Date]

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

Re: *The Metropolitan Water District of Southern California  
Subordinate Water Revenue Refunding Bonds, 2020 Series A*

Ladies and Gentlemen:

We have examined certified copies of proceedings of the issuance by The Metropolitan Water District of Southern California (“Metropolitan”) of \$\_\_\_\_\_ aggregate principal amount of its Subordinate Water Revenue Refunding Bonds, 2020 Series A (the “2020A Bonds”).

The 2020A Bonds are issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209 (the “Metropolitan Act”), as amended and supplemented by Article 11 of Chapter 3, and Chapter 6, of Part 1, Division 2, Title 5 of the California Government Code, as amended (together with the Metropolitan Act, the “Law”), and Resolution 9199 adopted by the Board on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including by Resolution 9200 adopted by the Board on March 8, 2016 (the “First Supplemental Subordinate Resolution” and, together with the Master Subordinate Resolution, the “Subordinate Resolutions”). All terms used herein and not otherwise defined shall have the meanings given such terms in the Subordinate Resolutions.

The 2020A Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Subordinate Resolutions and as described in the Bond Purchase Contract, dated February \_\_, 2020 (the “Bond Purchase Contract”), by and between Metropolitan and BofA Securities, Inc., as representative of itself and the several underwriters thereunder, relating to the 2020A Bonds. The 2020A Bonds are subject to redemption prior to maturity on the dates, at the price and upon the notice authorized by the Subordinate Resolutions and as provided in the Bond Purchase Contract.

On the basis of the foregoing examination and in reliance upon the certified proceedings, we are of the opinion that:

(i) The 2020A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly

authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Subordinate Resolutions, in each case subordinate to the lien thereon of the Senior Debt.

(ii) The Subordinate Resolutions have been duly adopted by, and constitute valid and binding obligations of, Metropolitan, enforceable in accordance with their terms.

(iii) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (a) interest on the 2020A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (b) interest on the 2020A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code.

The Code establishes certain requirements which must be met subsequent to the issuance of the 2020A Bonds in order that the interest on the 2020A Bonds be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2020A Bonds, restrictions on the investment of proceeds of the 2020A Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause the interest on the 2020A Bonds to become subject to federal income taxation retroactive to their date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of issuance of the 2020A Bonds, Metropolitan will execute a Tax Certificate relating to the 2020A Bonds containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, Metropolitan represents that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that the interest on the 2020A Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph (iii), we have relied upon and assumed (a) the material accuracy of Metropolitan’s representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the interest on the 2020A Bonds, and (b) compliance by Metropolitan with the procedures and covenants set forth in the Tax Certificate as to such matters.

(iv) Under existing statutes, interest on the 2020A Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the 2020A Bonds, or the ownership or disposition thereof, except as stated in paragraphs (iii) and (iv) above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2020A Bonds.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the 2020A Bonds and express herein no opinion relating thereto.

The foregoing opinions are qualified to the extent that the enforceability of the 2020A Bonds, the Subordinate Resolutions and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), and to the limitations on legal remedies against governmental entities in the State of California (including, but not limited to, rights of indemnification).

Very truly yours,

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**APPENDIX 5**

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**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

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## APPENDIX 5

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of March 1, 2020 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$ \_\_\_\_\_ Subordinate Water Revenue Refunding Bonds, 2020 Series A (the “Bonds”). The Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including Article 11 of Chapter 3 (commencing with Section 53580) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 (the “Act”), and Resolution 9199 adopted by the Board of Directors of Metropolitan (the “Board”) on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including by Resolution 9200 adopted by the Board on March 8, 2016 (the “First Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution, the “Subordinate Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Subordinate Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

#### ARTICLE I Definitions

Section 1.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in Referenced Appendix A to the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage”; (iii) under the caption “METROPOLITAN REVENUES” in Referenced Appendix A to the Official Statement, the tables “Summary of Revenues by Source”, “Summary of Water Transactions and Revenues”, “Summary of Water Rates”, and “Ten Largest Water Customers”; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption “METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts” in Referenced Appendix A to the Official Statement, the total market value of all Metropolitan funds, earnings on investments and the minimum month-end balance of Metropolitan’s investment portfolio; (v) under the caption “METROPOLITAN EXPENSES” in Referenced Appendix A to the Official Statement, the table “Summary of Expenses”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan and Other Post-Employment Benefits”; (vi) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A to the Official Statement, historical revenues and expenses for the then immediately past fiscal year, as presented in the table “Historical and Projected Revenues and Expenses”; (vii) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A to the Official Statement, the percentage of operation

and maintenance expenses to total costs; and (viii) under the caption “METROPOLITAN EXPENSES – Power Sources and Costs; Related Long-Term Commitments” in Referenced Appendix A to the Official Statement, the expenses for electric power, for so long as such information shall be deemed to be material by Metropolitan and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (1) above of financial information and operating data constituting Annual Financial Information are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, or due to changes in accounting practices, or legislative or organizational changes, a statement to that effect shall be provided in lieu of such information. Comparable information shall be provided if available.

(2) “Audited Financial Statements” means the annual financial statements, if any, of Metropolitan, audited by such auditor as shall then be required or permitted by State law or the Subordinate Resolutions. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that Metropolitan may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 4.2(d) hereof shall include a reference to the specific Federal or State law or regulation describing such accounting principles.

(3) “Counsel” means a nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

(4) “EMMA System” means the MSRB’s Electronic Municipal Market Access system or any successor nationally recognized municipal securities information repositories recognized by the SEC for the purposes referred to in the Rule.

(5) “Event Notice” means written or electronic notice of a Notice Event.

(6) “Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “Financial Obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

(7) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(8) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(9) “Notice Event” means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;



- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of any Bonds;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a Financial Obligation of Metropolitan, if material, or agreement to covenants, events of default, remedies, priority rights, or

other similar terms of a Financial Obligation of Metropolitan, any of which affect holders of the Bonds, if material; and

- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of Metropolitan, any of which reflect financial difficulties (it being understood that for purposes of Section 2.4 hereof, Metropolitan intends to comply with the provisions of this Undertaking for the Notice Events described in this subparagraph (xvi) and subparagraph (xv) of this paragraph (9) and the definition of “Financial Obligation” in paragraph (6) of this Section 1.1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Commission in its Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release).

(10) “Official Statement” means the Official Statement dated \_\_\_\_\_, 2020, of Metropolitan relating to the Bonds.

(11) “Rule” means Rule 15c2–12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(12) “SEC” means the United States Securities and Exchange Commission.

(13) “State” means State of California.

(14) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

## ARTICLE II The Undertaking

Section 2.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the Bonds and is being executed and delivered solely to assist the underwriter(s) of the Bonds in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2019-20, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

(b) Metropolitan shall provide, in a timely manner, notice of any failure of Metropolitan to provide the Annual Financial Information by the dates specified in subsection (a) above to the EMMA System.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, Metropolitan shall provide Audited Financial Statements, when and if available, to the EMMA System.

Section 2.4. Event Notices. If a Notice Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, an Event Notice to the EMMA System.

Section 2.5. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

### ARTICLE III Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if Metropolitan provides Annual Financial Information by specific reference to documents (i) either (1) provided to the EMMA System, or (2) filed with the SEC, or (ii) if such document is a “final official statement,” as defined in paragraph (f)(3) of the Rule, available from the MSRB or the EMMA System.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) the MSRB through the EMMA System or (ii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan’s sole determination, subject to technical and economic feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of Metropolitan’s information and notices.

Section 3.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Metropolitan’s current fiscal year is July 1 to June 30, and Metropolitan shall promptly notify the EMMA System of each change in its fiscal year.

### ARTICLE IV Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination.

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the Bonds.

(b) Metropolitan's obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 9.02 of the Master Subordinate Resolution, prior redemption or payment in full of all of the Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Metropolitan (1) receives an opinion of Counsel, addressed to Metropolitan, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the EMMA System.

#### Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Subordinate Resolutions with consent of holders of Bonds, pursuant to the Subordinate Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

(c) To the extent any amendment to this Undertaking results in a change in the type of financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the

presentation of the financial information. Notice of such amendment shall be provided by Metropolitan to the EMMA System.

Section 4.3. Contract; Benefit; Third-Party Beneficiaries; Enforcement.

(a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or (ii) in the case of any challenge to the adequacy of any financial statements, financial information and operating data so provided to have fully satisfied Metropolitan's obligations hereunder, by the holders of 25 percent in aggregate amount of Outstanding Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Subordinate Resolutions and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Subordinate Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of Federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such Federal securities laws and official interpretations thereof.

THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

By: \_\_\_\_\_  
Katano Kasaine  
Assistant General Manager/  
Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By: \_\_\_\_\_

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