METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Financial Statements and Supplemental Schedules

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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

Independent Auditors' Report

The Board of Directors
Metropolitan Water District of Southern California:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

KPMG LLP

Los Angeles, California
October 18, 2021

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2021 and 2020. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Metropolitan operates as a utility enterprise and maintains its accounting records in accordance with United States generally accepted accounting principles (U.S. GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows, statements of fiduciary net position and statements of changes in fiduciary net position. The statements of net position include all of Metropolitan's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project (SWP) costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal year 2020 have been reclassified to conform to the fiscal year 2021 presentation. Such reclassification had no effect on the previously reported change in net position.

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

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

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

Capital Assets, Net

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

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

Fiscal Year 2020 Compared to 2019. At June 30, 2020, net capital assets totaled $10.5 billion, or 83.0 percent of total assets and deferred outflows of resources, and were $114.9 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of $339.3 million (including $9.8 million of capitalized interest) and a net increase of $144.4 million in participation rights in SWP, offset by depreciation and amortization of $349.1 million and $19.7 million retirements of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred. See the capital assets section on pages 15-16 for additional information.

Other Assets

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

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

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

Deferred Outflows of Resources

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

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

Fiscal Year 2020 Compared to 2019. At June 30, 2020, deferred outflows totaled $169.1 million and were $13.0 million lower than the prior year. The decrease was primarily due to $21.7 million lower deferred outflows related to pension, which included $39.3 million lower deferred outflows due to changes of actuarial assumption and $3.3 million lower deferred outflows related to the net difference between projected and actual earnings on pension plan investments, offset by $11.3 million higher difference between actual and expected experience and $9.6 million higher deferred outflows related to pension contributions subsequent to the measurement date. In addition, deferred loss on bond refundings was $5.0 million lower due to scheduled amortization. These decreases were offset by $11.7 million higher deferred outflows on effective swaps due to lower interest rates.

Long-term Liabilities, Net of Current Portion

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

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

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

Other Liabilities

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

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

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

Deferred Inflows of Resources

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

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

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

Net Investment in Capital Assets, including State Water Project Costs

Net investment in capital assets, including State Water Project costs, include amounts expended for capital improvements and SWP, offset by accumulated depreciation and outstanding debt issued for these purposes.

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

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

Restricted Net Position

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

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

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

Unrestricted Net Position

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

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

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

CHANGES IN NET POSITION

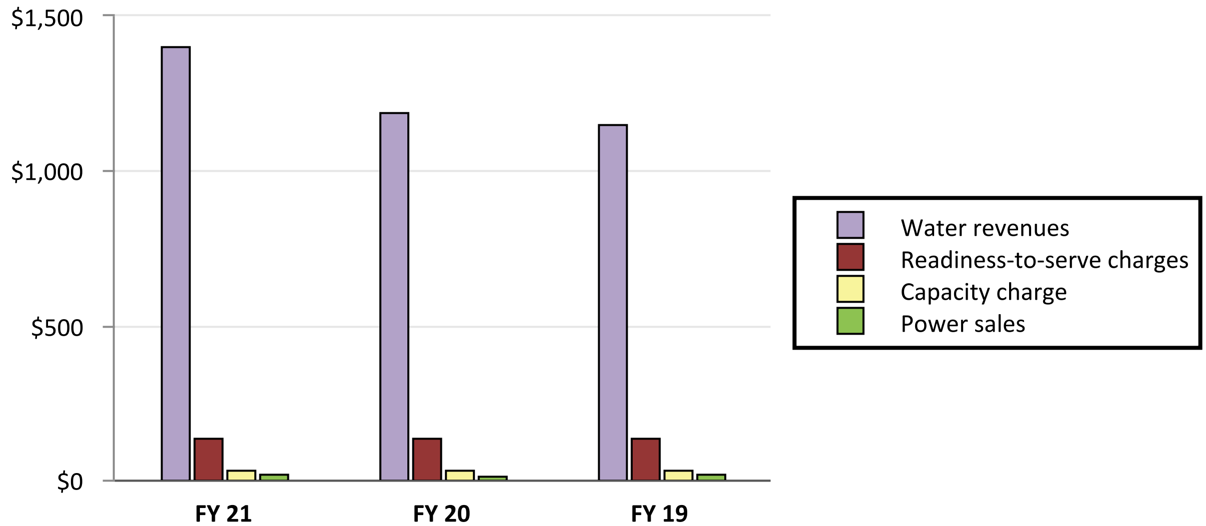
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

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

Operating Revenues

Metropolitan's principal source of revenue is derived from the sale and availability of water, including water rates and other exchange and wheeling transactions, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the SWP.

OPERATING REVENUES
(Dollars in millions)



Analytical Review of Operating Revenues

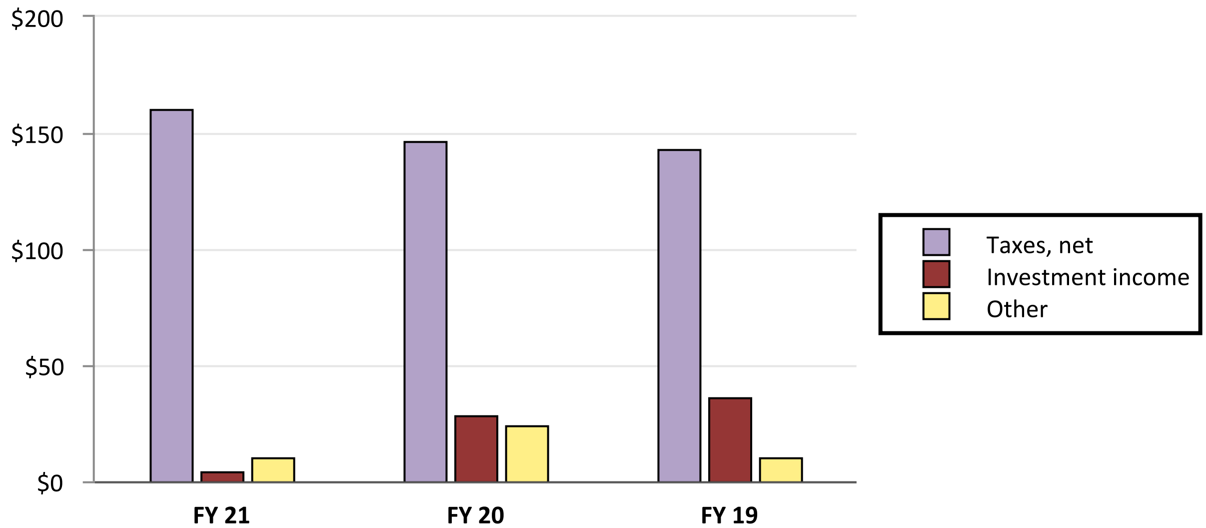
Fiscal Year 2021 Compared to 2020. Fiscal year 2021 operating revenues were $1.6 billion or $219.5 million more than the prior year. The increase was primarily due to $216.7 million of higher water revenues, which included $179.0 million or 206.1 TAF of higher volumes sold and $37.7 million of higher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

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

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.

NONOPERATING REVENUES
(Dollars in millions)



Analytical Review of Nonoperating Revenues

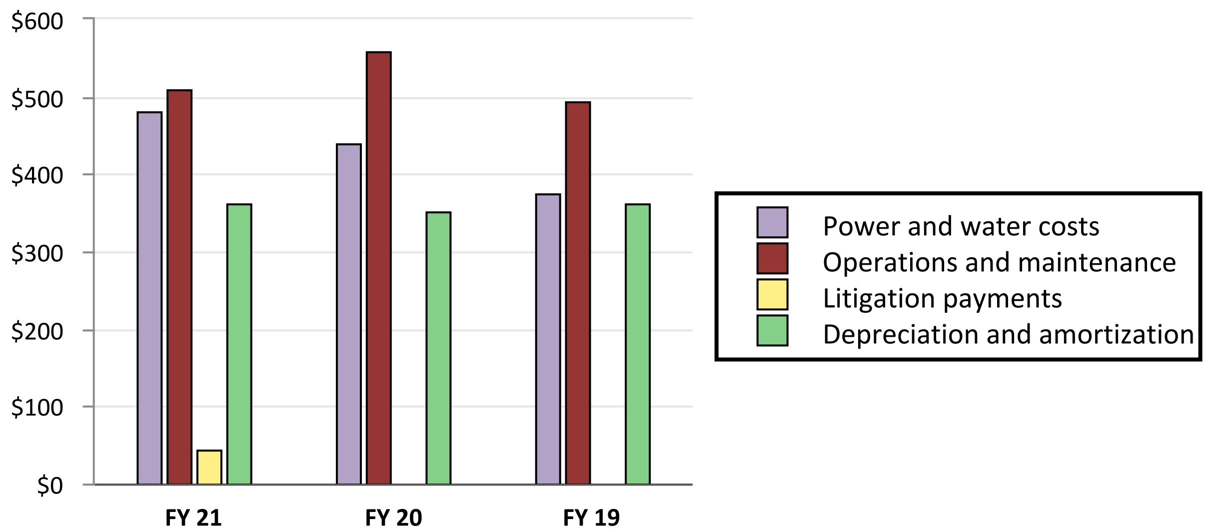
Fiscal Year 2021 Compared to 2020. Nonoperating revenues for fiscal year 2021 totaled $175.1 million and were $25.2 million lower than the prior year. The decrease was primarily due to $24.8 million less of investment income which included $14.5 million unfavorable change in fair value of investments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

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

Operating Expenses

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

OPERATING EXPENSES
(Dollars in millions)



Analytical Review of Operating Expenses

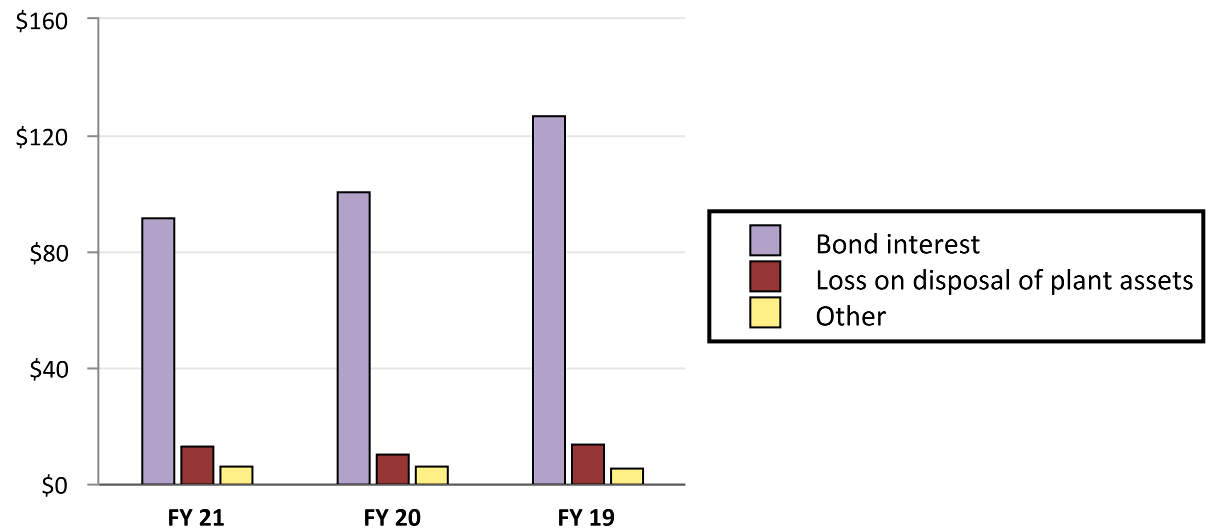
Fiscal Year 2021 Compared to 2020. Fiscal year 2021 operating expenses of $1.4 billion were $48.8 million higher than the prior year. The increase included $44.4 million litigation payment to the San Diego County Water Authority, see Note 9(g) for additional information, and $42.2 million higher power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

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

Nonoperating Expenses

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

NONOPERATING EXPENSES
(Dollars in millions)



Analytical Review of Nonoperating Expenses

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

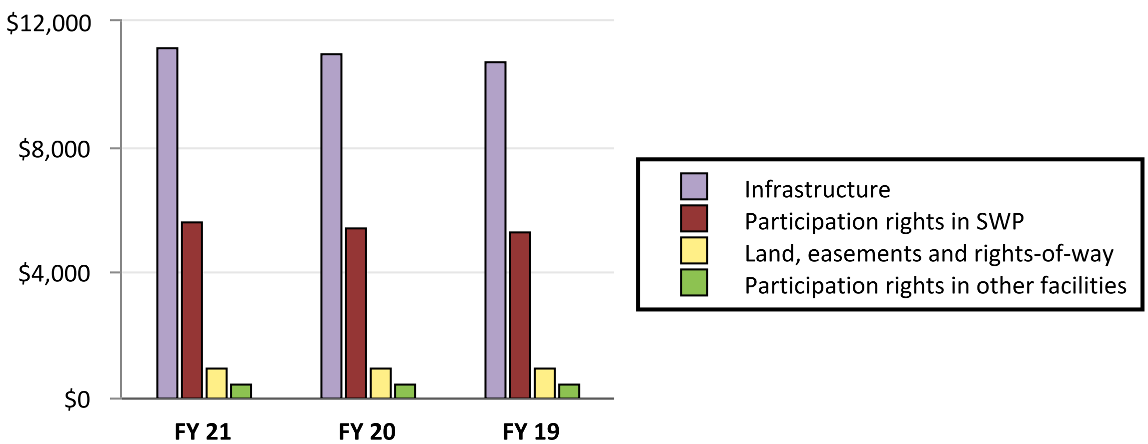
Fiscal Year 2020 Compared to 2019. Fiscal year 2020 nonoperating expenses of $116.8 million were $29.1 million lower than the prior year primarily due to $26.2 million lower bond interest, net of amount capitalized, as a result of bond refunding transactions to take advantage of lower interest rates.

CAPITAL ASSETS

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

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

GROSS CAPITAL ASSETS
(Dollars in millions)



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

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

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

- $55.3 million for the improvements in infrastructure reliability at the treatment plants; this program will replace or refurbish facilities and components at Metropolitan's five water treatment plants in order to continue to reliably meet water demands.
- $53.2 million for the distribution system's rehabilitation program; this program will replace or refurbish existing facilities within Metropolitan's distribution system including reservoirs, pressure control structures, hydroelectric power plants, and pipelines in order to reliably meet water demands.
- $46.8 million for the system reliability program, which is designed to improve or modify facilities throughout Metropolitan's service area in order to utilize new processes and/or technologies, and to improve facility safety and overall reliability.
- $45.2 million for the Colorado River Aqueduct (CRA) reliability program; projects under this program will replace or refurbish components on the CRA system to reliably convey water from the Colorado River to Southern California.
- $25.4 million for the PCCP program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to ensure long-term reliability of Metropolitan's PCCP lines water delivery.

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

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

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

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

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

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

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

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

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

CREDIT RATINGS

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

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

COVID-19 PANDEMIC

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

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

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

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

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

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

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

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

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

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

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

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STATEMENTS OF NET POSITION

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

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

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

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

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

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

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

STATEMENTS OF FIDUCIARY NET POSITION

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

See accompanying notes to basic financial statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

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

See accompanying notes to basic financial statements.

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1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store, and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property pursuant to Sections 52 and 55 of the Act. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors. However, effective January 1, 2020, no member agency shall have fewer than the number of representatives the agency had as of January 1, 2019. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWDAFC had no financial operations during fiscal years 2021 or 2020. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

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

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

(b) Principles of Presentation

Metropolitan operates as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. The accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

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

(c) Revenue Policies

Water revenues, which include funds received from charges for the sale and availability of water, including water rates and other exchange and wheeling transactions, is the principal source of Metropolitan's revenues. Other sources of operating revenue include readiness-to-serve charges, capacity charge, and hydroelectric power sales. Other revenues include ad valorem property taxes and investment income.

Water rates are established by the Board on a biennial basis. Water rates are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Water is delivered to the member agencies on demand and revenue is recognized at the time of sale.

Metropolitan's rate structure consists of unbundled rate elements (supply, treatment, conveyance and distribution, power, and demand management) designed to provide transparency regarding the cost of specific functions to member agencies. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Fair Value Measurements

Metropolitan categorizes the fair value measurements for assets and liabilities within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs of assets and liabilities as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—that are observable for identical assets or liabilities, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan reports its investments and liabilities using valuation techniques consistent with market and cost approaches to determine the fair value.

(e) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board effective as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments that are due on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year.

Property tax revenue is used to pay Metropolitan's general obligation bond debt service and a portion of its obligations under its contract with the state for a water supply and participation in the SWP (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, commencing with the fiscal year ended June 30, 1991, tax levies, other than annexation taxes, are limited to the amount needed to pay debt service on Metropolitan’s general obligation bonds and Metropolitan’s proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. The Board made such a finding for fiscal years ended June 30, 2014 through 2021, and maintained the tax rate for those fiscal years at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than general obligation debt service.

(f) Other Receivables

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

(g) Inventories

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

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

(h) Capital Assets

Metropolitan’s capital assets include plant and equipment, which are recorded at cost. Construction costs are capitalized if they exceed $50,000 and the asset has a useful life of at least five years. The cost of constructed assets may include labor, materials, certain general and administrative expenses, and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which are 10 to 80 years for buildings, storage, distribution facilities, and miscellaneous assets and 10 to 50 years for treatment plants and hydroelectric power recovery facilities. Improvements or refurbishments with aggregated costs that meet capitalization thresholds and that extend the useful life of an existing asset by at least five years are capitalized.

Major computer systems software, whether purchased or internally developed, is capitalized if the cost exceeds $250,000 and the useful life is at least three years. Vehicles and operating equipment are capitalized if the cost equals or exceeds $5,000 and the useful life is at least four years. Depreciation is calculated using the straight-line method based on the estimated useful lives and ranges from 3 to 10 years for major computer systems software and 4 to 10 years for vehicles and operating equipment.

(i) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the SWP and various storage and water management programs. Metropolitan's participation in these projects is through cash payments. The value of participation rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities, and storage facilities, and amortized over the life of the agreements. These assets are not owned by Metropolitan. Certain projects also require payments for ongoing maintenance; those payments are charged to expense as incurred. (See Notes 2, 4, and 10.)

(j) Disaggregation of Payable Balances

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

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

(k) Compensated Absences

Metropolitan's employees earn vacation, sick, and compensatory leave in varying amounts depending primarily on length of service. Upon termination from Metropolitan service, employees are entitled to full payment for accrued vacation and compensatory leave at their final pay rates, and are entitled to payment for approximately one-half of their accrued sick leave at such rates. Metropolitan records its obligations for vacation, sick, and compensatory leave earned by eligible employees based on current pay rates. The allocations to the current and long-term portions of these vested obligations were based on experience and projections of turnover.

(l) Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:
Valuation Date (VD): June 30, 2019
Measurement Date (MD): June 30, 2020
Measurement Period: July 1, 2019 to June 30, 2020

(m) OPEB Accounting

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Metropolitan's plan (OPEB Plan), the assets of which are held by the California Employer's Retiree Benefit Trust (CERBT), and additions to/ deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:
Valuation Date (VD): June 30, 2019
Measurement Date (MD): June 30, 2020
Measurement Period: July 1, 2019 to June 30, 2020

(n) Deferred Outflows/Inflows of Resources

The net investment in capital assets, including State Water Project costs of $6.1 billion at June 30, 2021 and 2020 includes the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at June 30, 2021 and 2020 were $13.3 million and $19.6 million, respectively. This is amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old or the new debt, whichever is shorter.

The unrestricted net position amount of $520.2 million and $308.9 million at June 30, 2021 and 2020, respectively, includes the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan's effective interest rate swaps, and deferred amounts related to pension and OPEB.

The deferred outflows from losses on swap terminations resulting in debt defeasance at June 30, 2021 and 2020, respectively, were $17.9 million and $19.0 million. These deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows related to pension at June 30, 2021 and 2020 were $103.2 million and $85.2 million, respectively. The deferred inflows related to pension at June 30, 2021 and 2020 were $1.6 million and $21.3 million, respectively. See note 7(d) for additional information.

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

The deferred inflow from the increase in fair value of interest rate swaps of $7.9 million at June 30, 2021 and the deferred outflow from the decrease in fair value of interest rate swaps of $11.7 million at June 30, 2020 would be recognized as an investment gain or loss, respectively, upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred inflow and deferred outflow also would be recognized as an investment gain or loss, respectively, if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred inflow and deferred outflow would be reduced and the deferred gain or loss on refunding, respectively, would be increased by the same amount. The deferred gain or loss would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(o) Capital Contributions

Capital contributions are comprised of federal, state, and private grants. These grants are typically of a reimbursable nature: Metropolitan first pays for the project and then the granting agency reimburses Metropolitan for its eligible expenses. The portion of the grants restricted for capital purposes are reflected as capital contributions in the statements of revenues, expenses and changes in net position when they are earned, irrespective of the timing of the receipts. Examples of capital projects where grants are received include water treatment plant improvements, such as fluoridation and water storage programs.

(p) Operating and Nonoperating Revenues and Expenses

Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as revenues derived from the sale and availability of water, including water rates and other exchange and wheeling transactions. It also includes readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

Revenues from property taxes and investment income, as well as interest expense on outstanding debt, are related to capital and financing activities and are defined as nonoperating revenues and expenses.

(q) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Metropolitan's practice to use restricted resources first, then unrestricted resources as they are needed.

(r) Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) New Accounting Pronouncements

Metropolitan implemented the following GASB Statements in fiscal year 2021:

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

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

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

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

- GASB Statement No. 87, *Leases* (effective for fiscal year 2022).
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (effective for fiscal year 2022).
- GASB Statement No. 92, *Omnibus 2020* (effective for fiscal year 2022).
- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (effective for fiscal year 2022).
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (effective for fiscal year 2023).
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* (effective for fiscal year 2022).

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

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

2. CAPITAL ASSETS

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

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

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

3. CASH AND INVESTMENTS

As a public agency, Metropolitan's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Metropolitan's statement of investment policy is approved annually by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 3d and 13).

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

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

A summary of Metropolitan's deposit and investment policies, information on interest and credit risks, and restricted cash and investments is provided below.

(a) Deposits

The California Government Code requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral.

As of June 30, 2021 and 2020, Metropolitan's cash balances with financial institutions were $5,004,000 and $156,000 respectively, and cash on hand was $5,000 at each fiscal year-end.

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, Supranationals, asset-backed, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, Government-sponsored enterprise (GSE), California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, money market funds, California Asset Management Program (CAMP), and Local Agency Investment Fund (LAIF).

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

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

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

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

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

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

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

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

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

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

Liquidity Segment

This segment of the portfolio was managed against the Intercontinental Exchange Bank of America Merrill Lynch (ICE BoAML) 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. The benchmark duration as of June 30, 2021 and 2020 was 0.23 and the portfolio duration was permitted to vary from the duration by plus or minus 0.50. As of June 30, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

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

Core Segment

This segment of the portfolio was managed against the ICE BoAML, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For fiscal years 2021 and 2020, the benchmark durations were 2.69 and 2.66, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2021 and 2020, Metropolitan's investments and portfolio durations for this segment were as follows:

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

Bond Reserves and Lake Mathews Segment

Investments in the bond reserves were managed based on the requirements of each of the bond issues. The Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years.

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

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

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

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

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

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

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

(1)*Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.*
(2)*LAIF is not rated.*
(3)*A (long-term) or A-1 (short-term) or better e.g. F1+, A1+, AA, or AAA.*

Concentration of credit risk. In accordance with Metropolitan's investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent for asset-backed securities and money market funds, to 100 percent for federal agency securities, GSE, and U.S. Treasury securities. The percentages of investments that can be purchased by a single issuer is limited to 5 percent for asset-backed securities, banker's acceptances, medium-term corporate notes, municipal bonds, negotiable certificates of deposit, and prime commercial paper.

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

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

At June 30, 2021 and 2020, Metropolitan had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

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

(Dollars in thousands)	2020		
CAMP	$	210,343	16.80 %
Dreyfus Gov't Cash Management[(1)]	$	165,511	13.22 %
LAIF	$	75,000	5.99 %

[(1)] *Invested in Money market funds*

Custodial credit risk. At June 30, 2021 and 2020, Metropolitan's investments were insured, registered or held, in Metropolitan's name, in safekeeping at Metropolitan's bank, which was not a counterparty to the investment transactions. The exceptions were $372.2 million and $210.3 million in the CAMP as of June 30, 2021 and 2020, respectively, and $75.0 million in deposits in LAIF as of June 30, 2021 and 2020.

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

The LAIF, created by California statute, is part of a pooled money investment account (PMIA). The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairwoman is the State Treasurer, or her designated representative.

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

(c) Reverse Repurchase Agreements

Metropolitan is permitted, subject to conditions imposed by State law, to sell securities owned under written agreements and to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the fiscal years ended June 30, 2021 and 2020.

(d) Restricted Cash and Investments

Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts are classified as "restricted." Most restricted accounts have the minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provide for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

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4. PARTICIPATION RIGHTS

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

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

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

(a) Imperial Irrigation District

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

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

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

(b) Palo Verde Irrigation District

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

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

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

(c) Kern Delta Water District

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

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

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

(d) South County Pipeline

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

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

(e) Semitropic Water Storage District

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

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

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

(f) Arvin-Edison Water Storage District

In December 1997, Metropolitan entered into an agreement for a water management program with Arvin-Edison Water Storage District (Arvin-Edison). The agreement includes a regulation program, a transportation program, and a water quality exchange program. Under the terms of the regulation program, Arvin-Edison will regulate the storage and delivery for Metropolitan of up to 350.0 TAF of water and currently has 142.3 TAF in the program at June 30, 2021. The minimum estimated return capability for the Arvin-Edison program varies from 40.0 TAF per year to 75.0 TAF per year depending on hydrologic/groundwater conditions. Return water will be delivered to Metropolitan upon request through a new intertie pipeline to the California Aqueduct and by exchange of existing Arvin-Edison supplies in the California Aqueduct. In 2008, Metropolitan amended the agreement to construct the south canal improvement project that will improve the operational flexibility of the program as well as increase the ability to return high quality water to the California Aqueduct. The project was completed in early 2009. The agreement terminates on November 4, 2035 with provisions for automatic extension if all stored water has not been returned.

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

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

(g) Chino Basin

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

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

(h) Orange County

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

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

(i) Conjunctive Use Programs

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

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

5. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of $4.521 billion and $4.455 billion at June 30, 2021 and 2020, respectively, represents less than one percent of the June 30, 2021 and 2020 total taxable assessed valuation of $3,263 billion and $3,092 billion, respectively.

Metropolitan's long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan's authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan's net operating revenues. Such obligations contain certain restrictive covenants, with which Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) Commercial Paper and Revolving Notes

Metropolitan may issue up to $200.0 million in commercial paper to fund a portion of its capital investment plan, as approved by Metropolitan's Board. There was no commercial paper issued in fiscal years 2021 and 2020 and no commercial paper was outstanding at June 30, 2021 and 2020. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes.

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

- On June 30, 2021, Metropolitan issued certain notes evidencing a draw of $35.6 million from the Royal Bank of Canada (RBC) Short Term Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds. The notes have maturity date of June 29, 2022. See Note 16 for additional information.

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

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

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

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

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

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

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

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

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to $850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital investment plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $26.8 million and $37.3 million in general obligation refunding bonds were outstanding at June 30, 2021 and 2020, respectively.

The general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 3.5 percent to 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption.

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

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

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

(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of $3.994 billion and $3.969 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2021 and 2020, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2051 at interest rates ranging from .46 percent to 6.95 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on any interest payment dates, and subject to early redemption.

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

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

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

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

(d) Bond Refundings and Defeasances

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

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

- On July 1, 2020, Metropolitan issued $268.0 million of Water Revenue Refunding Bonds, Series 2020 C, which refunded $250.0 million, Water Revenue Bonds, 2010 Authorization, Series A; $44.3 million, Water Revenue Bonds, 2010 Series B; $14.0 million, Water Revenue Refunding Bonds, 2014 Series C-2; and, $6.2 million, Water Revenue Refunding Bonds, 2014 Series G-5. In addition, a $36.5 million draw on the RBC Short-Term Credit Facility was prepaid from the proceeds. This refunding resulted in projected present value savings of $80.2 million. The true interest cost was 2.70%. The final maturity is July 1, 2040. The bonds are subject to optional redemption provisions.

- On April 2, 2021, Metropolitan extended the terms of the $271.8 million Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B (SVRWRRB 2020 Series B). The SVRWRRB 2020 Series B remain in the Long Mode under the 2020B Paying Agent Agreement and bear interest at a Long Rate equal to .46 percent per annum for the Long Period ending on April 2, 2024. The 2020B Senior Revenue Bonds are subject to mandatory tender for purchase on April 2, 2024 the last day of the Long Period. The SVRWRRB 2020 Series B were designated as Self-Liquidity Bonds pursuant to the 2020B Paying Agent Agreement and no standby bond purchase agreement or other liquidity facility is in effect for the purchase of such bonds.

- On June 16, 2021, Metropolitan issued $222.2 million of Variable Rate Subordinate Water Revenue Refunding Bonds, 2021 Series A (Federally Taxable), which prepaid $46.8 million, Short-Term Revenue Refunding Certificates, Series 2019 A, and refunded $175.0 million, Subordinate Water Revenue Bonds, 2016 Authorization Series A. The 2021 Series A bonds mature on July 1, 2042, and are subject to optional and mandatory redemption provisions.

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

- On April 1, 2020, Metropolitan issued $152.5 million of Subordinate Water Revenue Refunding Bonds, 2020 Series A. Proceeds were used to refund $9.9 million of Water Revenue Bonds, 2000 Authorization, Series B-3; $10.0 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D; $17.3 million of Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D; $7.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1; $7.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-2; $10.4 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1; $10.4 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-2; $59.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1; $59.9 million of Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-2; and, to fund issuance costs. The Subordinate Water Revenue Refunding Bonds, 2020 Series A have a true interest cost of 0.8 percent, mature on July 1, 2029, and are not subject to optional or mandatory redemption provisions.

- On April 3, 2020, Metropolitan entered into a Bond Purchase Agreement, dated as of April 1, 2020, with Wells Fargo Municipal Capital Strategies, LLC, for the purchase of Metropolitan's $271.8 million Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B (SVRWRRB 2020 Series B). Proceeds were used to refund $77.5 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D; $21.2 million of Special

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

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

(e) Interest Rate Swaps

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

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

(Dollars in thousands)

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

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

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

[3]*Excludes accrued interest.*

[4]*London Interbank Offered Rate.*

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

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

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

(Dollars in thousands)

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

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

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market. Currently, there are eight pay-fixed, receive-variable interest rate swaps outstanding.

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

Fair Values: At June 30, 2021, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of June 30, 2021, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of June 30, 2021.

Each swap contains cross-default provisions that allow the nondefaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the nondefaulting party.

As of June 30, 2021, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $197.2 million or 44.9 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa2/A+/AA by Moody's, Standard & Poor's Global, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of June 30, 2021, the interest rates of the variable rate debt associated with these swap transactions range from .01 percent to .17 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from .06 percent to .10 percent.

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

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

(f) Swap Payments and Associated Debt

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

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

(g) Variable Rate Bonds

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

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

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

In addition, such bonds are subject to mandatory tender for purchase under certain circumstances, including upon the expiration of the SBPA. Metropolitan intends to either renew the facility or exercise its right to remarket the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements was $72.0 million and $34.8 million at June 30, 2021 and 2020, respectively.

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

(Dollars in thousands)

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

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

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

(Dollars in thousands)

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

The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), and the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), require bondholders to tender their bonds for purchase on the scheduled mandatory tender date of May 21, 2024. A failure by Metropolitan to pay the purchase price from the proceeds of remarketing or other funds, for a period of five business days following written notice by any owner of such bonds, will constitute an event of default under Metropolitan's Subordinate Debt Resolutions. Upon the occurrence and continuance of such events of default, the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders' committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

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

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

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2022	$ 171,935	$ 134,909	$ 306,844
2023	175,865	125,474	301,339
2024	457,630	116,875	574,505
2025	185,860	107,792	293,652
2026	158,560	100,410	258,970
2027-2031	830,755	386,056	1,216,811
2032-2036	660,855	242,848	903,703
2037-2041	892,380	135,875	1,028,255
2042-2046	273,195	48,784	321,979
2047-2051	200,875	16,878	217,753
2052	13,185	330	13,515
	$ 4,021,095	$ 1,416,231	$ 5,437,326

Unamortized bond discount and premium, net	464,184
Total debt	4,485,279
Less current portion	(222,692)
Long-term portion of debt	$ 4,262,587

6. LONG-TERM LIABILITIES

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

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

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

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

7. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

Contribution Description

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

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

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

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

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

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

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

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

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

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

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

Long-term Expected Rate of Return

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

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

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

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

[(1)] *In the CalPERS Comprehensive Annual Financial Report, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.*
[(2)] *An expected inflation of 2.00 percent used for this period*
[(3)] *An expected inflation of 2.92 percent used for this period*

Discount Rate

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

(c) Changes in the Net Pension Liability

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

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

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

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

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

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

Pension Plan Fiduciary Net Position

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

Subsequent Events

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

Amortization of Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

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

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

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

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

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

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

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

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description and Benefits Provided

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are three PPO plans: PERS Care, PERS Choice, and PERS Select; and nine HMO plans through Anthem Blue Cross, Blue Shield, Health Net, Kaiser, Sharp, SmartCare, United Healthcare and Western Health. Metropolitan participates in the CERBT Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. For employees hired on or after January 1, 2012, retirees must have a minimum of 10 years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. This benefit was provided to 1,954 and 1,946 retired Metropolitan employees at June 30, 2021 and 2020, respectively. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy and Contributions

Contribution requirements are established by Memorandum of Understandings negotiated between Metropolitan and its various bargaining units. During fiscal years 2021 and 2020, Metropolitan contributed up to 100 percent of Anthem HMO Traditional Region 2 basic plan rate for all employees and retirees. During fiscal years 2021 and 2020, Metropolitan contributed the full actuarially determined contribution rate of 10.3 percent or $23.2 million and 13.8 percent or $28.1 million, respectively. Employees are not required to contribute to the plan.

(c) Employees Covered

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

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

(d) Actuarial Assumptions Used to Determine Total OPEB Liability

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

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

[(1)]*Derived from data collected during 1997 to 2015 CalPERS Experience Study dated December 2015 for the June 30, 2019 actuarial valuation.*

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

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

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

(e) Discount Rate

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

(f) Changes in the OPEB Liability

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

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

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

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

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

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

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

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

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

(i) OPEB Plan Fiduciary Net Position

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

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

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

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

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

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

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

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

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

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

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

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

9. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 10)

Estimates of Metropolitan's share of the projected fixed costs of the SWP are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

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

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

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

[(1)]These commitments represent operations and maintenance costs. Metropolitan was relieved of its obligation for capital costs in 2018.

Metropolitan intends to exercise its option to extend its agreement with the State through 2085, which will result in annual minimum operations and maintenance costs through 2085. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to Metropolitan and other water users throughout California. The State Board exercises its regulatory authority over Bay/Delta watershed supplies by means of public proceedings leading to regulations and permit decisions.

The Delta Stewardship Council (Council) is the California State agency tasked with creating and implementing a comprehensive management plan for the Delta. The Council, created by the 2009 Sacramento-San Joaquin Delta Reform Act, serves as an independent voice for science and policy in the Delta to achieve the state mandated coequal goals for the Delta of ecosystem restoration and water supply reliability. To accomplish its mission, the Council adopted and implements the Delta Plan, which is the state's long-term management plan for the Delta to further the coequal goals, including facilitating, coordinating, and integrating the activities of hundreds of local, state, and federal agencies that have responsibilities directly related to water, ecosystems, land use, recreation, flood control and other functions in the legally defined Delta. The Council is conducting updates to its Delta Plan, including a strategic levee investment policy, updates to the Ecosystem chapter and associated policies and recommendations, and a draft climate change adaptation plan for the Delta and Suisun Marsh as part of their Delta Adapts: Creating a Climate Resilient Future initiative. The Delta Adapts plan is intended to help inform and assess specific climate risks and vulnerabilities in the Delta and, in coordination with stakeholders, develop adaptation strategies to address those vulnerabilities.

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

The Bay Delta Conservation Plan (BDCP) planning process, which began in 2007, was a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta, including new Delta conveyance infrastructure as one of the conservation measures consisting of multiple new intakes on the Sacramento River connected to existing SWP and Central Valley Project water facilities in the south Delta by two main tunnels. In addition, the BDCP would have provided the basis for long-term permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program, and it would have been incorporated into the Delta Plan if it met the requirements of the federal and state ESAs for a Habitat Conservation Plan/Natural Communities Conservation Plan (HCP/NCCP).

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

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

(c) Imperial Irrigation District

As of June 30, 2021, Metropolitan had advanced a total of $358.8 million to IID for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive between 85.0 TAF to 105.0 TAF in 2021 and annually thereafter depending upon the amount used by the CVWD. A total of at least 85.0 TAF and up to 105.0 TAF will be/was available in calendar years 2021 and 2020, respectively, for diversion by Metropolitan (see Note 4a).

(d) Sale of Water by the Imperial Irrigation District to San Diego County Water Authority

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (see Note 9e). The amended Transfer Agreement sets the maximum transfer amount at 205.0 TAF in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200.0 TAF per year beginning in 2023.

No facilities exist to provide for delivery of water from IID to SDCWA. In 1998, Metropolitan and SDCWA entered into an agreement for the exchange of the IID water to be acquired by SDCWA under the Transfer Agreement, with water to be delivered by Metropolitan. In 2003, the boards of directors of Metropolitan and SDCWA agreed to an increase in the price that SDCWA would pay to Metropolitan for this exchange of water, in return for Metropolitan's assignment to SDCWA of Metropolitan's rights to water conserved as a result of the lining of the All-American and Coachella Canals and $235.0 million, as set forth in an amended exchange agreement (Exchange Agreement) and an Allocation Agreement. Under the Exchange Agreement, SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and the conserved canal lining water allocated to SDCWA. In exchange, Metropolitan delivers an equal volume of water from its own sources of supply through its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. SDCWA pays Metropolitan a volumetric price for each delivery by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see Note 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. On June 8, 2018, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 10, 2018 and effective on January 1, 2019 and January 1, 2020. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation, Note 9g.

(e) Quantification Settlement Agreement

The Quantification Settlement Agreement (QSA) is part of the California Plan, which is a plan to reduce California's use of Colorado River water to its basic apportionment of 4.4 million acre-feet per year when necessary through water conservation, transfers from higher priority agricultural users to Metropolitan's service area, and storage programs. The QSA was executed in October 2003 and establishes Colorado River water use limits for IID and the CVWD. It also provides for specific acquisitions of conserved water and water supply arrangements and restores the opportunity for Metropolitan to receive any special surplus water.

(f) Construction Programs and Contracts

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

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

Metropolitan had commitments under construction contracts in force as follows:

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

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

(g) Claims and Litigation

SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California, et al. on June 11, 2010. The complaint alleged that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Project (SWP) costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an overcharge to SDCWA by at least $24.5 million per year. The complaint alleged that all SWP costs should be allocated instead to Metropolitan's supply rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It stated additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

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

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contained allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling did not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations.

Nine member agencies are real party in interest defendants in the 2010 and 2012 cases, in support of Metropolitan. Following trial of both lawsuits in two phases in the San Francisco Superior Court, concluding on January 23, 2014 and April 30, 2015, respectively, the court issued its final judgment and a peremptory writ of mandate in the cases. Metropolitan appealed the Superior Court's decision in each case, and SDCWA filed a cross-appeal of the court's ruling on the rate structure integrity claim and an attorneys' fees order.

On June 21, 2017, the California Court of Appeal issued its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its SWP transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's price term, and that Metropolitan may also lawfully include the System Access Rate in its wheeling rate, reversing the trial court decision on this issue. The court held Metropolitan's allocation of the SWP transportation costs as its own transportation costs is proper and does not violate the wheeling statutes (Water Code, § 1810, et seq.), Proposition 26 (Cal. Const., Article XIIIC, §1, subd.(e)), whether or not that Proposition applies to Metropolitan's rates, California Government Code section 54999.7, the common law, or the terms of the parties' Exchange Agreement.

The Court of Appeal also ruled that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan's inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and wheeling statutes. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. The court did not address the allocation of the Water Stewardship Rate in subsequent years based on a different record. The court noted, and in a subsequent modification confirmed, that its holding does not preclude Metropolitan from including the Water Stewardship Rate in Metropolitan's full service rate.

The Court of Appeal held that because the Water Stewardship Rate was included in the Exchange Agreement price, there was a breach by Metropolitan of the Exchange Agreement in 2011 through 2014. The court remanded the case to the trial court for a redetermination of damages in light of its ruling concerning the Water Stewardship Rate. The Court of Appeal agreed with the trial court that statutory prejudgment interest applies with respect to any damages award, not a lesser contractual interest. The Court of Appeal reversed the trial court by finding that the Exchange Agreement may entitle the prevailing party to attorneys' fees for the second phase of the case concerning breach of contract; but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees, if any.

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

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

On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision. With respect to the court's re-determination of damages in light of the Court of Appeal's ruling that the administrative record for calendar years 2011 through 2014 did not support Metropolitan's inclusion of its demand management costs in the Exchange Agreement price, the court ruled that it will award SDCWA $28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The court determined that Metropolitan was not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that from SDCWA's damages.

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

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

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

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

On February 14, 2019, Metropolitan tendered to SDCWA payment of $44.4 million for the Superior Court's contract damages award for Water Stewardship Rate payments from 2011 through 2014, plus statutory interest through February 15, 2019, with a reservation of appeal rights, in the 2010 and 2012 cases. This tender was made under compulsion to cease accrual of statutory interest in excess of market rates, but did not affect Metropolitan's rights to appeal. On March 7, 2019, SDCWA rejected the tendered payment and returned the uncashed check for the tendered payment. In the post-remand judgment (discussed below), the Superior Court confirmed that Metropolitan's tender was effective and stopped the accrual of interest in February 2019.

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

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

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

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

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

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

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

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

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

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

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

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

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed.

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

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

On August 27, 2020, the court granted SDCWA's motion to lift the stays in the 2014 and 2016 cases and to file a further amended petition/complaint. On August 28, 2020, SDCWA filed the amended petitions/complaints in the 2014 and 2016 cases. The amended petitions/complaints added, removed, and retained certain claims. Retained claims include SDCWA's challenge to Metropolitan's Water Stewardship Rate for calendar years 2015 through 2018 based on its allocation to transportation, with a request for the court to invalidate the transportation rates and the wheeling rate and award damages for breach of the parties' Exchange Agreement as a result. Added claims include a challenge to the wheeling rate and alleged breach of the Exchange Agreement for failure to provide offsetting benefits (only the 2018 case, discussed below, had included an offsetting benefits claim). In its offsetting benefits claim under the Exchange Agreement, SDCWA seeks to reduce the contract price.

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

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

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA's 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleged the 2018 Readiness-to-Serve Charge and Capacity Charge violated the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint to add Metropolitan's Board action of July 11, 2017 to make minor corrections to the Readiness-to-Serve Charge. On July 31, 2018, pursuant to stipulation by the parties, the San Francisco Superior Court ordered that the case be stayed. On July 23, 2020, the court entered SDCWA's requested dismissal of the 2017 case. The dismissal is without prejudice, which means SDCWA would not be precluded from re-initiating the case in the future.

On June 8, 2018, SDCWA filed a new lawsuit that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserted the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, et seq., which SDCWA contends (and Metropolitan disputes) applies to the parties' Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan's California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. Following a stipulated order issued by the San Francisco Superior Court on January 10, 2019, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 cases. The amended petition/complaint adds a cause of action for breach of the Exchange Agreement alleging Metropolitan charged an unlawful price that includes the Water Stewardship Rate (despite suspension of this charge), failing to provide credit for offsetting benefits, charging transportation rates that are not based on costs of service, including California WaterFix costs, and not following procedural requirements; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees.

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

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

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

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

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

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

(h) Drinking Water Quality Standards

Under the Safe Drinking Water Act Amendments of 1996, Congress required the United States Environmental Protection Agency to set new drinking water quality standards. New standards to control microbial pathogens and disinfection byproducts (DBPs) became effective in 2002. These rules are known as the Interim Enhanced Surface Water Treatment Rule and the Stage 1 Disinfectants/Disinfection By-Product Rule. These standards became more stringent in a second set of regulations effective 2006. The second set of regulations (the Stage 2 Disinfectants/ Disinfection Byproducts Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule) did not require additional capital investment by Metropolitan.

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Diemer, Jensen, Mills, and Skinner plants. The estimated cost of implementing ozone treatment at all five plants is approximately $1.1 billion.

(i) Reid Gardner Generating Station

Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, DWR entered into a Participation Agreement to import power from the Plant to serve the SWP energy needs. DWR's interest in the Plant terminated on July 25, 2013. DWR and NE negotiated the terms of the divestiture including DWR's obligations to mitigate any environmental impacts associated with the electricity generated for DWR over the past thirty years. Metropolitan paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(j) Landfill Obligation

Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately $2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. Approximately $24,000 was expended for post closure maintenance and monitoring activities in fiscal year 2021 while no amounts were expended in fiscal year 2020.

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability. At June 30, 2021 and 2020, approximately $800,000, net of interest receipts and disbursements, was available in this account.

10. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 9a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 33 percent and 35 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2021 and 2020, respectively, pertained to its net payment obligations for the SWP. These payments were primarily based on the contractual water delivery request, the annually requested and actual deliveries received, and the cost of power required for such deliveries, offset by credits received from the project.

The State Water Contract provides Metropolitan rights to water through 2052 but Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2085, under similar terms, based on the Agreement in Principle reached in 2014. This corresponds to an estimated 125-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the operating costs of the power facilities regardless of the amount of power generated.

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1i, 2, and 9a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon maximum annual contracted deliveries provided by the State of California. Amortization expense totaled $148.0 million and $142.7 million in fiscal years 2021 and 2020, respectively.

11. DEPOSITS, PREPAID COSTS, AND OTHER

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

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

(a) Prepaid Water Costs

Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and SWP water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At June 30, 2021 and 2020, prepaid water costs totaled approximately $246.8 million and $234.8 million, respectively, based on volumes of 1,044.8 TAF and 1,114.0 TAF, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other SWP contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with DWR. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provides funding of approximately $35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provides funding of approximately $25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP which was later on adapted as California WaterFix (see Note 9b) through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. The two-tunnel California WaterFix project shifted to a single tunnel project referred to as the Delta Conveyance Project with the announcement of Governor Newsom on February 12, 2019. Total prepaid costs at June 30, 2021 and 2020 were $58.6 million.

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

(c) Prepaid Costs—California WaterFix

In fiscal year 2019, Metropolitan disbursed a total of $41.5 million to DWR for preconstruction planning costs of the California WaterFix in accordance with the advance funding agreement entered into in August 2018. The $41.5 million was Metropolitan's share (31 percent) of the funding and DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions. However, as a result of the shift to a single tunnel project and DWR's withdrawal of approval of the California WaterFix Project as well as the rescission of other permitting applications (see Note 9b), Metropolitan has requested, on June 27, 2019, that DWR return its contributions that have not been spent as of May 2, 2019. As of June 30, 2021 and 2020, DWR has remitted $34.0 million of unspent funds and $.5 million of interest. Total advanced funds at June 30, 2021 and 2020 were $7.5 million.

(d) Preliminary Design/Reimbursable Projects

Metropolitan engages in preliminary design activities prior to obtaining Board approval of capital projects. The costs of these designs are recorded as prepaid costs. Once Board approval is obtained, these costs are added to the cost of the relevant construction project.

Reimbursable projects include work Metropolitan is contracted to perform for outside, non-related parties, and is subsequently billed for reimbursement.

12. DEFERRED COMPENSATION AND SAVINGS PLANS

For the benefit of its employees, Metropolitan has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Investment of the funds is managed by a third-party administrator, accordingly, at June 30, 2021 and 2020, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

The third-party administrator coordinates the investment of the deferred amounts in available investment vehicles per the instructions of each participant. Metropolitan's Treasurer serves as Trustee for the deferred compensation plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan is available to substantially all employees. At June 30, 2021 and 2020, 1,670 and 1,641 employees, respectively, participated in the consolidated 401(k) plan. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested. Deferred amounts and matching contributions are transferred by Metropolitan each pay period to a third-party administrator who coordinates the investment of such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. The Treasurer serves as Trustee for the savings plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established a matching contribution program on behalf of each participating employee in the savings plan. Metropolitan's contribution is subject to a maximum of 4.5 percent of the employee's total cash compensation.

Contributions to the savings plan were as follows:

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

13. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including State Water Project costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including SWP costs include plant and equipment (Notes 1h and 2), participation rights in State Water Project (Notes 1i, 2, and 10), and participation rights in other facilities (Notes 1i, 2 and 4). Net investment in capital assets, including State Water Project costs were approximately $6.1 billion at June 30, 2021 and 2020.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled $532.7 million and $509.0 million at June 30, 2021 and 2020, respectively, of which $221.6 million and $232.4 million, respectively, were set-aside for principal and interest payments on outstanding debt. The remaining $311.1 million and $276.6 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year. Each of these requirements is related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled $520.2 million and $308.9 million at June 30, 2021 and 2020, respectively.

14. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first $25.0 million for general liability, fiduciary liability and directors' and officers' liability, and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage, $60.0 million excess fiduciary liability coverage, $65.0 million excess for directors' and officers' liability coverage, and statutory limits excess workers' compensation coverage. Special insurance policies carried include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2021 were unchanged from fiscal year 2020. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5 percent annual interest rate over the life of the claims. Changes in the balances of claims liabilities during the past three fiscal years were included in accounts payable as follows:

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

15. COVID-19 PANDEMIC

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

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

16. SUBSEQUENT EVENT

SDCWA v. Metropolitan Cases

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

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

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

Metropolitan filed a notice of appeal of the judgment and the writ in the 2010 and 2012 cases on September 11, 2020. Metropolitan's appeal concerned the form of the judgment and the issuance of the writ. Following briefing and oral argument, on September 21, 2021, the California Court of Appeal issued an unpublished opinion affirming the post-remand judgment and peremptory writ of mandate issued by the Superior Court in August 2020 in the 2010 and 2012 cases. The Court of Appeal held: (1) its 2017 decision invalidating allocation of Water Stewardship Rate (WSR) costs to transportation in the Exchange Agreement price and the wheeling rate applied not only to 2011 to 2014, but also to 2015 forward; (2) no relief is required to cure the judgment's omission of the court's 2017 decision that allocation of State Water Project costs to transportation is lawful; and (3) the writ is proper and applies to 2015 forward. Accordingly, on September 30, 2021, Metropolitan paid SDCWA for WSR charges under the Exchange Agreement in 2015 to 2017 and pre-judgment statutory interest in the amount of $35,871,153.70. This payment was made from the Exchange Agreement Set-Aside Fund (the WSR charges and a portion of statutory interest) and unrestricted reserves (the remainder of statutory interest). SDCWA's pending claims in the 2014 and 2016 cases with respect to these WSR charges will be dismissed.

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

Short-term and Long-term Debt

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

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

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

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

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

[(3)]Includes any beginning of year adjustment.

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

See accompanying independent auditors' report

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

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

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

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

SCHEDULE OF PENSION CONTRIBUTIONS

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

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

See accompanying independent auditors' report

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS

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

Valuation date: June 30, 2018

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

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

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

[1] *Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.*

See accompanying independent auditors' report

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

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

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

SCHEDULE OF OPEB CONTRIBUTIONS

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

[1]*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.*

See accompanying independent auditors' report

NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS

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

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