



● **Board of Directors**
Business and Finance Committee

December 8, 2009 Board Meeting

8-1

Subject

Adopt Nineteenth Supplemental Resolution to the Master Revenue Bond Resolution authorizing the sale of Special Variable Rate Water Revenue Refunding Bonds and execution of revolving credit facilities or liquidity support agreements; and approve (1) Appropriation No. 15464 to pay costs of issuance of Special Variable Rate Water Revenue Refunding Bonds; (2) Appropriation No. 15465 to pay costs of issuance of Waterworks General Obligation Refunding Bonds; and (3) a \$150,000 increase in payments for financial advisory services under Agreement No. 81950 with Public Resources Advisory Group

Description

As previously discussed with the Board, there have been many changes to the municipal bond market over the past few years that have affected even highly rated credits such as Metropolitan. Currently, there is less availability and more costly liquidity facility bank support for Metropolitan's variable rate water revenue bonds. The cost of such liquidity support is about seven to eight times more than it was just a few years ago. Metropolitan currently has \$1.67 billion of variable rate water revenue bonds supported by liquidity facilities with a diversified portfolio of nine different banks. The average annual cost of liquidity agreements supporting Metropolitan's variable rate debt program has gradually risen from approximately 12 basis points to approximately 30 basis points currently, which represents about \$3 million of additional costs per year to Metropolitan. However, the cost to Metropolitan for liquidity in the current market is approximately 100 basis points. These higher fees are primarily due to the collapse of the municipal bond insurance and the auction rate markets as the demand for liquidity increased at a time when the number of liquidity providers was decreasing. As existing liquidity facilities expire, Metropolitan needs to either replace the facility with the existing bank (and agree to pay higher fees), solicit liquidity agreements from another provider (at higher prices), refund the bonds to eliminate the need for higher priced liquidity, or terminate the liquidity facility and find another way to maintain variable rate exposure without the need for a liquidity facility.

Since May 2009, Metropolitan has addressed these dramatic changes in the credit markets by doing the following:

- In May 2009, Metropolitan issued \$208 million of variable rate SIFMA Index Notes which were structured as long-term bonds with interest rates set on a weekly basis with a mandatory tender in June 2010. The SIFMA Index Notes were used to refund variable rate water revenue bonds that were supported by a standby bond purchase agreement with Dexia. The Dexia bonds were refunded to eliminate higher interest rates due to any future credit downgrades of Dexia; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk which could lead to higher costing bank bonds.
- In June 2009, Metropolitan issued \$107 million of fixed rate water revenue refunding bonds to refund the remaining portion of the Dexia backed variable rate bonds that were issued in 2003.
- In June 2009, Metropolitan issued \$91 million of fixed rate water revenue refunding bonds to refund variable rate water revenue bonds that were supported by a standby bond purchase agreement with WestLB. The WestLB bonds were refunded to eliminate higher interest rates due to any future credit downgrades of WestLB; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk, which could lead to higher costing bank bonds.

- In July 2009, Metropolitan issued \$81 million of fixed rate water revenue refunding bonds to refund variable rate water revenue bonds that were supported by a standby bond purchase agreement with Landesbank Baden-Wurtemberg (LBBW). The LBBW bonds were refunded to eliminate higher interest rates due to any future credit downgrades of LBBW; to eliminate the need and exposure to rising costs for liquidity facilities; and to eliminate put risk, which could lead to higher costing bank bonds.

In addition to issuing the SIFMA Index Notes and fixed rate water revenue bonds to eliminate the pricing increases and risks associated with liquidity support for its variable rate water revenue bonds, Metropolitan has been exploring other ways to mitigate the rising costs and risks. Metropolitan has been working with the East Bay Municipal Utility District to seek access to the corporate liquidity market, a market that has not seen the spikes in prices for liquidity that has occurred in the municipal liquidity market. The primary differences between the corporate style liquidity and the municipal liquidity that leads to lower pricing is that the corporate liquidity is not tied directly to specific variable rate bond issues, as the bank is not the first in line should any variable rate bonds be put by investors, instead a municipality (such as Metropolitan) would use a revolving credit agreement among a number of participating banks (a syndicated loan agreement) should Metropolitan not have the cash available to meet the investors put. Therefore, the investor would be primarily looking to higher rated credits such as Metropolitan to provide liquidity for their investment which also serves to diversify each investor's credit exposure to the banks. This type of structure will serve to augment Metropolitan's existing standby bond purchase agreement structures.

In order to authorize Metropolitan to provide its own liquidity in support of variable rate water revenue bonds, and to authorize the execution of revolving credit agreements for the purpose of providing funds to Metropolitan to purchase any tendered (put) variable rate water revenue bonds, the Board will need to approve a supplemental resolution to the Master Water Revenue Bond Resolution.

The Nineteenth Supplemental Resolution authorizes the issuance of Special Variable Rate Water Revenue Refunding Bonds that bear interest determined on a daily or weekly or other periodic basis by a remarketing agent, in the same manner as Metropolitan's other weekly or daily rate water revenue bonds. The bondholders will have the right to tender their bonds for repurchase at any time on seven days notice and the remarketing agent will be obligated to remarket tendered bonds, the same as with Metropolitan's other weekly or daily rate bonds. However, Metropolitan's other weekly or daily rate bonds are supported by standby bond purchase agreements, pursuant to which the standby bank is obligated to purchase any tendered bonds that are not remarketed. The Special Variable Rate Bonds issued under the Nineteenth Supplemental Resolution will be supported instead by Metropolitan's own liquidity and balance sheet. Metropolitan will purchase any tendered bonds that are not remarketed using any available funds and hold those bonds until they can be remarketed.

The Nineteenth Supplemental Resolution also authorizes the execution of revolving credit agreements for the purpose of providing funds to Metropolitan to purchase tendered Special Variable Rate bonds. Metropolitan anticipates entering into revolving credit agreements with commercial banks to backstop Metropolitan's own liquidity. As agreements with particular banks expire, Metropolitan could replace them, choose not to replace them, or substitute other banks into the pool. Bondholders would depend on Metropolitan's liquidity, backed up by the revolving credit agreements, for purchase of any tendered Special Variable Rate bonds instead of a single standby bank.

Appropriation No. 15464: Special Variable Rate Water Revenue Refunding Bonds

An appropriation is required to pay expenses associated with the proposed issuance of Special Variable Rate Water Revenue Refunding Bonds under the Nineteenth Supplemental Resolution. The Ad Hoc Committee of the Board is authorized to approve the terms and conditions of a sale of Special Variable Rate Water Revenue Refunding Bonds and to approve revolving credit facilities or liquidity support agreements as detailed in the Nineteenth Supplemental Resolution. These expenses could be funded from bond proceeds, and are included as part of the bond transaction, or from General Fund monies.

The following table provides a breakdown of estimated expenses for Appropriation No. 15464:

Legal Counsel Fees	\$ 300,000
Rating Agency Fees	150,000
Financial Advisory Fees	150,000
Printing	25,000
Other Fees / Contingency	<u>50,000</u>
Total	\$ 675,000

The appropriation will expire on December 31, 2011, unless extended by the Board.

Appropriation No. 15465: General Obligation Refunding Bonds

Metropolitan is currently planning to take advantage of market conditions to refund a portion of outstanding Waterworks General Obligation Bonds. In accordance with Resolution 8386, the Ad Hoc Committee of the Board is authorized to approve the terms and conditions of a sale of general obligation refunding bonds at any time when the terms are permitted under Metropolitan's bond refunding guidelines. Should market conditions remain favorable, Metropolitan would have the opportunity to issue Waterworks General Obligation Refunding Bonds to lower general obligation bond debt service costs. An appropriation is required to pay expenses associated with the proposed issuance of general obligation refunding bonds. These expenses could be funded from bond proceeds, and included as part of the bond transaction, or from General Fund monies.

The following table provides a breakdown of estimated expenses for Appropriation No. 15465:

Rating Agency Fees	\$ 120,000
Legal Counsel Fees	70,000
Financial Advisory Fees	60,000
Printing	25,000
Other Fees / Contingency	<u>20,000</u>
Total	\$ 295,000

The appropriation will expire on December 31, 2011, unless extended by the Board.

Payments for Financial Advisory Services

Public Resources Advisory Group has served as Metropolitan's primary financial advisor since January 2000. PRAG's services to Metropolitan under agreement No. 81950 include:

- Advice on the timing, method, and structure of debt financings.
- Assistance in negotiating the terms and conditions of interest rate swap agreements.
- Assistance in evaluating opportunities to refinance and restructure debt including escrow restructurings.
- Preparation of detailed financial analysis and review of financial products, including documents related to the sale of debt and investment of debt proceeds.
- Assisting Metropolitan when negotiating contracts and soliciting bids for various services associated with financial transactions.
- Coordinating and developing rating agency strategies.
- Other financial advisory services as requested by Metropolitan.

In a typical contract year under the terms of Metropolitan's agreement with its financial advisors, two or three debt financing transactions may occur. However, because of the volatile and changing financial markets over the

past few years, Metropolitan has utilized the services of PRAG much more than in a typical contract year. During 2009 (PRAG's contract year was from December 2008 to November 2009), PRAG provided financial advisory services for the following transactions:

- \$200.0 million, Water Revenue Bonds, 2008 Authorization, Series A
- \$208.4 million, Water Revenue Refunding Bonds, 2009 Series A-1, A-2
- \$106.7 million, Water Revenue Refunding Bonds, 2009 Series B
- \$ 91.2 million, Water Revenue Refunding Bonds, 2009 Series C
- \$ 21.6 million, Water Revenue Bonds, 2008 Authorization, Series B
- \$ 78.4 million, Water Revenue Bonds, 2008 Authorization, Series C (Build America Bonds)
- \$ 81.1 million, Water Revenue Refunding Bonds, 2009 Series D
- \$250.0 million, Water Revenue Bonds, 2008 Authorization, Series D (Build America Bonds)

Due to the number of financial transactions over the past year, and based on work already performed by PRAG during the 2008/09 contract year, staff estimates that services provided during the 2008/09 contract year will total approximately \$290,000, which would be \$50,000 greater than the maximum amount payable of \$240,000 as identified in the agreement. Staff recommends that the Board authorize an amendment to the agreement with PRAG to increase the maximum amount payable for contract year 2008/09 by \$50,000 to a new maximum of \$290,000.

In addition, for the December 2009 to November 2010 contract year, staff anticipates that financial advisory services will be needed over and above the services for a typical contract year. Financial advisory services will be required for the following:

- Pricing of at least one new money water revenue bond issue to provide funding for the ongoing capital investment plan
- Potential refunding of a portion of outstanding general obligation bonds, including the Waterworks General Obligation Refunding Bonds, 2009 Series A issue which is anticipated to close by December 22, 2009
- Potential refunding of a portion of outstanding water revenue bonds, including the Water Revenue Refunding Bonds, 2009 Series E issue which is anticipated to close in mid-December 2009
- Renewal of expiring liquidity facilities for approximately \$400 million for five series of variable rate water revenue bonds, liquidity bids from other providers, or issuing additional refunding bonds for all or a portion of the \$400 million

Therefore, given the financial advisory services anticipated to be needed during the December 2009 to November 2010 contract year, staff anticipates that payments may be as much as \$100,000 greater than the maximum amount payable of \$240,000 as identified in the agreement. Staff recommends that the Board authorize an amendment to the agreement with PRAG to increase the maximum amount payable for fiscal year 2009/10 by \$100,000 to a new maximum of \$340,000.

Policy

Chapter 1.6 of Part 5 (Sections 235-239.4) of the Metropolitan Water District Act: Revenue Bonds

Metropolitan Water District Administrative Code Section 5108: Appropriations

Metropolitan Water District Administrative Code Section 8115: (a) Negotiated Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and

- a. Adopt the Nineteenth Supplemental Resolution to the Master Revenue Bond Resolution (**Attachment 1**) authorizing the issuance of Special Variable Rate Water Revenue Refunding Bonds;
- b. Approve Appropriation No. 15464 for \$675,000 to cover the expenses associated with the Special Variable Rate Water Revenue Refunding Bonds, and authorize reimbursement of expenses paid from the General Fund by bond proceeds. The appropriation will expire on December 31, 2011;
- c. Approve Appropriation No. 15465 for \$295,000 to cover the expenses associated with Waterworks General Obligation Refunding Bonds, and authorize reimbursement of expenses paid from the General Fund by bond proceeds. The appropriation will expire on December 31, 2011;
- d. Approve additional payments to Public Resources Advisory Group of \$50,000 to a total of \$290,000 under Agreement No. 81950 for contract year 2008/09; and
- e. Approve additional payments to Public Resources Advisory Group of \$100,000 to a total of \$340,000 under Agreement No. 81950 for contract year 2009/10.

Fiscal Impact: Potential to lower Metropolitan's costs for administering its variable rate debt program; costs of issuance are generally paid from bond proceeds, including services provided by a financial advisory firm, and will not have a significant impact on 2009/10 or 2010/11 annual budgets.

Business Analysis: Metropolitan needs authorization to issue Special Variable Rate Water Revenue Refunding Bonds; to provide funding to pay for expenses associated with the issuance of water revenue bonds and general obligation refunding bonds; and to increase funding above \$250,000 per contract year for professional services agreements.

Option #2

Do not adopt Nineteenth Supplemental Resolution; do not authorize funding Appropriations No. 15464 and No. 15465; and do not authorize increase to Agreement No. 81950 for contract years 2008/09 and 2009/10.

Fiscal Impact: Metropolitan's ability to lower its costs for administering its variable rate debt program would be reduced; Metropolitan's option to reduce the borrowing costs of its debt would be limited; and Metropolitan would not be able to receive financial advisory services from its primary financial advisor for a portion of contract years 2008/09 and 2009/10.

Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

11/23/2009

Date



Jeffrey Kightlinger
General Manager

11/24/2009

Date

Attachment 1 – Nineteenth Supplemental Resolution to the Master Revenue Bond Resolution

BLA #6958

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 SPECIAL VARIABLE RATE
WATER REVENUE REFUNDING BONDS, PROVIDING THE
TERMS AND CONDITIONS OF SUCH BONDS AND AUTHORIZING
THE APPROVAL OF OTHER RELATED DOCUMENTS
(NINETEENTH SUPPLEMENTAL RESOLUTION)**

TABLE OF CONTENTS¹

	<u>Page</u>
ARTICLE I DEFINITIONS	5
SECTION 1.01. Definitions.....	5
ARTICLE II THE VARIABLE RATE REFUNDING BONDS	8
SECTION 2.01. Authorization	8
SECTION 2.02. Terms of the Variable Rate Refunding Bonds.....	8
SECTION 2.03. Interest.....	8
SECTION 2.04. Place of Payment.....	9
SECTION 2.05. Redemption.....	9
SECTION 2.06. Form of Variable Rate Refunding Bonds	9
SECTION 2.07. CUSIP Identification Numbers	10
SECTION 2.08. Book-Entry System.....	10
SECTION 2.09. Representation Letter	11
SECTION 2.10. Transfers Outside Book-Entry System	11
SECTION 2.11. Payments and Notices to the Nominee	11
SECTION 2.12. Initial Depository and Nominee.....	12
ARTICLE III AUTHORIZATION OF AD HOC COMMITTEE.....	12
SECTION 3.01. Ad Hoc Committee	12
SECTION 3.02. Approval of each Series of Variable Rate Refunding Bonds	12
SECTION 3.03. Approval of Trust Agreements and Bond Purchase Contracts	12
SECTION 3.04. Waiver of Section 225 and Section 226 of the Act.....	13
SECTION 3.05. Approval of Remarketing Agreement and other Documents	13
SECTION 3.06. Approval of Revolving Credit Facilities.....	13
SECTION 3.07. Approval of Credit/Liquidity Support Arrangements.....	13
SECTION 3.08. Determination of Ad Hoc Committee.....	13
SECTION 3.09. Filing of Ad Hoc Committee Certificate	14
SECTION 3.10. Approval of Ad Hoc Committee.....	14
SECTION 3.11. Duration of Ad Hoc Committee Authorization	14
SECTION 3.12. Further Action.....	14
ARTICLE IV SALE OF VARIABLE RATE REFUNDING BONDS; APPLICATION; FUNDS; COVENANTS	14
SECTION 4.01. Application of the Proceeds of the Variable Rate Refunding Bonds..	14
SECTION 4.02. Establishment and Application of Costs of Issuance Funds	15
SECTION 4.03. Establishment and Application of Escrow Funds	15

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

**TABLE OF CONTENTS
(continued)**

	<u>Page</u>
SECTION 4.04. Establishment, Pledge, Funding and Application of Reserve Funds ..	16
SECTION 4.05. Establishment and Application of Excess Earnings Funds.....	17
SECTION 4.06. Tax Covenants	18
SECTION 4.07. District’s Sale of Variable Rate Refunding Bonds	18
 ARTICLE V FISCAL AGENT AND PAYING AGENT	 18
SECTION 5.01. Fiscal Agent and Paying Agent.....	18
 ARTICLE VI UNDERTAKINGS	 19
SECTION 6.01. Municipal Securities Disclosure	19
SECTION 6.02. Default.....	19
SECTION 6.03. Amendment.....	19
 ARTICLE VII MISCELLANEOUS.....	 19
SECTION 7.01. Variable Rate Refunding Bonds Subject to the Master Resolution	19
SECTION 7.02. Terms Specified in Trust Agreement or Bond Purchase Contract.....	19
SECTION 7.03. Severability of Invalid Provisions.....	19
SECTION 7.04. Article and Section Headings and References; Interpretation	20
SECTION 7.05. Governing Law	20
 EXHIBIT A: FORM OF VARIABLE RATE REFUNDING BOND	 A-1

**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 SPECIAL VARIABLE RATE
WATER REVENUE REFUNDING BONDS, PROVIDING THE
TERMS AND CONDITIONS OF SUCH BONDS AND AUTHORIZING
THE APPROVAL OF OTHER RELATED DOCUMENTS
(NINETEENTH SUPPLEMENTAL RESOLUTION)**

(ADOPTED DECEMBER 8, 2009)

WHEREAS, pursuant to the Act, 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 (as amended and supplemented from time to time, the "Master Resolution"), the Board of Directors of the District authorized the issuance of Water Revenue Bonds by the District by adoption of supplemental resolutions from time to time;

WHEREAS, the District proposes to issue and sell from time to time Special Variable Rate Water Revenue Refunding Bonds (the "Variable Rate Refunding Bonds") in one or more Series for the purpose of refunding Bonds issued pursuant to the Master Resolution;

WHEREAS, the District would issue the Variable Rate Refunding Bonds pursuant to the terms and conditions of a Trust Agreement pursuant to which the interest rate would initially be periodically determined on a daily or weekly basis or some other periodic basis;

WHEREAS, under the terms and conditions of the related Trust Agreement, the Owners of the Variable Rate Refunding Bonds of any Series may have the right to tender their Variable Rate Refunding Bonds of such Series; and

WHEREAS, a Trust Agreement for a Series of Variable Rate Refunding Bonds may provide (a) that the District is obligated to purchase tendered Variable Rate Refunding Bonds of such Series if not successfully remarketed and that the District would be permitted to borrow amounts under Revolving Credit Facilities from time to time to pay the purchase price in connection with any such tendered Variable Rate Refunding Bonds and any other tendered

Bonds, or (b) that a bank or other financial institution would agree to purchase tendered Variable Rate Refunding Bonds of such Series pursuant to Credit/Liquidity Support Arrangements if such Variable Rate Refunding Bonds are not successfully remarketed;

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

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. All terms which are defined in Section 1.01 of the Master Resolution shall, unless otherwise defined herein, have the same meanings, respectively, in this Nineteenth Supplemental Resolution. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Nineteenth 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.

“Ad Hoc Committee” has the meaning ascribed to such term in Section 3.01 hereof.

“Bond Purchase Contract” means a contract for the purchase of one or more Series of Variable Rate Refunding Bonds between the District 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 Variable Rate Refunding Bonds, which shall be set forth in the terms of the Bond Purchase Contract for such Series pursuant to the terms of Section 4.04 hereof, subject to the provisions of this Nineteenth Supplemental 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 the District, if any, delivered by the District in connection with the issuance of a Series of Variable Rate Refunding Bonds.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, execution, sale and delivery of a Series of Variable Rate Refunding Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any agent including any Fiscal Agent, Paying Agent, Remarketing Agent, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Variable Rate Refunding Bonds of such Series, and any other cost, charge or fee in connection with the delivery of the Variable Rate Refunding Bonds of such Series.

“Costs of Issuance Fund” means the Special Variable Rate Water Revenue Refunding Bonds Costs of Issuance Fund established for a Series of Variable Rate Refunding Bonds pursuant to Section 4.02 hereof.

“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 Variable Rate 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 Variable Rate 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 Section 4.03 hereof to act in accordance with and to carry out the Escrow Instructions relating to a Series of Variable Rate Refunding Bonds.

“Escrow Fund” means the Special Variable Rate Water Revenue Refunding Bonds Escrow Fund established for a Series of Variable Rate Refunding Bonds pursuant to Section 4.03 hereof.

“Escrow Instructions” means the escrow instructions relating to any Series of Variable Rate Refunding Bonds authorized or required by Section 4.03 hereof.

“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 Special Variable Rate Water Revenue Refunding Bonds Excess Earnings Fund established for such Series pursuant to Section 4.05 hereof.

“Fiscal Agent” means the Treasurer.

“Nineteenth Supplemental Resolution” means this resolution of the District.

“Nominee” means the nominee of the Securities Depository, which may be the Securities Depository, as determined from time to time pursuant 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 Trust Agreement relating to a Series of Variable Rate Refunding Bonds.

“Record Date” means the date specified in the Trust Agreement with respect to a Series of Variable Rate Refunding Bonds.

“Refunded Bonds” has the meaning ascribed thereto in Section 4.03(B) hereof.

“Remarketing” means the resale from time to time by a Remarketing Agent of Variable Rate Refunding Bonds of a Series tendered for purchase by Owners thereof in accordance with the terms of the related Trust Agreement, including, but not limited to, the resale from time to time by a Remarketing Agent of Variable Rate Refunding Bonds owned by the District or the provider of a Credit/Liquidity Support Arrangement that the District or such provider previously purchased from an Owner tendering such Variable Rate Refunding Bonds in accordance with the terms of the related Trust Agreement.

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

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

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

“Reserve Fund” means a Special Variable Rate Water Revenue Refunding Bonds Reserve Fund established for a Series of Variable Rate Refunding Bonds pursuant to Section 4.04 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 4.04 hereof.

“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 the District may borrow from time to time for the purpose of providing the District funds to pay the purchase price of (a) any tendered Variable Rate 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 hereunder and which may be the District.

“Tax and Nonarbitrage Certificate” means the Tax and Nonarbitrage Certificate delivered by the District in connection with the issuance of a Series of Variable Rate 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 Variable Rate Refunding Bonds which sets forth the terms and conditions of the Variable Rate Refunding Bonds of such Series and which appoints a Paying Agent in respect of such Series.

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

“Variable Rate Demand Bonds” means any Bonds that bear interest at a rate that is determined periodically by a remarketing agent and the terms of which entitle holders thereof to tender such Bonds to the District or a remarketing agent for purchase.

“Variable Rate Refunding Bonds” has the meaning ascribed thereto in Section 2.01 hereof.

ARTICLE II

THE VARIABLE RATE REFUNDING BONDS

SECTION 2.01. Authorization. Bonds are hereby authorized to be issued pursuant to the Act and the Master Resolution, which Bonds are designated as “The Metropolitan Water District of Southern California Special Variable Rate Water Revenue Refunding Bonds” (the “Variable Rate Refunding Bonds”). Variable Rate Refunding Bonds may be issued in one or more Series from time to time in accordance with the terms hereof, and each Series of Variable Rate Refunding Bonds shall bear such additional designation as may be set forth in the Trust Agreement for such Series. Each Series of Variable Rate Refunding Bonds shall consist of Current Interest Bonds under the Master Resolution. A Series of Variable Rate Refunding Bonds shall be issued in the aggregate principal amount specified in the Bond Purchase Contract for such Series.

SECTION 2.02. Terms of the Variable Rate Refunding Bonds.

(A) Variable Rate Refunding Bonds. Variable Rate Refunding Bonds of each Series shall be issued in the aggregate principal amount set forth in the Bond Purchase Contract for such Series, shall be delivered in fully registered form in the minimum denominations for the Variable Rate Refunding Bonds of such Series set forth in the Bond Purchase Contract for such Series, and shall be numbered in such manner as the Fiscal Agent determines. The Variable Rate Refunding Bonds of any Series shall be dated such date and shall mature on the dates and in the principal amounts set forth in the Bond Purchase Contract for such Series.

The Bond Purchase Contract for any Series of Variable Rate Refunding Bonds shall designate which, if any, of the Variable Rate Refunding Bonds of such Series shall be Term Bonds.

(B) Sources of Payment. The payment of the principal of, interest on, and any redemption premiums on the Variable Rate Refunding Bonds of any Series shall be secured by and payable solely from Net Operating Revenues and such other moneys, assets or security as may be provided for in this Nineteenth Supplemental Resolution or the Trust Agreement for such Series.

SECTION 2.03. Interest. The Variable Rate Refunding Bonds of any Series shall bear interest at the rates specified in or determined pursuant to the Trust Agreement for such Series (calculated on the basis of a set forth in such Trust Agreement), and shall be payable on

the dates set forth in such Trust Agreement. Each Variable Rate Refunding Bond of a Series shall bear interest from date specified in the Trust Agreement for such Series.

Each Variable Rate Refunding Bond shall bear interest until the principal thereof has been paid; provided, however, that if at the maturity date of any Variable Rate Refunding Bond or if on the redemption date thereof if the same has been fully called for redemption, in each case, funds are available for the payment thereof in full in accordance with the terms of Article IX of the Master Resolution, such Variable Rate Refunding Bond shall then cease to bear interest.

SECTION 2.04. Place of Payment. The principal of each Series of Variable Rate Refunding Bonds shall be payable in lawful money of the United States of America upon presentation and surrender of such Variable Rate Refunding Bonds at the location or locations specified in the Trust Agreement with respect to such Series. Interest on the Variable Rate Refunding Bonds of any Series shall be paid in the manner as, and to the persons, specified in the Trust Agreement for such Series.

SECTION 2.05. Redemption.

(A) Optional Redemption. The Variable Rate Refunding Bonds of any Series shall be subject to call and redemption before maturity, at the option of the District, in the amounts, at the redemption prices and on the dates as set forth in the Bond Purchase Contract for such Series.

(B) Mandatory Sinking Account Payments. The Variable Rate Refunding Bonds of any Series which are Term Bonds shall be called before maturity and redeemed at a redemption price equal to the par amount thereof plus accrued interest from Mandatory Sinking Account Payments which shall 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 Bond Purchase Contract for such Series.

(C) Special Mandatory Redemption. The Variable Rate Refunding Bonds of any Series may be subject to call and redemption before maturity, in the amounts, upon such events and on such terms and conditions as set forth in the Bond Purchase Contract for such Series.

(D) Conditional Notice of Redemption. In addition to the notice requirements for redemption included in the Master Resolution, each such notice 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 Variable Rate Refunding Bonds to be redeemed. Upon deposit of sufficient money to pay the full Redemption Price and provision of irrevocable instructions to the Fiscal Agent or Paying Agent to apply such money to the payment of the Redemption Price and interest with respect to the Variable Rate Refunding Bonds to be redeemed, all liability of the District in respect of such Variable Rate Refunding Bonds shall be discharged as provided in Section 9.02 of the Master Resolution.

SECTION 2.06. Form of Variable Rate Refunding Bonds. Except as otherwise provided in the Trust Agreement for a Series, the Variable Rate Refunding Bonds of any Series shall be issued in substantially the form set forth in Exhibit A hereto.

SECTION 2.07. CUSIP Identification Numbers. The Underwriters shall order, and the District shall cause to be printed on the Variable Rate Refunding Bonds, CUSIP identification numbers. However, CUSIP identification numbers shall be deemed to not be part of the Variable Rate 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 of or on account of such CUSIP identification numbers.

SECTION 2.08. Book-Entry System. Except as otherwise provided in the Trust Agreement with respect to Variable Rate Refunding Bonds of any Series, the Variable Rate Refunding Bonds of each Series shall be initially issued in the form of a single (unless more than a single Variable Rate Refunding Bond is required by the Securities Depository), separate, fully registered Variable Rate Refunding Bond (which may be typewritten) for each maturity of the Variable Rate Refunding Bonds of such Series. Upon initial issuance, the ownership of each Variable Rate Refunding Bond of a Series 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, the ownership of each Outstanding Variable Rate Refunding Bond of any Series shall be registered in the Bond Register of the Fiscal Agent in the name of the Nominee.

With respect to the Variable Rate Refunding Bonds of any Series 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 Participant or to any person on behalf of which a Participant holds an interest in the Variable Rate Refunding Bonds of such Series. 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 (a) the accuracy of the records of the Securities Depository, the Nominee or any Participant with respect to any ownership interest in the Variable Rate Refunding Bonds of any Series, (b) 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 Variable Rate Refunding Bonds of any Series, or (c) 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 or interest and premium, if any, on the Variable Rate Refunding Bonds of any Series. The District and the Fiscal Agent may treat and consider the person in whose name each Variable Rate Refunding Bond of any Series is registered in the Bond Register of the Fiscal Agent as the holder and absolute Owner of such Variable Rate Refunding Bond for the purpose of payment of principal of, and interest on, such Variable Rate Refunding Bond, for the purpose of giving notices and other matters with respect to such Variable Rate Refunding Bond, and for all other purposes whatsoever.

The Fiscal Agent shall pay all principal of and interest on the Variable Rate 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 shall be valid and effective to fully satisfy and discharge the obligations hereunder with respect to the payment of principal of, and interest on, the Variable Rate 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, shall receive a Variable Rate Refunding Bond of any Series evidencing the obligation to make payments of principal and interest and premium, if any, pursuant to this Nineteenth 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 Nineteenth Supplemental Resolution shall refer to such new nominee of the Securities Depository.

SECTION 2.09. Representation Letter. To qualify the Variable Rate Refunding Bonds of any Series for the Securities Depository's book-entry system, each Authorized Representative is hereby authorized to execute and deliver on behalf of the District to such Securities Depository a letter, if necessary, from the District representing such matters as shall be necessary to so qualify the Variable Rate Refunding Bonds of such Series (the "Representation Letter"). The execution and delivery of the 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 Variable Rate Refunding Bonds other than the Owners, as shown on the Bond Register of the Fiscal Agent. In the Representation Letter, the Fiscal Agent shall agree to take all actions necessary to comply with all representations of the District in the Representation Letter. In addition to the execution and delivery of the Representation Letter, each Authorized Representative of the District is hereby authorized to take any other actions, not inconsistent with this Nineteenth Supplemental Resolution, to qualify the Variable Rate Refunding Bonds of any Series for the Securities Depository's book-entry program.

SECTION 2.10. Transfers Outside Book-Entry System. In the event (a) the Securities Depository determines not to continue to act as securities depository for the Variable Rate Refunding Bonds of any Series, or (b) the District determines that the Securities Depository shall, subject to the provisions of the Trust Agreement for the Variable Rate Refunding Bonds of such Series, 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 related Trust Agreement for the Variable Rate Refunding Bonds of any Series, 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 Variable Rate Refunding Bond for each maturity of the Variable Rate 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 the District and the Securities Depository as are not inconsistent with the terms of this Nineteenth Supplemental Resolution. If the District fails to identify another qualified securities depository to replace the Securities Depository, then the Variable Rate Refunding Bonds of such Series 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 Bonds shall designate, in accordance with the provisions of Article II of the Master Resolution and the provisions of the Trust Agreement for such Series.

SECTION 2.11. Payments and Notices to the Nominee. Notwithstanding any other provision of this Nineteenth Supplemental Resolution or the Master Resolution to the contrary, so long as any Variable Rate 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 Variable Rate Refunding Bond and all notices with respect to such Variable Rate 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 Nineteenth Supplemental Resolution shall be DTC. The initial Nominee shall be Cede & Co., as Nominee of DTC.

ARTICLE III

AUTHORIZATION OF AD HOC COMMITTEE

SECTION 3.01. 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 Business and Finance Committee of the Board (or if the Business and Finance Committee is renamed, dissolved, or reorganized, such other committee of the Board which shall have substantially all of the duties of the Business and Finance Committee before such renaming, dissolution, or reorganization), or in the event of a vacancy, the Vice Chairman or Acting Chairman of the Business and Finance Committee of the Board (or if the Business and Finance Committee is renamed, dissolved, or reorganized, such other committee of the Board which shall have substantially all of the duties of the Business and Finance Committee before such renaming, dissolution, or reorganization), and the General Manager or his or her designee, or in the event of a vacancy, the Acting General Manager or his or her designee, acting jointly, are hereby constituted an ad hoc committee (the "Ad Hoc Committee").

SECTION 3.02. Approval of each Series of Variable Rate Refunding Bonds. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the aggregate principal amount of each Series of Variable Rate Refunding Bonds, the terms and conditions of, and the execution and delivery of, each Series of Variable Rate Refunding Bonds, and the terms and conditions of the sale of each Series of Variable Rate Refunding Bonds, which may be a private, negotiated sale to one or more purchasers or Underwriters. If required or advisable, the Ad Hoc Committee is authorized and directed to deem the preliminary official statement relating to each Series of Variable Rate Refunding Bonds as being final within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended.

SECTION 3.03. Approval of Trust Agreements and Bond Purchase Contracts. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Trust Agreements and Bond Purchase Contracts for each Series of Variable Rate Refunding Bonds. In addition to such terms and conditions so determined by the Ad Hoc Committee, the terms and conditions of the Trust Agreement relating to any Series of Variable Rate Refunding Bonds may provide (a) that the District is obligated to pay the purchase price in connection with any tender of Variable Rate Refunding Bonds of such Series, (b) the terms and conditions relating to the security and source of payment for any obligation of the District to pay such purchase price, and (c) that the District may change or convert the interest rate mode or determination of the Variable Rate Refunding Bonds of such Series to a different interest rate mode or determination, including, but not limited to, a weekly or daily variable interest rate

mode, a commercial paper interest rate mode, a short-term interest rate mode, a long-term interest rate mode or a fixed interest rate mode.

The provisions of each Trust Agreement and Bond Purchase Contract for each Series of Variable Rate Refunding Bonds are hereby incorporated by reference into this Nineteenth Supplemental Resolution with the same force and effect as if set forth herein.

SECTION 3.04. Waiver of Section 225 and Section 226 of the Act. 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.

SECTION 3.05. Approval of Remarketing Agreement and other Documents. In connection with the sale of Variable Rate Refunding Bonds of any Series, the Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of (a) one or more Remarketing Agreements and (b) such other documents, agreements and certificates related to or necessary or advisable to the issuance of any Series of Variable Rate Refunding Bonds or the execution and delivery of any Trust Agreement or Bond Purchase Contract.

SECTION 3.06. Approval of Revolving Credit Facilities. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Revolving Credit Facilities from time to time in an aggregate principal amount not to exceed 100% of the aggregate principal amount of the District's then-outstanding Variable Rate Demand Bonds. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District any terms and conditions of each Revolving Credit Facility, including, but not limited to, any fees and charges, interest rates, covenants, events of default and events of termination. The Ad Hoc Committee or its designee may approve and the District may execute and deliver any Revolving Credit Facility separately and independently from the issuance of any Series of Variable Rate Refunding Bonds or any Series of other Bonds authorized by any Supplemental Resolution. Unless otherwise determined by the Ad Hoc Committee, the obligation of the District to pay principal of and interest on any Revolving Credit Facility shall constitute Parity Obligations under the Master Resolution and such Parity Obligations shall be deemed to be "Outstanding" on the date that the Revolving Credit Facility becomes effective.

SECTION 3.07. Approval of Credit/Liquidity Support Arrangements. In connection with the issuance of any Series of Variable Rate Refunding Bonds, the Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Credit/Liquidity Support Arrangements for such Series.

SECTION 3.08. Determination of Ad Hoc Committee. Any determination, establishment or approval of any terms and conditions of, or the execution and delivery of, any Series of Variable Rate Refunding Bonds, any Trust Agreement, any Bond Purchase Contract, any Remarketing Agreement, any Revolving Credit Facility, any Credit/Liquidity Support Arrangement or any other document, agreement or certificate, or any other action or approval by

the Ad Hoc Committee pursuant to this Article III, shall be determined, established or approved by the Ad Hoc Committee as being in the best interests of the District, subject only to the provisions of the Act and of this Nineteenth Supplemental Resolution, and the Ad Hoc Committee shall be empowered as provided in this Article III to implement the fundamental policies established by this Nineteenth Supplemental Resolution in a manner that is most advantageous to the District.

SECTION 3.09. Filing of Ad Hoc Committee Certificate. The Ad Hoc Committee shall file a certificate concerning its actions pursuant to this Nineteenth Supplemental Resolution with the District together with a copy of any Trust Agreement and any Bond Purchase Contract for each Series of Variable Rate Refunding Bonds and a copy of any Revolving Credit Facility and Credit/Liquidity Support Arrangement approved by the Ad Hoc Committee or its designee pursuant to this Article III. The Controller of the District shall maintain true and correct copies of such documents in the files of the District.

SECTION 3.10. Approval of Ad Hoc Committee. The determination, establishment or approval by the majority of members of the Ad Hoc Committee shall constitute the determination, establishment and approval of the Ad Hoc Committee pursuant to this Article III.

SECTION 3.11. Duration of Ad Hoc Committee Authorization. The Ad Hoc Committee's authorization under this Article III shall expire on _____, ____; provided, however, that, if the Ad Hoc Committee has approved any issuance of Series of Variable Rate Refunding Bonds or any document before _____, ____, then such approval shall continue to remain valid and effective after _____, ____ unless otherwise determined by the Board of Directors of the District or the Ad Hoc Committee.

SECTION 3.12. Further Action. The Chairman of the Board, the General Manager and Director of Finance of the District 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 Nineteenth Supplemental Resolution.

ARTICLE IV

SALE OF VARIABLE RATE REFUNDING BONDS; APPLICATION; FUNDS; COVENANTS

SECTION 4.01. Application of the Proceeds of the Variable Rate Refunding Bonds. The proceeds of the sale of any Series of Variable Rate Refunding Bonds and such other moneys as are available and necessary to accomplish the purposes of this Nineteenth 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 following accounts and funds, as applicable:

(A) The Treasurer shall deposit in the Bond Service Fund the amount of such proceeds representing interest accrued, if any, on such Series of the Variable Rate Refunding Bonds to the date of delivery thereof.

(C) The Treasurer shall deposit in the Escrow Fund established with respect to such Series of Variable Rate Refunding Bonds an amount which, together with other amounts transferred to such account, will be sufficient to satisfy the Escrow Requirements for such Series of Refunded Bonds when due, as set forth in the Escrow Instructions for such Series of Variable Rate Refunding Bonds.

(D) Subject to the provisions of this Nineteenth Supplemental Resolution permitting deposit of a Reserve Fund Credit Policy, the Treasurer shall deposit in the Reserve Fund for such Series of Variable Rate Refunding Bonds an amount, if any, equal to the Bond Reserve Requirement for such Series of Variable Rate Refunding Bonds.

(E) The remaining proceeds shall be deposited in the Costs of Issuance Fund for such Series of Variable Rate Refunding Bond.

SECTION 4.02. Establishment and Application of Costs of Issuance Funds.

(A) The District shall establish, and the Treasurer shall maintain and hold in trust a separate fund with respect to each Series of the Variable Rate Refunding Bonds, which shall be designated as the “Special Variable Rate Water Revenue Refunding Bonds Costs of Issuance Fund” and shall bear such additional designation as shall be determined by an Authorized Representative. The moneys in each 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 related Series of Variable Rate Refunding Bonds. The Treasurer shall hold moneys in each such Costs of Issuance Fund uninvested until expended unless directed otherwise by a certificate of an Authorized Representative.

(B) The Treasurer shall keep a record of all payments from each 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 4.03. Establishment and Application of Escrow Funds.

(A) Establishment of Escrow Funds. In connection with the issuance of any Series of Variable Rate Refunding Bonds, the District shall establish a special trust fund with respect to the Refunded Bonds. Such special fund shall be designated as the “Special Variable Rate Water Revenue Refunding Bonds Escrow Fund” and shall bear such additional designation as shall be determined by an Authorized Representative. Each Escrow Fund established pursuant to the terms of this Section 4.03(A) shall be held by the Escrow Agent for such Series of Variable Rate Refunding Bonds pursuant to the Escrow Instructions for such Series of Variable Rate Refunding Bonds. Moneys in the Escrow Fund for such Series of Variable Rate Refunding Bonds shall be applied solely as provided in the Escrow Instructions for such Series of Variable Rate Refunding Bonds.

(B) Establishment of Escrow Instructions and Appointment of Escrow Agent. Each Authorized Representative is hereby severally authorized and directed to execute and deliver one or more Escrow Instructions for each Series of Variable Rate 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. 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 in providing for the refunding of all or a portion of the Bonds from time to time. An Authorized Representative may direct that the Escrow Instructions with respect to a Series of Variable Rate Refunding Bonds provide for the refunding of all or any portion of a series of Bonds, as such Authorized Representative shall, in his or her sole discretion, deem to be the best interests of the District, by depositing in the Escrow Fund established for such Series of Variable Rate Refunding Bonds that amount of moneys necessary to purchase Federal Securities or Municipal Obligations, 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 Variable Rate Refunding Bonds shall specify which Bonds are to be refunded by such Series. The Bonds which are specified by the Escrow Instructions for such Series of Variable Rate Refunding Bonds as the Bonds to be refunded by a Series of Variable Rate Refunding Bonds are referred to herein as the “Refunded Bonds.”

The Escrow Instructions for each Series of Variable Rate 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 shall 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) 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 Municipal Obligations does not cause interest on either the related Refunded Bonds or the Variable Rate Refunding Bonds of the related Series to be included in gross income for purposes of federal income taxation under relevant provisions of the Code.

SECTION 4.04. Establishment, Pledge, Funding and Application of Reserve Funds. (A) In connection with the issuance of a Series of Variable Rate Refunding Bonds pursuant to this Nineteenth Supplemental Resolution, the District shall establish and the Treasurer shall maintain and hold in trust a separate fund which shall be designated as the “Special Variable Rate Water Revenue Refunding Bonds Reserve Fund” and shall bear such additional designation as shall be determined by an Authorized Representative. Each Reserve Fund shall be funded as set forth in this Section 4.04. All amounts held by the Treasurer in the Reserve Fund established with respect to such Series of Variable Rate Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such Series of Variable Rate Refunding Bonds.

(B) The District shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the Reserve Fund established with respect to any Series of Variable Rate Refunding Bonds until such Series is discharged in accordance with the provisions of Article IX of the Master Resolution. The amount of the Bond Reserve Requirement applicable to any Series of Variable Rate Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. In the event of any deficiency in a 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 Reserve Fund established with respect to any Series of Variable Rate Refunding Bonds shall be used and withdrawn by the Treasurer solely for the purpose of (i) paying principal of and interest on such Series of Variable Rate Refunding Bonds in the event moneys in the Bond Service Fund established for such Series are insufficient, or (ii) for the payment of the final principal and interest payment on such Series of Variable Rate Refunding Bonds. Any amounts in the Reserve Fund established with respect to a Series of Variable Rate Refunding Bonds in excess of the Bond Reserve Requirement for such Series shall be transferred to the Bond Service Fund established for such Series unless otherwise specified in a Certificate of an Authorized Representative.

All Authorized Investments credited to a 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 in this Section 4.04 or in Section 4.01(D) to the contrary, at the option of the District amounts required to be held in a 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 before 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 such Reserve Fund 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 the applicable Reserve Fund pursuant to Section 5.07 of the Master Resolution shall include any amounts due to the provider of such Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy (which amounts shall constitute a “deficiency” or “withdrawal” from the applicable 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 4.05. Establishment and Application of Excess Earnings Funds. To ensure proper compliance with the tax covenants contained in Section 4.06 hereof, if required by the related Tax and Nonarbitrage Certificate, the District shall establish and the Treasurer shall maintain a fund for each Series of Variable Rate 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 “Special Variable Rate Water Revenue Refunding Bonds Excess Earnings Fund” and shall bear such additional designation as shall be determined by an Authorized Representative. All money at any time deposited in the Excess Earnings Fund for such Series of Variable Rate 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 any Owner of Variable Rate Refunding Bonds of such Series shall have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund shall be governed by this Nineteenth Supplemental Resolution and by the related Tax and Nonarbitrage Certificate. The Treasurer shall invest all amounts held in any such Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money shall not be transferred from the Excess Earnings Fund established for a Series of Variable Rate Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

SECTION 4.06. Tax Covenants. To maintain the exclusion from gross income of the interest on the Variable Rate 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 Master Resolution or this Nineteenth 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 Variable Rate Refunding Bonds of the related Series shall be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or this Nineteenth Supplemental Resolution on the basis of the District’s failure to observe, or refusal to comply with, such covenant.

SECTION 4.07. District’s Sale of Variable Rate Refunding Bonds. Unless otherwise specified in the Trust Agreement for such Series of Variable Rate Refunding Bonds, if the Trust Agreement for any Series of Variable Rate Refunding Bonds obligates the District to purchase Variable Rate Refunding Bonds tendered for purchase by the Owner thereof, then, other than through a Remarketing, the District shall not sell or otherwise dispose of any such Variable Rate Refunding Bonds it purchases from a tendering Owner. Except for any sale through a Remarketing, any purported sale by the District of Variable Rate Refunding Bonds so purchased by the District from a tendering Owner shall be invalid and void *ab initio*.

ARTICLE V

FISCAL AGENT AND PAYING AGENT

SECTION 5.01. Fiscal Agent and Paying Agent. The Treasurer is hereby appointed as Fiscal Agent with respect to each Series of Variable Rate Refunding Bonds. In addition, with respect to the Variable Rate Refunding Bonds of a Series, an Authorized Representative may appoint a Paying Agent which shall have such duties and obligations as shall be set forth in the related Trust Agreement.

ARTICLE VI

UNDERTAKINGS

SECTION 6.01. Municipal Securities Disclosure. If required by Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, the District hereby agrees to provide or cause to be provided certain annual financial information and notices of certain material events with respect to each Series of Variable Rate Refunding Bonds in accordance with the terms of the related Continuing Disclosure Certificate, if any, delivered by the District in connection with such Series of Variable Rate Refunding Bonds.

SECTION 6.02. Default. Failure to comply with the provisions of Section 6.01 hereof shall not be deemed an Event of Default under the Master Resolution. The sole remedy under this Article VI in the event of any failure of the District to comply with this Article VI shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

SECTION 6.03. Amendment. This Article VI may be amended, supplemented, modified or deleted, from time to time and at any time, as the District may determine without the consent of any Owner of the Variable Rate Refunding Bonds.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. Variable Rate Refunding Bonds Subject to the Master Resolution. Except as expressly provided in this Nineteenth Supplemental Resolution, every term and condition contained in the Master Resolution shall apply to this Nineteenth Supplemental Resolution and to the Variable Rate 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 Nineteenth Supplemental Resolution. The Master Resolution, as amended and supplemented by this Nineteenth Supplemental Resolution, is in all respects ratified and approved.

SECTION 7.02. Terms Specified in Trust Agreement or Bond Purchase Contract. Any terms and conditions of the Variable Rate Refunding Bonds of a Series required or permitted by this Nineteenth Supplemental Resolution to be specified in, set forth in or determined pursuant to a Bond Purchase Contract for a Series or a Trust Agreement for a Series may be specified in, set forth in or determined in either a Trust Agreement or a Bond Purchase Contract for such Series.

SECTION 7.03. Severability of Invalid Provisions. If any one or more of the provisions contained in this Nineteenth Supplemental Resolution or in the Variable Rate 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 Nineteenth Supplemental Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Nineteenth Supplemental Resolution,

and this Nineteenth 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 Nineteenth Supplemental Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Variable Rate Refunding Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Nineteenth Supplemental Resolution may be held illegal, invalid or unenforceable.

SECTION 7.04. 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 Nineteenth Supplemental Resolution.

All references herein to “Article,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Nineteenth Supplemental Resolution; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Nineteenth 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 7.05. Governing Law. This Nineteenth 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 December __, 2009.

Board Executive Secretary
The Metropolitan Water District of Southern
California

EXHIBIT A

[FORM OF VARIABLE RATE REFUNDING BOND]

No. 1 \$ _____

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SPECIAL VARIABLE RATE WATER REVENUE REFUNDING BOND
SERIES _____

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AS DEFINED IN THE MASTER RESOLUTION) TO THE PAYING AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

INTEREST RATE MATURITY DATE ORIGINAL ISSUE DATE CUSIP #
As described herein

REGISTERED OWNER: *****CEDE & CO.*****

PRINCIPAL AMOUNT: _____ DOLLARS (\$ _____)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA, FOR VALUE RECEIVED, hereby promises to pay, solely from Net Operating Revenues, as hereinafter provided, to the registered owner named above, or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above, and to pay interest on such principal amount from the Interest Payment Date before the date of authentication hereof (unless this Series ___ Bond is authenticated during the period after a record date but on or before the next Interest Payment Date, in which event this Series _____ Bond shall bear interest from that Interest Payment Date, or unless this Series _____ Bond is authenticated prior to the first record date, in which event this Series _____ Bond shall bear interest from the original issuance date or unless at the time of authentication interest is in default, in which event it shall bear interest from the Interest Payment Date to which interest has been paid or provided for), until the principal amount hereof is paid or made available for payment.

[Insert provisions related to interest rate method and determination relating to such Series]

This Series _____ Bond is one of a duly authorized issue of “The Metropolitan Water District of Southern California Variable Rate Special Water Revenue Refunding Bonds, Series _____” (the “Series _____ Bonds”) issued in the aggregate principal amount of \$_____ pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), Resolution 8329 of the District adopted on July 9, 1991 (as amended and supplemented, the “Master Resolution”), Resolution _____ adopted by the District on December 8, 2009 (the “Nineteenth Supplemental Resolution,” and the Master Resolution as supplemented by the Nineteenth Supplemental Resolution is referred to herein as the “Resolutions”) and the Paying Agent Agreement, dated as of _____, 20__ (the “Paying Agent Agreement”), by and between the District and _____, as paying agent (the “Paying Agent”). Reference is hereby made to the Master Resolution, the Nineteenth Supplemental Resolution, the Act and the Paying Agent Agreement for a description of the terms on which the Series _____ Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Operating Revenues (as defined in the Resolutions), and all of the terms of the Resolutions, the Paying Agent Agreement and the Act are hereby incorporated herein and constitute a contract between the District and the registered owner from time to time of this Series _____ Bond, and by acceptance hereof the registered holder of this Series _____ Bond assents to said terms and conditions. The Resolutions are adopted under, and this Series _____ Bond is issued under, and all are to be construed in accordance with, the laws of the State of California. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Resolutions or the Paying Agent Agreement, as applicable.

This Series _____ Bond is a special limited obligation of the District payable from and secured by a pledge of and a lien and charge upon the Net Operating Revenues on a parity with all Bonds (as defined in the Master Resolution) and all other debt issued or incurred and payable from Net Operating Revenues on a parity with the Bonds. The principal of, premium (if any) and interest on this Series _____ Bond is not a debt of the District, 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. The general fund of the District is not liable for the payment of the Series _____ Bonds or their interest, nor is the credit or the taxing power of the District or the forfeiture of any of its property for the payment of this Series _____ Bond or any interest hereon.

The Series _____ Bonds are payable as to both principal and interest exclusively from the Net Operating Revenues and other funds pledged under the Master Resolution and the Nineteenth Supplemental Resolution.

[Insert provisions related to redemption and tender relating to such Series]

This Series _____ Bond is one of the issue of Current Interest Bonds described in the Resolutions.

The rights and obligations of the District, the Paying Agent and of the owners of the Series _____ Bonds may be modified or amended from time to time in the manner, to the extent and upon the terms provided in the Resolutions, provided that no such modification or amendment shall extend the fixed maturity of this Series _____ Bond, or reduce the amount of principal hereof, or extend the time of payment, or reduce the rate of interest hereon, or extend

the time of payment of interest hereon, without the consent of the Owner hereof, or reduce the percent of Series _____ Bonds the consent of the Holders 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 Resolutions prior to the lien created by the Resolutions, or deprive the Holders of the Series _____ Bonds of the lien created by the Resolutions on such Net Operating Revenues and other assets, without the consent of the Holders of all of the Series _____ Bonds then outstanding.

This Series _____ Bond shall not be entitled to any benefit under the Resolutions, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been executed and dated by the Paying Agent. It is hereby certified and recited that any and all acts, conditions and things required to exist, to have happened and to have been performed precedent to and in the issuance of this Series _____ Bond to exist, have happened, and have been performed in due time, form and manner as required by the Constitution and laws of the State of California and that this Series _____ Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution and laws of the State of California and the Act and is not in excess of the amount of Series _____ Bonds permitted to be issued under the Resolutions.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to have happened and to have been performed precedent to and in the issuance of this Series _____ Bond to exist, have happened, and have been performed in due time, form and manner as required by the Constitution and laws of the State of California and that this Series _____ Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Constitution and laws of the State of California and the Act and is not in excess of the amount of Series _____ Bonds permitted to be issued under the Resolution and the Paying Agent Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the District has caused this Series _____ Bond to be signed by the Chairman of the Board of Directors and the Controller of the District, and countersigned by the Secretary of the Board of Directors, each by their facsimile or manual signatures, and sealed with the corporate seal of said District as of the Original Issue Date specified above.

[SEAL]

Chairman of the Board of Directors,
The Metropolitan Water District of
Southern California

Controller of The Metropolitan Water
District of Southern California

COUNTERSIGNED:

Secretary of the Board of Directors,
The Metropolitan Water District
of Southern California

PAYING AGENT'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION

This Series _____ Bond is one of The Metropolitan Water District of Southern California Special Variable Rate Water Revenue Refunding Bonds delivered pursuant to the Master Resolution, the Nineteenth Supplemental Resolution and the Paying Agent Agreement.

Date: _____, 20__

_____,
as Paying Agent

By _____
Authorized Signatory

ASSIGNMENT

The following abbreviations, when used in the inscription on the face of the within-mentioned Series _____ Bond and in the assignment below, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM: as tenants in common

TEN ENT: as tenants by the entireties

JT TEN: as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT _____ Custodian _____
(Cust) (Minor)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, the undersigned do(es) hereby sell, assign and transfer unto

_____ the within-mentioned registered Series _____ Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Paying Agent with full power of substitution in the premises.

Dated: _____

SIGNATURE GUARANTEED:

Note: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Series _____ Bond in every particular, without alteration or enlargement or any change whatsoever.

NOTICE: Signature(s) must be guaranteed by an eligible guarantor institution or a qualified guarantor in the STAMP program.