

REVISION NO. 1

to

**OFFICIAL STATEMENT
dated June 22, 2017
relating to**

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

\$178,220,000 Subordinate Water Revenue Refunding Bonds, 2017 Series B (Fixed Rate Bonds)	\$80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode)
\$95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (SIFMA Index Mode)	\$95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (SIFMA Index Mode)

This revision (this “Revision”) sets forth certain corrective information (as described below) to that contained in the Official Statement dated June 22, 2017 (the “Official Statement”) relating to the above-captioned bonds (the “2017B Subordinate Bonds,” the “2017C Subordinate Bonds,” the “2017D Subordinate Bonds,” and the “2017E Subordinate Bonds,” respectively) issued by The Metropolitan Water District of Southern California. This Revision should be read as part of the Official Statement as previously delivered (which is incorporated herein by reference). Unless otherwise defined in this Revision, all terms used herein shall have the meanings ascribed to such terms in the Official Statement.

Corrective Information:

There is attached hereto a revised table relating to the 2017C Subordinate Bonds setting forth certain terms of the offering of the 2017C Subordinate Bonds (the “Revised Table”). The Revised Table hereby supersedes and replaces in its entirety the table relating to the 2017C Subordinate Bonds set forth on the second page immediately following the front cover page of the Official Statement under the heading “SUMMARY OF CERTAIN OFFERING TERMS (INDEX TENDER BONDS)” originally included in the Official Statement. The Revised Table corrects a typographical error in a column heading that was discovered subsequent to the printing of the Official Statement, specifically to accurately reflect the Base CUSIP Number for the 2017C Subordinate Bonds as “59266T” (rather than 59226T).

**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

Dated: July 10, 2017

**SUMMARY OF CERTAIN OFFERING TERMS
(INDEX TENDER BONDS)**

**\$80,000,000
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE BONDS, 2017 SERIES C
(Revised Table)**

Maturity (July 1)	Principal Amount	Price	Index	Call Protection Date ⁽¹⁾	Initial Index Spread	Initial Scheduled Mandatory Tender Date ⁽²⁾	CUSIP No. [†] (Base: 59266T)
2047	\$80,000,000	100%	SIFMA	April 19, 2018	0.05%	July 18, 2018	NH0

⁽¹⁾ First optional call or Unscheduled Mandatory Tender.

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

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

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq., Co-Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2017 Subordinate Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Co-Bond Counsel, interest (and original issue discount) on the 2017 Subordinate Bonds is exempt from State of California personal income tax. See "TAX MATTERS."



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

\$178,220,000 Subordinate Water Revenue Refunding Bonds, 2017 Series B (Fixed Rate Bonds)	\$80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode)
\$95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (SIFMA Index Mode)	\$95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (SIFMA Index Mode)

Dated: Date of Delivery

Priced and Due as set forth on the inside cover pages

The Metropolitan Water District of Southern California ("Metropolitan") is issuing its \$178,220,000 Subordinate Water Revenue Refunding Bonds, 2017 Series B bearing interest at fixed interest rates (the "2017B Subordinate Bonds" or the "Fixed Rate Bonds"), and its \$80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the "2017C Subordinate Bonds"), \$95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the "2017D Subordinate Bonds") and \$95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the "2017E Subordinate Bonds," and collectively with the 2017C Subordinate Bonds and the 2017D Subordinate Bonds, the "Index Tender Bonds") initially bearing interest at an Index Tender Rate and which are subject to mandatory purchase on certain Mandatory Purchase Dates as described herein. The Fixed Rate Bonds and the Index Tender Bonds are collectively referred to herein as the "2017 Subordinate Bonds." The 2017 Subordinate Bonds are being issued for the purpose of refunding a portion of Metropolitan's outstanding Senior Debt, financing certain costs of acquisition, construction and improvements to the Water System, and paying the costs of issuance of the 2017 Subordinate Bonds. See "FINANCING PLAN." Capitalized terms not otherwise defined on this cover page are defined herein and in APPENDIX 1—"SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS."

The aggregate principal amounts, fixed or variable interest rates, maturity dates, Scheduled Mandatory Tender Dates (if applicable) and certain other information relating to the Fixed Rate Bonds and the Index Tender Bonds are summarized in the "SUMMARY OF CERTAIN OFFERING TERMS" immediately following this cover page. Interest on the Fixed Rate Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2018. Interest on the Index Tender Bonds is payable on the first Business Day of each calendar month, commencing August 1, 2017 and on any Mandatory Purchase Date. Beneficial interests in the Fixed Rate Bonds may be purchased in denominations of \$5,000 principal amount and integral multiples thereof. Beneficial interests in the Index Tender Bonds may be purchased in denominations of \$100,000 principal amount or any integral multiple of \$5,000 in excess thereof. Investors may purchase the 2017 Subordinate Bonds in book-entry form only. See APPENDIX 3—"BOOK-ENTRY ONLY SYSTEM."

The Fixed Rate Bonds are subject to redemption prior to maturity as described herein. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS – Redemption of the Fixed Rate Bonds." The Index Tender Bonds are subject to redemption prior to maturity as described herein. See "PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – Redemption of the Index Tender Bonds."

The Fixed Rate Bonds are not subject to mandatory tender. The Index Tender Bonds of each Series are subject to mandatory tender for purchase, including on the Mandatory Purchase Date in connection with any Unscheduled Mandatory Tender and on the Scheduled Mandatory Tender Date of each Tender Period for such Series, as described herein. See "PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – Tender and Purchase of Index Tender Bonds."

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

The 2017 Subordinate Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a lien upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt (which includes Senior Bonds and Senior Obligations) heretofore or hereafter issued or incurred by Metropolitan, and on parity with other Subordinate Bonds and First Tier Parity Obligations heretofore or hereafter issued or incurred by Metropolitan as described herein. The obligation of Metropolitan to pay the purchase price of the Index Tender Bonds on any Scheduled Mandatory Tender Date therefor is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and shall constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of June 1, 2017, Metropolitan had outstanding \$3.89 billion aggregate principal amount of Senior Bonds (including the Senior Bonds to be refunded from the proceeds of the 2017 Subordinate Bonds), as well as certain other Senior Obligations (including certain Senior Obligations to be refunded in part from the proceeds of the 2017 Subordinate Bonds), payable from Net Operating Revenues prior to the payment of the 2017 Subordinate Bonds. As of June 1, 2017, Metropolitan had outstanding \$413 million aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations payable from Net Operating Revenues on parity with the 2017 Subordinate Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS." See also "FINANCING PLAN."

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

The 2017 Subordinate Bonds will be offered when, as and if sold and received by the Underwriters, subject to the approval of validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq., Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for Metropolitan by its General Counsel, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Norton Rose Fulbright US LLP is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2017 Subordinate Bonds. Public Resources Advisory Group is serving as Municipal Advisor to Metropolitan in connection with the issuance of the 2017 Subordinate Bonds. Metropolitan anticipates that the 2017 Subordinate Bonds will be available for delivery through the facilities of The Depository Trust Company on or about July 3, 2017.

2017B Subordinate Bonds
Underwriter
Citigroup

2017C and 2017D Subordinate Bonds
Underwriter and Remarketing Agent
J.P. Morgan

2017E Subordinate Bonds
Underwriter and Remarketing Agent
Wells Fargo Securities

**SUMMARY OF CERTAIN OFFERING TERMS
(FIXED RATE BONDS)**

\$178,220,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE REFUNDING BONDS, 2017 SERIES B**

Maturity (August 1)	Principal Amount	Interest Rate	Yield ^C	Price	CUSIP No. [†] (Base: 59266T)
2020	\$ 2,855,000	3.00%	1.050%	105.733	NL1
2020	32,790,000	5.00	1.050	111.613	NK3
2021	6,260,000	4.00	1.150	111.095	NN7
2021	29,385,000	5.00	1.150	114.988	NM9
2022	3,230,000	4.00	1.260	113.222	NQ0
2022	32,415,000	5.00	1.260	118.048	NP2
2023	12,685,000	4.00	1.390	114.961	NS6
2023	22,960,000	5.00	1.390	120.693	NR8
2024	13,000,000	4.00	1.490	116.613	NU1
2024	22,640,000	5.00	1.490	123.232	NT4

^C Yield to the first optional call date. See “PROVISIONS APPLICABLE TO THE FIXED RATE BONDS – Redemption of the Fixed Rate Bonds.”

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

**SUMMARY OF CERTAIN OFFERING TERMS
(INDEX TENDER BONDS)**

\$80,000,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE BONDS, 2017 SERIES C**

Maturity (July 1)	Principal Amount	Price	Index	Call Protection Date ⁽¹⁾	Initial Index Spread	Initial Scheduled Mandatory Tender Date ⁽²⁾	CUSIP No. [†] (Base: 59226T)
2047	\$80,000,000	100%	SIFMA	April 19, 2018	0.05%	July 18, 2018	NH0

\$95,630,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE REFUNDING BONDS, 2017 SERIES D**

Maturity (July 1)	Principal Amount	Price	Index	Call Protection Date ⁽¹⁾	Initial Index Spread	Initial Scheduled Mandatory Tender Date ⁽²⁾	CUSIP No. [†] (Base: 59266T)
2037	\$95,630,000	100%	SIFMA	April 19, 2018	0.05%	July 18, 2018	NJ6

\$95,625,000

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE REFUNDING BONDS, 2017 SERIES E**

Maturity (July 1)	Principal Amount	Price	Index	Call Protection Date ⁽¹⁾	Initial Index Spread	Initial Scheduled Mandatory Tender Date ⁽²⁾	CUSIP No. [†] (Base: 59266T)
2037	\$95,625,000	100%	SIFMA	April 19, 2018	0.05%	July 18, 2018	NV9

⁽¹⁾ First optional call or Unscheduled Mandatory Tender.

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

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**MAJOR WATER CONVEYANCE FACILITIES
TO SOUTHERN CALIFORNIA**



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

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RANDY A. RECORD

Vice Chair
LINDA ACKERMAN

Vice Chair
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Fullerton
PETER BEARD

Glendale
ZAREH SINANYAN

Long Beach
GLORIA CORDERO

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**Central Basin Municipal
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**Eastern Municipal Water
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District**
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Agency**
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**Las Virgenes Municipal
Water District**
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**Municipal Water District of
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LINDA ACKERMAN
BRETT R. BARBRE
LARRY D. DICK
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**San Diego County Water
Authority**
MICHAEL T. HOGAN
KEITH LEWINGER
ELSA SAXOD
FERN STEINER

**Three Valleys Municipal
Water District**
DAVID D. DE JESUS

**Upper San Gabriel Valley
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**West Basin Municipal Water
District**
DONALD L. DEAR
GLORIA D. GRAY

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER
General Manager

MARCIA SCULLY
General Counsel

GERALD C. RISS
General Auditor

DEENA GHALY
Ethics Officer

GARY BREAUX
*Interim Assistant General
Manager/Chief
Operating Officer*

FIDENCIO M. MARES
*Interim Assistant General
Manager/Chief
Administrative Officer*

GARY BREAUX
*Assistant General
Manager/Chief
Financial Officer*

ROGER K. PATTERSON
*Assistant General
Manager/Strategic Water
Initiatives*

DEE ZINKE
Assistant General Manager/Chief External Affairs Officer

ROSA A. CASTRO
Interim Board Executive Secretary

Special Services

Co-Bond Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Alexis S. M. Chiu, Esq.
San Francisco, California

Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Municipal Advisor

Public Resources Advisory Group
Los Angeles, California

Fiscal Agent

Roger N. Marumoto⁽¹⁾
Metropolitan Treasurer

Paying Agent for the Index Tender Bonds

Wells Fargo Bank, National Association
Los Angeles, California

⁽¹⁾ Mr. Marumoto has announced his retirement, which is planned for July 3, 2017.

This Official Statement does not constitute an offer to sell the 2017 Subordinate Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Official Statement is not to be construed as a contract with the purchasers of the 2017 Subordinate Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the offering of the 2017 Subordinate Bonds, and if given or made, investors must not rely on such information or representations.

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

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

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

In connection with this offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the 2017 Subordinate Bonds at a level above that which might otherwise prevail on the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

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

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

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

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SUMMARY STATEMENT

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

The Metropolitan Water District of Southern California

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

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

Incorporation by Reference of 2017 Official Statement

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated February 24, 2017, relating to its Water Revenue Bonds, 2017 Authorization Series A (the “2017 Official Statement”), which includes the following:

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

2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015 AND BASIC FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015 (UNAUDITED)” (referred to herein as “Referenced Appendix B”); and

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

Metropolitan includes by this specific reference into this Official Statement the Referenced Appendix A, the Referenced Appendix B and the Referenced Appendix E. The 2017 Official Statement is on file with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (the “EMMA System”) and can be accessed at <http://emma.msrb.org/>.

Recent Developments

Metropolitan has updated selected portions of Referenced Appendix A to reflect certain recent developments that have occurred since the date of the 2017 Official Statement. See “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments.”

Economy of Metropolitan’s Service Area

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

Authorization for the 2017 Subordinate Bonds

Metropolitan is issuing its \$178,220,000 Subordinate Water Revenue Refunding Bonds, 2017 Series B bearing interest at fixed interest rates (the “2017B Subordinate Bonds” or the “Fixed Rate Bonds”), and its \$80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Subordinate Bonds”), \$95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Subordinate Bonds”) and \$95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Subordinate Bonds,” and collectively with the 2017C Subordinate Bonds and the 2017D Subordinate Bonds, the “Index Tender Bonds”) initially bearing interest at an Index Tender Rate and which are subject to mandatory purchase on certain Mandatory Purchase Dates as described herein. The Fixed Rate Bonds and the Index Tender Bonds are collectively referred to herein as the “2017 Subordinate Bonds.”

The 2017 Subordinate Bonds are being issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including by Chapter 3 (commencing with Section 53400) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code, and with respect to the 2017B Subordinate Bonds, the 2017D Subordinate Bonds and the 2017E Subordinate Bonds (sometimes collectively referred to as the “Refunding Bonds”), by Articles 9 and 11 of Chapter 3 (commencing with Section 53550 and Section 53580, respectively) of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Act”). The 2017 Subordinate Bonds are also issued under and pursuant to Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including, with respect to the Refunding Bonds, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”) and, with respect to the 2017C Subordinate Bonds, Ordinance 149 adopted on October 13, 2015, and Ordinance 150 and Resolution 9226, each adopted on June 13, 2017 (such resolution, the “Third Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution and the First Supplemental Subordinate Resolution, the “Subordinate Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Subordinate Bonds issued by Metropolitan pursuant to the Subordinate Resolutions are referred to in this Official Statement as the “Subordinate Bonds.” The 2017 Subordinate Bonds when issued will be payable as to principal and interest and any premiums payable upon redemption thereof on parity with Metropolitan’s outstanding Subordinate Bonds and any additional Subordinate Bonds issued by Metropolitan under the Master Subordinate Resolution and with other outstanding and future obligations of Metropolitan payable on parity with the Subordinate Bonds (“First Tier Parity Obligations” and, collectively with the Subordinate Bonds, “Subordinate Obligations”). The obligation of Metropolitan to pay the purchase price of the Index Tender Bonds on any Scheduled Mandatory Tender Date therefor will constitute a First Tier Parity Obligation under the Master Subordinate Resolution. See “– Security for the 2017 Subordinate Bonds” below.

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

Purpose of the 2017 Subordinate Bonds

Metropolitan is issuing its 2017 Subordinate Bonds to refund a portion of its outstanding Senior Debt, to finance certain costs of acquisition, construction and improvements to the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water (the “Water System”), and to pay the costs of issuance of the 2017 Subordinate Bonds. See “FINANCING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

General Terms of the 2017 Subordinate Bonds

General. The 2017 Subordinate Bonds will be dated and will accrue interest from the date of their delivery, and will mature on the dates and in the amounts set forth in the “SUMMARY OF CERTAIN OFFERING TERMS” on the pages immediately following the front cover page of this Official Statement. Interests in the 2017 Subordinate Bonds may be purchased in the authorized denominations identified below under “– Certain Terms of the Fixed Rate Bonds” and “– Certain Terms of the Index Tender Bonds,” as applicable.

The Fixed Rate Bonds are additionally described further under the caption “PROVISIONS APPLICABLE TO THE FIXED RATE BONDS.” Each Series of Index Tender Bonds is additionally described further in a Paying Agent Agreement related to such Series, dated as of July 1, 2017 (each, a “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”) and under the caption “PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS.” See also “PROVISIONS APPLICABLE TO ALL 2017 SUBORDINATE BONDS.”

Book-Entry Only System. Metropolitan will issue the 2017 Subordinate Bonds as fully registered bonds and will register the 2017 Subordinate Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2017 Subordinate Bonds. Purchasers will not receive certificates representing the 2017 Subordinate Bonds purchased by them. Metropolitan will pay the principal and purchase price of and interest on the 2017 Subordinate Bonds directly to DTC as the registered owner of the 2017 Subordinate Bonds. Upon receipt of payments of principal, purchase price or interest, DTC is obligated to remit those payments to DTC’s Direct Participants (as defined in APPENDIX 3–“BOOK-ENTRY ONLY SYSTEM”) for subsequent disbursement to the ownership interest of each actual purchaser of each 2017 Subordinate Bond (“Beneficial Owner”). See APPENDIX 3–“BOOK-ENTRY ONLY SYSTEM.”

Certain Terms of the Fixed Rate Bonds

General. Interest on the Fixed Rate Bonds is payable on February 1 and August 1 of each year, commencing on February 1, 2018, at the respective rates shown in the “SUMMARY OF CERTAIN TERMS OF THE OFFERING” on the page immediately following the front cover page of this Official Statement. Metropolitan will pay interest on the Fixed Rate Bonds on each interest payment date to the

registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the Fixed Rate Bonds, the close of business on the fifteenth (15th) day of each month preceding an interest payment date. Interest on the Fixed Rate Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Beneficial interests in the Fixed Rate Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof.

No Tender for Purchase of Fixed Rate Bonds. The Fixed Rate Bonds are not subject to tender for purchase prior to maturity.

Redemption of Fixed Rate Bonds. The Fixed Rate Bonds of each maturity will be subject to call and redemption prior to their respective stated maturity date, at the option of Metropolitan, as a whole or in part, in authorized denominations of \$5,000 or any integral multiple thereof, on any date on or after the July 1 immediately preceding the stated maturity date thereof, at a redemption price equal to 100 percent of the principal amount of the Fixed Rate Bonds being redeemed plus interest accrued and unpaid, if any, to the redemption date, without premium. See “PROVISIONS APPLICABLE TO THE FIXED RATE BONDS – Redemption of the Fixed Rate Bonds – *Optional Redemption of Fixed Rate Bonds.*”

Certain Terms of the Index Tender Bonds

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

Terms Relating to Interest on the Index Tender Bonds

Interest Rate During Index Mode. The Index Tender Bonds of each Series will initially bear interest in the Index Mode until such time as Metropolitan may designate a new Interest Mode for the Index Tender Bonds of such Series or convert the interest payable with respect to the Index Tender Bonds of such Series to a Fixed Interest Rate. The Index Tender Bonds of each Series in the Index Mode will bear interest at the Index Tender Rate. The Index Tender Rate for any Series of the Index Tender Bonds is the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread applicable for the related Tender Period for such Series. The Index Spread for the initial Tender Period for each Series of the Index Tender Bonds is set forth on the second page immediately following the front cover page of this Official Statement and, with respect to subsequent Tender Periods for each Series, will be determined as described in this Official Statement.

Interest Payment Date. Metropolitan will pay interest on each Series of the Index Tender Bonds on (a) the first Business Day of each calendar month, commencing August 1, 2017, (b) each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series and (c) each Scheduled Mandatory Tender Date for such Series. Interest on the Index Tender Bonds will be payable on each Index Mode Interest Payment Date by the Paying Agent to the registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the Index Tender Bonds while bearing interest at an Index Tender Rate, the Business Day immediately preceding each Index Mode Interest Payment Date. Interest on the Index Tender Bonds will be calculated on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed.

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

Tender and Purchase of the Index Tender Bonds

General. The Index Tender Bonds of each Series will be subject to mandatory tender for purchase (in whole but not in part), on any Business Day from and after the Call Protection Date, including on a Mandatory Purchase Date pursuant to an Unscheduled Mandatory Tender or on the Scheduled Mandatory Tender Date for such Series, at a purchase price equal to the principal amount thereof, plus accrued and unpaid interest to the purchase date (unless the purchase date is an Index Mode Interest Payment Date, in which case the purchase price will not include accrued interest which will be paid in the normal course). See “PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – Tender and Purchase of Index Tender Bonds.”

Initial Scheduled Mandatory Tender Date for the Index Tender Bonds. The Scheduled Mandatory Tender Date for the initial Tender Period for each Series of the Index Tender Bonds is set forth on the second page immediately following the front cover page of this Official Statement, and with respect to each subsequent Tender Period for a Series of Index Tender Bonds, will be the date determined by Metropolitan pursuant to the provisions of the applicable Paying Agent Agreement. See “PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – Remarketing of Index Tender Bonds.”

Call Protection Date for the Index Tender Bonds. The Call Protection Date for the initial Tender Period for each Series of the Index Tender Bonds is set forth on the second page immediately following the front cover page of this Official Statement, and for each subsequent Tender Period for a Series of Index Tender Bonds, will be the applicable Standard Call Protection Date. Under certain circumstances, Metropolitan may determine a different Call Protection Date for a Tender Period for a Series of Index Tender Bonds. See “PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – Remarketing of Index Tender Bonds.”

Redemption of the Index Tender Bonds

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

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

Security for the 2017 Subordinate Bonds

The 2017 Subordinate Bonds are special limited obligations of Metropolitan payable as to the principal thereof and interest thereon solely from and secured by a lien upon the Net Operating Revenues, subordinate to the lien thereon of the Senior Debt and on parity with other Subordinate Bonds and First Tier Parity Obligations. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operating Expenses as described herein. As of June 1, 2017, Metropolitan had outstanding \$3.89 billion aggregate principal amount of Senior Bonds (including the Senior Bonds to be refunded from the proceeds of the 2017 Subordinate Bonds), as well as certain other Senior Obligations (including certain Senior Obligations to be refunded in part from the proceeds of the 2017 Subordinate Bonds), payable from Net Operating Revenues prior to the payment of the 2017 Subordinate Bonds. As of June 1, 2017, Metropolitan had outstanding \$413 million aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations, payable from Net Operating Revenues on parity with the 2017 Subordinate Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS.”

The obligation of Metropolitan to pay the purchase price of the Index Tender Bonds on any Scheduled Mandatory Tender Date therefor will constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Such obligation of Metropolitan to pay the purchase price of the Index Tender Bonds on any Scheduled Mandatory Tender Date is a special limited obligation of Metropolitan payable solely from Net Operating Revenues subordinate to the lien thereon of the Senior Debt and on parity with the Subordinate Bonds and other First Tier Parity Obligations. Failure to pay the purchase price of any tendered Index Tender Bonds on a Scheduled Mandatory Tender Date for a period of five (5) Business Days following written notice by any Owner of such Index Tender Bonds constitutes an Event of Default under the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS.”

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

Metropolitan will not fund a reserve fund for the 2017 Subordinate Bonds.

Rate Covenant

Metropolitan covenants under the Master Subordinate Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which will provide Operating Revenues, together with any other revenues of Metropolitan and any amounts available in any Unrestricted Reserves of Metropolitan, at least sufficient to pay the following amounts: (1) Operating Expenses; (2) from and after any Pledge Change Designation, SWC Capital Payments; (3) the Bond Obligation (as such term is defined in the Senior Debt Resolution) and interest on Senior Debt as the same shall become due and payable; and (4) the interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Subordinate Bonds (whether Serial or Term Bonds) and amounts payable on First Tier Parity Obligations and Second Tier Subordinate Obligations as they become due and payable. Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2017 Subordinate Bonds, including any Mandatory Sinking Account Payments. Metropolitan is not required to take into account the amount of any purchase price of any tendered Index Tender Bonds in setting its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS – Rate Covenant.”

Additional Indebtedness

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

As provided in the Subordinate Resolutions, Metropolitan may issue additional Subordinate Bonds and First Tier Parity Obligations payable and secured on parity with the Outstanding Subordinate Bonds and the 2017 Subordinate Bonds, to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS – Additional Indebtedness under the Master Subordinate Resolution.”

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a senior basis to the 2017 Subordinate Bonds, other Subordinate Bonds and Subordinate Obligations. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations.”

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

Continuing Disclosure

Metropolitan has agreed, in connection with the issuance of the 2017 Subordinate Bonds, to provide or to cause to be provided to the Municipal Securities Rulemaking Board (“MSRB”), through the MSRB’s EMMA System, certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events with respect to the 2017 Subordinate Bonds. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 (the “Rule”) adopted by the U.S. Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” and APPENDIX 5–“FORM OF CONTINUING DISCLOSURE UNDERTAKING.”

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

Miscellaneous

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

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OFFICIAL STATEMENT

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

\$178,220,000
Subordinate Water Revenue Refunding Bonds,
2017 Series B
(Fixed Rate Bonds)

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

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

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

INTRODUCTION

General; Purpose

This Official Statement (which includes the cover page and inside cover pages hereof, the Summary Statement and appendices hereto, and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E incorporated herein) provides information concerning The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the sale by Metropolitan of its \$178,220,000 Subordinate Water Revenue Refunding Bonds, 2017 Series B to be issued bearing interest at fixed interest rates (the “2017B Subordinate Bonds” or the “Fixed Rate Bonds”), and its \$80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Subordinate Bonds”), \$95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Subordinate Bonds”) and \$95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Subordinate Bonds,” and collectively with the 2017C Subordinate Bonds and the 2017D Subordinate Bonds, the “Index Tender Bonds”) to be issued initially bearing interest at an Index Tender Rate and which are subject to mandatory purchase on certain Mandatory Purchase Dates as described herein. The Fixed Rate Bonds are additionally described further below under “PROVISIONS APPLICABLE TO THE FIXED RATE BONDS.” Each Series of Index Tender Bonds is additionally described further in a Paying Agent Agreement related to such Series, dated as of July 1, 2017 (each, a “Paying Agent Agreement”), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”) and below under “PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS.” The Fixed Rate Bonds and the Index Tender Bonds are collectively referred to herein as the “2017 Subordinate Bonds.” See also “PROVISIONS APPLICABLE TO ALL 2017 SUBORDINATE BONDS.”

Metropolitan is issuing the 2017 Subordinate Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including by Chapter 3 (commencing with Section 53400) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code, and with respect to the 2017B Subordinate Bonds, the 2017D Subordinate Bonds and the 2017E Subordinate Bonds (sometimes collectively referred to as the “Refunding Bonds”), by Articles 9 and 11 of Chapter 3 (commencing with Section 53550 and Section 53580, respectively) of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Act”). The 2017 Subordinate Bonds are also issued under and pursuant to Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including, with respect to the Refunding Bonds, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”) and, with respect to the 2017C Subordinate Bonds, Ordinance 149 adopted on October 13, 2015, and Ordinance 150 and Resolution 9226, each adopted on June 13, 2017 (such resolution, the “Third Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution and the First Supplemental Subordinate Resolution, the “Subordinate Resolutions”). The voters in

Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Subordinate Bonds issued by Metropolitan pursuant to the Subordinate Resolutions are referred to in this Official Statement as the "Subordinate Bonds."

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

The 2017 Subordinate Bonds are being issued for the purpose of refunding a portion of Metropolitan's outstanding Senior Debt, financing certain costs of acquisition, construction and improvements to the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water (the "Water System"), and paying the costs of issuance of the 2017 Subordinate Bonds. See "FINANCING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security for the 2017 Subordinate Bonds

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

As of June 1, 2017, Metropolitan had outstanding \$3.89 billion aggregate principal amount of Senior Bonds (including the Senior Bonds to be refunded from the proceeds of the 2017 Subordinate Bonds), as well as certain other Senior Obligations, payable from Net Operating Revenues prior to the payment of the 2017 Subordinate Bonds. Metropolitan's outstanding Senior Bonds and Senior Parity Obligations as of February 1, 2017 are described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations." As of June 1, 2017, Metropolitan had outstanding \$413 million aggregate principal amount of Subordinate Bonds, as well as certain other Subordinate Obligations, payable from Net Operating Revenues on parity with the 2017 Subordinate Bonds. Metropolitan's outstanding Subordinate Bonds and Subordinate Obligations as of February 1, 2017 are described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations." See also "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments" for a discussion of certain financings undertaken by Metropolitan since February 1, 2017. See also "FINANCING PLAN."

Under the Master Subordinate Resolution, Metropolitan is not prohibited from issuing additional Senior Bonds and Senior Obligations payable and secured on a senior basis to the Outstanding Subordinate Bonds and the 2017 Subordinate Bonds, except subject to the limitations, terms and conditions of the Senior Debt Resolution. As provided in the Subordinate Resolutions, Metropolitan may issue additional Subordinate Bonds and First Tier Parity Obligations payable and secured on parity with the Outstanding Subordinate Bonds and the 2017 Subordinate Bonds, to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS – Additional Indebtedness under the Master Subordinate Resolution.”

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

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

Metropolitan will not fund a reserve fund for the 2017 Subordinate Bonds.

Miscellaneous; Summaries Not Definitive

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

PROVISIONS APPLICABLE TO ALL 2017 SUBORDINATE BONDS

General

The 2017 Subordinate Bonds will be dated and will accrue interest from the date of their delivery, and will mature on the respective dates and in the respective amounts set forth in the “SUMMARY OF CERTAIN OFFERING TERMS” on the pages immediately following the front cover page of this Official Statement. Metropolitan will issue the 2017 Subordinate Bonds as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2017 Subordinate Bonds. See “– Book-Entry Only System” below. Interests in the 2017 Subordinate Bonds may be purchased in the authorized denominations identified under “PROVISIONS APPLICABLE TO THE FIXED RATE BONDS –

General” and “PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – General,” as applicable.

Book-Entry Only System

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

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

PROVISIONS APPLICABLE TO THE FIXED RATE BONDS

The following description of certain provisions applicable to the Fixed Rate Bonds should be read in conjunction with the foregoing section “PROVISIONS APPLICABLE TO ALL 2017 SUBORDINATE BONDS” for information on various terms and conditions therein which apply to the Fixed Rate Bonds.

General

Interest on the Fixed Rate Bonds is payable on February 1 and August 1 of each year, commencing on February 1, 2018, at the rates shown in the “SUMMARY OF CERTAIN TERMS OF THE OFFERING” on the page immediately following the front cover page of this Official Statement. Metropolitan will pay interest on the Fixed Rate Bonds on each interest payment date to the registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the Fixed Rate Bonds, the close of business on the fifteenth (15th) day of each month preceding an interest payment date. Interest on the Fixed Rate Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Beneficial interests in the Fixed Rate Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof.

No Tender of Fixed Rate Bonds

The Fixed Rate Bonds are not subject to tender for purchase prior to maturity.

Redemption of the Fixed Rate Bonds

Optional Redemption of Fixed Rate Bonds. The Fixed Rate Bonds of each maturity will be subject to call and redemption prior to their respective stated maturity date, at the option of Metropolitan, as a whole or in part, in authorized denominations of \$5,000 or any integral multiple thereof, on any date on or after the July 1 immediately preceding the stated maturity date thereof, at a redemption price equal to 100 percent of the principal amount of the Fixed Rate Bonds being redeemed plus interest accrued and unpaid, if any, to the redemption date, without premium.

Notice of Redemption. Notice of redemption of Fixed Rate Bonds will be given by the Fiscal Agent to each Owner and the Securities Depository not less than twenty (20) nor more than sixty (60) days before the redemption date. Notice of redemption shall be given by first-class mail or electronic means. Each notice of redemption shall state the date of such notice, the date of issue of the Fixed Rate Bonds to which such notice relates, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number (if any) of the maturity or maturities, and, in the case of Fixed Rate Bonds to be redeemed in part only, the portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date, if the conditions to the redemption are satisfied, there will become due and payable on each of said Fixed Rate Bonds the redemption price thereof (or of the specified portion of the principal amount thereof in the case of a Fixed Rate Bond to be redeemed in part only) together with interest accrued thereon to the date fixed for redemption, that from and after such redemption date interest thereon shall cease to accrue, and that such Fixed Rate Bonds must be surrendered on the redemption date at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither Metropolitan nor the Fiscal Agent shall have any responsibility for any defect in the CUSIP number that appears on any Fixed Rate Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither Metropolitan nor the Fiscal Agent shall be liable for any inaccuracy in such CUSIP numbers.

Each such notice of redemption of Fixed Rate Bonds may also state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Fixed Rate Bonds (or portion thereof) to be redeemed. Unless, upon the giving of notice of redemption of Fixed Rate Bonds, such Fixed Rate Bonds shall be deemed to have been paid within the meaning of the Master Subordinate Resolution, such notice shall state that such redemption shall be conditional upon the receipt by the Fiscal Agent, escrow agent or other fiduciary on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of and interest on such Fixed Rate Bonds to be redeemed and that if such amounts shall not have been so received the notice shall be of no force and effect and Metropolitan shall not be required to redeem such Fixed Rate Bonds. Metropolitan may also instruct the Fiscal Agent to provide conditional notice of optional redemption, which may be conditioned on the occurrence of any other event if such notice states that if such event does not occur the notice shall be of no force and effect and Metropolitan shall not be required to redeem such Fixed Rate Bonds. In the event that such notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, the optional redemption shall not be made. Such failure to optionally redeem such Fixed Rate Bonds shall not constitute an Event of Default under the Subordinate Resolutions.

Any notice of optional redemption of Fixed Rate Bonds may be rescinded by written notice or electronic means given to the Fiscal Agent by Metropolitan no later than two (2) Business Days prior to the date specified for redemption. The Fiscal Agent shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same recipients, as notice of such optional redemption was given.

The sufficiency or validity of the proceedings for redemption shall not be affected by the Fiscal Agent's failure to give notice as described above to any Owner of the Fixed Rate Bonds or the Securities Depository; or by the failure of any Owner or the Securities Depository to receive notice; or by any defect in any such notice.

Effect of Redemption. If notice of redemption has been given in the manner described “– *Notice of Redemption*” above, and if moneys for the payment of the redemption price of, together with interest accrued to the redemption date on, the Fixed Rate Bonds (or portions thereof) so called for redemption are held by the Fiscal Agent, an escrow agent or other fiduciary for such purpose, the Fixed Rate Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the redemption price, plus, interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Fixed Rate Bonds, or portions thereof, shall be paid at the redemption price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a Fixed Rate Bond, Metropolitan shall execute and the Fiscal Agent shall authenticate and deliver, upon the surrender of such Fixed Rate Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Fixed Rate Bond so surrendered, a Fixed Rate Bond of like maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all of the Fixed Rate Bonds or such portions thereof to be redeemed, together with interest to the redemption date, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on such Fixed Rate Bonds or portion thereof so called for redemption shall cease to accrue and become payable.

PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS

The following description of certain provisions applicable to the Index Tender Bonds should be read in conjunction with the foregoing section “PROVISIONS APPLICABLE TO ALL 2017 SUBORDINATE BONDS” for information on various terms and conditions therein which apply to the Index Tender Bonds.

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

Each Series of Index Tender Bonds is additionally described further in the Paying Agent Agreement related to such Series.

General

The Index Tender Bonds of each Series will initially bear interest in the Index Mode until such time as Metropolitan designates a new Interest Mode for such Series or converts the interest payable with respect to the Index Tender Bonds of such Series to a Fixed Interest Rate. In the Index Mode, the Index Tender Bonds of a Series will bear interest at a floating interest rate as more fully described herein (see “– Interest Rate Provisions” below); provided that the interest rate on the Index Tender Bonds of a Series will not exceed the Maximum Interest Rate of 12 percent per annum (or such lesser interest rate as may be allowed by federal law and the laws of the State of California). Interest on each Series of the Index

Tender Bonds in the Index Mode will be payable (a) monthly on the first Business Day of each calendar month, commencing August 1, 2017, (b) on each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series, and (c) on each Scheduled Mandatory Tender Date for such Series (each, an “Index Mode Interest Payment Date”). Interest on the Index Tender Bonds will be payable on each Index Mode Interest Payment Date by the Paying Agent to the registered owners thereof as of the close of business on the Record Date. “Record Date” means, with respect to the Index Tender Bonds while bearing interest at an Index Tender Rate, the Business Day immediately preceding each Index Mode Interest Payment Date. Interest on the Index Tender Bonds will be calculated on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed. Beneficial interests in a Series of the Index Tender Bonds may be purchased in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

If under the applicable Paying Agent Agreement the Paying Agent is required by Metropolitan to deliver any notice to the Owners of a Series of Index Tender Bonds, then, within two (2) Business Days after the delivery of such notice, the Paying Agent will deliver such notice by first-class United States mail, postage prepaid, to any Beneficial Owner of such Series that delivered its postal address to the Paying Agent no less than thirty (30) days before the date that the Paying Agent delivers such notice to the Owners of the Series of Index Tender Bonds.

Interest Rate Provisions

Index Tender Rate. While the Index Tender Bonds of a Series bear interest at an Index Tender Rate, during any Index Rate Accrual Period, the Index Tender Bonds of such Series will bear a per annum rate of interest equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread applicable for the related Tender Period for such Series. For the initial Tender Period, the Index Spread for each Series of the Index Tender Bonds is 0.05 percent. For future Tender Periods, the Index Spread for the Index Tender Bonds of a Series will be determined by the applicable Remarketing Agent as described below.

Determination of SIFMA Average Index Rate and Index Tender Rate. During any Tender Period for a Series of Index Tender Bonds, no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Index Mode Interest Payment Date for such Series, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the applicable Remarketing Agent specifying the SIFMA Average Index Rate and the Index Tender Rate for, and the aggregate amount of interest that accrued during, the Index Rate Accrual Period ending on such Business Day for such Series, together with a detailed calculation of the foregoing. Determination by the Fiscal Agent of the SIFMA Average Index Rate and the Index Tender Rate will be, absent manifest error, conclusive and binding on the Owners of the Index Tender Bonds of such Series and Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

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

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

“SIFMA” means, as of any date, the per annum rate published or reported by Bloomberg for the SIFMA Municipal Swap Index, or if the SIFMA Municipal Swap Index is no longer published or reported, the most recently available per annum rate published or reported by Standard & Poor’s Securities Evaluations Inc. for the “S&P Municipal Bond 7 Day High Grade” index, or if neither the SIFMA Municipal Swap Index nor the S&P Municipal Bond 7 Day High

Grade index is published, a per annum rate equal to 65 percent of the London InterBank Offered Rate for one month deposits in U.S. Dollars.

“Index Rate Accrual Period” means, the period from each Interest Accrual Date to and including (a) the day next preceding the next Index Mode Interest Payment Date for such Index Tender Bonds and (b) the day next preceding any redemption date, as applicable; provided, however, that the first Index Rate Accrual Period will begin on the date of delivery of the Index Tender Bonds.

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

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

Commencement of Tender Periods. The initial Tender Period for the Index Tender Bonds of each Series will commence on the date of delivery of Index Tender Bonds. Thereafter, each Tender Period for a Series of Index Tender Bonds will commence on the first to occur of (a) the applicable Scheduled Mandatory Tender Date of the immediately preceding Tender Period for such Series of Index Tender Bonds or (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender of such Series of Index Tender Bonds if all Index Tender Bonds of such Series are actually purchased.

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

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

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

Notice of Different Interest Mode or Conversion to Fixed Interest Rate. The Paying Agent will give notice, together with the notice of mandatory tender for purchase, by first-class United States mail, postage prepaid, or telecopy, facsimile transmission, e-mail or other electronic means of communication, or as to DTC only, electronic means accepted by DTC (“Mail”), of a change of the Index Tender Bonds of a Series to a different Interest Mode or the conversion of the Index Tender Bonds of a Series to a Fixed

Interest Rate to the Owners of the Index Tender Bonds of the affected Series not less than seven (7) days prior to the effective date of such different Interest Mode or applicable Fixed Rate Date. Such notice will state, among other matters, (i) that the interest rate on the Index Tender Bonds will be changed to a different Interest Mode or will be converted to a Fixed Interest Rate, (ii) the effective date of the new Interest Mode or Fixed Rate Date, (iii) in connection with a change in Interest Mode to the Daily Mode, the name of the Liquidity Provider, and in connection with a change in Interest Mode to the Weekly Mode, Short-Term Mode or Long Mode, whether the District has elected to maintain a Liquidity Facility in connection with such new Interest Mode, and (iv) if applicable, that the Index Tender Bonds are subject to mandatory tender for purchase on such effective date of the new Interest Mode or Fixed Rate Date, and the applicable Purchase Price. See “– Tender and Purchase of Index Tender Bonds – *Mandatory Tender for Purchase Upon Change of Interest Mode*” and “– *Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate*” below.

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

Tender and Purchase of Index Tender Bonds

Index Mode Scheduled Mandatory Tender. The Owners of all of the Index Tender Bonds of a Series must tender for purchase, and Metropolitan must purchase, all of the Index Tender Bonds of such Series on the Scheduled Mandatory Tender Date of each Tender Period for such Series of Index Tender Bonds. The initial Scheduled Mandatory Tender Date for the 2017C Subordinate Bonds is July 18, 2018. The initial Scheduled Mandatory Tender Date for the 2017D Subordinate Bonds is July 18, 2018. The initial Scheduled Mandatory Tender Date for the 2017E Subordinate Bonds is July 18, 2018.

Metropolitan’s obligation to pay the Purchase Price of any Index Tender Bonds tendered for purchase on any Scheduled Mandatory Tender Date therefor is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and shall constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Failure to pay the Purchase Price of any tendered Index Tender Bonds on a Scheduled Mandatory Tender Date for such Index Tender Bonds for a period of five (5) Business Days following written notice by any Owner of such Index Tender Bonds constitutes an Event of Default under the Master Subordinate Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS – Security for the 2017 Subordinate Bonds.”

Index Mode Unscheduled Mandatory Tender.

Metropolitan’s Right to Require Index Mode Unscheduled Mandatory Tender. While the Index Tender Bonds of a Series bear interest in an Index Mode, at its option, Metropolitan may require, during each Tender Period for such Series of Index Tender Bonds, the Owners of all (but not less than all) of the Index Tender Bonds of such Series to tender the Index Tender Bonds of such Series to Metropolitan for purchase, on any Business Day from and after the Call Protection Date of the applicable Tender Period. A mandatory tender as described in the immediately preceding sentence is referred to herein as an “Index Mode Unscheduled Mandatory Tender.” The initial Call Protection Date for the Index Tender Bonds of each Series is set forth below. Metropolitan will exercise its option by delivering written notice of an Index Mode Unscheduled Mandatory Tender for a Series of Index Tender Bonds to the Paying Agent at its Corporate Trust Office and to the applicable Remarketing Agent no later than seven (7) days before the Mandatory Purchase Date. The Paying Agent will pay to the Owners of the Index Tender Bonds of the affected Series in connection with an Index Mode Unscheduled Mandatory Tender the Purchase Price, which is equal to the principal amount of the Index Tender Bonds of such Series, on the related

Mandatory Purchase Date from the sources of funds described herein, unless Metropolitan elects to rescind such Index Mode Unscheduled Mandatory Tender or any of the conditions of such Index Mode Unscheduled Mandatory Tender is not satisfied.

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

Failure to Meet Conditions. Any Index Mode Unscheduled Mandatory Tender for a Series of Index Tender Bonds will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. Funds for the payment of the Purchase Price of such mandatory tender will be derived from the sources described below under the caption “– Remarketing of Index Tender Bonds – *Remarketing and Purchase of Index Tender Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.*” If amounts sufficient to pay the Purchase Price of the Index Tender Bonds of a Series subject to tender in connection with an Index Mode Unscheduled Mandatory Tender are not on deposit with the Paying Agent on the Mandatory Purchase Date, or if Metropolitan fails to deliver a Favorable Opinion of Bond Counsel in connection with any change in the Call Protection Date, then no purchase will occur and the Index Tender Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during such Tender Period, without change or modification, and the Tender Period then in effect will continue until terminated.

Failure by Metropolitan to pay or cause to be paid the Purchase Price of all of the Index Tender Bonds of a Series pursuant to an Index Mode Unscheduled Mandatory Tender, for any reason, will not constitute default by Metropolitan under the applicable Paying Agent Agreement or an Event of Default by Metropolitan under the Master Subordinate Resolution or under any other provision of the Subordinate Resolutions. No such failure will affect Metropolitan’s right to require the Owners of the Index Tender Bonds of such Series to tender their Index Tender Bonds of such Series during any Tender Period and during any subsequent Tender Period.

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

Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate. The Index Tender Bonds of a Series will be subject to mandatory tender for purchase on the Fixed Rate Date for that Series at the Purchase Price, payable in immediately available funds. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any conversion for a Series of Index Tender Bonds to a Fixed Interest Rate will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied,

then no purchase will occur, the Index Tender Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

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

Notice of Index Mode Unscheduled Mandatory Tender. The Paying Agent will give notice of any Index Mode Unscheduled Mandatory Tender by Mail to the Owners of the Index Tender Bonds of the affected Series not less than seven (7) days prior to the date on which such Index Tender Bonds will be purchased. Such notice will state (A) the Mandatory Purchase Date; (B) that the Purchase Price of any Index Tender Bond of such Series will be payable only upon surrender of such Index Tender Bond to the Paying Agent at its Corporate Trust Office for delivery of Index Tender Bonds, accompanied, when such Series of Index Tender Bonds is not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series of Index Tender Bonds by the applicable Remarketing Agent or from Metropolitan, all Index Tender Bonds of such Series so subject to Index Mode Unscheduled Mandatory Tender will be purchased on the Mandatory Purchase Date, and that if any Owner of an Index Tender Bond of such Series subject to Index Mode Unscheduled Mandatory Tender does not surrender such Index Tender Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such Index Tender Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Subordinate Resolutions, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of the Index Tender Bonds of such Series have not been provided to the Paying Agent either through the remarketing of the Index Tender Bonds of such Series or from Metropolitan, that the Index Tender Bonds of such Series will not be purchased or deemed purchased and will continue to bear interest as if no such Index Mode Unscheduled Mandatory Tender notice had been given; and (E) that the Index Mode Unscheduled Mandatory Tender is subject to rescission by Metropolitan, is subject to the condition that amounts sufficient to pay the Purchase Price of such Index Mode Unscheduled Mandatory Tender are on deposit with the Paying Agent on the Mandatory Purchase Date and, if applicable, is subject to the condition that Metropolitan delivers a Favorable Opinion of Bond Counsel in connection with a change of the Call Protection Date. All Index Tender Bonds of a Series subject to Index Mode Unscheduled Mandatory Tender will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

If Metropolitan delivers a notice of an Index Mode Unscheduled Mandatory Tender and such Index Mode Unscheduled Mandatory Tender does not occur, then the Paying Agent will give notice by

Mail to the Owners of the affected Series of Index Tender Bonds, as soon as practicable, which states that such Index Mode Unscheduled Mandatory Tender for purchase has not occurred.

Notice of Mandatory Tender for Purchase upon Change in Interest Mode. In connection with any mandatory tender for purchase of Index Tender Bonds of a Series upon a change in the Interest Mode for the Index Tender Bonds of such Series, the Paying Agent will give notice of a mandatory tender for purchase by Mail not less than seven (7) days prior to the date on which the Index Tender Bonds of such Series will be subject to such mandatory tender. Such notice will state (A) the type of Interest Rate Period to commence for the affected Series of Index Tender Bonds on such Mandatory Purchase Date; (B) that the Purchase Price of any Index Tender Bond of such Series so subject to mandatory tender for purchase will be payable only upon surrender of such Index Tender Bond to the Paying Agent at its Corporate Trust Office for delivery of Index Tender Bonds, accompanied, when such Series of Index Tender Bonds is not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of the Index Tender Bonds of such Series by the applicable Remarketing Agent or from Metropolitan, all Index Tender Bonds of such Series so subject to mandatory tender for purchase will be purchased on the Mandatory Purchase Date, and that if any Owner of an Index Tender Bond of such Series so subject to mandatory tender for purchase does not surrender such Index Tender Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such Index Tender Bond will be deemed to be an “Undelivered Bond,” and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Subordinate Resolutions, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of the Index Tender Bonds of such Series have not been provided to the Paying Agent either through the remarketing of the Index Tender Bonds of such Series or from other moneys received from Metropolitan, that such Index Tender Bonds of such Series will not be purchased or deemed purchased and will continue to bear interest as if such failed purchase had not occurred; and (E) if applicable, that the mandatory tender for purchase is subject to the condition that amounts sufficient to pay the Purchase Price of such mandatory tender for purchase are on deposit with the Paying Agent on the Mandatory Purchase Date.

Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate. In connection with any mandatory tender for purchase of Index Tender Bonds of a Series upon a conversion of such Series to a Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, any Liquidity Provider, the applicable Remarketing Agent and the Owners not less than (7) days prior to the Fixed Rate Date. Such notice will state (A) that the interest rate with respect to the Index Tender Bonds of such Series so subject to mandatory tender for purchase will be converted to the Fixed Interest Rate, (B) the Fixed Rate Date, (C) the date the Fixed Interest Rate is to be established, (D) that interest on the Index Tender Bonds of such Series will be payable on each January 1 and July 1 after the Fixed Rate Date, (E) that subsequent to the Fixed Rate Date, the Owners will no longer have the right to deliver the Index Tender Bonds of such Series to the Paying Agent for purchase, (F) that all Outstanding Index Tender Bonds of such Series will be purchased on the Fixed Rate Date, and (G) that on and after the Fixed Rate Date, the Owners of the Index Tender Bonds of such Series immediately preceding the Fixed Rate Date will be deemed to have tendered their Index Tender Bonds of such Series as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, said Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for the Index Tender Bonds of such Series which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, the Index Tender Bonds of such Series will no longer otherwise be entitled to the benefits of the applicable Paying Agent Agreement.

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

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

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

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

Remarketing of Index Tender Bonds

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

Remarketing of Index Tender Bonds. Commencing thirty (30) days before the Scheduled Mandatory Tender Date of each Tender Period for a Series of Index Tender Bonds, the applicable Remarketing Agent will offer for sale and use its best efforts to sell all of the Index Tender Bonds of such Series in accordance with the applicable Remarketing Agreement on the Scheduled Mandatory Tender

Date at a Purchase Price equal to the principal amount of the Index Tender Bonds of such Series, such that the Index Spread for the next Tender Period for the Index Tender Bonds of such Series will be adjusted (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See “– *Determination of Index Spread*” below.

Determination of the Following Scheduled Mandatory Tender Date. Metropolitan, by written direction to the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent by telephone, telecopy, or telex confirmed by written notice not later than thirty (30) days before a Scheduled Mandatory Tender Date of a Tender Period for a Series of Index Tender Bonds, will determine the Scheduled Mandatory Tender Date for the Tender Period for such Series of Index Tender Bonds immediately following the purchase of the Index Tender Bonds of such Series in connection with an Index Mode Scheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date for a Series of Index Tender Bonds to be any Business Day during the next Tender Period for such Series except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three (3) months after the commencement of the Tender Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period for such Series of Index Tender Bonds immediately following the purchase of such Series of Index Tender Bonds pursuant to an Index Mode Scheduled Mandatory Tender will be the date that is one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

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

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

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

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

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

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

Obligation to Pay Purchase Price Constitutes a First Tier Parity Obligation. Metropolitan is irrevocably committed to pay the Purchase Price of all Index Tender Bonds of a Series on the Scheduled Mandatory Tender Date for that Series. Metropolitan's obligation to pay the Purchase Price of any Index Tender Bonds in connection with an Index Mode Scheduled Mandatory Tender of a Series of Index Tender Bonds is a First Tier Parity Obligation. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS."

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

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

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

Notification of New Tender Period. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of all Index Tender Bonds of a Series on a Scheduled Mandatory Tender Date for such Series of Index Tender Bonds and all other conditions are satisfied, then, within two (2) Business Days after such Scheduled Mandatory Tender Date, the Paying Agent will deliver, by Mail, a notice to (i) Metropolitan, (ii) the respective Owners of the affected Series of Index Tender Bonds at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent and (v) one or more Information Services (currently, the EMMA System), which will state (A) that the immediately preceding Tender Period for such Series of Index Tender Bonds has terminated, (B) that a new Tender Period for such Series has commenced, (C) the day on which the Scheduled Mandatory Tender Date for such Series of Index Tender Bonds will occur with respect to the new Tender Period, (D) the day on which the Call Protection Date will occur with respect to such Tender Period, and (E) the Index Spread for such Tender Period for such Series of Index Tender Bonds determined by the applicable Remarketing Agent as described above under the caption "*- Determination of Index Spread.*" Absent manifest error, upon delivery of such notice, the Tender Period in effect for such Series of Index Tender Bonds immediately preceding such Scheduled Mandatory Tender Date with respect to the Index Tender Bonds of such Series will be deemed to have terminated on such Scheduled Mandatory Tender Date of that Tender Period and a new Tender Period for such Series of Index Tender Bonds will be deemed to have commenced on such Scheduled Mandatory Tender Date.

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

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

Determination of the Scheduled Mandatory Tender Date. Metropolitan, by direction to the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender of a Series of Index Tender Bonds, will determine the Scheduled Mandatory Tender Date for the Tender Period for the Index Tender Bonds of such Series immediately following the purchase of the Index Tender Bonds of such Series in connection with such Index Mode Unscheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date for such Series of Index Tender Bonds to be any Business Day during the next Tender Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three (3) months after the commencement of the Tender Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of the Index Tender Bonds of such Series will be the date that is one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Tender Period commencing on a date on which Index Tender Bonds of a Series are purchased in connection with an Index Mode Unscheduled Mandatory Tender for such Series of Index Tender Bonds, the Call Protection Date will be the Standard Call Protection Date. However, Metropolitan may, by direction to the Fiscal Agent, the applicable Remarketing Agent, and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender of such Series, determine the Call Protection Date for such Tender Period to be a date that is different than the Standard Call Protection Date. If Metropolitan delivers a written direction determining the Call Protection Date to be a date other than the Standard Call Protection Date, then, on the Mandatory Purchase Date on which such Tender Period will commence, the related Index Mode Unscheduled Mandatory Tender will be conditioned upon the delivery by Metropolitan on and as of such Mandatory Purchase Date of a Favorable Opinion of Bond Counsel with respect to the change in the Call Protection Date. If Metropolitan determines the Call Protection Date to be a date that is different than the Standard Call Protection Date with respect to any Tender Period for a Series of Index Tender Bonds, then that determination will not apply to any subsequent Tender Period for such Series of Index Tender Bonds unless Metropolitan delivers written direction with respect to such subsequent Tender Period.

Determination of Index Spread. No later than 5:00 p.m. (New York City time) one (1) Business Day before the Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender of a Series of Index Tender Bonds, the applicable Remarketing Agent will determine the Index Spread with respect to the Tender Period for such Series of Index Tender Bonds immediately following such purchase date. The applicable Remarketing Agent will determine the Index Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the applicable Remarketing Agent, to the Index Tender Bonds of such Series and known by the applicable Remarketing Agent to have been priced

or traded under then-prevailing market conditions) which, if borne by the Index Tender Bonds of such Series, would enable the applicable Remarketing Agent to sell all Index Tender Bonds of such Series on the Mandatory Purchase Date at a Purchase Price equal to the principal amount thereof. This determination by such applicable Remarketing Agent of the Index Spread with respect to Index Tender Bonds of such Series will be conclusive and binding on the Owners of the Index Tender Bonds of such Series, Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

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

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

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

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

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

- (i) The Tender Period for such Series of Index Tender Bonds in effect immediately before such tender will terminate on such Mandatory Purchase Date and a new Tender Period for such Series will commence on such date; and
- (ii) The Index Spread with respect to the Index Tender Bonds of such Series for the new Tender Period will be the Index Spread determined by the applicable Remarketing Agent as described above under the caption “– *Determination of Index Spread.*”

Notification of New Tender Period. In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of Index Tender Bonds of a Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender of such Series of Index Tender Bonds on the purchase date and all other conditions are satisfied, then within two (2) Business Days after such purchase date, the Paying Agent will deliver a notice, by Mail, to (i) Metropolitan, (ii) the respective Owners of the affected Series of Index Tender Bonds at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services (currently, the EMMA System), which will state (A) that the immediately preceding Tender Period for such Series of Index Tender Bonds has terminated, (B) that a new Tender Period for such Series of Index Tender Bonds has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Tender Period for such Series, (D) the day on which the Call Protection Date will occur with respect to any new Tender Period, and (E) the Index Spread determined by the applicable Remarketing Agent as described above under the caption “– *Determination of Index Spread.*” Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding such purchase date will be deemed to have terminated and a new Tender Period will be deemed to have commenced.

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

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

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

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

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

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

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

Remarketing Agents

Pursuant to a remarketing agreement between Metropolitan and J.P. Morgan Securities LLC (“J.P. Morgan”), Metropolitan has appointed J.P. Morgan as the initial remarketing agent for the 2017C Subordinate Bonds and the 2017D Subordinate Bonds. The principal office of J.P. Morgan, in its capacity as remarketing agent, is 383 Madison Avenue, 8th Floor, New York, New York 10179, Attn: Public Finance Short Term Trading Desk. Pursuant to a remarketing agreement between Metropolitan and Wells Fargo Bank, National Association (“Wells Fargo”), Metropolitan has appointed Wells Fargo as the initial remarketing agent for the 2017E Subordinate Bonds. The principal office of Wells Fargo, in its capacity as remarketing agent, is 550 S Tryon Street, 4th Floor, Charlotte, North Carolina 28202. Each of J.P. Morgan and Wells Fargo is referred to herein as the applicable “Remarketing Agent” for the related Series of Index Tender Bonds for which it has been appointed.

A Remarketing Agent may resign or be removed as remarketing agent by Metropolitan upon thirty (30) days’ notice in accordance with the terms of the applicable Remarketing Agreement (provided, that a Remarketing Agent may not resign or be discharged of the duties and obligations created under the applicable Paying Agent Agreement on any date that is less than sixty (60) days before a Scheduled Mandatory Tender Date).

Redemption of the Index Tender Bonds

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

Mandatory Sinking Fund Redemption of Index Tender Bonds.

The 2017C Subordinate Bonds in the Index Mode will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2045 and on each July 1 thereafter through and including July 1, 2047, at a redemption price equal to 100 percent of the principal being redeemed plus accrued interest, if any, to the redemption date, from Mandatory Sinking Account Payments (as defined in

the Master Subordinate Resolution) which have been deposited in the Subordinate Bond Service Fund, in the principal amounts set forth below.

Redemption Date (July 1)	Principal Amount
2045	\$26,195,000
2046	26,665,000
2047 [†]	27,140,000

[†] Final Maturity

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

Redemption Date (July 1)	Principal Amount
2033	\$11,335,000
2034	18,910,000
2035	17,835,000
2036	39,840,000
2037 [†]	7,710,000

[†] Final Maturity

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

Redemption Date (July 1)	Principal Amount
2033	\$11,335,000
2034	18,910,000
2035	17,840,000
2036	39,835,000
2037 [†]	7,705,000

[†] Final Maturity

Mandatory Sinking Account Payments for the Index Tender Bonds of a Series will be reduced to the extent Metropolitan has purchased Index Tender Bonds of such Series and surrendered such Index Tender Bonds of such Series to the Fiscal Agent for cancellation. If Index Tender Bonds of a Series have been redeemed as described under “– *Optional Redemption of Index Tender Bonds*” above, then the amount of the Index Tender Bonds of such Series so redeemed will be credited to such future Mandatory

Sinking Account Payments for such Series of Index Tender Bonds as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments for a Series of Index Tender Bonds in any twelve month period ending July 1 will reduce the principal amount of Index Tender Bonds of such Series subject to mandatory sinking fund redemption on that July 1.

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

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

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

redemption date, such Index Tender Bonds of such Series will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS

Security for the 2017 Subordinate Bonds

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

Pursuant to the respective Paying Agent Agreement for the Index Tender Bonds, Metropolitan’s obligation to pay the Purchase Price of any Index Tender Bonds on any Scheduled Mandatory Tender Date is a special limited obligation of Metropolitan payable solely from Net Operating Revenues and shall constitute a First Tier Parity Obligation under the Master Subordinate Resolution. Failure to pay the Purchase Price of any tendered Index Tender Bonds on a Scheduled Mandatory Tender Date for a period of five (5) Business Days following written notice by any Owner of such Index Tender Bonds constitutes an Event of Default under the Master Subordinate Resolution.

As defined in the Master Subordinate Resolution:

“Net Operating Revenues” are initially the Operating Revenues less Operating Expenses paid from Operating Revenues. Such definition will change after a Pledge Change Designation, as discussed below.

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

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

As described herein, Metropolitan has adopted the Senior Debt Resolution authorizing the issuance of Senior Bonds and Senior Obligations (collectively referred to herein as Senior Debt) payable and secured on a senior basis to the Subordinate Bonds for the purpose of financing, or in connection with the financing of, the costs or improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, term and conditions of the Senior Debt Resolution. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations” for a description of Metropolitan’s outstanding Senior Debt as of February 1, 2017. See “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments” for a discussion of certain financings undertaken by Metropolitan since February 1, 2017. See also APPENDIX 2–“SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION” for a summary of the terms of the Senior Debt Resolution.

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

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

Rate Covenant

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

1. Operating Expenses;
2. From and after any Pledge Change Designation, SWC Capital Payments;
3. The Bond Obligation (as such term is defined in the Senior Debt Resolution) and interest on Senior Debt as the same shall become due and payable; and

4. The interest on and Bond Obligation (including Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) and amounts payable on First Tier Parity Obligations and Second Tier Subordinate Obligations as they become due and payable;

provided, however, that, in determining the amounts payable with respect to any of the amounts described in items 1. through 4. above and the amounts of rates and charges, Metropolitan may make such allowances for contingencies and errors in estimates and may incorporate and use such assumptions as Metropolitan determines are appropriate and reasonable. Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2017 Subordinate Bonds, including any Mandatory Sinking Account Payments. Metropolitan is not required to take into account the amount of any purchase price of any tendered Index Tender Bonds in setting its rates and charges.

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

No Reserve Fund

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

Outstanding Senior Bonds and Senior Obligations

Following the issuance of the 2017 Subordinate Bonds and the payment or defeasance of the Senior Bonds to be refunded thereby as described under "FINANCING PLAN," Metropolitan will have outstanding \$3.37 billion aggregate principal amount of Senior Bonds issued under the Senior Debt Resolution (which amount also reflects the July 1, 2017 scheduled amortization of certain outstanding Senior Bonds). Metropolitan's outstanding Senior Bonds include, among other things, Index Tender Bonds, Term Mode Bonds, Self-Liquidity Bonds and Build America Bonds, as more fully described in Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations" and "– Term Mode Bonds" and "– Build America Bonds." The Senior Bonds, including any Senior Bonds hereafter issued in accordance with the Senior Debt Resolution, and all Senior Obligations of Metropolitan on parity therewith are payable from Net Operating Revenues prior to the payment of Metropolitan's Subordinate Bonds, including the 2017 Subordinate Bonds, and Subordinate Obligations.

Metropolitan has entered into two short-term revolving credit facilities that it secured as Senior Obligations. Under the short-term revolving credit facilities, Metropolitan may borrow, pay down and re-borrow an aggregate amount outstanding at any time of \$400 million. As of June 1, 2017, an aggregate principal amount of \$262 million was outstanding under the short-term revolving credit facilities (including the \$12.25 million which is being refunded and paid down in connection with the delivery of the 2017 Subordinate Bonds). See “FINANCING PLAN.” See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities” for a description of these short-term revolving credit facilities.

Metropolitan has, and may in the future, enter into one or more revolving credit agreements for purposes of paying the purchase price of any Self-Liquidity Bonds. Metropolitan has secured, and may in the future secure, its obligation to pay principal and interest under any revolving credit agreement as a Senior Obligation pursuant to the Senior Debt Resolution. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Wells Fargo Revolving Credit Agreement” for information regarding such a revolving credit agreement to which Metropolitan is currently a party. Metropolitan also has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan’s obligation to pay principal of and interest on the Senior Bonds and other Senior Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as described in, Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Variable Rate and Swap Obligations – Interest Rate Swap Transactions.”

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

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

Outstanding Subordinate Obligations

Upon the issuance of the 2017 Subordinate Bonds, Metropolitan will have outstanding, in addition to the 2017 Subordinate Bonds, its \$175 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the “2016A Subordinate Bonds”) and its \$238 million Subordinate Water Revenue Refunding Bonds, 2017 Series A (the “2017A Subordinate Bonds”) issued under the Master Subordinate Resolution. See “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments.”

The 2016A Subordinate Bonds are index tender bonds. Metropolitan entered into a Continuing Covenant Agreement (the “2016 BANA Agreement”) with Bank of America, N.A. (“BANA”) in connection with the issuance of the 2016A Subordinate Bonds for the purchase by BANA of the 2016A Subordinate Bonds. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a First Tier Parity Obligation payable on parity with the Subordinate Bonds. See Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate

Revenue Bonds and Subordinate Parity Obligations” for a description of the 2016A Subordinate Bonds and the 2016 BANA Agreement.

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

Additional Indebtedness under the Master Subordinate Resolution

Metropolitan covenants in the Master Subordinate Resolution that, except for existing and future Senior Debt, no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the Subordinate Bonds, including the 2017 Subordinate Bonds, and First Tier Parity Obligations.

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

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

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

in service; and Additional Revenues and other moneys of Metropolitan reasonably expected to be available to pay principal or and interest on Senior Debt, Subordinate Bonds and First Tier Parity Obligations as specified in the Subordinate Resolutions.

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

Under the Act, the amount of outstanding bonds and other evidences of indebtedness may not exceed 15 percent of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of June 1, 2017, Metropolitan's outstanding bonds and other indebtedness, in the aggregate amount of \$4.63 billion, constituted approximately 0.18 percent of the fiscal year 2016-17 taxable assessed valuation of \$2,583 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100 percent of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2016 were \$6.68 billion. The aggregate amount of revenue bonds outstanding as of June 1, 2017 was \$4.30 billion.

Subordinate Bond Service Fund

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

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

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

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

FINANCING PLAN

Financing of Capital Improvements

The proceeds of the 2017C Subordinate Bonds will be applied primarily to finance a portion of the costs of acquisition and construction of improvements to the Water System of Metropolitan through fiscal year 2017-18. Proceeds of the 2017C Subordinate Bonds will also be used to pay a portion of the costs of issuance of the 2017 Subordinate Bonds. See also “ESTIMATED SOURCES AND USES OF FUNDS.”

Refunded Obligations

The proceeds of the Refunding Bonds will be applied, together with certain other available funds (a) to refund all of certain series of Metropolitan’s outstanding Senior Bonds, consisting of the following: (i) Metropolitan’s outstanding Water Revenue Bonds, 2006 Authorization Series A (the “2006 Series A Senior Bonds”), (ii) Metropolitan’s outstanding Water Revenue Refunding Bonds, 2009 Series A-2 (the “2009 Series A-2 Senior Bonds”), (iii) Metropolitan’s outstanding Water Revenue Refunding Bonds, 2011 Series A-1 (the “2011 Series A-1 Senior Bonds”), (iv) Metropolitan’s outstanding Water Revenue Refunding Bonds, 2011 Series A-3 (the “2011 Series A-3 Senior Bonds”), and (v) Metropolitan’s Water Revenue Refunding Bonds, 2014 Series G-2 (the “2014 Series G-2 Senior Bonds”); (b) to refund certain notes issued by Metropolitan (which are Senior Obligations) evidencing a \$12,250,000 draw made by Metropolitan under its short-term revolving credit facilities for the interim refinancing of a portion of certain then outstanding Senior Bonds refunded by Metropolitan in connection with Metropolitan’s 2017A Subordinate Bonds issued in June 2017; and (c) to pay a portion of the costs of issuance of the 2017 Subordinate Bonds. The 2006 Series A Senior Bonds, 2009 Series A-2 Senior Bonds, 2011 Series A-1 Senior Bonds, 2011 Series A-3 Senior Bonds and 2014 Series G-2 Senior Bonds being refunded are referred to collectively as the “Refunded Senior Bonds.” See also “ESTIMATED SOURCES AND USES OF FUNDS.”

The following table details the series, maturity dates and principal amounts of the Refunded Senior Bonds.

Refunded Senior Bonds

Series	Issue Date	CUSIP (Base No. 59266)	Maturity Date (July 1)	Principal Amount Outstanding	Principal Amount to be Redeemed
Water Revenue Bonds, 2006 Authorization Series A	May 23, 2007	34E5	2032	\$105,225,000	\$105,225,000
		34F2	2037	<u>152,005,000</u>	<u>152,005,000</u>
				\$257,230,000	\$257,230,000
Water Revenue Refunding Bonds, 2009 Series A-2	May 20, 2009	TCX7	2030	\$ 12,170,000	\$ 12,170,000
Water Revenue Refunding Bonds, 2011 Series A-1	June 2, 2011	TEK3	2036	\$ 58,145,000 ⁽¹⁾	\$ 58,145,000
Water Revenue Refunding Bonds, 2011 Series A-3	June 2, 2011	TEH0	2036	\$ 58,150,000 ⁽¹⁾	\$ 58,150,000
Water Revenue Refunding Bonds, 2014 Series G-2	August 29, 2014	TLD1	2037	\$ 14,300,000	\$ 14,300,000

⁽¹⁾ Represents aggregate principal amount to be outstanding following the July 1, 2017 scheduled mandatory sinking fund payment for such bonds.

The Refunded Senior Bonds are expected to be redeemed on or about July 3, 2017, at a redemption price of 100 percent of the principal amount thereof, plus accrued interest thereon to the redemption date, without premium.

Pursuant to the terms of the Senior Debt Resolution and the paying agent agreements for the variable rate Refunded Senior Bonds, as applicable, the refunding of the Refunded Senior Bonds will be effected by application of a portion of the proceeds of the Refunding Bonds, together with other available monies, on the date of delivery of the 2017 Subordinate Bonds to pay the redemption prices of such Refunded Senior Bonds (*i.e.*, 100 percent of the principal amount thereof), plus any interest accrued and unpaid thereon.

On June 1, 2017, Metropolitan made a draw of \$12,250,000 under its existing short-term revolving credit facilities, which constitute Senior Obligations, to provide temporary financing to refund a portion of its then outstanding Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E, which were refunded in connection with the issuance by Metropolitan of its \$238,015,000 2017A Subordinate Bonds on June 1, 2017. On the date of delivery of the 2017 Subordinate Bonds, a portion of the proceeds of the Refunding Bonds will be applied to refund and discharge the notes issued by Metropolitan evidencing such \$12,250,000 draw on the short-term revolving credit facilities.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2017 Subordinate Bonds, and other available moneys, are shown below:

	2017B Subordinate Bonds	2017C Subordinate Bonds	2017D Subordinate Bonds	2017E Subordinate Bonds	Total
<i>Estimated Sources of Funds:</i>					
Principal Amount	\$178,220,000	\$80,000,000	\$95,630,000	\$95,625,000	\$449,475,000
Original Issue Premium.....	29,416,011	--	--	--	29,416,011
Release from Reserve Fund and Bond Service Fund	7,077,016	--	3,601,340	3,601,340	14,279,696
Total.....	<u>\$214,713,027</u>	<u>\$80,000,000</u>	<u>\$99,231,340</u>	<u>\$99,226,340</u>	<u>\$493,170,707</u>
<i>Estimated Uses of Funds:</i>					
Deposit to Construction Fund	--	\$79,833,272	--	--	\$ 79,833,272
Redemption of the Refunded Senior Bonds	\$201,935,000	--	\$99,030,000	\$99,030,000	399,995,000
Discharge of Notes Evidencing Short-Term Revolving Credit Facility Draw	12,262,141	--	--	--	12,262,141
Costs of Issuance ⁽¹⁾	515,886	166,728	201,340	196,340	1,080,294
Total.....	<u>\$214,713,027</u>	<u>\$80,000,000</u>	<u>\$99,231,340</u>	<u>\$99,226,340</u>	<u>\$493,170,707</u>

⁽¹⁾ Includes Underwriter's discount, rating agency fees, municipal advisory fees, legal fees, printing costs and other costs of issuance.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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

Metropolitan has described its finances and operations in detail in Referenced Appendix A and Referenced Appendix B. In addition, Metropolitan has presented selected demographic and economic information for its service area in Referenced Appendix E. Metropolitan includes by specific reference into this Official Statement each of Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2017 Official Statement, including Referenced Appendix A, Referenced Appendix B and Referenced Appendix E, is on file with the EMMA System and can be accessed at <http://emma.msrb.org/>. To obtain information essential to making an informed investment decision, potential investors must read the entire Official Statement, including the appendices, Referenced Appendix A, Referenced Appendix B and Referenced Appendix E in their entirety, together with the information contained below under the caption "– Recent Developments."

Recent Developments

The following updates information provided in Referenced Appendix A under the caption "METROPOLITAN'S WATER SUPPLY – Recent Events at Oroville Dam" (which begins on page A-7 in Referenced Appendix A).

Use of the emergency spillway and damaged main spillway at Oroville Dam during the period following the initial February 7, 2017 damage scoured the hillsides adjacent and below these facilities depositing debris into the Feather River below and limited the ability of DWR to manage Lake Oroville operations. The spillways are a separate structure from the dam itself, which is safe. With a break in the weather during the first half of March, DWR took advantage of the lower inflows into the reservoir and ceased water flows through the damaged main spillway, allowing removal of debris from the diversion pool at the base of the spillway. As of early June, DWR has removed 1.7 million cubic yards of debris. As a result, DWR is now able to better manage lake levels by utilizing a combination of the damaged spillway and the Hyatt Powerplant. This flexibility will be needed during the anticipated higher reservoir inflows due to the spring snowmelt and later in the year for water supply deliveries.

State, federal, and local agencies are working collectively to help manage Lake Oroville operations, assess the cause of the damage and address needed repairs as rapidly as possible. Dam experts with the U.S. Army Corps of Engineers, Federal Energy Regulatory Commission, the State Division of Safety of Dams and independent dam safety engineers remain actively engaged in managing the situation. Work is being done around the clock and will continue to be expedited through the summer to ensure the spillways are safe by the next winter season.

On April 6, 2017, DWR released details of a recovery plan designed to ensure that by November 1, 2017, improvements will be in place that will safely accommodate heavy inflows at the Feather River watershed and Lake Oroville next winter (including, if necessary, through contingency designs that will achieve this objective in the event of a delay resulting in construction work on some components of this phase of the repairs and improvements extending beyond November 1). The complete recovery or replacement of both damaged spillway structures will be done in multiple phases due to the extent of the project and the time limitations of the construction season, and is currently expected to

extend over the next two years. The plan is to restore the gated flood control spillway to a capacity almost twice its highest historical outflow, up to approximately 270,000 cubic feet per second (cfs). On April 17, 2017, DWR awarded a contract to Kiewit Infrastructure West Co. (“Kiewit”) for the main portions of the repair work on the spillways. Kiewit’s construction bid of \$275.4 million was determined by DWR to be the lowest responsive bid.

In April 2017, DWR arranged for a separate series of up to \$500 million in commercial paper notes to be made available to provide capital funding for the Oroville Spillway recovery and repair effort (of which approximately \$125 million has been drawn as of June 6, 2017). Although the full extent of the costs of the response and recovery efforts are unknown at this time, DWR has indicated that the response phase cost is currently estimated at up to \$175 million, and that the recovery phase cost is currently estimated at up to \$480 million. The Federal Emergency Management Agency is expected to provide reimbursement for a portion of the costs.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – State Water Project – State Water Contract” (which begins on page A-10 in Referenced Appendix A).

On April 14, 2017, DWR notified State Water Contractors that it had increased its calendar year 2017 allocation estimate of State Water Project water to 85 percent of contracted amounts, or 1,624,775 acre-feet for Metropolitan.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY – State Water Project – Bay-Delta Proceedings Affecting State Water Project – Bay-Delta Planning Activities” (which begins on page A-13 in Referenced Appendix A).

The United States Fish and Wildlife Service and National Marine Fisheries Service issued final biological opinions on the impacts of the California WaterFix on June 26, 2017⁽¹⁾. In July, the U.S. Bureau of Reclamation is expected to issue a Record of Decision approving the project and incorporating mitigation based on the Final Environmental Impact Statement for the project. In the same time frame, DWR is expected to certify the Final Environmental Impact Report, adopt a Mitigation Monitoring and Reporting Program, adopt findings and a statement of overriding considerations, and approve the project. DWR then will file a Notice of Determination, which will trigger a 30-day statute of limitations on any challenge to DWR’s compliance with CEQA. Shortly after DWR has complied with CEQA and approved the project, the California Department of Fish and Wildlife is expected to adopt CEQA findings and issue a California Endangered Species Act incidental take permit for the project. In July, the State Water Resources Control Board should conclude part 1 of a two-part hearing on the Bureau of Reclamation’s and DWR’s petition to change their water right permits to add three new points of diversion for the California WaterFix. Part 2 of the hearing should commence in the late summer or early fall, and should be completed in 2018. The question of Metropolitan’s participation in California WaterFix may be considered by Metropolitan’s Board as early as September 2017.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN REVENUES – Financial Reserve Policy” (which begins on page A-51 in Referenced Appendix A).

The potential additional draw of \$50 million on the Short-Term Revolving Credit Facilities prior to June 30, 2017 (expected to have been deposited in Metropolitan’s unrestricted financial reserves if

⁽¹⁾ Subsequent to the date of this Official Statement.

made) is not currently expected to be undertaken. Metropolitan projects that its unrestricted reserves as of June 30, 2017 will be approximately \$338 million.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN REVENUES – Litigation Challenging Rate Structure” (which begins on page A-53 in Referenced Appendix A).

Oral argument in the appeals of the trial court decisions in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, Case Nos. CPF-10-510830 and CPF-12-512466 (sometimes referred to in Referenced Appendix A as the 2010 and 2012 SDCWA v. Metropolitan rate cases), occurred on May 10, 2017. The Court of Appeal had 90 days after the matter was submitted (which submission occurred on the date of oral argument) to issue a decision. As described below, the Court of Appeal released its decision on June 21, 2017.

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

On June 21, 2017, the California Court of Appeal released its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA of the trial court decisions in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.*, Case Nos. CPF-10-510830 and CPF-12-512466.

The Court of Appeal ruled that Metropolitan may lawfully include its State Water Project transportation costs in its System Access Rate and System Power Rate that are part of the price term of the water exchange agreement between Metropolitan and SDCWA, 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 of Appeal ruled that, based on the record, Metropolitan cannot include its Water Stewardship Rate as a transportation cost in the exchange agreement price or its wheeling rate, upholding the trial court decision on this issue. The Court of Appeal ruled that because the Water Stewardship Rate was included in the exchange agreement price, there was a breach by Metropolitan of the exchange agreement. The Court of Appeal stated the inclusion of the Water Stewardship Rate in Metropolitan's full-service rate is permissible. The Court of Appeal further ruled that the rates challenged by SDCWA in the rate cases comply with Proposition 26. With respect to damages, the Court of Appeal 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 in finding that the exchange agreement may entitle SDCWA to attorneys' fees for the second phase of the case; but stated that on remand, the trial court needs to review attorneys' fees to determine whether or not one of the parties recovered greater relief on the contract than the other. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court's ruling that Metropolitan improperly excludes SDCWA's payments under the exchange agreement in Metropolitan's calculation of SDCWA's preferential rights. The Court of Appeal ruled that SDCWA had the constitutional right to challenge the “rate structure integrity” provision in Metropolitan's conservation and local resources incentive agreements, which permits the Board to terminate such agreements due to certain actions by the member agency to challenge the rates that are the source of incentive payments, and

found that the “rate structure integrity” provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

The parties have until July 31 to petition the California Supreme Court to review any of the issues decided in the appellate decision. This date is delayed if the Court of Appeal grants a petition to rehear any issue. If the California Supreme Court accepts any issue for review, the matter will not go back to the trial court until after the California Supreme Court issues its decision.

For a more complete description of all litigation filed by SDCWA challenging Metropolitan’s rates and asserting additional claims, see Referenced Appendix A, including information under the caption “METROPOLITAN REVENUES – Litigation Challenging Rate Structure” in Referenced Appendix A. Metropolitan is unable to assess at this time the ultimate outcome of this litigation or any future claims.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations” (which begins on page A-60 in Referenced Appendix A).

On March 1, 2017, Metropolitan issued its \$80,000,000 Water Revenue Bonds, 2017 Authorization Series A (the “2017A Senior Bonds”) to finance certain costs of acquisition, construction and improvements to the Water System. The 2017A Senior Bonds are variable rate demand obligations with liquidity support for the purchase of tendered 2017A Senior Bonds in the event of a failed remarketing provided under a Standby Bond Purchase Agreement between Metropolitan and Citibank, N.A. The Standby Bond Purchase Agreement for the 2017A Senior Bonds has a scheduled expiration date of March 27, 2020.

On March 29, 2017, Metropolitan replaced the liquidity facility for its \$88,800,000 Water Revenue Bonds, 2000 Authorization, Series B-3 (the “2000 B-3 Senior Bonds”). As of March 29, 2017, liquidity support for the purchase of tendered 2000 B-3 Senior Bonds in the event of a failed remarketing is being provided under a Standby Bond Purchase Agreement between Metropolitan and Citibank, N.A. The current Standby Bond Purchase Agreement for the 2000 B-3 Senior Bonds has a scheduled expiration date of March 27, 2020.

The following updates information provided in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations” (which begins on page A-69 in Referenced Appendix A).

On June 1, 2017, Metropolitan issued its \$238,015,000 2017A Subordinate Bonds for the purpose of (a) refunding (i) \$37,770,000 then-outstanding principal amount of 2006 Series A Senior Bonds, (ii) \$92,010,000 then-outstanding principal amount of 2009 Series A-2 Senior Bonds, (iii) \$6,015,000 then-outstanding principal amount of 2011 Series A-1 Senior Bonds, (iv) \$6,015,000 then-outstanding principal amount of 2011 Series A-3 Senior Bonds, and (v) together with certain amounts drawn under its short-term revolving credit facilities (being refinanced in connection with the delivery of the 2017 Subordinate Bonds), all of its \$104,820,000 outstanding principal amount of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E; and (b) prepaying in full the \$8,600,000 principal balance of a then-outstanding Subordinate Obligation consisting of a California Safe Drinking Water Revolving Fund Loan. See also “FINANCING PLAN.”

The following updates information provided in Referenced Appendix A under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES – Water Sales Projections” (which begins on page A-83 in Referenced Appendix A).

As of April 10, 2017, the water sales forecast for fiscal year 2016-17 is 1.56 million acre-feet, 137 thousand acre-feet under budget. Financial projections for fiscal year 2016-17, based on preliminary financial results through March 31, 2017 and revised projections for the balance of fiscal year 2016-17, reflect lower water sales revenues that are estimated to be \$139 million, or 11 percent, below budget, based on the revised water sales projection. Overall projected expenses for the twelve months ending June 30, 2017 are \$1.7 billion. This is \$175 million, or 9 percent, less than budgeted expenses. The combination of lower than budgeted water sales revenue and expenses has resulted in projected fiscal year 2016-17 aggregate senior and subordinate revenue bond debt service coverage to be 1.49x and fixed charge coverage to be 1.28x, compared to budgeted debt service coverage of 1.55x and budgeted fixed charge coverage of 1.27x. Metropolitan's unrestricted reserves are projected to be approximately \$338 million at June 30, 2017.

OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO

Operating Revenues

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge, and capacity charge. Metropolitan describes its water sales revenues in more detail in Referenced Appendix A under the captions "METROPOLITAN REVENUES – Water Sales Revenues," "– Rate Structure" and "– Other Charges." In meeting the requirements of the Subordinate Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and Interest Subsidy Payments that may be received by Metropolitan in connection with any existing and future "Build America Bonds." Metropolitan previously issued and designated three series of Senior Bonds in the aggregate principal amount of \$578,385,000 as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. No assurances are provided that Metropolitan will receive all or any portion of the Interest Subsidy Payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. For a description of Metropolitan's outstanding Build America Bonds, including reductions that have occurred in the amount of Interest Subsidy Payments Metropolitan had expected to receive from the United States Treasury as a result of sequestration, see Referenced Appendix A under the caption "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Build America Bonds." *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2017 Subordinate Bonds. For a description of "Operating Revenues" and the effect of Operating Expenses on the amount of revenues available for payment of the 2017 Subordinate Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS." See also APPENDIX 1—"SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS." For information on Metropolitan's revenues and expenses, including historical and projected revenues and expenses, see Referenced Appendix A under the captions "METROPOLITAN REVENUES," "METROPOLITAN EXPENSES," and "HISTORICAL AND PROJECTED REVENUES AND EXPENSES." See also Metropolitan's financial statements contained in Referenced Appendix B and in Appendix 6 hereto.

Existing Bonds and Obligations Payable from Net Operating Revenues

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

Outstanding Subordinate Bonds or First Tier Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2017 SUBORDINATE BONDS – Additional Indebtedness Under the Master Subordinate Resolution.”

Metropolitan has issued and incurred Senior Debt, including Senior Bonds pursuant to the Senior Debt Resolution which were outstanding as of February 1, 2017 in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Revenue Bonds,” and certain Senior Obligations which are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations.” See also “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments” for a discussion of certain financings undertaken by Metropolitan since February 1, 2017. Principal and purchase price of and interest on the 2017 Subordinate Bonds will be payable from Net Operating Revenues on a basis subordinate to the Senior Bonds and Senior Obligations.

Metropolitan has issued Subordinate Bonds (which will include the 2017 Subordinate Bonds) pursuant to the applicable Subordinate Resolutions which were outstanding as of February 1, 2017 in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations – Subordinate Revenue Bonds,” and has incurred certain First Tier Parity Obligations which are described in Referenced Appendix A under the caption “METROPOLITAN EXPENSES – Outstanding Subordinate Revenue Bonds and Subordinate Parity Obligations.” See also “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments” for a discussion of certain financings undertaken by Metropolitan since February 1, 2017. Principal of and interest on the 2017 Subordinate Bonds will be payable from Net Operating Revenues on parity with the other Subordinate Bonds and First Tier Parity Obligations.

Anticipated Financings

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

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

On October 13, 2015, Metropolitan’s Board adopted Ordinance 149 (the “2015 Revenue Bond Ordinance”) determining that the interests of Metropolitan required the use of up to an aggregate principal amount of \$500,000,000 of revenue bonds to fund a portion of its capital expenditures. As of June 1, 2017, Metropolitan had issued \$463,255,000 principal amount of revenue bonds utilizing a portion of the authorization under the 2015 Revenue Bond Ordinance. On June 13, 2017, the Board adopted Ordinance 150 (the “2017 Revenue Bond Ordinance”) determining that the interests of Metropolitan require the use of additional revenue bonds in the aggregate principal amount of \$400,000,000 to finance a portion of Metropolitan’s capital expenditures. On June 13, 2017, the Board further adopted the Third Supplemental

Subordinate Resolution authorizing the issuance of the 2017C Subordinate Bonds. The 2017C Subordinate Bonds are being issued utilizing the balance of the \$500,000,000 in revenue bonds under the 2015 Revenue Bond Ordinance and a portion of the \$400,000,000 in revenue bonds under the 2017 Revenue Bond Ordinance. The Board may from time to time in the future adopt other ordinances supporting the authorization of the issuance of additional revenue bonds, including Senior Bonds and/or Subordinate Bonds. The issuance of bonds under the authorization provided by such ordinances (including the balance of the \$400,000,000 in revenue bonds under the 2017 Bond Ordinance) is subject to board approval in future supplemental bond authorizations.

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

Debt Service Requirements

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

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

Fiscal Year Ending June 30	Outstanding Senior Bonds Debt Service (1)(2)(3)(6)	Outstanding Subordinate Bonds Debt Service⁽⁴⁾⁽⁶⁾	2017B-E Subordinate Bonds Principal⁽⁴⁾⁽⁵⁾	2017B-E Subordinate Bonds Interest⁽⁴⁾⁽⁵⁾	Total Subordinate Bonds Debt Service⁽⁴⁾⁽⁵⁾	Total Debt Service⁽⁷⁾
2018	\$ 311,283,087	\$ 6,398,474	--	\$ 9,388,060	\$ 15,786,534	\$ 327,069,622
2019	298,313,029	8,718,813	--	13,384,740	22,103,553	320,416,581
2020	292,320,308	8,718,813	--	13,384,740	22,103,553	314,423,860
2021	275,145,557	13,965,813	-	12,966,545	26,932,358	302,077,915
2022	267,778,329	21,977,813	--	11,886,214	33,864,026	301,642,355
2023	262,548,919	22,653,263	--	10,790,499	33,443,761	295,992,680
2024	255,436,798	29,848,563	--	9,737,313	39,585,875	295,022,673
2025	230,129,727	49,224,956	--	8,725,424	57,950,380	288,080,108
2026	225,942,508	51,331,125	--	8,090,550	59,421,675	285,364,183
2027	225,411,719	51,785,313	--	8,090,550	59,875,863	285,287,582
2028	220,778,440	52,352,438	--	8,090,550	60,442,988	281,221,428
2029	234,210,552	3,150,000	\$ 12,614,000	7,882,419	23,646,419	257,856,971
2030	217,451,143	3,150,000	9,390,472	7,708,555	20,249,028	237,700,171
2031	193,292,685	3,150,000	36,029,255	7,099,987	46,279,242	239,571,927
2032	208,736,181	3,150,000	37,834,856	6,421,668	47,406,524	256,142,705
2033	185,549,183	3,150,000	46,711,417	5,594,177	55,455,594	241,004,777
2034	203,782,827	3,150,000	58,310,000	4,561,995	66,021,995	269,804,822
2035	204,225,056	3,150,000	37,820,000	3,850,500	44,820,500	249,045,556
2036	206,607,563	3,150,000	35,675,000	3,205,132	42,030,132	248,637,695
2037	163,044,868	3,150,000	79,675,000	1,836,982	84,661,982	247,706,850
2038	168,830,095	3,150,000	15,415,000	1,463,123	20,028,123	188,858,217
2039	129,319,595	3,150,000	--	1,440,000	4,590,000	133,909,595
2040	127,326,198	3,150,000	--	1,440,000	4,590,000	131,916,198
2041	126,327,145	3,150,000	--	1,440,000	4,590,000	130,917,145
2042	15,529,150	35,856,293	--	1,440,000	37,296,293	52,825,443
2043	15,528,463	36,093,678	--	1,440,000	37,533,678	53,062,140
2044	15,528,025	36,340,350	--	1,440,000	37,780,350	53,308,375
2045	15,527,455	36,586,025	--	1,440,000	38,026,025	53,553,480
2046	15,526,463	36,845,185	26,195,000	1,007,781	64,047,966	79,574,428
2047	15,526,928	--	26,665,000	528,517	27,193,517	42,720,445
2048	15,528,258	--	27,140,000	40,710	27,180,710	42,708,968
Total ⁽⁷⁾	<u>\$5,342,486,252</u>	<u>\$539,646,910</u>	<u>\$449,475,000</u>	<u>\$175,816,731</u>	<u>\$1,164,938,642</u>	<u>\$6,507,424,894</u>

Source: Metropolitan.

- (1) Excludes the Refunded Senior Bonds. Does not include any debt service for the Revolving Credit Agreements and Short-Term Revolving Credit Facilities. See Referenced Appendix A under the captions "METROPOLITAN EXPENSES – Outstanding Senior Revenue Bonds and Senior Parity Obligations – Senior Parity Obligations – Short-Term Revolving Credit Facilities" and "– Wells Fargo Revolving Credit Agreement."
- (2) Indicated amounts reflect the stated interest rate on Metropolitan's Water Revenue Bonds 2008 Authorization, Series C (Taxable Build America Bonds), Metropolitan's Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) and Metropolitan's Water Revenue Bonds 2010 Authorization, Series A (Taxable Build America Bonds), and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Bonds.
- (3) Assumes each Series of Term Mode Bonds are remarketed to a variable rate after the initial call protection date for such Series. Interest after the initial call protection date is calculated at an assumed interest rate of 1.80% per annum.
- (4) Includes variable rate 2016A Subordinate Bonds and fixed rate 2017A Subordinate Bonds.
- (5) Assumes the 2017B Subordinate Bonds are refunded with variable rate bonds at their respective July 1 optional redemption dates, with the refunding bonds amortizing on July 1 in the years 2028-2033 and interest thereon at an assumed 1.80% per annum. Actual amortization of refunding bonds and rates may differ from those set forth in this footnote. Interest on the Index Tender Bonds is calculated at an assumed interest rate of 1.80% per annum.
- (6) Of Metropolitan's \$1,231.8 million principal amount of outstanding variable rate bonds reflected in this table (\$785.5 million of Senior Bonds and \$446.3 million of Subordinate Bonds), interest on \$493.6 million aggregate amount of such variable rate bonds is hedged by interest rate swap agreements. Senior Bonds debt service is calculated taking into account the assumed fixed payor rates of interest to be paid under the respective interest rate swap agreements. For the remaining variable rate bonds, interest is calculated at an assumed interest rate of 1.80% per annum.
- (7) Totals are rounded. Actual debt service may differ from assumptions utilized in preparing this table.

Summary of Net Operating Revenues

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

Debt Service Coverage

For a summary of actual and projected debt service coverage on the outstanding Senior Bonds and Subordinate Bonds, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Referenced Appendix A. See also “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – Recent Developments.”

Financial Reserve Policy

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

Metropolitan’s Investment Portfolio

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

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

ACCOUNTING AND BUDGET MATTERS

Accounting Policies

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s full accrual basis financial statements for the Fiscal Years ended June 30, 2016 and June 30, 2015. See Referenced Appendix B.

Budgetary Accounting Method

Metropolitan’s budgeting and budgetary financial reporting is presented using a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the full accrual basis of accounting utilized in Metropolitan’s audited annual financial statements in the following respects: depreciation and amortization are not recorded and payments of debt service are recorded when due and payable. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in

which they are earned and expenses are recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. See Referenced Appendix A under the captions “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES.”

Financial Statements

The Basic Financial Statements of Metropolitan for the Fiscal Years ended June 30, 2016 and June 30, 2015 and Basic Financial Statements for the Six Months Ended December 31, 2016 and 2015 (Unaudited) are included in Referenced Appendix B. Metropolitan’s Basic Financial Statements for the Nine Months Ended March 31, 2017 and 2016 (Unaudited) are included in APPENDIX 6–“THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED).” The Financial Statements for the Fiscal Years ended June 30, 2016 and June 30, 2015 have been audited by Macias Gini & O’Connell LLP, Metropolitan’s independent auditor (the “Auditor”), as stated in its Independent Auditor’s Report, dated October 14, 2016, which is included in Referenced Appendix B. Metropolitan has not requested the consent of the Auditor, nor has the Auditor consented, to the inclusion of the Financial Statements or the Independent Auditor’s Report in Referenced Appendix B. The Auditor has not been engaged to perform, and has not performed, since the date of its Independent Auditor’s Report, any procedures on the Financial Statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

The financial and statistical information contained and incorporated in this Official Statement is included herein for informational purposes only and a complete review of the financial statements and the notes to such financial statements set forth in Referenced Appendix B and in Appendix 6 hereto is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Official Statement, other than the audited financial statements for the Fiscal Years ended June 30, 2016 and June 30, 2015 included in Referenced Appendix B.

Budget System

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

RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2017 Subordinate Bonds, or the purchase price thereof to the extent remarketing proceeds are insufficient therefor, depends primarily upon Metropolitan’s receipt of Net Operating Revenues. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the 2017 Subordinate Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2017 Subordinate Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Official Statement, including Referenced Appendix A, Referenced Appendix B and Referenced Appendix E

incorporated herein and the appendices hereto, to obtain information essential to making an informed investment decision.

Risks Relating to the Fixed Rate Bonds

Metropolitan currently expects to issue bonds or other indebtedness to refund all or a portion of the Fixed Rate Bonds on or prior to the respective maturity dates of such Fixed Rate Bonds (with such refunding bonds or other indebtedness currently anticipated to be amortized over a term beginning in 2028 and ending in 2033). Metropolitan does not intend to take into account any scheduled payments of principal of the Fixed Rate Bonds in setting its rates and charges. No assurance can be given that Metropolitan will have sufficient funds on hand to pay the Fixed Rate Bonds upon their respective maturity dates. In the event that Metropolitan does not have sufficient funds on hand to pay the Fixed Rate Bonds on the respective maturity dates therefor, Metropolitan's ability to pay such Fixed Rate Bonds will be dependent on Metropolitan's ability to issue and sell refunding obligations to refund all or a portion of such Fixed Rate Bonds on or prior to maturity. No assurance can be given that Metropolitan will be able to effect such a refinancing on sufficiently favorable terms. A variety of events could prevent access to the municipal securities market, prohibit Metropolitan from issuing such refunding obligations, or make the issuance of refunding obligations prohibitively expensive. In the event Metropolitan has not refinanced the Fixed Rate Bonds on or prior to maturity, a failure of Metropolitan to provide sufficient funds to pay the Fixed Rate Bonds at their maturity (from refunding proceeds or other available funds delivered on or prior to such date) will constitute an Event of Default under the Master Subordinate Resolution.

Risks Relating to the Index Mode

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

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

Failure of Metropolitan to pay the purchase price of any tendered Index Tender Bonds on a Scheduled Mandatory Tender Date for a period of five (5) Business Days following written notice by any

Owner of such Index Tender Bonds will constitute an Event of Default under the Master Subordinate Resolution.

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

Limited Obligations

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

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

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

2017 Subordinate Bonds Subordinate to Senior Debt

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

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

Metropolitan has entered into revolving credit facilities, short-term credit facilities and standby bond purchase facilities which provide, upon the occurrence of events of default, that the providers thereof may declare any outstanding Senior Debt to be immediately due and payable. In addition, the terms of the Master Subordinate Resolution permit any Bank Obligation to be subject to acceleration. If any Senior Debt or Subordinate Obligations are accelerated, it may substantially reduce the amount of Net

Operating Revenues available to pay debt service on the 2017 Subordinate Bonds and other Subordinate Obligations.

Risks Relating to Water Sales

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

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

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

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

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

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

Earthquakes, Wildfires and Other Natural Disasters

Southern California is subject to geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires, high winds and areas of potential liquefaction and landslide. Earthquakes, wildfires, high winds or other natural disasters could interrupt operation of the Water System and thereby interrupt the ability of Metropolitan to generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See Referenced Appendix A under the caption “METROPOLITAN’S WATER DELIVERY SYSTEM – Seismic Considerations.”

Limitations on Remedies

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

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

Tax Law Proposals

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

LITIGATION

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

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

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

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq., Co-Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2017 Subordinate Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Co-Bond Counsel, interest (and original issue discount) on the 2017 Subordinate Bonds is exempt from State of California personal income tax. Co-Bond Counsel notes that, with respect to corporations, interest on the 2017 Subordinate Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Co-Bond Counsel’s opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2017 Subordinate Bonds is based upon certain representations of fact and certifications made by Metropolitan, the respective Underwriters and others and is subject to the condition that Metropolitan complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the 2017 Subordinate Bonds to assure that interest (and original issue discount) on the 2017 Subordinate Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2017 Subordinate

Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2017 Subordinate Bonds. Metropolitan will covenant to comply with all such requirements.

In the opinion of Co-Bond Counsel, the amount by which the issue price of a 2017 Subordinate Bond (the first price at which a substantial amount of the 2017 Subordinate Bonds of a maturity is to be sold to the public) is less than the stated redemption price at maturity of such 2017 Subordinate Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2017 Subordinate Bond. The amount of original issue discount that accrues to the Beneficial Owner of a 2017 Subordinate Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which an Owner's original basis for determining loss on sale or exchange in the applicable 2017 Subordinate Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Owner's basis in the applicable 2017 Subordinate Bond (and the amount of tax-exempt interest received) and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in an Owner realizing a taxable gain when a 2017 Subordinate Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2017 Subordinate Bond to the Owner. Purchasers of the 2017 Subordinate Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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

SUBSEQUENT TO THE ISSUANCE OF THE 2017 SUBORDINATE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST (AND ORIGINAL ISSUE DISCOUNT) ON THE 2017 SUBORDINATE BONDS OR THE MARKET VALUE OF THE 2017 SUBORDINATE BONDS. TAX REFORM PROPOSALS ARE BEING CONSIDERED BY CONGRESS. IT IS POSSIBLE THAT LEGISLATIVE CHANGES MIGHT BE INTRODUCED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX OR STATE TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2017 SUBORDINATE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2017 SUBORDINATE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2017 SUBORDINATE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR THAT SUCH INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2017 SUBORDINATE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX

ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2017 SUBORDINATE BONDS.

Co-Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Co-Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Subordinate Resolutions and the Tax Certificate relating to the 2017 Subordinate Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Co-Bond Counsel is provided with respect thereto. Co-Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any 2017 Subordinate Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq.

Although Co-Bond Counsel will render opinions that interest (and original issue discount) on the 2017 Subordinate Bonds is excluded from gross income for federal income tax purposes provided that Metropolitan continues to comply with certain requirements of the Code, the accrual or receipt of interest (and original issue discount) on the 2017 Subordinate Bonds may otherwise affect the tax liability of certain persons. Co-Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2017 Subordinate Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2017 Subordinate Bonds.

A copy of the proposed forms of opinions of Co-Bond Counsel for the 2017 Subordinate Bonds is set forth in Appendix 4.

UNDERWRITING

The Fixed Rate Bonds are being purchased through negotiation by Citigroup Global Markets Inc., as the underwriter for the Fixed Rate Bonds (the "Fixed Rate Bonds Underwriter"), pursuant to and subject to the terms and conditions to be set forth in a Bond Purchase Contract (the "Fixed Rate Bonds Purchase Contract") between Metropolitan and the Fixed Rate Bonds Underwriter. The Fixed Rate Bonds Underwriter will purchase the Fixed Rate Bonds at an aggregate purchase price of \$207,276,389.08, which represents the principal amount of the Fixed Rate Bonds, plus original issue premium of \$29,416,010.90, less an underwriter's discount of \$359,621.82. The Fixed Rate Purchase Contract provides that the Fixed Rate Bonds Underwriter will purchase all of the Fixed Rate Bonds, if any are purchased.

The Index Tender Bonds are being purchased through negotiation by, (i) with respect to the 2017C Subordinate Bonds and the 2017D Subordinate Bonds, J.P. Morgan Securities LLC, and (ii) with respect to the 2017E Subordinate Bonds, Wells Fargo Bank, National Association, as the underwriters for the respective Series of Index Tender Bonds (each, an "Index Tender Bonds Underwriter," and collectively with the Fixed Rate Bonds Underwriter, the "Underwriters"), pursuant to and subject to the terms and conditions to be set forth in a Bond Purchase Contract (each, an "Index Tender Bonds Purchase Contract" and, collectively with the Fixed Rate Bonds Purchase Contract, the "Bond Purchase Contracts") between Metropolitan and the respective Index Tender Bonds Underwriter. The Index Tender Bonds Underwriter for the 2017C Subordinate Bonds will purchase the 2017C Subordinate Bonds at an aggregate purchase price of \$79,902,331.56, which represents the principal amount of the 2017C Subordinate Bonds, less an underwriter's discount of \$97,668.44. The Index Tender Bonds Underwriter for the 2017D Subordinate Bonds will purchase the 2017D Subordinate Bonds at an aggregate purchase price of \$95,514,275.10, which represents the principal amount of the 2017D Subordinate Bonds, less an underwriter's discount of \$115,724.90. The Index Tender Bonds Underwriter for the 2017E Subordinate

Bonds will purchase the 2017E Subordinate Bonds at an aggregate purchase price of \$95,511,727.00, which represents the principal amount of the 2017E Subordinate Bonds, less an underwriter's discount of \$113,273.00. Each Index Tender Bonds Purchase Contract provides that the applicable Index Tender Bonds Underwriter thereunder will purchase all of the respective Series of Index Tender Bonds, if any are purchased.

The public offering prices or yields may be changed from time to time by the Underwriters. The Underwriters may offer and sell 2017 Subordinate Bonds to certain dealers and others at prices lower or yields higher than the respective offering prices or yields shown on the inside cover pages hereof.

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

Citigroup Global Markets Inc., the Underwriter of the 2017B Subordinate Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the 2017B Subordinate Bonds.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (referred to in this paragraph as "WFBNA"), the Underwriter of the 2017E Subordinate Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the 2017E Subordinate Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2017E Subordinate Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the 2017E Subordinate Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

MUNICIPAL ADVISOR

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

CERTAIN RELATIONSHIPS

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

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

Metropolitan and as remarketing agents for certain of Metropolitan's variable rate bonds. The respective Underwriters for the Index Tender Bonds are also serving as remarketing agents for such Index Tender Bonds. Wells Fargo Bank, National Association, one of the Underwriters, is also serving as Paying Agent for the Index Tender Bonds. See "PROVISIONS APPLICABLE TO THE INDEX TENDER BONDS – Remarketing Agents."

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

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan, will render their opinions with respect to the 2017 Subordinate Bonds, substantially in the forms set forth in APPENDIX 4—"FORMS OF CO-BOND COUNSEL OPINIONS." Co-Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Norton Rose Fulbright US LLP is acting as Disclosure Counsel to Metropolitan in connection with the issuance of the 2017 Subordinate Bonds.

RATINGS

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

CONTINUING DISCLOSURE

Metropolitan has agreed to execute a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”), which provides for disclosure obligations on the part of Metropolitan for so long as the 2017 Subordinate Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2017 Subordinate Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriters of the 2017 Subordinate Bonds in complying with the Rule. See APPENDIX 5–“FORM OF CONTINUING DISCLOSURE UNDERTAKING.” The Continuing Disclosure Undertaking includes the following change in the description of the Annual Financial Information (as defined in Appendix 5) to be included in Metropolitan’s Annual Reports with respect to the 2017 Subordinate Bonds from that included in Metropolitan’s continuing disclosure undertakings executed prior to 2017: the two tables entitled “Summary of Receipts by Source” and “Summary of Expenditures” have been renamed “Summary of Revenues by Source” and “Summary of Expenses,” respectively, to reflect the current presentation of such tables in Referenced Appendix A on a modified accrual basis (rather than a cash basis) consistent with the modified accrual basis of accounting utilized in other tables of financial information in Referenced Appendix A.

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

MISCELLANEOUS

The terms of the 2017 Subordinate Bonds are set forth in the Subordinate Resolutions and the respective Paying Agent Agreements and Bond Purchase Contracts, as applicable. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012; telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Assistant General Manager/Chief Financial Officer.

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

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

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

By: /s/ Jeffrey Kightlinger
General Manager

APPENDIX 1

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

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APPENDIX 1

SUMMARY OF CERTAIN PROVISIONS OF THE SUBORDINATE RESOLUTIONS

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

MASTER SUBORDINATE RESOLUTION

Definitions; Content of Certificates and Opinions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Business Day” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding any other provision of the definition of Debt Service, except as set forth in (h) above, no amounts payable (including any settlement amounts or termination payments) under any interest rate swap agreement constituting a Covered Obligation will be included in the calculation of Debt Service. Except as otherwise provided in the definition of Debt Service, to the extent that any calculation under the definition of “Debt Service” requires an index, interest rate or other amount to make such calculation, and such index, interest rate or

other amount is not published, is not available or is not capable of being included in such calculation, then Metropolitan will use such other index, interest rate, or other amount in its reasonable discretion in order to complete such calculation and that calculation will be binding on Metropolitan, the Owners of all Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, the Fiscal Agent and all other affected parties, absent manifest error.

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

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

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

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

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

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

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

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

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

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

“Municipal Obligations” means municipal obligations meeting the following conditions: (a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption; (b) the municipal obligations are secured by

Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and (d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any such certificate or opinion made or given by an officer or employee of Metropolitan may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel, an accountant or an independent consultant, unless such officer or employee knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or an independent consultant may be based, insofar as it relates to factual matters (with

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

The Bonds

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

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

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

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

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, Metropolitan at the expense of the Owner of said Bond, will execute, and the Fiscal Agent for such Bond will thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond will be canceled by it and destroyed. If any Bond is lost, destroyed or stolen, evidence of such loss,

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

Issuance of Bonds

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

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

any such interest rate swap; (xviii) the creation and maintenance of one or more special funds or accounts, if any, to provide for the payments, if any, to be made by Metropolitan with respect to any interest rate swap with respect to the Bonds of such Series; (xix) if so determined by the Board, the authorization of and any terms and conditions with respect to any municipal bond insurance policy insuring the payment of the Bonds; and (xx) any other provisions which the Board deems necessary or desirable in connection with the Bonds of such Series not inconsistent with the terms of the Master Subordinate Resolution. In lieu of expressly stating any of the foregoing, it will be sufficient if such Supplemental Resolution provides the method or procedure for determination of any of the foregoing.

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

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by Metropolitan in an aggregate, principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of any or all of the following: (1) all or any portion of the principal or Redemption Price of the Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or any obligation or indebtedness of Metropolitan to be refunded (including the purchase price of any Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded); (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness and the cost of issuance of such Refunding Bonds; (3) interest on all Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness to be refunded to the date such Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or Senior Debt will be called for redemption or paid at maturity; and (4) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded.

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

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

Redemption of Bonds

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

Redemption at the Direction of Metropolitan. In the case of any redemption of Bonds at direction of Metropolitan, Metropolitan will select Series, maturities and principal amounts thereof to be redeemed and

Metropolitan will give written notice to the Fiscal Agent for each Series of Bonds to be redeemed specifying the redemption date and the maturities and Bond Obligation amounts of such Series to be redeemed, and directing the Fiscal Agent to give notice of redemption to the Owners of Bonds selected for redemption.

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

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

Revenues

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

Equality of Security. In consideration of the acceptance of the Bonds by the Owners thereof from time to time, the Master Subordinate Resolution will be deemed to be and will constitute a contract between Metropolitan and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Master Subordinate Resolution to be performed by or on behalf of Metropolitan will be for the equal and proportionate benefit, security and protection of all Owners of the Bonds, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or

for any cause whatsoever, except as expressly provided therein or in the Master Subordinate Resolution. Notwithstanding the foregoing, nothing in the Master Subordinate Resolution will prevent additional security being provided to particular Bonds under any Supplemental Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

date; then, from and after the date on which such Certificate of Metropolitan is delivered, the definition of Net Operating Revenues will be automatically amended and modified to read as set forth in paragraph (b) of the definition thereof.

Covenants of Metropolitan

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

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

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

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

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

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

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

complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or First Tier Parity Obligations are in operation, as estimated by and set forth in a Certificate of Metropolitan, plus (B) at the option of Metropolitan, any or all of the items later designated in the foregoing covenant have amounted to not less than Average Annual Debt Service on all Covered Obligations to be Outstanding immediately after the issuance or incurrence of such additional Bonds or First Tier Parity Obligations.

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

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

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

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

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

(3) Any Additional Revenues for the NOR Period.

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

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

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

The Fiscal Agent

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

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

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

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

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

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

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

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

Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of Metropolitan, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of Metropolitan and make disbursements for Metropolitan and enter into any commercial or business arrangement therewith, without limitation.

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

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

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

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

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

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

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

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

with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created by the Master Subordinate Resolution.

Modification or Amendment of the Master Subordinate Resolution

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

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

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

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

such provision will materially and adversely affect the interests of the Owners of any of the Bonds; (6) if Metropolitan has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and (7) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

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

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

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

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

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

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

Defeasance

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

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

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

made for the giving of such notice; provided, in each case, that the Fiscal Agent for such Series has been irrevocably instructed (by the terms of the Master Subordinate Resolution or by Request of Metropolitan) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

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

Defaults and Remedies

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

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

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

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

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

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

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

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

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

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

Miscellaneous

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

The general fund of Metropolitan is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of Metropolitan pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond will not compel the exercise of the taxing power by Metropolitan or the forfeiture of any of its property. The principal and Accreted Value of and interest on any Bonds and any premiums upon the redemption of any thereof

prior to maturity are not a debt of Metropolitan nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.

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

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

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

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

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

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

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

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

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

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

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

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

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

No remedy conferred by the Master Subordinate Resolution upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder will affect any subsequent default or breach of duty or contract or will impair any rights or remedies on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default will impair any such right or power or will be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy will be brought or taken and the Bondholder prevails, said Bondholder will be entitled to receive from the Water Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, Metropolitan and the Bondholder will be

restored to their former positions, rights and remedies as if such Suit, action or proceeding had not been brought or taken.

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

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

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

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

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

FIRST SUPPLEMENTAL SUBORDINATE RESOLUTION

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

“Fiscal Agent” means the Treasurer of Metropolitan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Subordinate Refunding Bonds

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

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

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

actions, not inconsistent with the First Supplemental Subordinate Resolution, to qualify the Subordinate Refunding Bonds of any Series for the Securities Depository's book-entry program.

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

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

Sale of Subordinate Refunding Bonds; Application; Funds; Covenants

Establishment and Application of Escrow Funds.

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

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

which when due will provide moneys which will be sufficient to pay when due the Escrow Requirements with respect to the related Refunded Bonds.

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

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

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

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

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

Undertakings

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

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

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

Miscellaneous

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

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

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

THIRD SUPPLEMENTAL SUBORDINATE RESOLUTION

Application of Bond Proceeds; Establishment of Funds; Covenants

Application of Construction Fund. The moneys in the Subordinate Water Revenue Bonds, 2017 Series C Construction Fund (the "Construction Fund"), which Metropolitan will establish and maintain under the Third Supplemental Subordinate Resolution, will be disbursed by Metropolitan to pay the cost of acquiring, constructing,

reconstructing, replacing, extending and improving the Water System and any facilities related thereto (the "Construction Costs"). All investment earnings on funds held in the Construction Fund will be credited to such fund unless otherwise specified in a Certificate of an Authorized Representative. Metropolitan will keep a record of all payments from the Construction Fund, which record will state: (1) the item number of such payment; (2) the name and address of the person to whom each such payment is due, which may be Metropolitan in the case of reimbursement for costs theretofore paid by Metropolitan; and (3) the purpose by general classification for which each obligation to be paid was incurred.

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

APPENDIX 2

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

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APPENDIX 2

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR DEBT RESOLUTION

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Expenditures” means cash disbursements of Metropolitan.

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

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

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

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

“General Manager” means the General Manager of Metropolitan.

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

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

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

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

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

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

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

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

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

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

(i) 0 and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“State” means the State of California.

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

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

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

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

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

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

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

General

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

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

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

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

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

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

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

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

Supplemental Resolutions; Additional Bonds

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

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

Redemption of Bonds

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

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

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

Revenues

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Covenants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Any Additional Revenues.

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

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

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

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

The Fiscal Agent

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

Metropolitan may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent ceases to be eligible in accordance with paragraph (E) below, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property is appointed, or any public officer takes control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such

Fiscal Agent, and thereupon will appoint a successor Fiscal Agent by an instrument in writing. Notwithstanding the foregoing, the Treasurer or the Controller may only be removed as a Fiscal Agent by a resolution of the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to Senior Debt Resolution

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

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

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

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

such exclusion, and (7) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

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

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

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

Defeasance

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

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

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Senior Debt Resolution) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption has been given as provided in the Senior Debt Resolution or provision

satisfactory to such Fiscal Agent has been made for the giving of such notice, then all liability of Metropolitan in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Senior Debt Resolution and the continuing duties of the Fiscal Agent for such Series under the Senior Debt Resolution. Upon defeasance and discharge of any Bond as provided in the Senior Debt Resolution, the Fiscal Agent will provide notice thereof to the Owner of such Bond.

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

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

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

Defaults and Remedies

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

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

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

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

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

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

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

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

Miscellaneous

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX 3

BOOK-ENTRY ONLY SYSTEM

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APPENDIX 3

BOOK-ENTRY ONLY SYSTEM

Introduction

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

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

General

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2017 Subordinate Bonds. The 2017 Subordinate Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each Series of the 2017 Subordinate Bonds and will be deposited with DTC.

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

registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to DTC's system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Standard & Poor's has rated DTC "AA+." DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2017 Subordinate Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2017 Subordinate Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on, and the Purchase Price of (as applicable), the 2017 Subordinate Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent or Paying Agent, as applicable, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, the Paying Agent or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on, and the Purchase Price of (as applicable), the 2017 Subordinate Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2017 Subordinate Bond certificates will be printed and delivered to DTC.

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

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

APPENDIX 4

FORMS OF CO-BOND COUNSEL OPINIONS

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APPENDIX 4

FORMS OF CO-BOND COUNSEL OPINIONS

Upon issuance of the 2017 Subordinate Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, and Alexis S. M. Chiu, Esq., Co-Bond Counsel, propose to render their final approving opinions with respect to the 2017 Subordinate Bonds in substantially the following forms:

[FORM OF OPINION RELATING TO 2017B SUBORDINATE BONDS]

July 3, 2017

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

Re: \$178,220,000 The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds, 2017 Series B

Members of the Board of Directors:

We have acted as Bond Counsel to The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of \$178,220,000 aggregate principal amount of Subordinate Water Revenue Refunding Bonds, 2017 Series B (the “Bonds”). The Bonds have been issued by Metropolitan pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), in accordance with Resolution 9199 of the Board of Directors of Metropolitan (the “Board”) adopted on March 8, 2016, as amended and supplemented (the “Master Resolution”), including by Resolution 9200 of the Board adopted on March 8, 2016 (together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act.

The Bonds are limited obligations of Metropolitan payable solely from Net Operating Revenues (as such term is defined in the Resolutions) subordinate to the lien thereon of the Senior Debt (as such term is defined in the Resolutions) pursuant to the Resolutions, and from certain funds and accounts established under the Resolutions. The Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions.

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

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

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the “State”) now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

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

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

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

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

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

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

On the date of delivery of the Bonds, Metropolitan will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set

forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income.

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

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

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

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

We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

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

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

Respectfully submitted,

[FORM OF OPINION RELATING TO 2017C SUBORDINATE BONDS]

July 3, 2017

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

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

Members of the Board of Directors:

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

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

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

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

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the “State”) now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

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

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

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

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

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

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

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

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of

fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

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

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

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

We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

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

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

Respectfully submitted,

[FORM OF OPINION RELATING TO 2017D SUBORDINATE BONDS]

July 3, 2017

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

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

Members of the Board of Directors:

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

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

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

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

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the “State”) now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

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

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

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

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

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

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

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

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of

fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

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

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

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

We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

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

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

Respectfully submitted,

[FORM OF OPINION RELATING TO 2017E SUBORDINATE BONDS]

July 3, 2017

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

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

Members of the Board of Directors:

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

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

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

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

1. The proceedings of Metropolitan show lawful authority for the issuance and sale by Metropolitan of the Bonds under the laws of the State of California (the “State”) now in force, and the Bonds and the Resolutions are valid and binding obligations of Metropolitan enforceable against Metropolitan in accordance with their respective terms.

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

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

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

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

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

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

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

In rendering the opinions set forth herein, we have relied upon and assumed: (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of

fact contained in the Tax Certificate, the Resolutions and other documents in connection with the issuance of the Bonds with respect to matters affecting the status of interest paid on the Bonds; and (b) compliance by Metropolitan with the procedures and covenants set forth in such documents as to such tax matters.

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

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

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

We call attention to the fact that the rights and obligations under the Resolutions and the Bonds are subject to bankruptcy, insolvency, debt adjustment, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases, to limitations on legal remedies against public agencies in the State and to the application of State laws relating to conflicts of interest to which public agencies are subject.

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

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

Respectfully submitted,

APPENDIX 5

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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APPENDIX 5

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated as of July 1, 2017 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$178,220,000 Subordinate Water Revenue Refunding Bonds, 2017 Series B (the “2017B Subordinate Bonds”), \$80,000,000 Subordinate Water Revenue Bonds, 2017 Series C (the “2017C Subordinate Bonds”), \$95,630,000 Subordinate Water Revenue Refunding Bonds, 2017 Series D (the “2017D Subordinate Bonds”) and \$95,625,000 Subordinate Water Revenue Refunding Bonds, 2017 Series E (the “2017E Subordinate Bonds,” and collectively with the 2017B Subordinate Bonds, the 2017C Subordinate Bonds and the 2017D Subordinate Bonds, the “Bonds”). The Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by applicable provisions of the Government Code of the State of California, including by Chapter 3 (commencing with Section 53400) and Chapter 6 (commencing with Section 54300) of Part 1 of Division 2 of Title 5 of the California Government Code, and with respect to the 2017B Subordinate Bonds, the 2017D Subordinate Bonds and the 2017E Subordinate Bonds (sometimes collectively referred to as the “Refunding Bonds”), by Articles 9 and 11 of Chapter 3 (commencing with Section 53550 and Section 53580, respectively) of Part 1 of Division 2 of Title 5 of the California Government Code (collectively, the “Act”). The 2017 Subordinate Bonds are also issued under and pursuant to Resolution 9199 adopted on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), including, with respect to the Refunding Bonds, by Resolution 9200 adopted on March 8, 2016 (the “First Supplemental Subordinate Resolution”) and, with respect to the 2017C Subordinate Bonds, Ordinance 149 adopted on October 13, 2015, and Ordinance 150 and Resolution 9226, each adopted on June 13, 2017 (such resolution, the “Third Supplemental Subordinate Resolution” and together with the Master Subordinate Resolution and the First Supplemental Subordinate Resolution, the “Subordinate Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Subordinate Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

ARTICLE I Definitions

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

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption “OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Debt Service Requirements” in the forepart of the Official Statement; (ii) under the caption “METROPOLITAN’S WATER SUPPLY” in Referenced Appendix A incorporated by reference in the Official Statement, the table “Metropolitan’s Water Storage Capacity and Water in Storage;” (iii) under the caption “METROPOLITAN REVENUES” in Referenced Appendix A incorporated by reference in the Official Statement, the tables “Summary of Revenues by Source,” “Summary of Water Sold and Water Sales,” “Summary of Water Rates,” and “Ten Largest Water Customers;” the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption “METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts” in Referenced Appendix A incorporated by reference in the Official

Statement, the total market value of all Metropolitan funds, earnings on investments and the minimum month-end balance of Metropolitan's investment portfolio; (v) under the caption "METROPOLITAN EXPENSES" in Referenced Appendix A incorporated by reference in the Official Statement, the table "Summary of Expenses;" outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption "Defined Benefit Pension Plan and Other Post-Employment Benefits;" (vi) under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in Referenced Appendix A incorporated by reference in the Official Statement, historical revenues and expenses for the then immediately past fiscal year, as presented in the table "Historical and Projected Revenues and Expenses;" (vii) under the caption "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in Referenced Appendix A incorporated by reference in the Official Statement, the percentage of operation and maintenance expenses to total costs; and (viii) under the caption "METROPOLITAN EXPENSES – Power Sources and Costs" in Referenced Appendix A incorporated by reference in the Official Statement, the expenditures for electric power, for so long as such information shall be deemed to be material by Metropolitan and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

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

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

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

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

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

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

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

(9) “Official Statement” means the Official Statement dated June 22, 2017, of Metropolitan relating to the Bonds.

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

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

(12) “State” means State of California.

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

ARTICLE II The Undertaking

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

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2016-17, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

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

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

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

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

ARTICLE III Operating Rules

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

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

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

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

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

ARTICLE IV

Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination.

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

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

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

Section 4.2. Amendment.

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

interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Subordinate Resolutions with consent of holders of Bonds, pursuant to the Subordinate Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

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

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

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

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

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

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

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

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

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

By: _____
Gary Breaux
Assistant General Manager/Chief Financial
Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By: _____

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APPENDIX 6

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA BASIC FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED)

The financial and statistical information contained in this Appendix 6 is included herein for informational purposes only. The Basic Financial Statements for the nine months ended March 31, 2017 and 2016 (Unaudited) remain subject to amendment and revision. The source for the information herein is Metropolitan unless otherwise stated.

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**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

Basic Financial Statements

Nine Months ended March 31, 2017 and 2016

(Unaudited)

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UNAUDITED
March 31, 2017 and 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

March 31, 2017 and 2016

(Unaudited)

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the nine months ended March 31, 2017 and 2016. 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 generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statements of net position include all of Metropolitan's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal years 2016 and 2015 have been reclassified to conform to the fiscal year 2017 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2015, Metropolitan implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. Metropolitan also implemented Governmental Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. Metropolitan did not restate the financial statements for the fiscal year ended June 30, 2014 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for fiscal year 2014. As of July 1, 2014, Metropolitan restated beginning net position in the amount of \$491.0 million to record the beginning deferred pension contributions and net pension liability.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	March 31,		
	2017	2016	2015
Assets and deferred outflows of resources			
Capital assets, net	\$ 10,607.1	\$ 10,467.5	\$ 10,239.2
Other assets and deferred outflows of resources	2,052.2	2,012.1	2,355.6
Total assets and deferred outflows of resources	12,659.3	12,479.6	12,594.8
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	5,032.9	4,913.1	4,551.7
Current liabilities and deferred inflows of resources	854.1	778.1	559.1
Total liabilities and deferred inflows of resources	5,887.0	5,691.2	5,110.8
Net position			
Net investment in capital assets, including State Water Project costs	5,997.2	5,915.7	5,746.0
Restricted	398.0	436.7	362.6
Unrestricted	377.1	436.0	1,375.4
Total net position	\$ 6,772.3	\$ 6,788.4	\$ 7,484.0

Capital Assets, Net

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

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, net capital assets totaled \$10.6 billion, or 83.8 percent, of total assets and deferred outflows of resources, and were \$139.6 million higher than the prior year. The increase was primarily due to a \$175.9 million Board approved land purchase in the Delta Wetlands in July 2016. Additional increases included Metropolitan's continued expenditures on the capital investment plan of \$225.8 million and net capital payments for participation rights in the State Water Project and other facilities of \$131.4 million. These increases were offset by depreciation and amortization of \$393.5 million. See the capital assets and debt administration section for additional information.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, net capital assets totaled \$10.5 billion, or 83.9 percent, of total assets and deferred outflows of resources, and were \$228.3 million higher than the prior year. The increase was primarily due to a \$256.1 million Board approved land purchase in the Palo Verde Irrigation District (PVID) in July 2015. Additional increases included Metropolitan's continued expenditures on the capital investment plan of \$239.7 million and net capital payments for participation rights in the State Water Project and other facilities of \$106.9 million. These increases were offset by depreciation and amortization of \$374.4 million. See the capital assets and debt administration section for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**(CONTINUED)**

March 31, 2017 and 2016

(Unaudited)

Other Assets and Deferred Outflows of Resources

Other assets and deferred outflows of resources include accounts receivable, inventories, prepaid costs, deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability, deferred outflows for effective interest rate swaps, and cash and investments.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, other assets and deferred outflows totaled \$2.1 billion and were \$40.1 million more than the prior year. Cash and investments were \$163.6 million higher primarily due to proceeds from new bond issue of \$255.0 million. This increase was partially offset by \$55.0 million of lower water sales receivable as February and March 2017 sales were 87.3 thousand acre-foot (TAF) less than the prior year's comparable months and \$32.3 million lower deposits, prepaid costs, and other primarily due to \$23.5 million of lower prepaid water costs resulting from a reduction in water storage of 178.3 TAF. In addition, deferred outflows on effective swaps were \$28.9 million lower due to rising interest rates (see Long-term liabilities, net of current portion for additional information).

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, other assets and deferred outflows totaled \$2.0 billion and were \$343.5 million lower than the prior year. Included in the decrease were \$272.4 million of lower cash and investments primarily due to \$256.1 million of land purchase, \$83.7 million of lower prepaid water costs due to a reduction in water storage of 202.5 TAF, and \$35.6 million of lower water sales receivable as February and March 2016 sales were 51.0 TAF less than the prior year's comparable months. These decreases were offset by \$28.1 million of higher water inventory due to the purchase of 150 TAF of water from Southern Nevada Water Authority for \$44.4 million. In addition, the implementation of GASB 68 and GASB 71 resulted in \$34.3 million of deferred outflows for pension contribution.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, customer deposits and trust funds, net pension liability, postemployment benefits other than pensions (OPEB), accrued compensated absences, obligations for off-aqueduct facilities, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, long-term liabilities, net of current portion, totaled \$5.0 billion and were \$119.8 million higher than the prior year. The increase included \$72.8 million more of net pension liability due to the decrease of actual pension plan investment earnings as compared to the prior year and \$255.0 million of new debt issued. These increases were partially offset by scheduled principal payments of \$146.3 million and a \$49.2 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. The fair value of interest rate swaps liability account represents a negative market value which improved by \$28.9 million due to rising interest rates. See the long-term debt section for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, long-term liabilities, net of current portion, totaled \$4.9 billion and were \$361.4 million higher than the prior year. Included in the increase were \$406.8 million of net pension liability related to the implementation of GASB 68 and \$208.3 million of new debt issued in December 2015. Partially offsetting these increases were \$144.0 million of scheduled principal payments and a \$5.3 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, \$96.5 million and \$10.4 million of long-term debt were classified as current liability as the Revolving Credit Agreement (RCA) and Standby Bond Purchase Agreement (SBPA) that covered the bonds expired on March 31, 2016 and September 23, 2016, respectively. See the long-term debt section for additional information.

Current Liabilities and Deferred Inflows of Resources

Current liabilities and deferred inflows of resources represent current liabilities that are due within one year and deferred inflows related to the net pension liability. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, current liabilities and deferred inflows of resources totaled \$854.1 million, and were \$76.0 million higher than the prior year primarily due to \$250.0 million of revolving notes issued by Metropolitan in April 2016. Offsetting this increase was \$78.7 million lower accounts payable and accrued expenses, which included \$62.2 million of lower State Water Project costs due to \$34.3 million of Flex Storage pay down and \$27.6 million of lower operating and maintenance costs resulting from the accrual of the \$37.0 million credit from SWP in fiscal year 2017. In addition, pension related deferred inflows of resources was \$69.1 million lower due to \$82.3 million lower actual pension plan investment earnings as compared to prior year partially offset by \$24.1 million of deferred pension expenses due to change in assumptions.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, current liabilities and deferred inflows of resources totaled \$778.1 million, and were \$219.0 million higher than the prior year. Included in the increase were \$109.2 million of deferred inflows of resources, which represents the net difference between projected and actual earnings on pension plan investments that will be amortized as a component of pension expense over the remaining 4 years. In addition, current portion of long-term debt increased \$106.9 million as the self-liquidity bonds were not covered by the RCA and SBPA that expired on March 31, 2016 and September 23, 2016, respectively. (see Long-term liabilities, net of current portion section for additional information).

Net Investment in Capital Assets, including State Water Project Costs

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

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, net investment in capital assets, including State Water Project costs totaled \$6.0 billion and was \$81.5 million more than the prior year. This increase included \$139.6 million net increase in capital assets offset by \$50.2 million net increase in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, net investment in capital assets, including State Water Project costs totaled \$5.9 billion and was \$169.7 million more than the prior year. This increase included \$228.3 million net increase in capital assets offset by \$65.4 million net increase in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

Restricted Net Position

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

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, restricted net position totaled \$398.0 million which was \$38.7 million lower than fiscal year 2016. The decrease included \$51.2 million lower restricted for operating expenses partially offset by \$12.5 million of higher restricted for debt service.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, restricted net position totaled \$436.7 million which was \$74.1 million higher than fiscal year 2015. The increase included \$56.2 million higher restricted for operating expenses and \$17.9 million of higher restricted for debt service.

Unrestricted Net Position

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

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. Unrestricted net position of \$377.1 million decreased \$58.9 million from the prior year which, included \$81.5 million net investment in capital assets and the twelve months ended March 31, 2017 net loss before contributions of \$18.4 million partially offset by \$38.7 million of lower restricted net position requirements for debt service and operating expenses.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. Unrestricted net position of \$436.0 million decreased \$939.4 million from the prior year. The decrease included \$406.8 million of net pension liability and \$109.2 million of deferred inflows of resources resulting from Metropolitan’s implementation of GASB 68 in fiscal year 2015. In addition, Metropolitan invested a net of \$169.7 million in capital assets, net loss before contributions for the twelve months ended March 31, 2016 totaled \$207.2 million, and \$74.1 million of higher restricted net position requirements for debt service and operating expenses.

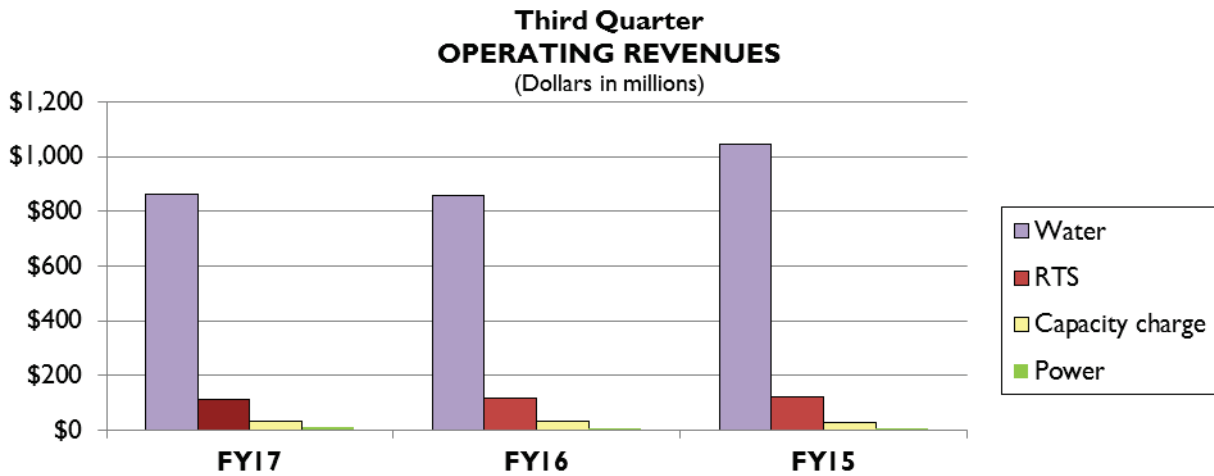
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED(CONTINUED)
March 31, 2017 and 2016
(Unaudited)**CHANGES IN NET POSITION***Condensed Schedule of Revenues, Expenses, and Changes in Net Position*

(Dollars in millions)	Nine Months Ended March 31,		
	2017	2016	2015
Water sales	\$ 859.8	\$ 856.6	\$ 1,044.2
Readiness-to-serve charges	110.3	117.2	122.5
Capacity charge	31.3	33.3	26.5
Power sales	11.3	4.8	6.0
Operating revenues	1,012.7	1,011.9	1,199.2
Taxes, net	84.4	78.4	74.9
Investment income (loss)	0.8	12.6	(4.2)
Other	4.3	7.8	6.4
Nonoperating revenues	89.5	98.8	77.1
Total revenues	1,102.2	1,110.7	1,276.3
Power and water costs	(323.0)	(403.1)	(317.0)
Operations and maintenance	(366.6)	(502.6)	(380.6)
Depreciation and amortization	(222.2)	(201.2)	(192.2)
Operating expenses	(911.8)	(1,106.9)	(889.8)
Bond interest, net of amount capitalized	(99.1)	(93.2)	(99.6)
Other	(2.9)	(3.8)	(3.9)
Nonoperating expenses	(102.0)	(97.0)	(103.5)
Total expenses	(1,013.8)	(1,203.9)	(993.3)
Income before contributions	88.4	(93.2)	283.0
Capital contributions	0.1	—	—
Changes in net position	88.5	(93.2)	283.0
Net position, at June 30,	6,683.8	6,881.6	7,201.0
Net position, at March 31,	\$ 6,772.3	\$ 6,788.4	\$ 7,484.0

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

Operating Revenues

Metropolitan's principal source of revenue is from water sales, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the State Water Project.



Analytical Review of Operating Revenues

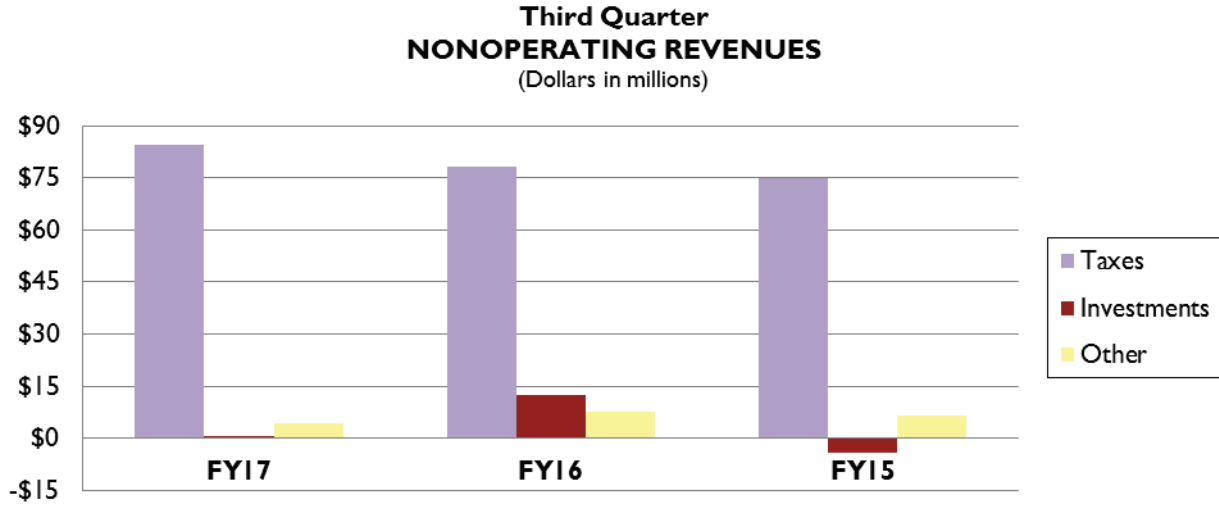
Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. For the nine months ended March 31, 2017 operating revenues were \$1.0 billion or \$800,000 more than the prior year.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. For the nine months ended March 31, 2016, operating revenues were \$1.0 billion or \$187.3 million less than the prior year primarily due to \$187.6 million of lower water sales, of which \$179.1 million related to 245.4 TAF of lower volumes sold and \$8.5 million from lower rates. The reduction in water sales were primarily due to the Governor's requirement that retail water agencies implement conservation programs to reduce water consumption by an average of 25% statewide.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



Analytical Review of Nonoperating Revenues

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. Nonoperating revenues for the nine months ended March 31, 2017 totaled \$89.5 million and were \$9.3 million lower than the prior year primarily due to \$13.4 million of unfavorable change in fair value of investments.

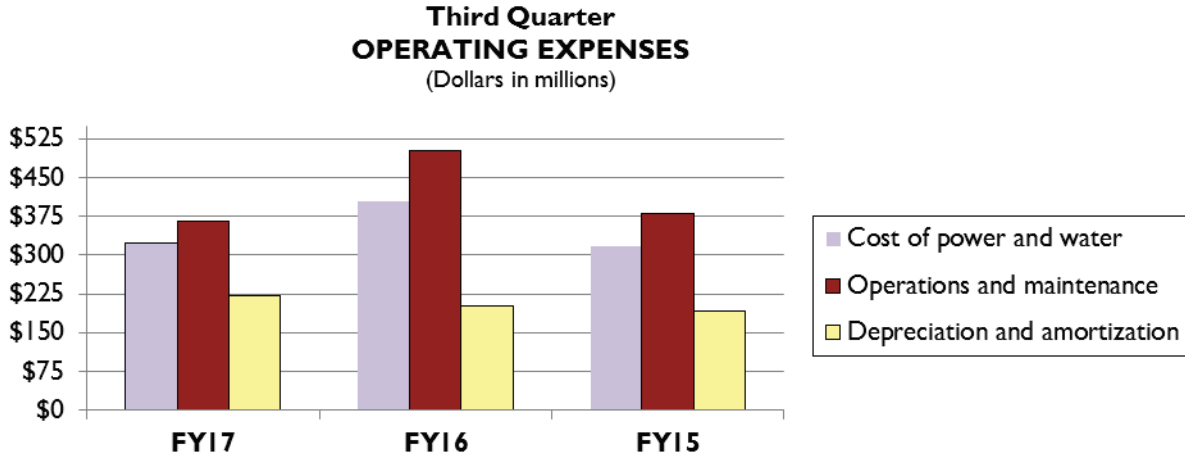
Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. Nonoperating revenues for the nine months ended March 31, 2016 totaled \$98.8 million and were \$21.7 million higher than the prior year. Investment income increased \$16.8 million primarily due to the fact that a \$18.7 million loss on swap termination occurred in the previous year.

MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance, and depreciation and amortization.



Analytical Review of Operating Expenses

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. For the nine months ended March 31, 2017 operating expenses of \$911.8 million were \$195.1 million lower than prior year. The decrease included \$136.0 million of lower operations and maintenance costs primarily due to \$142.3 million lower conservation credits expenses as the \$450.0 million budget in fiscal year 2015 for conservation spending is spent down. In addition, power and water costs decreased \$80.1 million due to the fact that the \$44.4 million purchase of water from Southern Nevada Water Authority which had a higher per acre-foot cost did not occur in the current year and \$37.0 million credit related to the State Water Project (SWP) in fiscal year 2017.

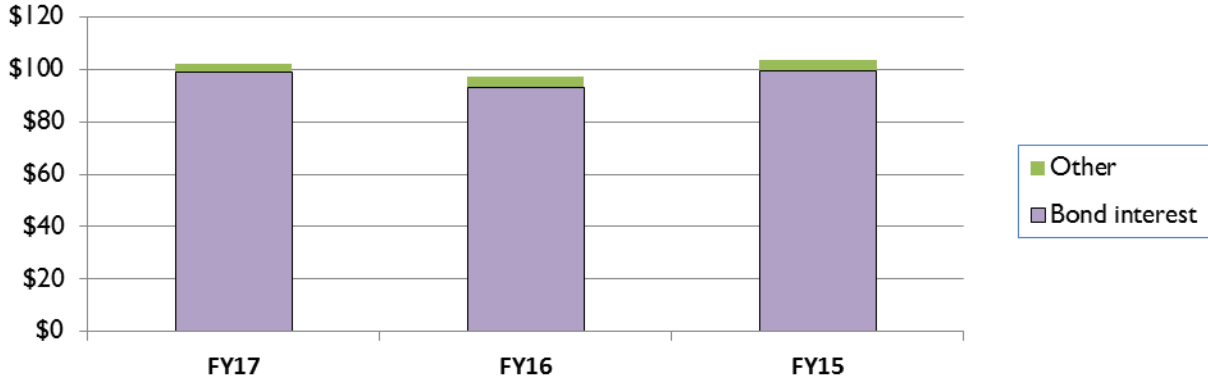
Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. For the nine months ended March 31, 2016, operating expenses of \$1.1 billion were \$217.1 million higher than prior year. Operations and maintenance costs increased \$122.0 million primarily due to \$120.8 million higher conservation credits expenses as a result of the Board approving a historic \$450.0 million budget for conservation spending in response to the continued drought. In addition, power and water costs increased \$86.1 million due to \$49.1 million of higher SWP operation, maintenance, power and replacement (OMP&R) costs related to the Fish Restoration Program Agreement, biological opinions, and increased labor costs and \$28.5 million lower SWP credits, as compared to prior year.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

Nonoperating Expenses

The primary source of nonoperating expenses is interest expense on bonds and other, net.

**Third Quarter
 NONOPERATING EXPENSES**
 (Dollars in millions)



Analytical Review of Nonoperating Expenses

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. For the nine months ended March 31, 2017 nonoperating expenses of \$102.0 million were \$5.0 million higher than the prior year primarily due to a decrease in capitalized interest on assets constructed.

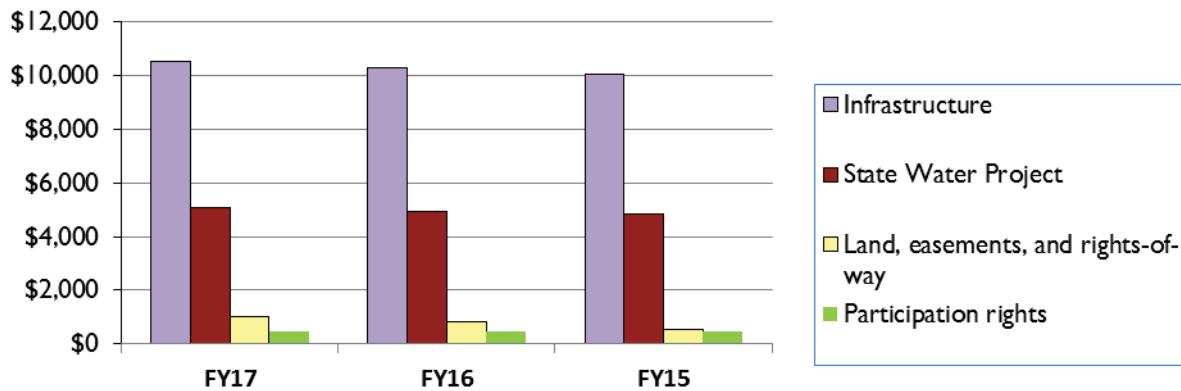
Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. For the nine months ended March 31, 2016, nonoperating expenses of \$97.0 million were \$6.5 million lower than the prior year. The decrease included \$3.7 million less in interest expense on bonds related to bond refunding transactions to take advantage of lower interest rates and a \$2.1 million increase in capitalized interest on assets constructed.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
 (CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs.

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



Schedule of Capital Assets

(Dollars in millions)	March 31,		
	2017	2016	2015
Land, easements and rights-of-way	\$ 1,009.7	\$ 814.5	\$ 557.7
Construction in progress	970.5	1,829.2	1,801.5
Parker power plant and dam	13.0	13.0	13.0
Power recovery plants	180.4	178.7	178.7
Other dams and reservoirs	1,546.3	1,541.7	1,537.5
Water transportation facilities	3,708.9	3,504.0	3,376.2
Pumping plants and facilities	293.6	240.7	240.5
Treatment plants and facilities	2,920.4	2,138.6	2,070.1
Buildings	136.1	136.1	136.1
Other plant assets	700.5	681.2	670.6
Pre-operating expenses original aqueduct	44.6	44.6	44.6
Participation rights in State Water Project	5,056.5	4,925.1	4,816.0
Participation rights in other facilities	459.7	459.7	461.9
Gross capital assets	17,040.2	16,507.1	15,904.4
Less accumulated depreciation and amortization	(6,433.1)	(6,039.6)	(5,665.2)
Capital assets, net	\$ 10,607.1	\$ 10,467.5	\$ 10,239.2
Net increase from prior year	\$ 139.6	\$ 228.3	\$ 68.8
Percent change	1.3%	2.2%	0.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. Net capital assets totaled approximately \$10.6 billion and increased \$139.6 million over the prior year. This increase included \$175.9 million Delta Wetlands land purchase, \$225.8 million of new construction activity, and a net increase of \$131.4 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of \$393.5 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- \$69.1 million for the improvements in infrastructure reliability at the treatment plants.
- \$44.6 million for the distribution system's rehabilitation program.
- \$30.6 million for the Colorado River Aqueduct (CRA) reliability and containment programs. These programs were established to provide infrastructure reliability and regulatory compliance throughout the CRA conveyance system.
- \$17.7 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to insure long-term reliability of Metropolitan's PCCP lines water delivery.
- \$16.7 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- \$9.1 million for the information technology program, which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan's operational and business applications.
- \$9.0 million for chlorine containment and handling facilities program, which is designed to enhance hazardous chemical safety, prevent a chlorine chemical release, and comply with security and safety regulations.

Metropolitan's fiscal year 2017 capital budget includes plans to spend \$246.0 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability and containment programs, the water quality/oxidation retrofit program, and the supply reliability and system expansion program.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. Net capital assets totaled approximately \$10.5 billion and increased \$228.3 million over the prior year. This increase included \$256.1 million PVID land purchase, \$239.7 million of new construction activity and a net increase of \$106.9 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of \$374.4 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- \$56.0 million for the improvements in infrastructure reliability at the treatment plants.
- \$42.7 million for the oxidation retrofit program at the filtration plants.
- \$30.7 million for the distribution system's reliability programs.
- \$22.6 million for the information technology program.
- \$19.7 million for supply reliability and system expansion programs, which are designed to increase the capacity of Metropolitan's water supply and delivery infrastructure to meet projected demand increases.
- \$19.0 million for chlorine containment and handling facilities program.
- \$15.1 million for the Colorado River Aqueduct (CRA) reliability and containment programs.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

(Dollars in millions)	March 31,		
	2017	2016	2015
General obligation bonds (a)	\$ 74.9	\$ 92.9	\$ 110.4
Revenue bonds (a)	4,310.6	4,233.5	4,157.1
State revolving loan	8.6	9.7	10.7
Other, net (b)	207.3	215.2	207.7
	\$ 4,601.4	\$ 4,551.3	\$ 4,485.9
Increase (decrease) from prior year	\$ 50.1	\$ 65.4	\$ (187.4)
Percent change	1.1%	1.5%	(4.0%)

(a) Includes refunding bonds.

(b) Consists of unamortized bond discounts and premiums.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, there was \$4.6 billion of outstanding bonds and other long-term obligations, a net increase of \$50.1 million or 1.1 percent from the prior year. The increase included new debt issued of \$255.0 million offset by scheduled principal payments of \$146.3 million and a \$49.2 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, scheduled amortization of bond premiums and discounts was \$7.9 million lower.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, there was \$4.6 billion of outstanding bonds and other long-term obligations, a net increase of \$65.4 million or 1.5 percent from the prior year. The increase was due to the issuance of \$208.3 million in new debt partially offset by scheduled principal payments of \$144.0 million and \$5.3 million of principal reduction related to refunding transactions.

CREDIT RATINGS

Metropolitan's credit ratings at March 31, 2017, are shown below.

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

Fitch Ratings (Fitch) has assigned a AA+ Issuer default Rating (IDR) to the Metropolitan Water District of Southern California and changed its long-term credit rating of Metropolitan's waterworks general obligation refunding bonds (GO bonds) from AAA to AA+ effective April 21, 2017. The assignment of an IDR and downgrade of Metropolitan's GO bonds reflect implementation of Fitch's revised 'U.S. Tax-Supported Rating Criteria', published April 18, 2016. Moody's Investors Service and Standard & Poor's ratings were not changed.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED**(CONTINUED)**

March 31, 2017 and 2016

(Unaudited)

CURRENTLY KNOWN FACTS

Oroville Dam, the earth fill embankment dam on the Feather River which impounds Lake Oroville, is operated by DWR as a facility of the State Water Project. On February 7, 2017, the main flood control spillway at Oroville Dam, a gated and concrete lined facility, experienced significant damage as DWR increased releases to 55,000 cubic foot per second (cfs) to manage higher inflows driven by continued precipitation in the Feather River basin. Subsequently, DWR halted releases at the main spillway to inspect the damage and conduct flow tests. After testing, the main spillway was returned to service on February 8 at a reduced flow rate to offset inflows into Lake Oroville. On February 11, the water elevation in Lake Oroville reached 901 feet, leading to flow over the emergency spillway structure, an ungated, 1,730 foot long concrete weir located adjacent to and north of the main flood control spillway structure. Releases from the emergency spillway flowed uncontrolled down an earthen hillside to the Feather River. On February 12, erosion began to progress up the right side of the emergency spillway. Concerns about the erosion at the emergency spillway prompted DWR to increase releases through the damaged main spillway and led the Butte County Sheriff to evacuate downstream communities for two days to ensure the safety of the residents. As of February 14, water levels in Lake Oroville were 13 feet below the crest of the emergency spillway and the mandatory evacuation order was lifted. DWR has begun repairs to the erosion areas below the emergency spillway.

Use of the emergency spillway and damaged main spillway at Oroville Dam during the period following the initial February 7, 2017 damage scoured the hillsides adjacent and below these facilities depositing debris into the Feather River below and limited the ability of DWR to manage Lake Oroville operations. The spillways are a separate structure from the dam itself, which is safe. With a break in the weather during the first half of March, DWR took advantage of the lower inflows into the reservoir and ceased water flows through the damaged main spillway, allowing removal of debris from the diversion pool at the base of the spillway. As of May 10, DWR has removed 1.7 million cubic yards of debris. As a result, DWR is now able to better manage lake levels by utilizing a combination of the damaged main spillway and the Hyatt Powerplant. This flexibility will be needed during the anticipated higher reservoir inflows due to the spring snowmelt and later in the year for water supply deliveries.

State, federal, and local agencies are working collectively to help manage Lake Oroville operations, assess the cause of the damage, and address needed repairs as rapidly as possible. Dam experts with the U.S. Army Corps of Engineers, Federal Energy Regulatory Commission, the State Division of Safety of Dams, and independent dam safety engineers remain actively engaged in managing the situation. Work is being done around the clock and will continue to be expedited through the summer to ensure the spillways are safe by the next winter season.

On April 6, 2017, DWR released details of a recovery plan designed to ensure that by November 1, 2017, a system is in place that can safely accommodate heavy inflows at the Feather River watershed and Lake Oroville next winter (including in the event of a delay resulting in construction work on some components of the repairs and improvements extending beyond November 1). The complete recovery or replacement of both damaged spillway structures will be done in multiple phases due to the scale of the project and the time limitations of the current construction season, which ends November 1. The plan is to restore the gated flood control spillway to a capacity almost twice its highest historical outflow, up to approximately 270,000 cfs. On April 17, 2017, DWR awarded a contract to Kiewit Infrastructure West Co. (Kiewit) for the main portions of the repair work on the spillways. Kiewit's construction bid of \$275.4 million was determined by DWR to be the lowest responsive bid. Although the full extent of the repair costs is unknown at this time, DWR has indicated that costs expended as of mid-April are approximately \$200.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

The State is seeking federal funding to help offset costs of responding to flood-related damage throughout the State. In April, the Federal Emergency Management Agency (FEMA) approved over \$500.0 million in emergency funds, of which approximately \$274.0 million will be used to pay for the initial response and repair work performed at Oroville through May 2017. The State has applied for additional funding from FEMA to pay for the remaining repair work called for under the recovery plan. In the interim, DWR has arranged for a separate series of up to \$500.0 million in commercial paper notes to be made available to provide capital funding for the ongoing recovery and repair effort. These notes are for a three year term at 35 basis points.

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31,	
	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
	(Unaudited)	
Current Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: \$573,709 and \$352,945 for 2017 and 2016, respectively)	\$ 573,386	\$ 355,231
Restricted (cost: \$450,525 and \$453,750 for 2017 and 2016, respectively)	450,171	455,630
Total cash and investments	<u>1,023,557</u>	<u>810,861</u>
Receivables:		
Water sales	108,309	163,315
Interest on investments	3,679	4,081
Other, net (Note 1e)	72,665	76,689
Total receivables	<u>184,653</u>	<u>244,085</u>
Inventories (Note 1f)	97,579	96,783
Deposits, prepaid costs, and other (Note 8)	61,648	73,453
Total current assets	<u>1,367,437</u>	<u>1,225,182</u>
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: \$192,255 and \$224,675 for 2017 and 2016, respectively)	192,147	225,606
Restricted (cost: \$139,651 and \$151,202 for 2017 and 2016, respectively)	143,842	159,439
Total cash and investments	<u>335,989</u>	<u>385,045</u>
Capital assets:		
Plant and equipment - non depreciable (Notes 1g and 6g)	1,980,159	2,643,679
Plant and equipment - depreciable (Notes 1g and 6g)	9,543,783	8,478,562
Participation rights in State Water Project (Notes 1h and 7)	5,056,522	4,925,122
Participation rights in other facilities (Note 1h)	459,709	459,709
Total capital assets	<u>17,040,173</u>	<u>16,507,072</u>
Less accumulated depreciation and amortization	<u>(6,433,104)</u>	<u>(6,039,611)</u>
Total capital assets, net	<u>10,607,069</u>	<u>10,467,461</u>
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 8)	200,598	221,127
Total other assets	<u>200,598</u>	<u>221,127</u>
Total noncurrent assets	<u>11,143,656</u>	<u>11,073,633</u>
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	62,672	77,276
Loss on swap terminations (Note 1p)	33,020	36,223
Pension related (Note 1q)	48,475	34,306
Effective swaps (Note 1p)	4,086	33,021
Total deferred outflows of resources	<u>148,253</u>	<u>180,826</u>
Total Assets and Deferred Outflows of Resources	\$ 12,659,346	\$ 12,479,641

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31,	
	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	(Unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	\$ 74,600	\$ 153,343
Revolving notes (Note 3a)	250,000	—
Current portion of long-term debt	323,378	344,490
Current portion of obligations for off-aqueduct power facilities (Note 6f)	3,265	3,276
Current portion of accrued compensated absences (Note 1j)	19,600	22,100
Current portion of customer deposits and trust funds	14,867	10,521
Current portion of workers' compensation and third party claims (Note 11)	9,500	8,400
Current portion of other long-term obligations	72,236	77,775
Accrued bond interest	44,803	47,148
Matured bonds and coupons not presented for payment	1,768	1,835
Total current liabilities	814,017	668,888
Noncurrent Liabilities:		
Long-term debt, net of current portion	4,278,068	4,206,795
Obligations for off-aqueduct power facilities, net of current portion (Note 6f)	8,630	12,260
Accrued compensated absences, net of current portion (Note 1j)	26,912	25,657
Customer deposits and trust funds, net of current portion	92,180	81,590
Net pension liability (Note 4)	479,555	406,794
Postemployment benefits other than pensions (Note 5)	65,158	67,376
Workers' compensation and third party claims, net of current portion (Note 11)	11,258	12,578
Fair value of interest rate swaps (Note 3f)	68,912	97,848
Other long-term obligations, net of current portion	2,229	2,225
Total noncurrent liabilities	5,032,902	4,913,123
Total liabilities	5,846,919	5,582,011
Commitments and Contingencies (Note 6)	—	—
Deferred Inflows of Resources:		
Pension related (Note 1q)	40,121	109,220
Net Position (Note 10):		
Net investment in capital assets, including State Water Project costs	5,997,238	5,915,703
Restricted for:		
Debt service	215,213	202,732
Other	182,788	234,014
Unrestricted	377,067	435,961
Total net position	6,772,306	6,788,410
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 12,659,346	\$ 12,479,641

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

(Dollars in thousands)	Nine Months Ended	
	2017	2016
	March 31,	
	(Unaudited)	
Operating Revenues (Note 1c):		
Water sales	\$ 859,840	\$ 856,611
Readiness-to-serve charges	110,250	117,244
Capacity charge	31,292	33,271
Power sales	11,332	4,792
Total operating revenues	1,012,714	1,011,918
Operating Expenses:		
Power and water costs	322,963	403,057
Operations and maintenance	366,581	502,611
Total operating expenses	689,544	905,668
Operating income before depreciation and amortization	323,170	106,250
Less depreciation and amortization	(222,173)	(201,247)
Operating income	100,997	(94,997)
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	84,418	78,420
Bond interest, net of \$11,500 and \$18,700 of interest capitalized fiscal year-to-date 2017 and 2016, respectively (Note 1g)	(99,149)	(93,182)
Investment income (loss), net	784	12,601
Other, net	1,397	3,948
Total nonoperating expenses, net	(12,550)	1,787
Income Before Contributions	88,447	(93,210)
Capital contributions (Note 1l)	77	—
Changes in net position	88,524	(93,210)
Net position, at June 30, 2016 and 2015	6,683,782	6,881,620
Net position, at March 31, 2017 and 2016	\$ 6,772,306	\$ 6,788,410

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended	
	March 31,	
	2017	2016
Cash Flows from Operating Activities:	(Unaudited)	
Cash received from water sales	\$ 908,861	\$ 858,870
Cash received from readiness-to-serve charges	91,416	93,941
Cash received from capacity charge	27,320	26,638
Cash received from power sales	11,521	5,728
Cash received from other exchange transactions	66,398	57,865
Cash paid for operations and maintenance expenses	(216,648)	(347,962)
Cash paid to employees for services	(157,804)	(162,588)
Cash paid for power and water costs	(395,869)	(405,741)
Other cash flows for operating activities	(1,157)	(4,453)
Net cash provided by operating activities	334,038	122,298
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	6,200	7,984
Net cash provided by noncapital financing activities	6,200	7,984
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(346,525)	(470,821)
Payments for State Water Project costs	(143,907)	(120,202)
Proceeds from short and long-term debt	300,785	250,000
Payments for bond issuance costs	(2,430)	(1,557)
Principal paid on long-term debt	(192,515)	(144,025)
Interest paid on long-term debt	(160,893)	(161,704)
Payments for other long-term obligations	(4,189)	(4,432)
Proceeds from tax levy	71,019	66,379
Transfer to/from escrow trust accounts	1,515	13,830
Payments for real estate sales	(98)	—
Collection of notes receivable - land sales	—	139
Net cash used by capital and related financing activities	(477,238)	(572,393)
Cash Flows from Investing Activities:		
Purchase of investment securities	(8,332,259)	(8,567,307)
Proceeds from sales and maturities of investment securities	8,458,232	8,993,187
Investment income	11,308	10,143
Net cash provided by investing activities	137,281	436,023
Net change in cash	281	(6,088)
Cash at July 1, 2016 and 2015	39	6,172
Cash at March 31, 2017 and 2016 (Note 1b)	\$ 320	\$ 84

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended	
	March 31,	
	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	(Unaudited)	
Operating Income (Loss)	\$ 100,997	\$ (94,997)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization expense	222,173	201,247
Decrease in accounts receivable	117,982	67,549
Increase in inventories	(5,033)	(27,740)
Increase in deposits, prepaid costs, and other	(63,593)	(50,200)
Decrease in accounts payable and accrued expenses	(79,325)	(35,325)
Increase in other items	40,838	61,764
Total Adjustments	<u>233,042</u>	<u>217,295</u>
Net cash provided by operating activities	\$ 334,039	\$ 122,298
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	\$ 108,721	\$ 194,920
Debt defeased through escrow trust fund with refunding debt	\$ (62,465)	\$ (188,221)
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at March 31, 2017 and 2016 include \$320 and \$84 of cash, respectively)	\$ 765,533	\$ 580,837
Restricted cash and investments	594,013	615,069
Total cash and investments, at fair value	<u>1,359,546</u>	<u>1,195,906</u>
Less: carrying value of investments	<u>(1,359,226)</u>	<u>(1,195,822)</u>
Total Cash (Note 1b)	\$ 320	\$ 84

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NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2017 and 2016

(Unaudited)

I. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Reporting Entity**

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property. 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 than 38 directors. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWD AFC) was incorporated on June 19, 1996. The MWD AFC 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 MWD AFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWD AFC had no financial operations during the nine months ended March 31, 2017 and 2016. MWD AFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan operates as a utility enterprise and 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.

Metropolitan is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

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

Certain amounts reported in fiscal year 2016 have been reclassified to conform to the fiscal year 2017 presentation. Such reclassification had no effect on Metropolitan's net position or change in net position.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

(c) Revenue Policies

Metropolitan's principal source of revenue is from water sales, which include revenues received from charges for the sale and availability of water, including water rates and other exchange transactions. 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 includes separate rates for supply, treatment, conveyance and distribution, power, and demand management. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board as of July 1, using a lien date of March 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 participation in the State Water Project system, with an entitlement to water service from the Project (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, tax levies in fiscal years 1991 to 2013, other than annexation taxes, were 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. During fiscal years 2016 and 2017, the Board suspended the tax rate limitations and maintained the fiscal year 2013 tax rate for fiscal years 2016 and 2017 to pay a portion of State Water Contract costs other than debt service.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

(e) Other Receivables

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

(f) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at March 31, 2017 and 2016 were as follows:

(Dollars in thousands)	March 31,	
	2017	2016
Water in storage	\$ 86,526	\$ 86,071
Operating supplies	11,053	10,712
Total inventories	\$ 97,579	\$ 96,783

(g) Plant and Equipment

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

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

(h) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the State Water Project (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 Note 7.)

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at March 31, 2017 and 2016 were as follows:

(Dollars in thousands)	March 31,	
	2017	2016
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	\$ 47,851	\$ 110,055
Vendors	18,490	29,441
Accrued power costs	623	1,245
Accrued salaries	3,341	2,384
Conservation credits	4,295	10,218
Total accounts payable and accrued expenses	\$ 74,600	\$ 153,343

(j) Compensated Absences

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

(k) Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the 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.

(l) 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.

(m) 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 water sales, 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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

(n) 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.

(o) Use of Estimates

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

(p) Deferred Outflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63) requires that the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources be reported as net position. In addition, the impact of a deferred outflow of resources on net position must be explained as is done in the following paragraph.

The unrestricted net position amount of \$377.1 million and \$436.0 million at March 31, 2017 and 2016, respectively, includes the effect of deferring the recognition of losses from bond refundings, swap terminations resulting in defeasance of debt, and the decline in fair value of Metropolitan's effective interest rate swaps. The deferred outflows from losses on bond refundings at March 31, 2017 and 2016, respectively, were \$62.7 million and \$77.3 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at March 31, 2017 and 2016, respectively, were \$33.0 million and \$36.2 million. Both 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 from the decline in fair value of interest rate swaps of \$4.1 million and \$33.0 million at March 31, 2017 and 2016, respectively, would be recognized as an investment loss upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred outflow also would be recognized as an investment loss if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(q) Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense and Implementation of Accounting Principles

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

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

March 31, 2017 and 2016

(Unaudited)

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71) requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts.

(r) Fair Value Measurement and Implementation of Accounting Principle

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72) requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Metropolitan has been reporting its investments and liabilities at fair value using market approach and cost approach therefore, there are no significant changes to its reporting resulting from the implementation of GASB 72 in fiscal year 2016.

Additionally, GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels which are: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, 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 implemented the fair value hierarchy to its assets and liabilities, which are presented in Note 2.

(s) New Accounting Pronouncements

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:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and GASB 57- OPEB Measurements by Agent Multiple-Employer Plans*. GASB 75 is effective for Metropolitan's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 requires the presentation of covered payroll, which is payroll on which contributions to a pension plan are based, and ratios that use that measure in required supplementary information instead of covered-employee payroll. In addition, GASB 82 clarifies that a deviation is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. GASB 82 further clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). GASB 82 is effective for Metropolitan's fiscal year ending June 30, 2017.

The following pronouncements were issued by GASB but were determined to not have an impact on Metropolitan's financial statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68.*
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*
- GASB Statement No. 77, *Tax Abatement Disclosure.*
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements.*
- GASB Statement No. 83, *Certain Asset Retirement Obligations.*
- GASB Statement No. 84, *Fiduciary Activities.*

2. CASH AND INVESTMENTS

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

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 2d and 10).

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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

(a) Deposits

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

As of March 31, 2017 and 2016, Metropolitan's cash balances with financial institutions were \$315,000 and \$79,000 respectively, and cash on hand was \$5,000 at each year-end.

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, asset and mortgage-backed securities, California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, shares of beneficial interest, and Local Agency Investment Fund (LAIF). As of March 31, 2017 and 2016, Metropolitan had the following investments at fair value:

(Dollars in thousands)	March 31,	
	2017	2016
U.S. Treasury securities	\$ 361,315	\$ 343,563
U.S. Guarantees – GNMA's	4	5
Federal agency securities	69,868	103,248
Prime commercial paper	293,240	180,166
Medium-term corporate notes	171,281	128,150
Negotiable certificates of deposit	299,962	260,162
Shares of beneficial interest	691	501
Asset and mortgaged-backed securities	63,476	65,809
Municipal bonds	34,389	49,218
Local Agency Investment Fund	65,000	65,000
Total investments	\$ 1,359,226	\$ 1,195,822

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Metropolitan does not value any of its investments using level 3 inputs.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)
March 31, 2017 and 2016
(Unaudited)

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of March 31, 2017 and 2016:

	Fair Value Measurement Using							
	Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
(Dollars in thousands)	03/31/17	03/31/16	03/31/17	03/31/16	03/31/17	03/31/16	03/31/17	03/31/16
Investments by fair value level:								
U.S. Treasury securities	\$ 361,315	\$ 361,315	\$ —	\$ —	\$ 343,563	\$ 343,563	\$ —	\$ —
U.S. Guarantees – GNMA's	4	4	—	—	5	5	—	—
Federal agency securities	48,905	48,905	—	—	86,259	86,259	—	—
Prime commercial paper	293,240	46,521	246,719	—	180,166	31,357	148,809	—
Medium-term corporate notes	171,281	171,281	—	—	128,150	128,150	—	—
Negotiable certificates of deposit	299,962	299,962	—	—	260,162	233,544	26,618	—
Shares of beneficial interest ⁽¹⁾	691	—	—	691	501	—	—	501
Asset and mortgaged-backed securities	63,476	63,476	—	—	65,809	65,809	—	—
Municipal bonds	34,389	34,389	—	—	49,218	49,218	—	—
Total investments by fair value level	\$ 1,273,263	\$ 1,025,853	\$ 246,719	\$ 691	\$ 1,113,833	\$ 937,905	\$ 175,427	\$ 501
Investments not subject to fair value level:								
Federal agency securities	20,963				16,989			
Local Agency Investment Fund	65,000				65,000			
Total investments	\$ 1,359,226				\$ 1,195,822			

⁽¹⁾ As of December 31, 2016 and 2015, the balance was invested in BlackRock Treasury Trust (TTTXX) and Dreyfus Treasury & Agency Cash Management (DTVXX), respectively.

Investments classified in Level 1 of the fair value hierarchy, valued \$1.0 billion and \$937.9 million as of March 31, 2017 and 2016, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling \$246.7 million and \$148.8 million as of March 31, 2017 and 2016, respectively, and negotiable certificates of deposit of \$26.6 million as of March 31, 2016, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Shares of beneficial interest totaling \$691,000 and \$501,000 as of March 31, 2017 and 2016, respectively, classified in Level 3 of the fair value hierarchy was valued at Fund's share price of \$1.00.

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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

Internally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For March 31, 2017 and 2016, the benchmark duration was 0.24, and the portfolio duration was permitted to vary from the duration by plus or minus 0.20. As of March 31, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	March 31,			
	2017		2016	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 133,737	0.55	\$ 108,871	0.64
Federal agency securities	59,867	0.20	88,047	0.16
Prime commercial paper	292,807	0.27	180,166	0.12
Medium-term corporate notes	102,257	0.14	69,877	0.18
Negotiable certificates of deposit	299,962	0.19	260,162	0.10
Municipal bonds	3,568	0.30	—	—
Local Agency Investment Fund	65,000	—	65,000	—
Portfolio duration		0.25		0.18

Externally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For March 31, 2017 and 2016, the benchmark durations were 2.70 and 2.69, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of March 31, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	March 31,			
	2017		2016	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 205,959	2.67	\$ 212,735	2.81
U.S. Guarantees – GNMA's	4	4.55	5	5.19
Federal agency securities	7,152	5.50	7,511	6.33
Medium-term corporate notes	66,697	1.86	56,572	2.35
Shares of beneficial interest	687	—	501	—
Asset and mortgaged-backed securities	63,476	2.30	65,809	1.88
Portfolio duration		2.49		2.63

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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

As of March 31, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

(Dollars in thousands)	March 31,			
	2017		2016	
	Fair value	Duration	Fair value	Duration
U.S. Treasury securities	\$ 21,619	4.58	\$ 21,957	5.56
Federal agency securities	2,849	0.57	7,690	1.12
Prime commercial paper	433	0.29	—	—
Medium-term corporate notes	2,327	0.19	1,701	0.19
Municipal bonds	30,821	4.92	49,218	6.88
Shares of beneficial interest	4	—	—	—
Weighted average duration		4.36		5.83

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

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

Investment Type	Minimum Rating
U.S. Government and agencies	Not applicable.
Bankers' acceptances Prime commercial paper Negotiable certificates of deposit Time deposits	Prime quality of the highest ranking or highest letter and numerical rating ('A1', 'P1', 'F1' or higher) as provided by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.
Repurchase agreements	Only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc. or equivalent rating of 'A' or better.
Investment contracts	Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.
Medium-term corporate notes	Rating category of at least 'A' or better, or the equivalent, by a nationally recognized rating agency.
Asset and mortgage-backed securities	Issuer's debt must be rated 'A' or higher as provided by a nationally recognized rating agency and the security must be rated in a category of 'AAA' by a nationally recognized rating agency.
Local Agency Investment Fund	Not applicable.
Shares of beneficial interest	Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.
California local agency securities Municipal bonds	Securities with a maturity in excess of five years must have a credit rating of at least 'AA' (may be insured) and an underlying credit rating of 'A' or better by a nationally recognized rating agency.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

Metropolitan's minimum rating for assets and mortgage-backed securities of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At March 31, 2017 and 2016, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	March 31,	
		2017 Fair value	2016 Fair value
U.S. Treasury securities	AAA ⁽¹⁾	\$ 361,315	\$ 343,563
U.S. Guarantees – GNMA's	AAA	4	5
Federal agency securities	AAA ⁽¹⁾	69,868	103,248
Shares of beneficial interest	AAA	691	501
Asset and mortgage-backed securities	AAA	63,476	65,809
Medium-term corporate notes	A ⁽²⁾	171,281	128,150
Prime commercial paper	A1/P1 ⁽²⁾	293,240	180,166
Negotiable certificates of deposit	F1 ⁽²⁾	299,962	260,162
Municipal bonds	A ⁽²⁾	34,389	49,218
Local Agency Investment Fund	⁽³⁾	65,000	65,000
Total portfolio		\$ 1,359,226	\$ 1,195,822

(1) United States Treasuries and Federal Agencies are rated "AAA" by two nationally recognized rating agencies and "AA" by one nationally recognized rating agency.

(2) A or better e.g. F1+, A1+, AA, or AAA.

(3) Local Agency Investment Fund is not rated.

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

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of March 31, 2017 and 2016:

	Investment Policy Limits	Percent of Portfolio	
		2017	2016
U.S. Treasury securities	100%	26.58 %	28.73 %
U.S. Guarantees – GNMA's	100%	—	—
Federal agency securities	100%	5.14	8.63
Shares of beneficial interest	20%	0.05	0.04
Asset and mortgaged-backed securities	20%	4.67	5.50
Medium-term corporate notes	30%	12.60	10.72
Prime commercial paper	25%	21.58	15.07
Negotiable certificates of deposit	30%	22.07	21.76
Municipal bonds	30%	2.53	4.12
Local Agency Investment Fund	N/A	4.78	5.43
Total portfolio		100.00 %	100.00 %

At March 31, 2017 and 2016, 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)	March 31,				
	2017		2016		
Federal National Mortgage Association (1)	\$	—	— %	\$ 84,599	7.15 %
Federal Home Loan Bank	\$	—	— %	\$ 65,000	5.49 %

⁽¹⁾ March 31, 2016 was previously reported using Book Value.

Custodial credit risk. At March 31, 2017 and 2016, 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 exception was \$65.0 million in deposits in the California State managed LAIF as of March 31, 2017 and 2016.

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 Chairman is the State Treasurer, or his designated representative.

The total amount invested by all public agencies in LAIF as of March 31, 2017 and 2016 was \$21.4 billion and \$21.1 billion, respectively. At March 31, 2017 and 2016, the PMIA portfolio balance was \$71.9 billion and \$67.7 billion, respectively, of which, 2.24 percent and 1.88 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as March 31, 2017 and 2016 was 180 days and 146 days, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

(c) Reverse Repurchase Agreements

Metropolitan was 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 two years ended March 31, 2017 and 2016.

(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 were classified as "restricted." Most restricted accounts had the minimum cash and investment balance requirements and all were nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provided for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

3. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of \$4.851 billion and \$4.551 billion at March 31, 2017 and 2016, respectively, represents less than one percent of the June 30, 2016 and 2015 total taxable assessed valuation of \$2,583 billion and \$2,451 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) Short-term Debt

Metropolitan may issue up to \$400.0 million in commercial paper to fund a portion of its capital plan. During the nine months ended March 31, 2017 and 2016, there were no commercial paper notes issued or outstanding. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds (see Note 3c).

In April 2016, Metropolitan entered into a noteholder's agreement with RBC Municipal Products, LLC (RBC) for the purchase by RBC and sale by Metropolitan of Metropolitan's Index Notes, Series 2016 (RBC Facility). Also in April 2016, Metropolitan entered into a note purchase and continuing covenant agreement with U.S. Bank National Association (US Bank), for the purchase by US Bank and sale by Metropolitan of Metropolitan's Flexible Rate Revolving Notes, Series 2016 (US Bank Facility, and together with the RBC Facility, the Short-Term Revolving Credit Facilities). Both series of Notes mature on April 6, 2017. Metropolitan is permitted to sell up to \$200 million of notes under each of the Short-Term Revolving Credit Facilities during the term of the respective bank's commitment to purchase notes thereunder, which currently extends to April 5, 2019, for an aggregate amount of available borrowings of \$400 million. Metropolitan may borrow, pay down and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. As of March 31, 2017, Metropolitan has outstanding \$250.0 million of

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

notes under the Short-Term Revolving Credit Facilities (\$125.0 million under the RBC Facility and \$125.0 million under the US Bank Facility).

Each of the Short-Term Revolving Credit Facilities bears interest at a variable rate of interest. The US Bank Facility bears interest at a basis point spread to one-month London interbank offering rate (LIBOR) for taxable borrowings or to 70 percent of one-month LIBOR for tax-exempt borrowings, while the RBC Facility bears interest at a spread to one-month LIBOR for taxable borrowings or to the SIFMA Municipal Swap Index for tax-exempt borrowings. Under the Short-Term Revolving Credit Facilities, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, each bank could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Short-Term Credit Facilities as Senior Parity Obligations.

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to \$850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled \$850.0 million at March 31, 2017 and 2016. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of \$74.9 million and \$92.9 million in general obligation bonds and general obligation refunding bonds were outstanding at March 31, 2017 and 2016, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 4.0 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 premiums.

No general obligation bonds were issued during the twelve months ended March 31, 2017 and 2016.

(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of \$4.311 billion and \$4.234 billion of revenue bonds and revenue refunding bonds were outstanding at March 31, 2017 and 2016, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2045 at interest rates ranging from 1.49 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 interest payment dates, and subject to early redemption premiums.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

Revenue bond issued during the twelve months ended March 31, 2017 was as follows:

- On December 20, 2016, Metropolitan entered into a Continuing Covenant Agreement with Bank of America, N.A. (BANA, and the 2016 BANA Agreement), for the purchase by BANA and sale by Metropolitan of Metropolitan's \$175.0 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the Subordinate 2016 Series A Bonds), which is the first series of bonds issued under the Subordinate Debt Resolution. Proceeds were used to reimburse Metropolitan for the purchase of the Delta Wetlands Properties in the San Francisco Bay\Sacramento-San Joaquin River Delta that was funded from Metropolitan's reserves in July 2016. The Subordinate 2016 Series A Bonds are Index Tender Bonds and bear interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2016 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

The Subordinate 2016 Series A Bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2018, or, if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction.

Revenue bond issued during the twelve months ended March 31, 2016 was as follows:

- On December 17, 2015, Metropolitan issued \$208.3 million of Water Revenue Bonds, 2015 Authorization Series A, at a true interest cost of 3.11 percent, to finance a portion of the capital investment plan. The maturities extend to July 1, 2045 and are subject to mandatory and optional redemption provisions.

(d) Bond Refundings and Defeasances

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

(e) Other Long-term Debt

In November 2003, Metropolitan received \$20.0 million through the state Department of Water Resources for oxidation retrofit facilities at the Mills Water Treatment Plant in Riverside County. This 20-year State Revolving Fund loan carries interest at 2.39 percent with the final payment due July 1, 2024. At March 31, 2017 and 2016, the outstanding balance was \$8.6 million and \$9.7 million, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

(f) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of March 31, 2017. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Pay-Fixed, Receive-Variable

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

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

Fair Values: At March 31, 2017 and 2016, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of March 31, 2017 and 2016, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of March 31, 2017 and 2016.

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

As of March 31, 2017 and 2016, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of \$216.0 million or 43.8 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa3/A+/AA- by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of March 31, 2017, the interest rates of the variable rate debt associated with these swap transactions range from 0.80 percent to 1.52 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.57 percent to 0.81 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.

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.80 percent to 1.52 percent as of March 31, 2017 and 0.34 percent to 0.78 percent as of March 31, 2016. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. With the exception of the Water Revenue Refunding Bonds, 2009 SIFMA Index Bonds Series A-2, 2011 SIFMA Index Bonds Series A-1, A-2, A-3, and A-4, 2012 SIFMA Index Bonds Series B-1 and B-2, the 2013 Flexible Index Bonds, Series E, and the Subordinate 2016 Series A Bonds, the bondholders have the right to tender bonds to the paying agent on any business day with either same day or seven days' prior notice. The current terms of the 2009 SIFMA Index Bond Series A-2 and the 2011 SIFMA Index Bonds Series A-1 and A-3, provide bondholders a right to tender bonds to the paying agent every 340 days, the 2013 Flexible Index Bond Series E every 270 days, and for the 2011 SIFMA Index Bonds Series A-2 and A-4 and the 2012 SIFMA Index Bonds Series 2012 B-1 and B-2, every three years. The Subordinate 2016 Series A Bonds were issued as a direct purchase to BANA under the terms of the 2016 BANA Agreement. The Subordinate 2016 Series A Bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2018, or if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. Metropolitan has entered into standby bond purchase agreements (SBPA) with several commercial banks to provide liquidity for four and two separate variable rate bond issues in the amount of \$272.5 million and \$151.3 million as of March 31, 2017 and 2016, respectively. In addition, Metropolitan has thirteen and twelve series of variable rate bonds in the amounts of \$1.026 billion and \$876.4 million as of March 31, 2017 and 2016, respectively that are not supported by an SBPA.

The Bank Bonds that would be issued under the SBPA would bear interest that is payable at a rate, depending on the agreement, that is the higher of 7.0 percent or the "base rate", which is based on the prime rate or Federal Funds rate or LIBOR, plus a spread, as designated in each SBPA. The base rate is then adjusted upwards by 2.0 percent, or LIBOR plus 7.5 percent. The principal of the Bank Bonds would be payable, depending on the agreement, in either ten equal semi-annual installments commencing 180 days after purchase by the bank and in two installments, one commencing six months after purchase by the bank and then seven months thereafter.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

The \$103.7 million 2016 Series B-1 and B-2, Special Variable Rate Water Revenue Refunding Bonds, has an SBPA that will expire on September 19, 2019. The \$88.8 million 2000 Series B-3, Water Revenue Bonds and the \$80 million 2017 Authorization Series A, Water Revenue Bonds, have SBPAs that will expire on March 27, 2020. According to the provisions of the Paying Agent Agreement for the bonds, the Paying Agent will draw on the SBPA two business days prior to the SBPA expiration to redeem all outstanding bonds.

For eight series of variable rate bonds not supported by SBPA in the amount of \$536.0 million, if the purchase price is not paid from the proceeds of remarketing or other funds, such bonds then will bear interest at a rate equal to the lower of (i) 12.0 percent and (ii) the higher of 8.0 percent or Prime Rate plus 3.0 percent until purchased by Metropolitan or redeemed pursuant to a special mandatory redemption. The principal amount of these new bonds would be payable in three equal installments at 18 month increments from the conversion of the bonds to a fixed rate.

The four series of self-liquidity variable rate bonds that were not supported by a SBPA at March 31, 2017 were the \$87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the \$38.5 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the \$188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. At March 31, 2016, the outstanding self-liquidity variable rate bonds that were not supported by a SBPA were the \$87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the \$63.6 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the \$188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at March 31, 2017 and 2016 had no long-term take out provisions therefore, the entire principal amount of \$314.8 million and \$339.9 million, respectively, may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013 and July 1, 2015, Metropolitan entered into separate Revolving Credit Agreements (RCAs), by which Metropolitan may borrow up to \$96.5 million and \$180.0 million, respectively, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCAs permits repayment of any borrowed funds over a term-out period beginning 90 days after the RCA's stated expiration date of March 31, 2016 and 120 days after the stated expiration date of June 24, 2018. As a result of the RCA, only \$134.8 million and \$159.9 million of these self-liquidity bonds have been classified as current liabilities as of March 31, 2017 and 2016, respectively.

4. PENSION PLAN**(a) General Information about the Pension Plan****Plan Description**

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

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

Benefits Provided

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

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**(a) Plan Description**

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Metropolitan participates in the CalPERS California Employers' Retiree Trust (CERBT) Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. This benefit was provided to 1,650 and 1,570 retired Metropolitan employees at March 31, 2017 and 2016, 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

Contribution requirements are negotiated between Metropolitan and its various bargaining units. During the nine months ended March 31, 2017, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. Metropolitan contributed, net of participant contributions as determined by CalPERS, \$37.9 million and \$31.0 million, as of March 31, 2017 and 2016, respectively.

The contribution as of March 31, 2017 included a single payment of \$29.3 million for the fiscal year 2017 annual required contribution (ARC). The contribution as of March 31, 2016 included a single payment of \$23.1 million for the fiscal year 2016 ARC.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)
 March 31, 2017 and 2016
 (Unaudited)

6. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 7)

Estimates of Metropolitan’s share of the projected fixed costs of the State Water Project (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:

	State Water Contract Payments
Year ending June 30:	
2017	\$ 449,842,301
2018	443,092,297
2019	452,968,871
2020	448,787,174
2021	442,790,708

Metropolitan intends to exercise its option to extend its agreement with the State through 2052, which will result in annual minimum operations and maintenance costs through 2052. 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, other than the \$14.3 million obligation related to loss accruals on certain-off aqueduct power facilities (see Note 6f), are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities

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

In September 2006, then Governor Schwarzenegger established a Delta Vision Process to identify a strategy for managing the Delta as a sustainable resource. The process was tied to legislation that created a Blue Ribbon Task Force (BRTF) and cabinet-level committee (Delta Vision Committee) tasked with developing a durable vision for sustainable management of the Delta over the long-term. The Delta Vision is anticipated to broaden the focus of past efforts and recommend actions that will address the full array of natural resource, infrastructure, land use, and governance issues necessary to achieve a sustainable Delta. The BRTF released its final Delta Vision Strategic Plan in October 2008. The Delta Vision Committee considered the BRTF’s final strategic plan and submitted its final implementation report to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The DSC formed an Implementation Committee of agency representatives in 2014 to coordinate activities and actions with the goal of achieving successful implementation of the Delta Plan. In 2016, priorities include implementation of the Delta Plan, development of a Delta levee improvement prioritization plan, and implementation of Delta Science Program recommendations. In addition, the DSC has adapted the 19 Principles for Water Conveyance in the Delta, Storage Systems, and for the Operation of Both to Achieve the Coequal Goals.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

The Bay Delta Conservation Plan (BDCP), which began in 2007, is a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta. In addition, the BDCP would provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program. A public draft Environmental Impact Report/Environmental Impact Statement was released in December 2013 for comment through July 2014. Comments were received on this public draft, and on April 30, 2015, intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore were announced. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. With the California EcoRestore, the focus would be on environmental restoration programs. The environmental impact analysis for the proposed conveyance facilities in the California WaterFix, along with alternatives, was released for public review and comment from July 10, 2015 through October 30, 2015 in the partially Recirculated Draft Environmental Impact Report/Environmental Impact Statement (EIR/EIS). The final environmental document for the California WaterFix was released on December 22, 2016. This document ultimately concluded that the California WaterFix was the best option for meeting the State's co-equal goals and ensuring water supply reliability and ecosystem restoration while minimizing environmental impact. With the completion of the EIR/EIS, the Delta Smelt and Salmon Biological Opinions are expected to be finalized in 2017. On March 10, the final Independent Review Panel Report for the 2016-2017 California WaterFix Scientific Peer Review was released to the public. Staff is reviewing the panel report and is continuing to evaluate the analytical tools and scientific information used in developing the California WaterFix Biological Opinions. This review is a step toward completing the Biological Opinions.

(c) Imperial Irrigation District

As of March 31, 2017, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of \$318.2 million for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive 85,000-105,000 acre-feet in 2018 and annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of at least 85,000 and 90,374 acre-feet will be/was available in calendar years 2017 and 2016, respectively, for diversion by Metropolitan.

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

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (QSA) (see Note 6e). The amended Transfer Agreement sets the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to provide for delivery of water directly from IID to SDCWA. The Transfer Agreement provides that IID water be delivered to SDCWA through existing facilities owned by Metropolitan. On November 10, 1998, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract (the Exchange Agreement), pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower price is paid by SDCWA for the Exchange Agreement water delivered by Metropolitan. The price payable by SDCWA is based on 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 new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 6h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. 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 below.

(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, the Coachella Valley Water District (CVWD), and Metropolitan. It also provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years and restores the opportunity for Metropolitan to receive any special surplus water.

(f) Abandoned Off-Aqueduct Power Facilities

The California Department of Water Resources (DWR) has financed the construction of certain off- aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities have been abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of \$204.1 million in prior fiscal years.

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2017 through 2021 totals approximately \$1.46 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdown constraints, anticipated spending is forecasted at \$200.0 million per year for the next 5 years.

Over the next three years, approximately \$735.0 million is budgeted in the capital program, with over \$400.0 million planned for major efforts such as seismic retrofits, mechanical and electrical improvements to components of the Colorado River Aqueduct, seismic retrofits and process component replacements at the Diemer and Weymouth treatment plants, completion of construction and startup of the Weymouth Oxidation Retrofit Program (ORP), Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment.

The capital program over the next 3 years also includes \$40.0 million of estimated costs for facilities that may be required to meet current water quality standards (see Note 6i).

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

(h) Claims and Litigation

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

The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach. Nevertheless, to the extent that a final court ruling invalidates Metropolitan's adopted rates, Metropolitan will be obligated to reconsider and modify rates to comply with any final ruling related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such ruling, Metropolitan expects that aggregate rates and charges would still recover Metropolitan's cost of service. As such, revenues would not be affected. If Metropolitan's rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

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 are for breach of the Exchange Agreement between Metropolitan and SDCWA (see Note 6d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under this Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies and illegality of a "rate structure integrity" provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains 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 contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting Metropolitan's rates, adopted in April 2012, violate Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach.

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. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations. On December 4, 2013, the court granted Metropolitan's motion for summary adjudication of the cause of action alleging illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements, dismissing this claim in the first lawsuit.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

Trial of the first phase of both lawsuits concluded January 23, 2014. This phase concerned the challenges to Metropolitan's rates. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. The court found that there was not sufficient evidence in the administrative record to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of 100 percent of (1) payments it makes to the California Department of Water Resources for transportation charges related to the State Water Project, or (2) the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases.

SDCWA's claims asserting breach of the Exchange Agreement and miscalculation of preferential rights were tried in a second phase of the case which concluded April 30, 2015. On August 28, 2015, the trial court issued a final statement of decision for the second phase. The decision finds in favor of SDCWA on both claims and that SDCWA is entitled to contract damages in the amount of nearly \$188.3 million. On October 9 and 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages. The prejudgment interest award through entry of judgment is \$46.6 million. After entry of judgment, post-judgment interest began accruing at the statutory rate of 7 percent. On November 18, 2015, the court issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. On January 21, 2016, the court awarded \$320,084 in costs to SDCWA, after deducting amounts based on Metropolitan's motion. On March 24, 2016, the court awarded \$8.9 million in attorneys' fees to SDCWA, rejecting its demand for over \$17.0 million. Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case and SDCWA filed a Notice of Cross-Appeal of the court's ruling on the rate structure integrity claim and the attorneys' fees order. Appellate briefing by the parties was completed on October 28, 2016. Oral arguments are scheduled for May 10, 2017. Metropolitan is unable to assess at this time the likelihood of success of this appeal or any future claims. Further, as the estimated liability is indeterminable at this time, no amounts have been presently recorded in the financial statements.

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 court ordered that the case be stayed. The stay may be lifted upon motion by any party. On November 20, 2015, SDCWA filed a motion to partially lift the stay. On December 21, 2015, the trial court denied that motion and the case remains stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. On June 30, 2016, the nine member agencies that are interested parties to the 2010, 2012, and 2014 cases filed answers to also join the 2016 case as interested parties in support of Metropolitan. On October 27, 2016, SDCWA filed a Motion for Leave to File Amended Complaint alleging the same Exchange Agreement breach alleged 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. The proposed amended petition/complaint also requests a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees. On November 10, 2016, pursuant to stipulation by the parties, the court ordered that the case be stayed pending final

NOTES TO BASIC FINANCIAL STATEMENTS

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resolution of the appeals of the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

A number of other suits and claims arising in the normal course of business are pending against Metropolitan. In the opinion of Metropolitan's General Counsel, the adverse results, if any, of such legal actions on these suits and claims will not have a material effect on Metropolitan's financial position, changes in net position, or liquidity.

(i) Drinking Water Quality Standards

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

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Diemer, Jensen, Mills, and Skinner plants. Construction of ozonation facilities at the Weymouth plant is on-going and should be completed in 2017. The estimated cost of implementing ozone treatment at all five plants is approximately \$1.1 billion.

(j) Reid Gardner Generating Station

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

(k) Landfill Obligation

Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately \$2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. No expenses were incurred for postclosure maintenance and monitoring activities during the nine months ended March 31, 2017 and 2016,

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.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

7. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 6a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 28 percent and 26 percent of Metropolitan's total expenses during the nine months ended March 31, 2017 and 2016, respectively, pertained to its net payment obligations for the State Water Project. These costs 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.

Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the capital and operating costs of the power facilities regardless of the amount of power generated (see Note 6f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h, and 6a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon information provided by the State of California. In fiscal year 2006, the formula was modified to use maximum annual contracted deliveries as the production capacity estimate. Amortization expense totaled \$97.6 million and \$84.1 million for the nine months ended March 31, 2017 and 2016, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at March 31, 2017 and 2016 were as follows:

(Dollars in thousands)	March 31,	
	2017	2016
Prepaid water costs	\$ 112,376	\$ 135,836
Prepaid costs-Delta Habitat conservation and conveyance	58,627	59,097
Prepaid costs-Bay/Delta	2,665	2,252
Prepaid expenses	12,902	12,333
Preliminary design/reimbursable projects	10,662	7,869
Other	65,014	77,193
Total deposits, prepaid costs, and other	262,246	294,580
Less current portion	(61,648)	(73,453)
Noncurrent portion	\$ 200,598	\$ 221,127

(a) Prepaid Water Costs

Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and State Water Project water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At March 31, 2017 and 2016, prepaid water costs totaled approximately \$112.4 million and \$135.8 million, respectively, based on volumes of 438,000 acre-feet and 616,000 acre-feet, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other State Water Project contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with the California Department of Water Resources (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 through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. If the BDCP is approved, including construction of new Delta water conveyance facilities, DWR intends to issue revenue bonds in an amount sufficient to reimburse Metropolitan for funds advanced through these agreements for planning and environmental studies. If the BDCP is not approved to proceed with construction, no reimbursement will occur.

NOTES TO BASIC FINANCIAL STATEMENTS*(CONTINUED)*

March 31, 2017 and 2016

(Unaudited)

(c) Prepaid Costs—Bay/Delta

In December 1994, representatives from state and federal resource agencies, and urban, agricultural, and environmental agencies agreed to a set of principles to implement a protection plan for the San Francisco Bay/Delta Estuary. Among the principles was a commitment by agricultural and urban water agencies to fund \$60.0 million to help initiate a comprehensive program to address nonoutflow-related impacts to the Bay/Delta environment. The Secretary of the Interior requested Metropolitan to guarantee \$10.0 million annually for three years, for a total of \$30.0 million, to be made available for the restoration fund created by the principles. Metropolitan's final payment of its \$30.0 million commitment was made in June 1998. Metropolitan's contributions are accounted for as prepaid costs that are charged to expense based on expenses by the restoration fund. No expenses were incurred for the nine months ended March 31, 2017 and 2016. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled \$2.7 million and \$2.3 million at March 31, 2017 and 2016, respectively.

(d) Preliminary Design/Reimbursable Projects

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

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

9. DEFERRED COMPENSATION AND SAVINGS PLANS

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

Investment of the funds is managed by a third-party administrator, accordingly, at March 31, 2017 and 2016, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

10. 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 related deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Note 1g), participation rights in State Water Project (Notes 1h and 7), and participation rights in other facilities. Net investment in capital assets, including State Water Project costs were approximately \$6.0 billion and \$5.9 billion at March 31, 2017 and 2016, respectively.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled \$398.0 million and \$436.7 million at March 31, 2017 and 2016, respectively, of which \$215.2 million and \$202.7 million, respectively, represents principal and interest set aside for the next bond payment. The remaining \$182.8 million and \$234.0 million, respectively, relate to estimated operating and maintenance expense for January and February of the subsequent fiscal quarter. Each of these requirements is related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of “restricted” or “net investment in capital assets, including State Water Project costs.” Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled \$377.1 million and \$436.0 million at March 31, 2017 and 2016, respectively.

11. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first \$25.0 million for general liability and \$5.0 million for workers’ compensation. Metropolitan supplements its self-insurance program with \$75.0 million excess general liability coverage and \$50.0 million excess workers’ compensation insurance. Metropolitan also carries coverage limits of \$60.0 million for fiduciary liability and \$65.0 million for directors’ and officers’ liability. Special insurance policies purchased 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 2017 were unchanged from fiscal year 2016. 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% annual interest rate over the life of the claims.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

March 31, 2017 and 2016

(Unaudited)

II. SUBSEQUENT EVENT

On April 5, 2017, the \$125.0 million Taxable Rate Revolving Notes, Series 2016 A-1 and the \$125.0 million Taxable Series 2016 B-1 Notes were refunded by the \$125.0 million Taxable Flexible Rate Refunding Notes, Series A-1 and the \$125.0 million Index Notes (Taxable and Refunding), Subseries B-1, respectively. The refunding notes were issued pursuant to two Short-Term Revolving Credit Facilities with US Bank, and Royal Bank of Canada (RBC). The refunding notes have maturity dates of April 5, 2019 and April 5, 2020, respectively.

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