

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 27, 1993

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Forward Interest Rate Commitment for the Refunding of the 1986 Revenue Bonds

Report

Interest rates have fallen to twenty year lows with the Revenue Bond Index now at 5.72 percent. During 1993, Metropolitan advance refunded \$242 million of revenue bonds and \$352.7 million of general obligation bonds, thereby reducing future debt service by \$47 million. The weighted average cost of District debt has been lowered from 5.77 to 5.66 percent.

Metropolitan may not advance refund its outstanding 1986 bonds on a tax-exempt basis, since only one advance refunding is permitted under current tax law. The 1986 bonds were issued at a true interest cost of 6.85 percent to advance refund the 1983 revenue bonds, producing savings of \$40 million. The 1986 bonds may, however, be refunded through a current refunding within 90 days of their first call date on June 1, 1996.

As presented to the Finance and Insurance Committee over two meetings, today's low rates can be locked in through a forward interest rate commitment (Forward Swap). Metropolitan would now agree to issue variable rate bonds in 1996 and would now agree to pay a fixed rate, starting when the bonds are issued, to a third party under the Forward Swap over the life of the bonds, which mature in 2023. The fixed Forward Swap rate would be lower than a fixed forward interest rate obtainable in the bond market today. Today's Forward Swap rate is 5.05 percent. The third party would pay the variable interest on the bonds, which would be reset every seven days after their issuance in 1996. (See market rates shown on Attachment 1, and a diagram of the proposed transaction on Attachment 2).

Because the District's obligation under the Forward Swap would be fixed, savings on the 1996 refunding can be calculated. If this transaction was completed today, the gross savings would be approximately \$16 million, but will vary according to the day-to-day Forward Swap quotes which will reflect the duration of the transaction, the level of tax exempt rates, and their relationship to taxable rates. The savings on a present value basis would exceed the guidelines established by the Finance and Insurance Committee for current and advance refundings (three and five percent, respectively).

Through an RFP process, staff identified AIG Financial Products Corp. (AIG-FP), a wholly-owned subsidiary of triple-A rated American International Group, Inc. (AIG, Inc.), as best suited to assume variable rate exposure on Metropolitan's refunding bonds. AIG Inc. would unconditionally guarantee **AIG-FP's** obligations to Metropolitan under the proposed Forward Swap. In the event the rating of AIG, Inc. falls below AA- or Aa3, AIG-FP must post collateral with a "Collateral **Agent**", defined in the Forward Swap as a bank or trust company that is a member of the Federal Reserve System with capital stock and surplus aggregating at least **\$100,000,000** and a credit rating of at least A3 by Moody's and A- from S&P, acting as the agent of Metropolitan. If the collateral posted by AIG-FP consists of cash, the amount of the collateral must be equal to the economic value to Metropolitan of the Forward Swap, reflecting market conditions, the reducing principal amount of bonds outstanding, and the reducing term of the Forward Swap. If collateral consists of U.S. Government securities, the amount of such collateral must be at least equal to 108 percent of such economic value, marked to market monthly.

The Forward Swap provides that the Collateral Agent will have a first and prior perfected security interest in the collateral, and an opinion of counsel satisfactory to Metropolitan to that effect must be rendered at the time the collateral is posted. Additionally, Metropolitan has been advised by Bond Counsel that insolvency laws applicable to entities likely to serve as Collateral Agent protect Metropolitan's rights in the collateral in the event of a bankruptcy of the Collateral Agent. The Forward Swap provides that no entity may be appointed Collateral Agent unless Metropolitan first receives an opinion of counsel acceptable to Metropolitan to the effect that the collateral would not be treated as property of the Collateral Agent in the event of a bankruptcy of the Collateral Agent.

Staff RFP'd underwriting and remarketing services for the variable rate bonds and finds PaineWebber Incorporated qualified to perform these functions. Selection of this firm continues rotation of District financing among experienced and well capitalized investment banking firms which have shown interest in underwriting Metropolitan's capital improvement bonds. PaineWebber has experience with long-dated swaps, is a leading remarketing agent in the short-term, variable rate tax-exempt market and is listed as a preferred remarketing agent by major swap providers, including AIG-FP and **Societe** Generale.

The proposed Fifth Supplemental Resolution (Attachment 3) would authorize issuance of approximately \$114 million in variable rate bonds and the use of a Forward Swap. The Forward Swap would limit Metropolitan's obligations to a predetermined fixed interest rate. If a Forward Swap is not entered into before 1996, the Resolution would authorize the issuance of fixed rate bonds in 1996 or later to accomplish a current refunding to meet the Finance and Insurance Committee's guideline for current refunding savings. The Resolution would authorize an Ad Hoc Committee consisting of the Chairman of the Board, the Chairman of the Finance and Insurance Committee, and the General Manager to establish terms and conditions of the bonds, to negotiate the Bond Purchase Contract, to agree to a fixed Forward Swap rate, and to select the underwriter.

The savings explained earlier are net of up front transaction costs and of on-going annual expenses for the variable rate bonds. The up front costs are as follows:

Co Bond Counsel	\$ 95,000
Underwriters Counsel	35,000
Ratings:	
S&P	30,000
Moody's	0 *
Paying Agent	7,000
Underwriter's Expenses	15,000
Liquidity Guarantee	280,000
Bond Insurance Guarantee	55,000
<u>Contingencies</u>	<u>20,000</u>
Total	\$537,000

An appropriation is requested to pay the up front expenses.

* Moody's will bill for the rating at the time of the 1996 sale

When the bonds are issued in 1996, the underwriting fee, negotiated at \$2.50 per \$1,000 bond, would be payable from proceeds of the sale. Remarketing fees of 7.5 basis points and liquidity facility fees of 25 basis points would be on-going and payable as O&M expenses annually until the refunding bonds are fully redeemed. These annual costs are accounted for in the savings cited earlier. Bond insurance (estimated at \$500,000 for the period 1996 to 2023) is payable from proceeds. The insurance assures the highest ratings for Metropolitan's variable rate bonds to their maturity, thus locking in an "actual cost of borrowed funds" swap commitment instead of an indexed rate. The liquidity guarantee assures Metropolitan that the cost of its on-going line(s) of credit will not exceed 25 basis points per annum. The liquidity guarantee provides for purchase of the bonds should there be a remarketing problem.

A number of pending agreements which are necessary to execute, to mitigate risk and to administer the proposed transaction have been placed on file with the Executive Secretary for review by Directors. These documents include the most recent drafts of:

- Bond Purchase Contract
- Bond Paying Agent Agreement
- Qualified Swap Agreement
- Bond Remarketing Agreement
- Liquidity Guarantee Agreement
- Standby Bond Purchase Agreement

The proposed action is exempt from the provisions of the California Environmental Quality Act because there is no possibility that it would have a significant effect on the environment.

Board Committee Assignment

This letter was referred for action to the Finance and Insurance Committee because of its authority to study, advise and make recommendations with regard to the sale of bonds, pursuant to Administrative Code Section 2441(b).

Recommendation

FINANCE AND INSURANCE COMMITTEE FOR ACTION.

It is recommended that the Board adopt, by a two-thirds vote of the Board, the attached Resolution (Attachment 3 hereto), providing for the issuance of Water Revenue Refunding Bonds, 1996 Series A, and entering into a Qualified Swap Agreement(s) for the period beginning 1996; and authorize Appropriation No. 665 in the amount of \$537,000 to pay bond marketing expenses.

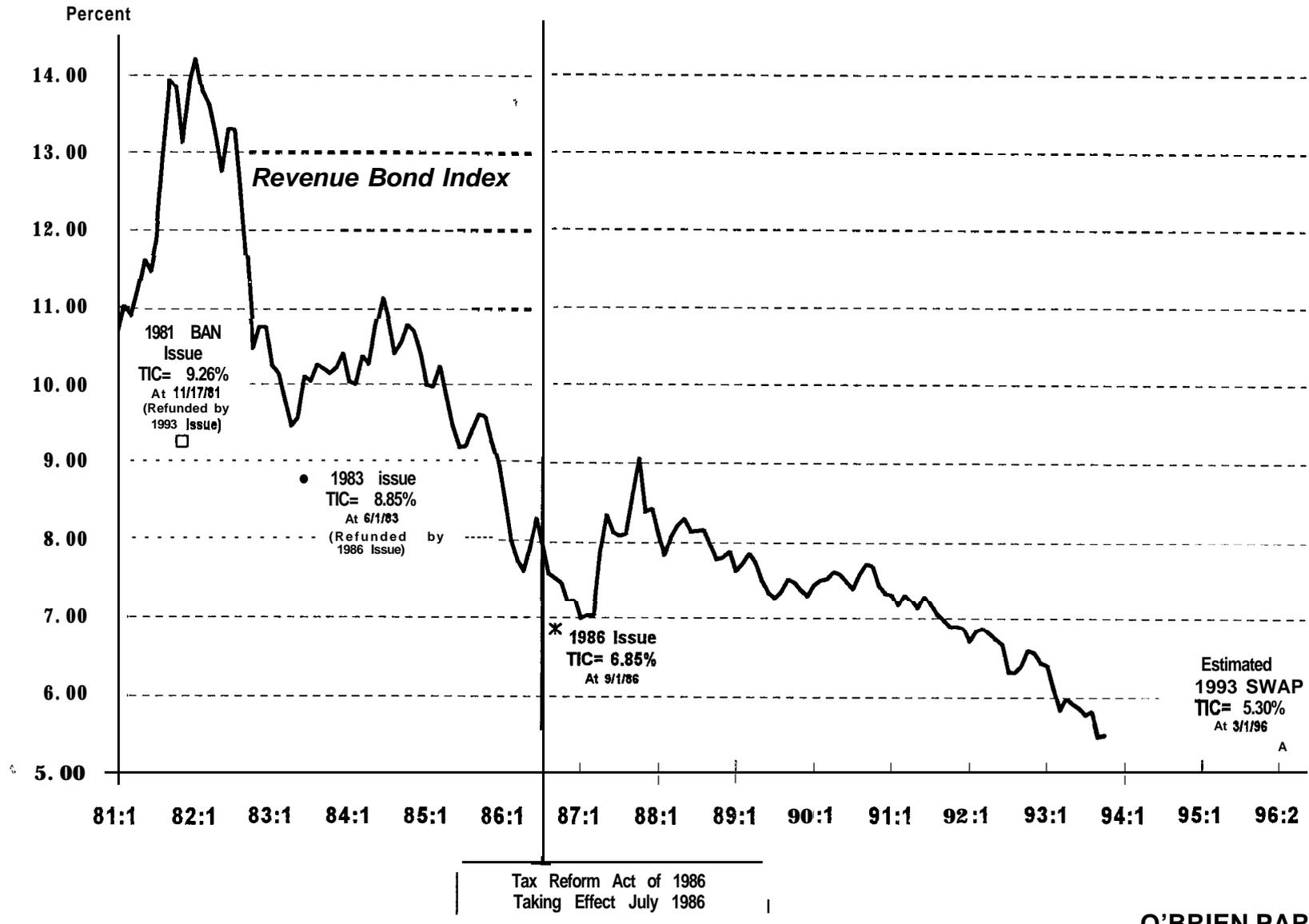

John R. Wodraska

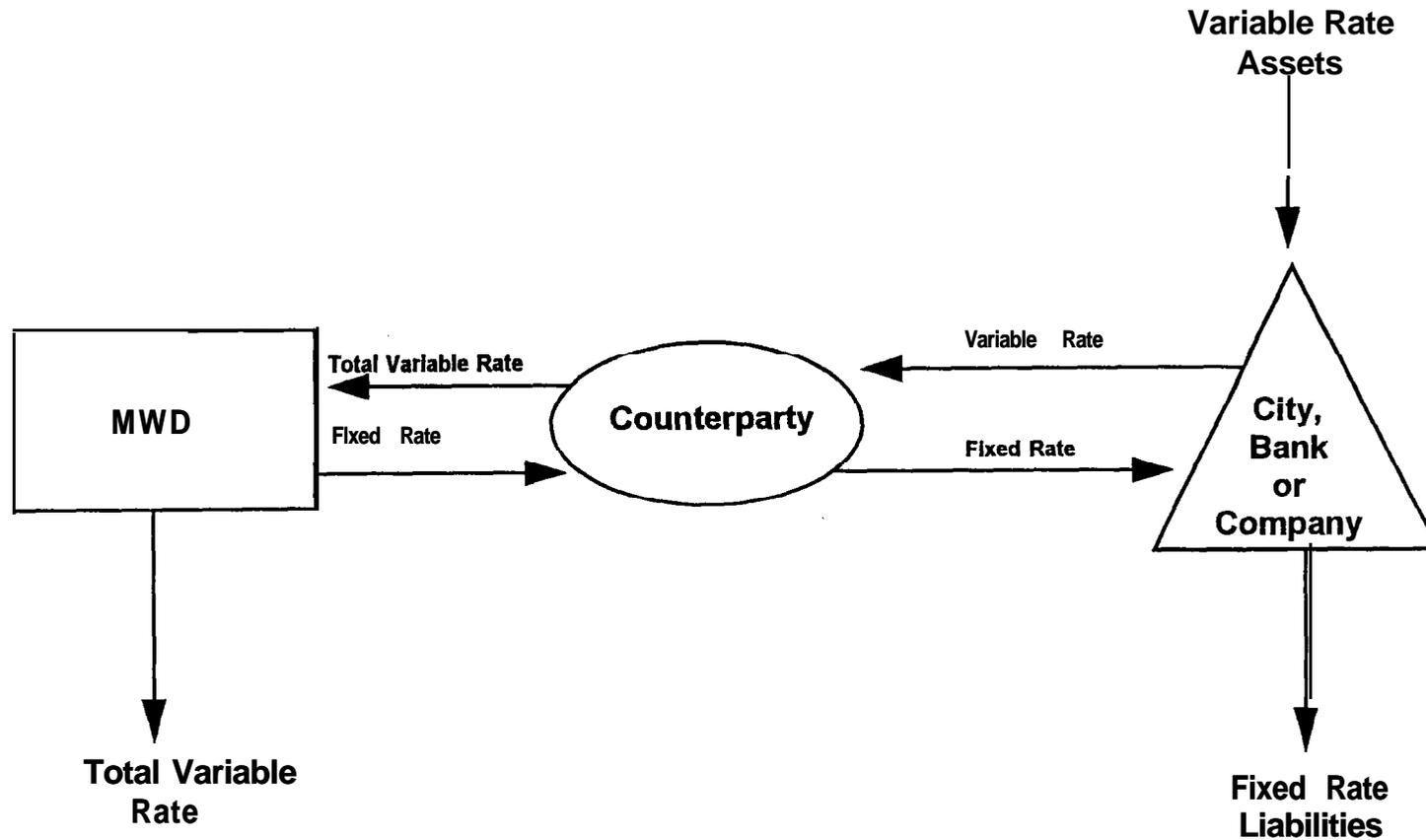
GDL/BGT:jg

Attachments

SWAPRef.txt

**Bond Buyer Revenue Bond Index Versus
1981, 1983 & 1986 Issue TIC and Estimated 1993 SWAP TIC:
(January 1981 through March 1996)**





THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AUTHORIZING THE ISSUANCE OF
WATER REVENUE REFUNDING BONDS, 1996 SERIES A
AND PROVIDING THE TERMS AND CONDITIONS OF SAID BONDS
(FIFTH SUPPLEMENTAL RESOLUTION)

(ADOPTED JANUARY 11, 1994)

TABLE OF CONTENTS¹

	Page
Recitals	1
ARTICLE I	
AUTHORIZATION OF BONDS; DEFINITIONS	2
SECTION 1.01. <u>Fifth Supplemental Resolution; Determinations</u>	2
SECTION 1.02. <u>Definitions</u>	2
ARTICLE II	
THE 1996 REFUNDING BONDS	6
SECTION 2.01. <u>Authorization</u>	6
SECTION 2.02. <u>Terms of the 1996 Refunding Bonds</u>	6
SECTION 2.03. <u>Interest</u>	6
SECTION 2.04. <u>Place of Payment</u>	7
SECTION 2.05. <u>Redemption</u>	7
SECTION 2.06. <u>Form of 1996 Refunding Bonds</u>	7
SECTION 2.07. <u>CUSIP Identification Numbers</u>	7
SECTION 2.08. <u>Book-Entry System</u>	7
SECTION 2.09. <u>Representation Letter</u>	8
SECTION 2.10. <u>Transfers Outside Book-Entry System</u>	9
SECTION 2.11. <u>Payments and Notices to the Nominee</u>	9
SECTION 2.12. <u>Initial Depository and Nominee</u>	9
SECTION 2.13. <u>Tender of 1996 Refunding Bonds</u>	10

¹ This Table of Contents is not part of the Fifth Supplemental Resolution as adopted but is provided for reference only.

ARTICLE III

SALE OF 1996 REFUNDING BONDS;
APPLICATION OF PROCEEDS; FUNDS; 10

SECTION 3.01. Application of the Proceeds of the 1996 Refunding Bonds 10

SECTION 3.02. Establishment and Application of Costs of Issuance Fund. , 10

SECTION 3.03 Establishment and Application of Escrow Fund . 10

SECTION 3.04. Establishment, Pledge, Funding and Application of Reserve Fund. 11

SECTION 3.05. Establishment and Application of Excess Earnings Fund 12

SECTION 3.06. Tax Covenants 13

SECTION 3.07. Establishment and Application of Additional Funds With Respect to the 1996 Refundins Bonds 13

ARTICLE IV

LIQUIDITY GUARANTY AGREEMENT, STANDBY AGREEMENT,
REMARKETING AGREEMENT, QUALIFIED SWAP AND INSURANCE POLICY 14

SECTION 4.01. Liquidity Guaranty Asreement; Standby Agreement 14

SECTION 4.02. Remarketins Acrreement 14

SECTION 4.03. Qualified Swap 14

SECTION 4.04. Bond Insurance 15

SECTION 4.05. Series 1996 Refundins Bonds Paying Agent Asreement 15

ARTICLE V

FISCAL AGENT, PAYING AGENT AND REMARKETING AGENT . . 15

SECTION 5.01. Fiscal Agent, Paying Agent, and Remarketing Agent 15

ARTICLE VI

APPROVAL OF BOND PURCHASE CONTRACT,
SERIES 1996 REFUNDING BONDS PAYING AGENT AGREEMENT,
REMARKETING AGREEMENT, QUALIFIED SWAP, STANDBY AGREEMENT
AND INSURANCE POLICY 15

SECTION 6.01. Approval of Bond Purchase Contract, Series
1996 Refundins Bonds Pavins **Agent** Agreement,
Remarketins Agreement, **Qualified** Swap, Liquidity
Guaranty Asreement, Standby Asreement and Insurance
P o l i c y 15

SECTION 6.02. Further Action 18

ARTICLE VII

AMENDMENTS OF RESOLUTION 18

SECTION 7.01. Amendments of Resolution Pursuant to Section
8.01(B)(2) of the Master Resolution 18

SECTION 7.02. Board Findinss Regarding Amendments 20

ARTICLE VIII

MISCELLANEOUS 20

SECTION 8.01. 1996 Refundins Bonds **Subject** to the Master
Resolution 20

SECTION 8.02. Severability of Invalid Provisions 20

SECTION 8.03. Survival of Terms 21

SECTION 8.04. Third **Party** Beneficiaries 21

SECTION 8.05. Article and Section Headinss and References;
Interpretation 21

SECTION 8.06. Governins Law 21

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
AUTHORIZING THE ISSUANCE OF
WATER REVENUE REFUNDING BONDS, 1996 SERIES A
AND PROVIDING THE TERMS
AND CONDITIONS OF SAID BONDS
(FIFTH SUPPLEMENTAL RESOLUTION)

(ADOPTED JANUARY 11, 1994)

WHEREAS, pursuant to the Act (as defined in the hereinafter defined Master Resolution), the Board of Directors of The Metropolitan Water District of Southern California (the "**District**") may authorize the issuance of revenue bonds for any purpose permitted under the Act;

WHEREAS, pursuant to Resolution 8329 adopted by the District on July 9, 1991 (the "**Master Resolution**", such Master Resolution as heretofore amended and supplemented, the "**Resolution**"), the District has heretofore authorized the issuance of Water Revenue Bonds on behalf of the District by adoption of supplemental resolutions from time to time, with the payment of the principal of, interest on, and any redemption premiums thereon being secured by and payable solely from the Net Operating Revenues (as defined in the Master Resolution) of the District and such other moneys, assets or security as may be provided for in the supplemental resolution pursuant to which such bonds are issued;

WHEREAS, pursuant to the Resolution, the District may authorize the issuance of Water Revenue Refunding Bonds (t h e "**Refunding Bonds**") in Series (as defined in the Master Resolution) secured by and payable from the Net Operating Revenues or such other moneys, assets or security as may be provided for the purpose of refunding certain bonds issued pursuant to the Resolution (the "**Bonds**") or Prior Lien Bonds (as such term is defined in the Master Resolution), or both, which bonds to be refunded are to be more

particularly described in the Escrow Instructions (as hereinafter defined) with respect to any Series of Refunding Bonds;

WHEREAS, the public interest and necessity require the District to issue and sell Water Revenue Refunding Bonds, 1996 Series A (the "**1996 Refunding Bonds**") secured by and payable from (a) the Net Operating Revenues, and (b) such other moneys, assets and security as are provided pursuant to this Fifth Supplemental Resolution, for the purpose of refunding up to **\$109,930,000** in aggregate principal amount of the District's Waterworks Refunding Revenue Bonds, Issue of 1986, the actual principal amount of such Waterworks Refunding Revenue Bonds to be refunded to be determined pursuant to Article VI hereof (the actual principal amount of such Waterworks Refunding Revenue Bonds, Issue of 1986 to be refunded being hereinafter referred to as the "**Refunded Bonds**"), to be more particularly described in the Escrow Instructions with respect to the 1996 Refunding Bonds;

WHEREAS, in connection with the authorization and sale of the 1996 Refunding Bonds, it is advisable to enter into an interest rate swap agreement on terms to be determined pursuant to this Fifth Supplemental Resolution; and

WHEREAS, the Board of Directors of the Metropolitan Water District of Southern California has determined that such interest rate swap agreement is designed to reduce the amount or duration of interest rate risk or result in a lower cost of borrowing when used in combination with the issuance of the 1996 Refunding Bonds.

NOW, THEREFORE, the Board of Directors of The **Metropolitan Water** District of Southern California, DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

ARTICLE I

AUTHORIZATION OF BONDS; DEFINITIONS

SECTION 1.01. Fifth Supplemental Resolution: Determinations. This Fifth Supplemental Resolution (the "**Fifth Supplemental Resolution**") is adopted in accordance with the provisions of the Resolution. The District hereby determines that the issuance of the 1996 Refunding Bonds is advisable from an economic and financial viewpoint.

SECTION 1.02. Definitions. All terms which are defined in the Resolution shall, unless otherwise defined herein, have the same meanings, respectively, in this Fifth Supplemental Resolution. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Fifth Supplemental Resolution and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and the plural forms of any of the

terms herein defined. Unless otherwise defined in the Resolution or in this Fifth Supplemental Resolution, all terms used herein shall have the meanings assigned to such terms by the Act.

"Authorized Denominations" in the case of the 1996 Refunding Bonds means the denominations authorized for the 1996 Refunding Bonds in the Series 1996 Refunding Bonds Paying Agent Agreement.

"Bond Purchase Contract" means that certain contract for the purchase of the 1996 Refunding Bonds to be entered into between the District and the original underwriter or underwriters of the 1996 Refunding Bonds.

"Bond Reserve Requirement" means, subject to the provisions of this Fifth Supplemental Resolution permitting deposit of a Reserve Fund Credit Policy, the amount to be deposited in the 1996 Reserve Fund which shall be set forth in the Series 1996 Refunding Bonds Paying Agent Agreement pursuant to Section 3.04 hereof.

"Code" means the Internal Revenue Code of 1986, as amended.

"DTC" means the Depository Trust Company, New York, New York and its successors and assigns.

"Escrow Agent" means the escrow agent under the Escrow Instructions.

"Escrow Instructions" means the escrow instructions pursuant to which the proceeds of the 1996 Refunding Bonds will be held pending their application to the retirement of the Refunded Bonds.

"Fifth Supplemental Resolution" means this resolution of the District, and any amendments, modifications or supplements hereto.

"Insurance Policy" means the municipal bond insurance policy issued with respect to the 1996 Refunding Bonds on the date of initial issuance and delivery of the 1996 Refunding Bonds by the insurer selected by the General Manager or his designee, including such insurer's successors and assigns.

"Liquidity Guaranty Agreement" means the Liquidity Guaranty Agreement to be entered into between the District and AIG Financial Products Corp. with respect to the 1996 Refunding Bonds as such agreement may be amended, supplemented or otherwise modified from time to time, and, subsequently, **any** similar agreement between the District and any Qualified Swap Provider, as such agreement may be amended, supplemented or otherwise modified, from time to time,

"Master Resolution" means Resolution 8329 adopted by the District on July 9, 1991.

"Net District Payments" means, the excess, if any, of the amount to be paid on any date by the District to the Qualified Swap Provider over the amount to be paid by the Qualified Swap Provider to the District, in each instance pursuant to the terms of the Qualified Swap and solely in respect of amounts due other than pursuant to a termination of the Qualified Swap.

"Net Qualified Swap Provider Payments" means the excess, if any, of the amount to be paid on any date by the Qualified Swap Provider to the District over the amount to be paid by the District to the Qualified Swap Provider, in each instance pursuant to the terms of the Qualified Swap and solely in respect of amounts due other than pursuant to a termination of the Qualified Swap.

"1996 Refunding Bonds" has the meaning ascribed thereto in Section 2.01 hereof.

"Nominee" means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time hereto.

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

"Paying Agent" means the paying agent appointed pursuant to the Series 1996 Refunding Bonds Paying Agent Agreement and its successors and assigns.

"Qualified Swap" means (a) the interest rate swap agreement authorized hereby between the District and AIG Financial Products Corp., and (b) any other financial arrangement (i) that is entered into by the District with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) which provides that the District shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of the 1996 Refunding Bonds Outstanding, and that such entity shall pay to the District an amount based on the interest accruing on such principal amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Bonds) or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Paying Agent by an Authorized District Representative as a Qualified Swap.

"Qualified Swap Provider" means (a) with respect to the Qualified Swap referred to in clause (a) of the definition of Qualified Swap, AIG Financial Products Corp., and (b) with respect to a Qualified Swap referred to in clause (b) of such definition,

a financial institution whose senior long term debt obligations, or whose obligations under a Qualified Swap are guaranteed by a financial institution whose senior long term debt obligations, are rated (at the time the subject Qualified Swap is entered into) not lower than **Aa3** by **Moody's** and **AA-** by **S&P**, or the equivalent thereof by any successor thereto.

"Refunded Bonds" means the District's Waterworks Refunding Revenue Bonds, Issue of 1986 selected for refunding pursuant to Article VI hereof.

"Remarketing Agent" means the remarketing agent appointed, among other things, to remarket the 1996 Refunding Bonds under the Series 1996 Refunding Bonds Paying Agent Agreement, and its successors and assigns.

"Remarketing Agreement" means any remarketing agreement with respect to the 1996 Refunding Bonds, between the District and the Remarketing Agent, as it may be amended, supplemented or otherwise modified from time to time.

"Representation Letter" means each representation letter from the District to the Securities Depository as described in Section 2.09 hereof.

"Reserve Fund Credit Policy" means an insurance policy, surety bond, letter of credit or other credit facility deposited with the Fiscal Agent pursuant to Section 3.04(D) hereof.

"Resolution" means the Master Resolution, as heretofore amended and supplemented.

"Securities Depository" means the Securities Depository (initially DTC) acting as such hereunder and which may be the District.

"Series 1996 Refunding Bonds Paying Agent Agreement" means such paying agent agreement executed and delivered in connection with the issuance of the 1996 Refunding Bonds pursuant to the authority of the Ad Hoc Committee under Section 6.01(B) of this Fifth Supplemental Resolution.

"Standby Agreement" means an irrevocable letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of all or a portion of the 1996 Refunding Bonds, as such agreement may be amended, supplemented or otherwise modified from time to time and any alternate standby agreement, in substantially the form attached to the Liquidity Guaranty Agreement.

"Tax and Nonarbitrage Certificate" means the Tax and Nonarbitrage Certificate of the District delivered by the District in connection with the issuance of the 1996 Refunding Bonds.

ARTICLE II

THE 1996 REFUNDING BONDS

SECTION 2.01. Authorization. Refunding Bonds are hereby authorized to be issued pursuant to the Act and the Resolution, which Bonds are designated as "**The** Metropolitan Water District of Southern California Water Revenue Refunding Bonds, 1996 Series **A**" (the "**1996 Refunding Bonds**"). The 1996 Refunding Bonds shall bear such additional designation as may be ascribed thereto in the Series 1996 Refunding Bonds Paying Agent Agreement. The 1996 Refunding Bonds shall be issued in the aggregate principal amount specified in the Series 1996 Refunding Bonds Paying Agent Agreement. The 1996 Refunding Bonds shall be issued for the purpose of refunding the Refunded Bonds to be more particularly described in the Escrow Instructions with respect to the 1996 Refunding Bonds.

SECTION 2.02. Terms of the 1996 Refunding Bonds.

(A) 1996 Refunding Bonds. The 1996 Refunding Bonds shall (i) be delivered in fully registered form in Authorized Denominations; (ii) be numbered in such manner as the Fiscal Agent determines; (iii) be dated such date as shall be specified in the Series 1996 Refunding Bonds Paying Agent Agreement; and (iv) mature on the dates and in the principal amounts set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

(B) Sources of Payment. The payment of the principal of, interest on, and any redemption premiums on the 1996 Refunding Bonds shall be secured by and payable solely from Net Operating Revenues and any other amounts held by or available to the District expressly for such payment.

SECTION 2.03. Interest.

(A) 1996 Refunding Bonds. The 1996 Refunding Bonds shall bear interest from such date and at the rates set forth in or determined in accordance with the Series 1996 Refunding Bonds Paying Agent Agreement (calculated on the basis set forth in the Series 1996 Refunding Bonds Paying Agent Agreement), payable on the dates set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

(B) Payment of Interest. Each 1996 Refunding Bond shall bear or accrue interest until the principal thereof has been paid: provided, however, that if at the maturity date of any 1996 Refunding Bond or on the redemption date thereof if the same has been duly called for redemption, funds are available for the payment thereof in full in accordance with the terms of Article IX of the Resolution, such 1996 Refunding Bond shall then cease to bear or accrue interest.

SECTION 2.04. Place of Payment. Principal of, premium, if any, interest and purchase price with respect to the 1996 Refunding Bonds shall be paid in accordance with the procedures set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

SECTION 2.05. Redemption.

(A) Optional Redemption. The 1996 Refunding Bonds shall be subject to call and redemption in whole or in part prior to maturity, at the option of the District, in the amounts, at the redemption prices and on the dates as set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

(B) Mandatory Sinking Account Payments. The Outstanding 1996 Refunding Bonds shall be called before maturity and redeemed at a redemption price equal to the par amount thereof from Mandatory Sinking Account Payments which have been deposited in the Bond Service Fund, in the amounts and upon the dates established for each such maturity, as set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

SECTION 2.06. Form of 1996 Refunding Bonds. The 1996 Refunding Bonds shall be issued in substantially the form set forth in Appendix A to the Series 1996 Refunding Bonds Paying Agent Agreement.

SECTION 2.07. CUSIP Identification Numbers. CUSIP identification numbers shall be ordered by the underwriter and caused by the District to be printed on the 1996 Refunding Bonds, but such numbers shall not be deemed a part of the 1996 Refunding Bonds or a part of the contract evidenced thereby and no liability shall attach to the District or its officers, employees or agents because or on account of such CUSIP identification numbers.

SECTION 2.08. Book-Entry System. Except as may otherwise be provided in the Series 1996 Refunding Bonds Paying Agent Agreement, the 1996 Refunding Bonds shall be initially issued in the form of a separate single fully registered 1996 Refunding Bond for each of the maturities of the 1996 Refunding Bonds (each of which may be typewritten). Upon initial issuance, the ownership of each such 1996 Refunding Bond shall be registered in the Bond Register of the Fiscal Agent in the name of Cede & Co., as nominee of the Securities Depository. Except as provided in Section 2.10 hereof all of the Outstanding 1996 Refunding Bonds shall be registered in the Bond Register of the Fiscal Agent in the name of the Nominee.

With respect to the 1996 Refunding Bonds registered in the Bond Register of the Fiscal Agent in the name of the Nominee, the District and the Fiscal Agent shall have no responsibility or obligation to any such Participant or to any person on behalf of which such Participant holds an interest in the 1996 Refunding Bonds. Without limiting the immediately preceding sentence, the

District **and the Fiscal** Agent shall have no responsibility or obligation (unless the Fiscal Agent is at such time the Securities Depository) with respect to (i) the accuracy of the records of the Securities Depository, the Nominee or any Participant with respect to any ownership interest in the 1996 Refunding Bonds, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register of the Fiscal Agent, of any notice with respect to the 1996 Refunding Bonds, or (iii) the payment to any Participant or any other person, other than an Owner as shown in the Bond Register of the Fiscal Agent, of any amount with respect to principal of, premium, if any, or interest on the 1996 Refunding Bonds. The District and the Fiscal Agent may treat and consider the person in whose name each 1996 Refunding Bond is registered in the Bond Register of the Fiscal Agent as the holder and absolute Owner of such 1996 Refunding Bond for the purpose of payment of principal of, premium, if any, and interest on such 1996 Refunding Bond, for the purpose of giving notices and other matters with respect to such 1996 Refunding Bond, and for all other purposes whatsoever.

The Fiscal Agent shall pay all principal of, premium, if any, and interest on the 1996 Refunding Bonds 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 shall be valid and effective to fully satisfy and discharge the obligations hereunder with respect to the payment of principal of, premium, if any, and interest on the Refunding Bonds 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, shall receive a 1996 Refunding Bond evidencing the obligation to make payments of principal of, premium, if any, and interest pursuant to this Fifth Supplemental Resolution. Upon delivery by the Securities Depository to the Fiscal Agent and the District 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 herein with respect to record dates, the word Nominee in this Fifth Supplemental Resolution shall refer to such new nominee of the Securities Depository.

SECTION 2.09. **Representation Letter.** In order to qualify the 1996 Refunding Bonds for the Securities Depository's book-entry system, the Authorized Representative is hereby authorized to execute, seal, countersign and deliver, from time to time, on behalf of the District to such Securities Depository a letter or letters from the District representing such matters as shall be necessary to so qualify the 1996 Refunding Bonds (each a "Representation Letter"). The execution and delivery of a Representation Letter shall not in any way limit the provisions of Section 2.08 hereof or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the 1996 Refunding Bonds other than the Owners, as shown on the Bond Register of the Fiscal Agent. In the written acceptance of

the Fiscal Agent of a Representation Letter, such Fiscal Agent shall agree to take all actions necessary for all representations of the District in such Representation Letter with respect to the Fiscal Agent to at all times be complied with. In addition to the execution and delivery of a Representation Letter, each Authorized Representative of the District is hereby authorized to take any other actions, not inconsistent with this Fifth Supplemental Resolution, to qualify the 1996 Refunding Bonds for the Securities **Depository's** book-entry program.

SECTION 2.10. Transfers outside Book-Entry System. In the event (i) the Securities Depository determines not to continue to act as securities depository for the 1996 Refunding Bonds, or (ii) the District determines that the Securities Depository shall, subject to the provisions of the Series 1996 Refunding Bonds Paying Agent Agreement, no longer so act and delivers a written certificate to the Fiscal Agent to that effect, then the District will discontinue the book-entry system with the Securities Depository. Subject to the provisions of the Series 1996 Refunding Bonds Paying Agent Agreement, if the District determines to replace the Securities Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new, single, separate, fully registered 1996 Refunding Bond for each of the maturities of the 1996 Refunding Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee, or make such other arrangement acceptable to the District and the Securities Depository as are not inconsistent with the terms of the Fifth Supplemental Resolution. If the District fails to identify another qualified securities depository to replace the Securities Depository, then the 1996 Refunding Bonds shall no longer be restricted to being registered in the Bond Register of the Fiscal Agent in the name of the Nominee, but shall be registered in whatever name or names the Participants transferring or exchanging certificate shall designate, in accordance with the provisions of Article II of the Resolution and the provisions of the Series 1996 Refunding Bonds Paying Agent Agreement.

SECTION 2.11. Payments and Notices to the Nominee. Notwithstanding any other provision of this Fifth Supplemental Resolution to the contrary, so long as any 1996 Refunding Bond is registered in the name of the Nominee, all payments with respect to principal of, premium, if any, and interest on such 1996 Refunding Bond and all notices with respect to such 1996 Refunding Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Securities Depository.

SECTION 2.12. Initial Depository and Nominee. The initial Securities Depository under this Fifth Supplemental Resolution shall be DTC. The initial Nominee shall be Cede & Co., as Nominee of DTC.

SECTION 2.13. Tender of 1996 Refunding Bonds. The 1996 Refunding Bonds shall be subject to optional and mandatory tender for purchase prior to maturity on the terms and conditions set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

ARTICLE III

SALE OF 1996 REFUNDING BONDS; APPLICATION OF PROCEEDS; FUNDS;

SECTION 3.01. Application of the Proceeds of the 1996 Refunding Bonds. Except as expressly provided in this Fifth Supplemental Resolution, the proceeds of the sale of the 1996 Refunding Bonds and such other moneys as are available and necessary to accomplish the purposes of this Fifth Supplemental Resolution from time to time shall be deposited with the Treasurer and shall be held in trust and, unless otherwise specified in a certificate of an Authorized Representative, be set aside by the Treasurer in the accounts and funds as set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

SECTION 3.02. Establishment and Application of Costs of Issuance Fund.

(A) The District shall establish, and the Treasurer shall maintain and hold in trust a separate fund with respect to the 1996 Refunding Bonds, which shall be designated as the "**Water Revenue 1996 Refunding Bonds Costs of Issuance Fund**" and shall bear such additional designation as shall be ascribed thereto by an Authorized Representative. The moneys in such Costs of Issuance Fund shall be used and withdrawn by the Treasurer to pay Costs of Issuance incurred in connection with the issuance of the 1996 Refunding Bonds.

(B) The Treasurer shall keep a record of all payments from such Costs of Issuance Fund, which record shall state: (i) the item number of such payment; (ii) the name and address of the person to whom each such payment is due, which may be the District in the case of reimbursement for costs theretofore paid by the District; and (iii) the purpose by general classification for which each obligation to be paid was incurred.

SECTION 3.03 Establishment and Application of Escrow Fund.

(A) Establishment of Escrow Fund. In connection with the issuance of the 1996 Refunding Bonds, the District shall establish a special trust fund with respect to the Refunded Bonds to be refunded by the application of the net proceeds of the 1996 Refunding Bonds. Such special fund shall be designated as the "**Water Revenue 1996 Refunding Bonds Escrow Fund**" and shall bear such additional designation as shall be ascribed thereto by an

Authorized Representative. Such Escrow Fund established pursuant to the terms of this Section 3.03(A) shall be held by the Escrow Agent pursuant to the Escrow Instructions for the 1996 Refunding Bonds. Moneys in the Escrow Fund for the 1996 Refunding Bonds shall be applied solely as provided in the Escrow Instructions for such 1996 Refunding Bonds.

(B) Establishment of Escrow Instructions and Appointment of Escrow Agent. An Authorized Representative is hereby authorized and directed to execute and deliver Escrow Instructions for the 1996 Refunding Bonds, and to select and appoint the Escrow Agent for such 1996 Refunding Bonds. The Escrow Agent may be any bank or trust company within or without the State of California, or both within and without said State. The selection and appointment of the Escrow Agent shall be subject to such terms and conditions, and the Escrow Instructions shall contain such terms, conditions and provisions, as such Authorized Representative, acting in his or her sole discretion, shall deem to be in the best interests of the District.

The Escrow Instructions may provide that, upon receipt of a certificate from an Authorized Representative directing the Escrow Agent to do so, the Escrow Agent may substitute other Federal Securities or Authorized Investments for those initially purchased for the Escrow Fund only if (i) a nationally recognized firm of independent certified public accountants shall certify that the Federal Securities or Authorized Investments to be substituted, together with the Federal Securities or Authorized Investments 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) the District shall 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 Authorized Investments does not cause interest on either the Refunded Bonds or the 1996 Refunding Bonds to be included in gross income for purposes of federal income taxation under relevant provisions of the Code.

SECTION 3.04. Establishment, Pledge, Funding and Application of Reserve Fund. (A) In connection with the issuance of the 1996 Refunding Bonds pursuant to this Fifth Supplemental Resolution, the District shall establish and the Treasurer shall maintain and hold in trust a separate fund which shall be designated as the **"Water Revenue 1996 Refunding Bonds Reserve Fund"** (the "1996 Reserve Fund") and shall bear such additional designation as shall be determined by an Authorized Representative. The 1996 Reserve Fund shall be funded as set forth in this Section 3.04. All amounts held by the Treasurer in the 1996 Reserve Fund established with respect to such 1996 Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such 1996 Refunding Bonds in accordance with their terms.

(B) The District shall at all times maintain an amount **equal** to the applicable Bond Reserve Requirement in the 1996 Reserve Fund established with respect to the 1996 Refunding Bonds until such Series is discharged in accordance with the provisions of Article IX of the Resolution. The amount of the Bond Reserve Requirement applicable to the 1996 Refunding Bonds shall be set forth in the Series 1996 Refunding Bonds Paying Agent Agreement. In the event of any deficiency in such Reserve Fund, the Treasurer shall replenish such deficiency in accordance with the provisions of Section 5.07 of the Master Resolution.

(C) All amounts in the 1996 Reserve Fund shall be used and withdrawn by the Treasurer, as hereinafter provided, solely for the purpose of (i) paying principal of and interest on such 1996 Refunding Bonds in the event moneys in the Bond Service Fund are insufficient, or (ii) for the payment of the final principal and interest payment on such 1996 Refunding Bonds.

All Authorized Investments credited to the 1996 Reserve Fund shall be valued as of June 30 of each year (or the next preceding or succeeding Business Day, as determined by the District, if such day is not a Business Day) at their fair market value determined to the extent practicable by reference to the closing bid price thereof published in The Wall Street Journal or any other financial publication or quotation service selected by the Treasurer in his or her discretion.

(D) Notwithstanding anything herein to the contrary, at the option of the District amounts required to be held in the 1996 Reserve Fund may be substituted, in whole or in part, by the deposit with the Fiscal Agent of a Reserve Fund Credit Policy in a stated amount **equal** to the amounts so substituted, provided that prior to the substitution of such Reserve Fund Credit Policy the Rating Agencies shall have been notified of such proposed substitution and the substitution shall not result in a downgrading or withdrawal of any rating of the 1996 Refunding Bonds then in effect by the Rating Agencies. Any such substituted moneys shall be applied as provided in a Certificate of an Authorized Representative.

So long as a Reserve Fund Credit Policy shall be in force and effect, any deposits required to be made with respect to such Reserve Fund pursuant to Section 5.07 of the Master Resolution shall include any amounts due to the provider of the 1996 Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy (which amounts shall constitute a **"deficiency"** or **"withdrawal"** from the 1996 Reserve Fund within the meaning of Section 5.07 of the Master Resolution). Any such amounts shall be paid to the provider of such Reserve Fund Credit Policy as provided in such Reserve Fund Credit Policy or any related agreement.

SECTION 3.05. Establishment and Application of Excess Earninss Fund. To ensure proper compliance with the tax covenants

contained in Section 3.06 hereof, the District shall establish and the Treasurer shall maintain a fund for the 1996 Refunding Bonds issued hereunder, which fund shall be separate from any other fund or account established and maintained hereunder or under the Master Resolution and shall be designated as the "**Water** Revenue 1996 Refunding Bonds Excess Earnings **Fund**" (the "**1996** Excess Earnings **Fund**") and shall bear such additional designation as shall be ascribed thereto by an Authorized Representative. All money at any time deposited in the 1996 Excess Earnings Fund with respect to the 1996 Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series shall be held by the Treasurer for the account of the District in trust for payment to the federal government of the United States of America, and neither the District nor the Owner of any 1996 Refunding Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 1996 Excess Earnings Fund shall be governed by this Fifth Supplemental Resolution and by the Tax and Nonarbitrage Certificate. The Treasurer shall invest all amounts held in the 1996 Excess Earnings Fund in accordance with the Tax and Nonarbitrage Certificate. Money shall not be transferred from the 1996 Excess Earnings Fund established for the 1996 Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate.

SECTION 3.06. Tax Covenants. In order to maintain the exclusion from gross income of the interest on the 1996 Refunding Bonds for federal income tax purposes, the District covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and the District agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate, which by this reference is incorporated herein as a source of guidance for compliance with such provisions.

Notwithstanding any other provisions of the Resolution or this Fifth Supplemental Resolution to the contrary, upon the District's failure to observe, or refusal to comply with, the foregoing covenant, no Person other than the Owners of the 1996 Refunding Bonds shall be entitled to exercise any right or remedy provided to the Owners under the Resolution or this Fifth Supplemental Resolution on the basis of the District's failure to observe, or refusal to comply with, such covenant.

SECTION 3.07. Establishment and Application of Additional Funds With **Respect** to the 1996 Refunding Bonds.

In addition to the funds established pursuant to the Resolution and this Fifth Supplemental Resolution, there shall be established and maintained such additional funds and/or accounts with respect to (i) the purchase and remarketing of the 1996 Refunding Bonds and (ii) the payments to be made by the District under the Qualified Swap, as shall be set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

Amounts payable by the District from Net Operating Revenues pursuant to the Qualified Swap shall be placed in the 1996 Refunding Bond Swap Fund (the "**Swap Fund**") created under Article VII of the Series 1996 Refunding Bonds Paying Agent Agreement. Whenever amounts from Net Operating Revenues are required to be set aside and transferred to the Bond Service Fund and the Swap Fund and any debt service fund, sinking fund or mandatory sinking fund established with respect to Parity Obligations and the moneys available **therefor** are not sufficient to satisfy the amounts then due and payable with respect to all such obligations in full, then such available moneys shall be allocated ratably among the Bond Service Fund and the Swap Fund and any debt service fund, sinking fund or mandatory sinking fund established with respect to Parity Obligations according to the amounts then due and payable with respect to such obligations, without any discrimination or preference.

ARTICLE IV

LIQUIDITY GUARANTY AGREEMENT, STANDBY AGREEMENT, REMARKETING AGREEMENT, QUALIFIED SWAP AND INSURANCE POLICY

SECTION 4.01. Liauidity Guaranty Aqreement; Standby Aareement. The terms and conditions relating to the Credit Facility providing for the payment of the purchase price of the 1996 Refunding Bonds shall be as set forth in the Standby Agreement to be provided pursuant to the Liquidity Guaranty Agreement.

SECTION 4.02. Remarketins Aareement. The terms and conditions relating to the remarketing of the 1996 Refunding Bonds shall be as provided in the Remarketing Agreement.

SECTION 4.03. Qualified Swap. The terms and conditions relating to the interest rate swap shall be as agreed to by the District in the Qualified Swap. The obligations of the District to make Net District Payments, and the obligation of the District in respect of amounts due pursuant to a termination of the Qualified Swap and any other amounts due thereunder that occurs after the 1996 Refunding Bonds shall have been issued, are secured by a pledge of and shall be a charge upon and shall be payable solely from and secured by a lien upon Net Operating Revenues on a parity with the District's obligations under the 1996 Refunding Bonds and shall constitute Parity Obligations subordinate only to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Resolutions. The obligations of the District in respect of amounts due pursuant to a termination of the Qualified Swap that occurs prior to the issuance of the 1996 Refunding Bonds, are secured by a pledge of and shall be a charge upon and shall be payable from and secured by a lien upon Net Operating Revenues on a basis subordinate only to the lien thereon in favor of the Prior Lien Bonds, the Bonds and any Parity Obligations all in accordance with Section 5.09 of the Master Resolution. The District hereby pledges

and places a charge upon all Net Operating Revenues, subordinate only to the lien thereon in favor of the Prior Lien Bonds, the Bonds and any Parity Obligations, to secure the payment of any amounts due pursuant to a termination of the Qualified Swap that occurs prior to the issuance of the 1996 Refunding Bonds and the Net Operating Revenues shall constitute a trust for the security and payment of such termination payment, if any, subordinate only to the lien thereon of the Prior Lien Bonds, the Bonds and any Parity Obligations. The District, in addition, hereby pledges and places a charge upon all amounts held by the District in the Swap Fund to secure the payment by the District of any amounts due pursuant to the Qualified Swap. The remedies of the Qualified Swap Provider with respect to a default by the District under the Qualified Swap shall be as set forth in the Qualified Swap.

SECTION 4.04. Bond Insurance. The terms and conditions relating to municipal bond insurance insuring the payment of the 1996 Refunding Bonds shall be as provided in the Insurance Policy.

SECTION 4.05. Series 1996 Refunding Bonds Paying Agent Agreement. Except as expressly provided in this Fifth Supplemental Resolution, the terms and conditions of the 1996 Refunding Bonds shall be as set forth in the Series 1996 Refunding Bonds Paying Agent Agreement.

ARTICLE V

FISCAL AGENT, PAYING AGENT AND REMARKETING AGENT

SECTION 5.01. Fiscal Agent, Paying Agent, and Remarketing Agent. The Treasurer is hereby appointed as Fiscal Agent with respect to the 1996 Refunding Bonds. In addition, an Authorized Representative shall appoint a Paying Agent, which shall have such duties and obligations as shall be set forth in the Series 1996 Refunding Bonds Paying Agent Agreement. The General Manager shall appoint a Remarketing Agent which shall have such duties and obligations as shall be set forth in the Series 1996 Refunding Bonds Paying Agent Agreement and the Remarketing Agreement.

ARTICLE VI

APPROVAL OF BOND PURCHASE CONTRACT, SERIES 1996 REFUNDING BONDS PAYING AGENT AGREEMENT, REMARKETING AGREEMENT, QUALIFIED SWAP, STANDBY AGREEMENT AND INSURANCE POLICY

SECTION 6.01. Approval of Bond Purchase Contract, Series 1996 Refunding Bonds Paying Agent Agreement, Remarketing Agreement, Qualified Swap, Liquidity Guaranty Agreement, Standby Agreement and Insurance Policy.

(A) Ad Hoc Committee. The Chairman of the Board, or in the event of a vacancy, the Acting Chairman of the Board, the Chairman of the Finance and Insurance Committee of the Board, or in the event of a vacancy, the Acting Chairman of the Finance and Insurance Committee of the Board, and the General Manager, or his designee, acting jointly, are hereby constituted an ad hoc committee (the "**Ad Hoc Committee**").

(B) 1996 Refunding Bonds. The Ad Hoc Committee is authorized and directed (i) to establish on behalf of the District the terms and conditions of the 1996 Refunding Bonds as the members of the Ad Hoc Committee shall agree upon in their sole discretion as being in the best interests of the District, subject only to the provisions of the Act and the Resolution and this Fifth Supplemental Resolution; (ii) to establish the Fixed Rate (as defined in the Qualified Swap) payable by the District; (iii) to select the original underwriter or underwriters of the 1996 Refunding Bonds and to negotiate and establish on behalf of the District the terms and conditions of the sale of the 1996 Refunding Bonds, and to negotiate the sale of such 1996 Refunding Bonds at private sale to one or more of such purchasers without the necessity of public or competitive bidding; and (iv) to negotiate and establish on behalf of the District the terms and conditions of the Bond Purchase Contract and, if such Bond Purchase **Contract is** terminated prior to the issuance of the 1996 Refunding Bonds, the terms and conditions of any other bond purchase contract between the District and the original purchaser or purchasers of the 1996 Refunding Bonds. The terms and conditions as set forth in the Series 1996 Refunding Bonds Paying Agent Agreement, together with the other terms and conditions of the 1996 Refunding Bonds set forth in this Fifth Supplemental Resolution, shall, upon execution and delivery of the Series 1996 Refunding Bonds Paying Agent Agreement by the Ad Hoc Committee or its designee on behalf of the District, be all the terms and conditions of such 1996 Refunding Bonds, as if all such terms and conditions were fully set forth in this Fifth Supplemental Resolution. The Ad Hoc Committee shall be so empowered to implement the fundamental policies established hereby in a manner that is most advantageous to the District.

(C) Remarketing, Credit Facility, Interest Rate Swap and Insurance Policy. The General Manager or his designee is hereby empowered to appoint the Remarketing Agent and, to the extent required by law, to deem the official statement relating to any such 1996 Refunding Bonds final within the meaning of Rule **15c2-12** of the Securities Exchange Act of 1934, as amended, and to negotiate and establish on behalf of the District: (i) the terms and conditions of the remarketing of the 1996 Refunding Bonds; (ii) the terms and conditions of the provision of a Credit Facility with respect to the 1996 Refunding Bonds, including the terms and conditions of any **renewals**, replacements or extensions thereof; (iii) the terms and conditions of the Qualified Swap (other than the Fixed Rate payable by the District thereunder); (iv) the terms and conditions of the Insurance Policy; and (v) the provider, terms

and conditions of a Reserve Fund Credit Policy, if any, in each case as the General **Manager** or his designee shall **agree** upon in his or her sole discretion as being in the best interests of the District, subject only to the provisions of the Act, the Resolution and this Fifth Supplemental Resolution, and shall be so empowered to implement the fundamental policies established hereby in a manner that is most advantageous to the District.

The General Manager or his designee is hereby further empowered to (i) select the bonds to be refunded by the 1996 Refunding Bonds from the District's Waterworks Refunding Revenue Bonds, Issue of 1986 and (ii) convert the interest rate on the 1996 Refunding Bonds pursuant to the terms of the Series 1996 Refunding Bonds Paying Agent Agreement and of the Qualified Swap, in each case as the General Manager or his designee shall agree upon in his or her sole discretion as being in the best interests of the District, subject only to the provisions of the Act, the Resolution and this Fifth Supplemental Resolution.

(D) Agreements. The terms and conditions of the 1996 Refunding Bonds, their sale, the interest rate swap and the Credit Facility shall be set forth in the Bond Purchase Contract, the Series 1996 Refunding Bonds Paying Agent Agreement, the Remarketing Agreement, the Qualified Swap and the Liquidity Guaranty Agreement and the Chairman of the Board, the General Manager and the Director of Finance of the District are each hereby empowered to execute and deliver each such document by and on behalf of the District.

The Series 1996 Refunding Bonds Paying Agent Agreement (in substantially the form filed with the Secretary of the District), the Bond Purchase Contract (in substantially the form filed with the Secretary of the District), the Qualified Swap (in substantially the form filed with the Secretary of the District), the Remarketing Agreement (in substantially the form filed with the Secretary of the District), and the Liquidity Guaranty (in substantially the form filed with the Secretary of the District), and the Standby Agreement (in substantially the form filed with the Secretary of the District) are each approved, with such changes therein as the officer or officers executing the same may approve, subject only to the express terms of this Fifth Supplemental Resolution.

The provisions of the Series 1996 Refunding Bonds Paying Agent Agreement pertaining to the terms of the 1996 Refunding Bonds are hereby incorporated by reference into this Fifth Supplemental Resolution with the **same** force and effect as if set forth herein.

The Board hereby finds and determines that the interests of the District and the public interest and necessity require that the provisions of Section 225 and of Section 226 of the Act be waived.

The 1996 Refunding Bonds may be sold pursuant to the 1996 Bond Purchase Contract at a discount not to exceed one percent (1%) (excluding original issue discount, if any).

SECTION 6.02. Further Action. The Chairman of the Board, the General Manager and the Director of Finance of the District shall be and each of them is hereby authorized, empowered and directed to execute such other documents in addition to those enumerated herein and take such other actions as they deem necessary or advisable in order to carry out and perform the purposes of this Fifth Supplemental Resolution.

ARTICLE VII

AMENDMENTS OF RESOLUTION

SECTION 7.01. Amendments of Resolution Pursuant to Section 8.01(B) (2) of the Master Resolution. Pursuant to Section 8.01(B)(2) of the Master Resolution, the provisions of the Resolution are hereby amended and supplemented as follows:

Section 3.01 of the Master Resolution is hereby amended and supplemented to read in its entirety as follows:

"SECTION 3.01. 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 the District 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 shall be determined by the Board, but only upon compliance by the District with the provisions of this Resolution and **any** additional requirements set forth in said Supplemental Resolution.

A Supplemental Resolution authorizing one or more Series of Bonds shall 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 shall 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, 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 shall 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 pledge 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 the District with respect to the Bonds of such Series and the pledge or provision of moneys, assets or security for any payments by the District 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 the District with respect to any interest rate swap with respect to the Bonds of such Series as a Parity Obligation or otherwise; (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 this Resolution. In lieu of expressly stating **any** of the foregoing, it shall be sufficient if such

Supplemental Resolution shall provide the method or procedure for determination of any of the **foregoing.**"

Section 5.06 of the Master Resolution is hereby amended and supplemented by the addition of the following paragraph at the end thereof:

"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.**"

SECTION 7.02. Board **Findings Regarding Amendments.** The Board deems the amendments to the Master Resolution set forth in Section 7.01 hereof necessary and desirable and finds that such amendments shall not materially and adversely affect the Owners of any of the Bonds.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. 1996 **Refunding Bonds Subject to the Master Resolution.** Except as expressly provided in this Fifth Supplemental Resolution, every term and condition contained in the Master Resolution shall apply to this Fifth Supplemental Resolution and to the 1996 Refunding Bonds with the same force and effect as if it were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Fifth Supplemental Resolution. The Master Resolution, as heretofore and hereby amended, is in all respects ratified and approved.

SECTION 8.02. Severability of **Invalid Provisions.** If **any** one or more of the provisions contained in this Fifth Supplemental Resolution or in the 1996 Refunding Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Fifth Supplemental Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Fifth Supplemental Resolution, and this Fifth Supplemental Resolution shall be construed as if such invalid or illegal or unenforceable

provision had never been contained herein. The District hereby declares that it would have adopted this Fifth Supplemental Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 1996 Refunding Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Fifth Supplemental Resolution may be held illegal, invalid or unenforceable.

SECTION 8.03. Survival of Terms. The terms and provisions of this Fifth Supplemental Resolution shall survive until the termination of the Qualified Swap and the payment of all amounts payable thereunder.

SECTION 8.04. Third Party Beneficiaries. This Fifth Supplemental Resolution shall inure to the benefit of and be binding upon the Qualified Swap Provider and its successors and assigns.

SECTION 8.05. Article and Section Headings and References: Interpretation. The headings or titles of the several Articles and Sections hereof shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Fifth Supplemental Resolution.

All references herein to "Articles", "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Fifth Supplemental Resolution; the words "herein" "hereof," "hereby," "hereunder" and other words of similar import refer to this Fifth Supplemental Resolution as a whole and not to any particular Article, section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

SECTION 8.06. Governing Law. This Fifth Supplemental Resolution shall be construed and governed in accordance with the laws of the State of California.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by a two-thirds (2/3) vote of the total vote of the Board of Directors of The Metropolitan Water District of Southern California at its regular meeting held on January 11, 1994.

Executive Secretary
The Metropolitan Water District
of Southern California