



- Board of Directors  
*Finance and Insurance Committee*

11/18/2014 Board Meeting

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8-2

## Subject

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Authorize the execution and distribution of (1) the Official Statement in connection with the issuance of the Waterworks General Obligation Refunding Bonds, 2014 Series A; and Remarketing Statements in connection with the remarketing of the Water Revenue Refunding Bonds (Index Mode), 2011 Series A-1 and A-3, and 2009 Series A-2

## Executive Summary

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Metropolitan currently plans to issue the Waterworks General Obligation Refunding Bonds, 2014 Series A to refund the Waterworks General Obligation Refunding Bonds, 2005 Series A, to remarket the Water Revenue Refunding Bonds (Index Mode), 2011 Series A-1 and A-3 in December 2014, and to remarket the Water Revenue Refunding Bonds (Index Mode), 2009 Series A-2 in 2015. This board letter provides the drafts of the Official Statement and the Remarketing Statements for review by the Board and requests authorization for the General Manager, or other designee of the Ad Hoc Committee, to finalize and execute these documents, including any supplements thereto. Following review and approval by the Board, staff will finalize the Official Statement and the Remarketing Statements, and work with bond counsel, counsel for the remarketing agents, and the applicable remarketing agents for electronic distribution to potential investors.

## Details

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*2014 Series A Bonds* The issuance of the Waterworks General Obligation Refunding Bonds, 2014 Series A and the use of the proceeds thereof to refund Metropolitan's Waterworks General Obligation Refunding Bonds, 2005 Series A, which are fixed rate bonds with an all-in true interest cost of 4.25 percent, is expected to provide significant debt service savings. Tax-exempt interest rates, through 2021, are currently very attractive, as there is strong investor demand for tax-exempt debt maturing within ten years. There are currently \$60.1 million of the 2005 Series A Bonds outstanding with maturities extending to March 1, 2021. Debt service payments for the General Obligation Bonds are paid from ad valorem property taxes. The refunding is expected to be completed in December 2014.

*2011 Series A-1/A-3 Bonds*. Metropolitan's Water Revenue Refunding Bonds (Index Mode), 2011 Series A-1 and A-3, in the aggregate principal amount of \$128,875,000, are two of eight series of Metropolitan's variable rate bonds that bear interest at a rate equal to the Securities Industry and Financial Markets Association (SIFMA) Index Rate for the specified interest period, plus a spread. The spread has been and will be reset through the remarketing of the Bonds on a tender date selected by Metropolitan that is after the applicable Call Protection Date and before the Scheduled Mandatory Tender Date. Bonds that are not remarketed on an optional tender date selected by Metropolitan are subject to mandatory tender and purchase on the Scheduled Mandatory Tender Date. The successful tender and remarketing of the Bonds sets a new Call Protection Date and Scheduled Mandatory Tender Date. The 2011 Series A-1 and A-3 Bonds were issued on June 2, 2011. The Call Protection Date for the 2011 Series A-1 and A-3 Bonds was July 20, 2014. These Bonds are subject to optional tender and remarketing on a tender date selected by Metropolitan before January 16, 2015, the Scheduled Mandatory Tender Date.

*2009 Series A-2 Bonds*. Metropolitan's Water Revenue Refunding Bonds (Index Mode), 2009 Series A-2, in the aggregate principal amount of \$104,180,000 also bear interest at a rate equal to the SIFMA Index Rate for the

specified interest period, plus a spread that is reset through the remarketing of the Bonds on a tender date selected by Metropolitan, in a manner similar to that described above for the 2011 Series A-1/A-3 Bonds. The 2009 Series A-2 Bonds were issued on May 20, 2009. The Call Protection Date for the 2009 Series A-2 Bonds was August 9, 2014. These Bonds are subject to optional tender and remarketing on a tender date selected by Metropolitan before February 9, 2015, the Scheduled Mandatory Tender Date.

*Preliminary Official Statement and Remarketing Statements.* Metropolitan currently plans to refund the 2005 Series A and to remarket the 2011 Series A-1 and A-3 Bonds in December 2014, and the 2009 A-2 SIFMA Index Bonds in January 2015, subject to changes in market conditions. The attached drafts of the Official Statement (**Attachment 1**) and Remarketing Statement (**Attachment 2**) are provided for review by the Board and authorization for the General Manager, or other designee of the Ad Hoc Committee, to finalize and execute. The forepart of the attached draft Official Statement describes the 2014 Series A Bonds. The body of the draft Remarketing Statement describes the 2011 Series A-1 and A-3 Bonds, and the 2009 Series A-2 Bonds, which have similar terms. Following review and approval by the Board, staff will finalize the Official Statement and the Remarketing Statement for each series of Bonds, and work with bond counsel, counsel for the remarketing agent, and the applicable remarketing agent. Staff will ensure electronically distribution of the Official Statement and each Remarketing Statement to potential investors to provide them with material information concerning the marketing of the applicable series of Bonds, including information concerning the financial and operating condition of Metropolitan, to assist potential investors in their investment decisions concerning such Bonds.

The body of the draft Official Statement and Remarketing Statements primarily describes the terms of the Bonds, the remarketing of the Bonds (if applicable), security and sources of payment, and financial information related to the Bonds. Appendix A to the draft Official Statement (**Attachment 3**) contains information about Metropolitan's water supply, water delivery system, capital investment plan, governance and management, historical and projected revenues and expenditures, and power sources and costs. Appendix B is Metropolitan's most recent audited financial statements, which are available at <http://mwdh2o.com/mwdh2o/pages/finance/finance01.html>, "Annual Financial Report 2013-14: Basic Financial Statements." Other appendices summarize the authorizing resolutions, describe the book-entry system for registration and transfer of the Bonds, provide demographic and economic information about Metropolitan's service area, and provide copies of the forms of bond counsel opinion and continuing disclosure undertaking. (Appendices C through G for the draft Official Statement are in **Attachment 4**.) Appendices A and E will be updated to describe material events that occur after distribution of this letter and before the Official Statement for the 2014 Series A Bonds is published. The Remarketing Statements for Metropolitan's 2011 Series A-1 and A-3 Bonds and 2009 Series A-2 Bonds may incorporate by reference Appendices A, B, and E used in the Official Statement for the 2014 Series A Bonds.

The final Official Statement and Remarketing Statements will be posted on the Finance page of Metropolitan's website and on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. The Board's review and authorization of the Official Statement and Remarketing Statements may be extended to offering statements for other remarketings pursuant to Resolution 8329 as amended and supplemented, that are issued within a reasonable time frame.

## **Policy**

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Metropolitan Water District Act §§ 237, 290 Resolution 8329, dated July 9, 1991, as amended and supplemented (Master Resolution for Water Revenue Bonds and Water Revenue Refunding Bonds) and Resolutions 6954, dated May 9, 1967 and 8386, dated January 12, 1993, as amended and supplemented.

## **California Environmental Quality Act (CEQA)**

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CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines. In addition, the proposed action is not subject to CEQA because it involves 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 action is not defined as a project and is 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

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### Option #1

Adopt the CEQA determination that the proposed project is not defined as a project and is not subject to CEQA, and

- a. Approve the draft Official Statement and draft Remarketing Statements (**Attachments 1, 2, 3 and 4**) substantially in the form attached to this board letter;
- b. Authorize the General Manager to finalize, with changes approved by the General Manager and General Counsel, and execute the Official Statement and Remarketing Statements; and
- c. Authorize distribution of the Official Statement and Remarketing Statements in connection with remarketing and marketing of the related Bonds.

### Option #2

Adopt the CEQA determination that the proposed project is not defined as a project and is not subject to CEQA, and

- a. Approve the draft Official Statement and Remarketing Statements (**Attachments 1, 2, 3 and 4**) substantially in the form attached to this board letter as modified by the Board
- b. Authorize the General Manager to finalize, with changes approved by the General Manager and General Counsel, and execute the Official Statement and Remarketing Statements; and
- c. Authorize distribution of the Official Statement and Remarketing Statements in connection with remarketing and marketing of the related Bonds.

## Staff Recommendation

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Option #1

  
 Gary Breau  
 Chief Financial Officer

11/6/2014  
 Date

  
 Marcia Scully  
 General Counsel

11/6/2014  
 Date

**Attachment 1 – Draft Official Statement**

**Attachment 2 – Draft Remarketing Statements for 2011 Series A-1 and A-3 Bonds and 2009 Series A-2 Bonds**

**Attachment 3 – Draft Appendix A of Official Statement**

**Attachment 4 – Draft Appendices C-G of Official Statement**

**HDW Draft – 11/05/14**

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2014**

[MWD LOGO]

**NEW ISSUE – FULL BOOK-ENTRY**

**Ratings:**

**Fitch – “\_\_\_\_\_”**

**Moody’s – “\_\_\_\_\_”**

**S&P – “\_\_\_\_\_”**

**See “Ratings” herein.**

*In the opinion of Hawkins Delafield & Wood LLP and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan, under existing statutes and court decisions and assuming continuing compliance with tax covenants described herein, (i) interest on the 2014 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2014 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Co-Bond Counsel to Metropolitan, under existing statutes, interest on the 2014 Series A Bonds is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS” herein.*

**§[Preliminary Par]\***

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
WATERWORKS GENERAL OBLIGATION REFUNDING BONDS,  
2014 SERIES A**

**Dated: Date of Delivery**

**Due: March 1, as set forth on the inside cover hereof**

The Waterworks General Obligation Refunding Bonds, 2014 Series A (the “2014 Series A Bonds”) are being issued by The Metropolitan Water District of Southern California (“Metropolitan”) pursuant to the Act (as defined herein), the special election held in the service area of Metropolitan on June 7, 1966 (the “Election”), Resolution 6954 adopted on May 9, 1967, and Resolution 8386 adopted on January 12, 1993, as amended and supplemented, including by Resolution 8901 adopted on April 13, 2004 (collectively, the “Resolutions”). The 2014 Series A Bonds are being issued to redeem Metropolitan’s Waterworks General Obligation Refunding Bonds, 2005 Series A maturing on and after March 1, 2016 (the “Refunded Bonds”) and to pay the costs of issuance for the 2014 Series A Bonds. See “PLAN OF REFUNDING.”

The 2014 Series A Bonds will be dated their date of delivery, and will mature in the principal amounts in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover page hereof. Interest on the 2014 Series A Bonds is payable on March 1 and September 1 of each year, commencing on March 1, 2015.

The 2014 Series A Bonds are not subject to optional redemption prior to maturity. See “DESCRIPTION OF THE 2014 SERIES A BONDS – Redemption.”

The 2014 Series A Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2014 Series A Bonds. Individual purchases of the 2014 Series A Bonds will be made in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing 2014 Series A Bonds purchased by them. Principal of and interest on the 2014 Series A Bonds will be payable directly to DTC, as the registered owner of the 2014 Series A Bonds. Upon receipt of payments of principal and interest, DTC is obligated to remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners (as defined herein) of the 2014 Series A Bonds. See APPENDIX D – “BOOK-ENTRY-ONLY SYSTEM.”

**The 2014 Series A Bonds are a general obligation indebtedness of Metropolitan, payable as to both principal and interest from *ad valorem* taxes which may be levied without limitation as to rate or amount upon all taxable real property within Metropolitan to pay the principal of and interest on such indebtedness and which, under the laws now in force, may be levied without limitation as to rate or amount upon all taxable personal property, except certain classes thereof, within Metropolitan to pay the principal of and interest on such indebtedness. The 2014 Series A Bonds are payable on parity with the outstanding Bonds (as defined herein) of Metropolitan. As of November 1, 2014, Metropolitan had outstanding \$132,275,000 aggregate principal amount of its Bonds, including the Refunded Bonds (as defined herein), payable on parity with the 2014 Series A Bonds. Additional refunding bonds may be issued in the future on parity with the 2014 Series A Bonds as described herein. See “SECURITY FOR AND SOURCES OF PAYMENT FOR THE 2014 SERIES A BONDS.”**

\* Preliminary, subject to change.

**This cover page contains information for general reference only. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.**

**BIDS FOR THE PURCHASE OF THE 2014 SERIES A BONDS WILL BE RECEIVED BY METROPOLITAN UP TO 8:00 A.M., PACIFIC TIME, ON DECEMBER 2, 2014 UNLESS POSTPONED AS SET FORTH IN THE OFFICIAL NOTICE INVITING BIDS.**

*The 2014 Series A Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Hawkins Delafield & Wood LLP, Los Angeles, California, and Alexis S. M. Chiu, Esq., San Francisco, California, Co-Bond Counsel to Metropolitan. Certain legal matters will be passed upon for Metropolitan by its General Counsel. Public Resources Advisory Group is serving as Financial Advisor to Metropolitan in connection with the issuance of the 2014 Series A Bonds. It is expected that the 2014 Series A Bonds will be available for delivery through the facilities of DTC on or about December 11, 2014.*

December \_\_, 2014

**MATURITY SCHEDULE\***

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
WATERWORKS GENERAL OBLIGATION REFUNDING BONDS  
2014 SERIES A**

Base CUSIP: 592659<sup>†</sup>

<u>Maturity (March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP<sup>†</sup> Suffix</u>
	\$	%	%	%	

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\* Preliminary, subject to change.

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**MAJOR WATER CONVEYANCE FACILITIES  
TO SOUTHERN CALIFORNIA**

**[map to come]**

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

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**Vice Chair**  
LINDA ACKERMAN

**Vice Chair**  
GLORIA D. GRAY

**Vice Chair**  
JOHN W. MURRAY JR.

**Vice Chair**  
MICHAEL TOUHEY

**Secretary**  
JOHN T. MORRIS

**REPRESENTATIVES OF MEMBER PUBLIC AGENCIES**

**Anaheim**  
DON CALKINS

**Beverly Hills**  
ROBERT WUNDERLICH

**Burbank**  
GLENN A. BROWN

**Compton**  
YVONNE ARCENEUX

**Fullerton**  
PETER BEARD

**Glendale**  
LAURA FRIEDMAN

**Long Beach**  
SUJA LOWENTHAL

**Los Angeles**  
GLEN C. DAKE  
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CYNTHIA KURTZ

**San Fernando**  
SYLVIA BALLIN

**San Marino**  
JOHN T. MORRIS

**Santa Ana**  
DANIEL E. GRISET

**Santa Monica**  
JUDY ABDO

**Torrance**  
RUSSELL LEFEVRE

**Calleguas Municipal Water  
District**  
STEVE BLOIS

**Central Basin Municipal  
Water District**  
ROBERT APODACA  
PHILLIP D. HAWKINS

**Eastern Municipal Water  
District**  
RANDY A. RECORD

**Foothill Municipal Water  
District**  
RICHARD W. ATWATER

**Inland Empire Utilities  
Agency**  
MICHAEL CAMACHO

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

**Municipal Water District of  
Orange County**  
LINDA ACKERMAN  
BRETT R. BARBRE  
LARRY D. DICK  
LARRY MCKENNEY

**San Diego County Water  
Authority**  
MICHAEL T. HOGAN  
KEITH LEWINGER  
FERN STEINER  
YEN C. TU

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

**Upper San Gabriel Valley  
Municipal Water District**  
MICHAEL TOUHEY

**West Basin Municipal Water  
District**  
DONALD L. DEAR  
GLORIA D. GRAY

**Western Municipal Water  
District of Riverside County**  
THOMAS P. EVANS



**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**Management**

**JEFFREY KIGHTLINGER**  
*General Manager*

**MARCIA SCULLY**  
*General Counsel*

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

**DEENA GHALY**  
*Ethics Officer*

**DEBRA C. MAN**  
*Assistant General  
Manager/Chief  
Operating Officer*

**GILBERT F. IVEY**  
*Assistant General  
Manager/Chief  
Administrative Officer*

**GARY BREAUX**  
*Assistant General  
Manager/Chief  
Financial Officer*

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

**DEE ZINKE**  
*Deputy General Manager/External Affairs*

**DAWN M. CHIN**  
*Board Executive Secretary*

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**Co-Bond Counsel**

Hawkins Delafield & Wood LLP  
Los Angeles, California

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

**Financial Advisor**

Public Resources Advisory Group  
Los Angeles, California

**Fiscal Agent**

Roger N. Marumoto  
*Metropolitan Treasurer*

**Escrow Agent**

Wells Fargo Bank, National Association  
Los Angeles, California

This Official Statement does not constitute an offer to sell the 2014 Series A Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Official Statement is not to be construed as a contract with the purchasers of the 2014 Series A Bonds. No dealer, salesman or any other person has been authorized by Metropolitan to give any information or to make any representations other than those contained herein in connection with the offering of the 2014 Series A Bonds, and if given or made, such information or representations must not be relied upon.

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

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

In connection with the offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market prices of the 2014 Series A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the 2014 Series A Bonds to certain dealers and others at prices or yields lower than the prices and yields stated on the inside cover pages of this Official Statement, and those prices and yields may be changed from time to time by the Underwriters.

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

Metropolitan maintains a website. However, the information presented on that website is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2014 Series A Bonds.

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## SUMMARY STATEMENT

*Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. Capitalized terms used in this Summary Statement, if not defined herein, have the meanings specified in Appendix C.*

### **Metropolitan**

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 37-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan provides 40 to 60 percent of the water used within its service area in any year. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the Board, is to provide its service area with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way. The member agencies of Metropolitan are not currently obligated by contract to purchase water from Metropolitan. For a description of voluntary purchase orders entered into by member agencies, see APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – Member Agency Purchase Orders.”

Metropolitan is authorized to levy property taxes within its service area; establish water rates; impose charges for water standby and service availability; incur general obligation bonded indebtedness and issue revenue bonds, notes and short-term revenue certificates; execute contracts; and exercise the power of eminent domain for the purpose of acquiring property.

For general information regarding Metropolitan, including information regarding Metropolitan’s operations and finances, see APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” and APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013.” For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

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

Metropolitan’s service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For selected demographic and economic information on Metropolitan’s service area, see APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA.”

The 2014-15 assessed valuation of the service area was approximately \$2,314.9 billion and the 2013-14 assessed valuation of the service area was approximately \$2,183.4 billion.

As of June 30, 2014, the total direct and overlapping tax and assessment debt within Metropolitan's service area totaled approximately \$47.37 billion or approximately 2.17% of the 2013-14 assessed valuation. The sum of Metropolitan's general obligation debt, net overlapping general obligation bonded debt and direct and overlapping tax and assessment debt within Metropolitan's service area was approximately \$70.45 billion or approximately 3.23% of the 2013-14 assessed valuation. See "METROPOLITAN TAX REVENUES – Direct and Overlapping Bonded Debt."

### **Authorization for the 2014 Series A Bonds**

The Waterworks General Obligation Refunding Bonds, 2014 Series A (the "2014 Series A Bonds") are being issued pursuant to the Metropolitan Water District Act, California Statutes 1927, Chapter 429, as reenacted in 1969 in Statutes 1969, Chapter 209, as amended, and as supplemented by Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with Section 53550 and 53580, respectively) of the California Government Code (the "Act"), the special election held in the service area of Metropolitan on June 7, 1966 (the "Election"), Resolution 6954 adopted on May 9, 1967 and Resolution 8386 adopted on January 12, 1993, as amended and supplemented, including by Resolution 8901 adopted on April 13, 2004 (collectively, the "Resolutions"). Voters voting in the Election authorized the issuance of \$850,000,000 of general obligation bonds for the purpose of financing the acquisition and construction of improvements and works of Metropolitan for supplying its inhabitants with water, including facilities relating thereto. As of November 1, 2014, Metropolitan had outstanding \$132,275,000 aggregate principal amount of Bonds (as defined herein), including the Refunded Bonds (as defined herein), payable on parity with the 2014 Series A Bonds.

### **Purpose of the 2014 Series A Bonds**

The 2014 Series A Bonds are being issued to redeem Metropolitan's Waterworks General Obligation Refunding Bonds, 2005 Series A maturing on and after March 1, 2016 (the "Refunded Bonds"), and to pay the costs of issuance for the 2014 Series A Bonds. See "PLAN OF REFUNDING."

### **General Terms of the 2014 Series A Bonds**

The 2014 Series A Bonds will be dated their date of delivery, and will mature in the principal amounts in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover page hereof. Interest on the 2014 Series A Bonds is payable on March 1 and September 1 of each year, commencing on March 1, 2015. See "DESCRIPTION OF THE 2014 SERIES A BONDS."

### **Book-Entry Only**

The 2014 Series A Bonds, when issued, will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2014 Series A Bonds. Individual purchases of the 2014 Series A Bonds will be made in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing 2014 Series A Bonds purchased by them. Principal of and interest on the 2014 Series A Bonds will be payable directly to DTC, as the registered owner of the 2014 Series A Bonds. Upon receipt of payments of principal and interest, DTC is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 2014 Series A Bonds. See APPENDIX D – "BOOK-ENTRY-ONLY SYSTEM." If DTC discontinues providing its services as depository with respect to the 2014 Series A

Bonds or Metropolitan decides to discontinue use of such system, ownership of the 2014 Series A Bonds will be registered and payments of principal of and interest on the 2014 Series A Bonds will be made as provided in the Resolutions.

### **Security for the 2014 Series A Bonds**

The 2014 Series A Bonds constitute general obligation indebtedness of Metropolitan, payable as to both principal and interest from *ad valorem* taxes which may be levied without limitation as to rate or amount upon all taxable real property within Metropolitan to pay the principal of and interest on such indebtedness and which, under the laws now in force, may be levied without limitation as to rate or amount upon all taxable personal property, except certain classes thereof, within Metropolitan to pay the principal of and interest on such indebtedness. These *ad valorem* taxes are unlimited as to rate or amount when levied for the purpose of paying the interest on and principal of general obligation bonds of Metropolitan, Metropolitan's share of debt service on general obligation bonded debt issued by the State of California (the "State") and payments to the State under the State Water Contract (as defined herein) to the extent Metropolitan fails or is unable to raise sufficient funds by other means to make all payments due under the State Water Contract. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – General" and "METROPOLITAN EXPENDITURES – General Obligation Bonds and State Water Contract Obligations." Any deficiency between tax levy receipts and Metropolitan's share of debt service obligations on general obligation bonded debt issued by the State is expected to be paid from operating revenues as described in the Revenue Bond Resolutions (as defined herein). See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – Revenue Allocation Policy and Tax Revenues."

The 2014 Series A Bonds are not secured by any pledge of or lien upon water revenues, although the Act provides that the Board of Directors, so far as practicable, shall fix water rates sufficient, together with available tax revenues, to produce revenues to pay operating expenses of Metropolitan and those under its State Water Contract (as defined herein), expenses for repairs and maintenance, the purchase price or other charges for property or services or other rights acquired by Metropolitan and the interest on and principal of the bonded debt, subject to the applicable provisions of the Act authorizing the issuance and retirement of bonds. Net operating revenues have been pledged to secure Metropolitan's outstanding Revenue Bonds (as defined herein), and Metropolitan has historically paid debt service on all its general obligation bonds from *ad valorem* taxes.

### **Additional Indebtedness**

As of November 1, 2014, Metropolitan had outstanding \$132,275,000 aggregate principal amount of Bonds (as defined herein), including the Refunded Bonds (as defined herein), payable on parity with the 2014 Series A Bonds. No additional Bonds other than refunding bonds can be issued pursuant to the Election. Under current law, additional general obligation bonds (in excess of the existing authorization) may only be authorized and issued for the purpose of acquiring or improving real property and only with the approval of two-thirds of the voters voting at a new election within Metropolitan's service area.

Under the Act, the amount of outstanding Bonds and other evidences of indebtedness (including the Revenue Bonds) may never exceed 15% of the assessed value of all taxable property within Metropolitan. Metropolitan's outstanding Bonds, Revenue Bonds and other evidences of indebtedness as of November 1, 2014, in the amount of \$4.31 billion, is approximately 0.19% of the 2014-15 assessed valuation of \$2,314.9 billion within Metropolitan.

### **Revenue Bonds and Other Borrowings**

Metropolitan has issued \$11.23 billion principal amount of Water Revenue Bonds, including water revenue refunding bonds (the "Revenue Bonds"), payable from Net Operating Revenues (as such term is defined in the resolutions pursuant to which the Revenue Bonds were issued), of which \$4.17 billion was outstanding as of November 1, 2014. Metropolitan has financed and intends to finance a major portion of its capital investment plan through pay-as-you-go funding and the issuance of its Revenue Bonds. The total amount of Revenue Bonds which may be outstanding at any given time is as set forth above and is subject to certain limitations contained in the Act and in the resolutions adopted by the Board of Directors of Metropolitan with respect to its Revenue Bonds (the "Revenue Bond Resolutions"). See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Revenue Bond Indebtedness" and "Limitations on Additional Revenue Bonds."

### **Continuing Disclosure**

Metropolitan has agreed to provide with respect to the 2014 Series A Bonds, or to cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the U.S. Securities and Exchange Commission ("SEC"), certain annual financial information and operating data relating to Metropolitan and notice of certain events. These covenants have been made in order to assist the Underwriters in complying with the Rule. Metropolitan supplemented its annual report for 2011 with respect to its General Obligation Bonds to provide additional regional assessed valuation information omitted from such timely filed annual report. Metropolitan implemented additional procedures to file complete annual reports. See "CONTINUING DISCLOSURE" and APPENDIX G – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" in this Official Statement.

### **Miscellaneous**

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



**OFFICIAL STATEMENT****§[Preliminary Par]\*****THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
WATERWORKS GENERAL OBLIGATION REFUNDING BONDS,  
2014 SERIES A****INTRODUCTION**

The purpose of this Official Statement (which includes the cover page, the inside cover page, the Summary Statement and all Appendices hereto) is to set forth information concerning The Metropolitan Water District of Southern California (“Metropolitan”) and its 2014 Series A Bonds in connection with the sale by Metropolitan of the 2014 Series A Bonds.

The 2014 Series A Bonds are being issued pursuant to the Metropolitan Water District Act, California Statutes 1927, Chapter 429, as reenacted in 1969 in Statutes 1969, Chapter 209, as amended, and as supplemented by Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with Section 53550 and 53580, respectively) of the California Government Code (the “Act”), the special election held in the service area of Metropolitan on June 7, 1966 (the “Election”), Resolution 6954 adopted on May 9, 1967 and Resolution 8386 adopted on January 12, 1993, as amended and supplemented by Resolution 8728 adopted on January 16, 2001, Resolution 8824 adopted on August 20, 2002 and Resolution 8901 adopted on April 13, 2004 (collectively, the “Resolutions”). The Election authorized the issuance of \$850,000,000 of general obligation bonds (“Bonds”) for the purpose of financing the acquisition and construction of improvements and works of Metropolitan for supplying its inhabitants with water, including facilities relating thereto.

The 2014 Series A Bonds are being issued to redeem Metropolitan’s Waterworks General Obligation Refunding Bonds, 2005 Series A maturing on and after March 1, 2016 (the “Refunded Bonds”) and to pay the costs of issuance for the 2014 Series A Bonds. See “PLAN OF REFUNDING” herein.

As of November 1, 2014, Metropolitan had outstanding \$132,275,000 aggregate principal amount of its Bonds, including the Refunded Bonds, payable on parity with the 2014 Series A Bonds. No additional general obligation bonds, other than refunding bonds, can be issued under the authorization under the Election. Under current law, additional general obligation bonds (in excess of the existing authorization) may only be authorized and issued for the purpose of acquiring or improving real property and only with the approval of two-thirds of the voters voting at a new election within Metropolitan’s service area. Under the Act, the amount of outstanding Bonds, Revenue Bonds (as described herein) and other evidences of indebtedness may never exceed 15% of the assessed value of all taxable property within the jurisdiction of Metropolitan. Metropolitan’s outstanding Bonds, Revenue Bonds and other evidences of indebtedness as of November 1, 2014, in the amount of \$4.31 billion, is approximately 0.19% of the 2014-15 assessed valuation of \$2,314.9 billion within Metropolitan.

The statements herein concerning the 2014 Series A Bonds are summaries of certain provisions of the 2014 Series A Bonds, the Resolutions and related documents, which summaries do not purport to be complete and are qualified in their entirety by reference to the Resolutions and related documents. Financial and statistical information set forth herein, except for the audited financial statements included in APPENDIX B, is unaudited. The source of information herein is Metropolitan unless otherwise stated. All terms used herein and not otherwise defined shall have the meanings given such terms in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

## DESCRIPTION OF THE 2014 SERIES A BONDS

### General

The 2014 Series A Bonds will be dated their date of delivery, and will mature in the principal amounts in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover page hereto. Interest on the 2014 Series A Bonds is payable on March 1 and September 1 of each year, commencing on March 1, 2015. The 2014 Series A Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

The 2014 Series A Bonds are issuable as fully-registered bonds and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the 2014 Series A Bonds. Ownership interests in the 2014 Series A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2014 Series A Bonds, principal and interest payments will be made as described in APPENDIX D – “BOOK-ENTRY-ONLY SYSTEM.” If DTC discontinues providing its services as depository with respect to the 2014 Series A Bonds or Metropolitan decides to discontinue use of such system, ownership of the 2014 Series A Bonds will be registered and payments of principal of and interest on the 2014 Series A Bonds will be made as provided in the Resolutions.

### No Redemption

The 2014 Series A Bonds are not subject to redemption prior to maturity.

## SECURITY FOR AND SOURCES OF PAYMENT FOR THE 2014 SERIES A BONDS

### Security for the 2014 Series A Bonds

The Election authorized the issuance of \$850,000,000 of Bonds for the purpose of financing the acquisition and construction of improvements and works of Metropolitan for supplying its inhabitants with water, including facilities relating thereto. All of the Bonds authorized by the Election have been issued. No additional general obligation bonds, other than refunding bonds, can be issued under the authorization under the Election. As of November 1, 2014, Metropolitan had outstanding \$132,275,000 aggregate principal amount of its Bonds, including the Refunded Bonds, payable on parity with the 2014 Series A Bonds. The 2014 Series A Bonds are being issued for the purpose of refunding a portion of Metropolitan’s outstanding Bonds, as described herein. See “PLAN OF REFUNDING.” General obligation indebtedness of Metropolitan is payable, as to both principal and interest, from *ad valorem* taxes which may be levied without limitation as to rate or amount upon all taxable real property within Metropolitan to pay the principal of and interest on such indebtedness and which, under the laws now in force, may be levied without limitation as to rate or amount upon all taxable personal property, except certain classes thereof, within Metropolitan to pay the principal of and interest on such indebtedness.

Metropolitan levies *ad valorem* taxes to pay voter-approved debt service on its outstanding Bonds, as well as a portion of Metropolitan’s payment obligations under the State Water Contract. See APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – General.” In the event that Metropolitan fails or is unable to raise sufficient funds by other means, the State Water Contract requires Metropolitan to levy upon all property within its boundaries, not exempt from taxation, a tax or assessment sufficient to provide for all payments under the State Water Contract. The total levy is based upon a formula described hereinafter. See APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN TAX REVENUES – Revenue Allocation Policy and Tax Revenues.”

The 2014 Series A Bonds are not secured by any pledge of or lien upon water revenues, although the Act provides that the Board of Directors, so far as practicable, shall fix water rates sufficient, together with revenue from any water standby or availability service charge or assessment, to pay operating expenses of Metropolitan, to provide for repairs and maintenance, to provide for the purchase price or other charges for property or services or other rights acquired by Metropolitan, and to provide for the interest on and principal of the bonded debt subject to the applicable provisions of the Act authorizing the issuance and retirement of bonds.

Although not required by the Act or by any general obligation bond resolution, policies adopted by the Board require Metropolitan to hold, on June 30 of any year, cash and securities in an amount at least equal to the sum of interest and principal payments to be made on all of its outstanding Bonds during the next eighteen months, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.

### **Additional Indebtedness**

As of November 1, 2014, Metropolitan had outstanding \$132,275,000 aggregate principal amount of its Bonds, including the Refunded Bonds, payable on parity with the 2014 Series A Bonds. Under current law, additional general obligation bonds may only be authorized and issued for the purpose of acquiring or improving real property and, except for refunding bonds, only with the approval of two-thirds of the voters voting at a new election within Metropolitan's service area.

Under the Act, the amount of outstanding indebtedness may never exceed 15% of the assessed value of all taxable property within Metropolitan. Metropolitan's outstanding Bonds, Revenue Bonds and other evidences of indebtedness as of November 1, 2014, in the amount of \$4.31 billion, is approximately 0.19% of the 2014-15 assessed valuation of \$2,314.9 billion within Metropolitan.

### **Revenue Bond Indebtedness**

Metropolitan has issued \$11.23 billion principal amount of Water Revenue Bonds, including refunding bonds (the "Revenue Bonds"), payable from Net Operating Revenues (as such term is defined in the Revenue Bond Resolutions), of which \$4.17 billion in aggregate principal amount were outstanding as of November 1, 2014. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Revenue Bond Indebtedness." The total amount of Revenue Bonds which may be outstanding at any given time is subject to certain limitations contained in the Act and in the Revenue Bond Resolutions. Net Operating Revenues (as such term is defined in the Revenue Bond Resolutions) have been pledged to secure Metropolitan's outstanding Revenue Bonds.

### PLAN OF REFUNDING

A portion of the proceeds of the 2014 Series A Bonds will be used to pay the redemption price, including accrued interest thereon, of the Refunded Bonds on March 1, 2015 (the "Redemption Date"). The Refunded Bonds consist of the following:

<b>Maturity Dates (March 1)</b>	<b>Principal Amounts</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Number<sup>†</sup> (Base 592659)</b>
2016	\$11,070,000	March 1, 2015	100%	S31
2017	10,710,000	March 1, 2015	100	S49
2018	9,035,000	March 1, 2015	100	S56
2019	9,345,000	March 1, 2015	100	S64
2020	8,890,000	March 1, 2015	100	S72
2021	5,385,000	March 1, 2015	100	S80

<sup>†</sup> CUSIP data herein are provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

Pursuant to the terms of the Resolutions, the defeasance of the Refunded Bonds will be effected by depositing a portion of the proceeds of the 2014 Series A Bonds in an escrow fund (the "Escrow Fund") created and established under the Escrow Instructions for the Refunded Bonds, by and between Metropolitan and Wells Fargo Bank, National Association, as escrow agent, as provided in the Resolutions. The amounts deposited therein will be held uninvested and will be applied to pay the redemption price of the Refunded Bonds, including accumulated interest thereon, on the Redemption Date.

### ESTIMATED SOURCES AND USES OF FUNDS FOR THE 2014 SERIES A BONDS

The estimated sources and uses of the proceeds of the 2014 Series A Bonds, and other available amounts, are shown below:

<i>Sources of Funds:</i>	
Bond Proceeds	\$
Net Original Issue Premium	_____
Total Sources	=====
 <i>Uses of Funds:</i>	
Deposit to Escrow Fund	\$
Costs of Issuance <sup>(1)</sup>	_____
Total Uses	=====

<sup>(1)</sup> Includes legal, financial advisor and escrow fees, underwriters' discount, printing costs, rating costs, and other miscellaneous costs.

### THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Metropolitan is a metropolitan water district created in 1928 by vote of the electorates of 11 southern California cities under authority of the Act to provide a supplemental supply of water for

domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan's service area comprises approximately 5,200 square miles and includes all or portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. For a listing of the members and information on Metropolitan's service area, see APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA." For a discussion of selected demographic and economic information on Metropolitan's service area, see APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

For information on the finances of operation of Metropolitan, see APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA" and APPENDIX B – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013."

## **METROPOLITAN TAX REVENUES**

### **Overview**

The 2014 Series A Bonds and Metropolitan's outstanding Bonds are payable from *ad valorem* property taxes authorized by the Election. Metropolitan's outstanding Revenue Bonds are payable from revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge and capacity charge. Water sales revenues are *not* pledged or expected to be a source for payment of the 2014 Series A Bonds. See "SECURITY FOR AND SOURCES OF PAYMENT FOR THE 2014 SERIES A BONDS."

For information on Metropolitan's revenues and expenses, including historical and projected revenue and expenditures, see "METROPOLITAN REVENUES," "METROPOLITAN EXPENDITURES" and "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in APPENDIX A. See also Metropolitan's audited financial statements contained in APPENDIX B.

### **Limitations on and Application of Ad Valorem Tax Revenues**

The *ad valorem* tax levy for any year is subject to limits imposed by law and Board policy. The State constitution generally caps *ad valorem* taxes at one percent of assessed value and permits additional *ad valorem* taxes for certain voter-approved debt. See "METROPOLITAN TAX REVENUES – Taxation Limits." The Act limits Metropolitan's *ad valorem* tax to the aggregate amount required to pay the principal of and interest on Metropolitan's general obligation bonds and that portion of Metropolitan's payment obligation under the State Water Contract with the Department of Water Resources (the "State Water Contract") attributable to certain State bonded debt; provided, that, except that the Board may take action to suspend this rate restriction subject to satisfaction of certain conditions precedent. For fiscal year 2014-15, the tax levy was continued at the rate levied for fiscal year 2012-13, subsequent to actions by Metropolitan's Board to suspend tax rate restrictions under the Act. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – General." Also, the State Water Contract requires that if Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries, not exempt from taxation, a tax or assessment sufficient to provide for all payments under the State Water Contract. See APPENDIX A – "METROPOLITAN EXPENDITURES – State Water Contract Obligations." Any deficiency between *ad valorem* tax levy receipts and Metropolitan's share of debt service obligations on general obligation bonded debt issued by the State is expected to be paid from Operating Revenues. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF

SOUTHERN CALIFORNIA – HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” *Ad valorem* taxes levied by Metropolitan are applied solely to the payment of outstanding general obligation bonds of Metropolitan and a portion of Metropolitan’s State Water Contract payment obligations.

### Ad Valorem Tax Revenues

Below is a summary of Metropolitan’s revenues from *ad valorem* tax levies for the last ten fiscal years. *Ad valorem* tax levies for pre-1978 voter-approved annual debt service (including the Election), other than revenue bond debt service, are established to produce net collections, after allowances for delinquencies and for statutory tax allocations to be made to successor agencies to redevelopment agencies, which will be sufficient to meet all such required debt service reserve requirements prior to the succeeding tax levy and collection cycle.

#### SUMMARY OF PROPERTY TAX LEVIES Fiscal Years 2005-06 through 2014-15 (Dollars in Thousands)

<u>Fiscal Year</u>	<u>Total Tax Levy</u> <sup>(1)</sup>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Total Tax Levy</u>
2005-06	\$104,531	\$ 96,030	91.9%
2006-07	103,913	94,962	91.4
2007-08	107,059	98,894	92.4
2008-09	109,776	104,583	95.3
2009-10	107,892	97,247	90.1
2010-11	95,385	88,056	92.3
2011-12	92,247	90,253	97.8
2012-13	94,963	96,655	101.8
2013-14	100,066	98,707	98.6
2014-15	92,281	NA	NA

Source: Metropolitan.

<sup>(1)</sup> *Ad valorem* tax levies do not include cash annexation payments.

<sup>(2)</sup> Tax levy payments are due on and delinquent after, on or about, December 10 and April 10, of each fiscal year.

### Taxation Limits

**Article XIII A of the California Constitution.** The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, commonly known as Proposition 13.

Article XIII A limits the maximum *ad valorem* tax on real property to one percent of “full cash value,” which is defined as “the County Assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per annum, or reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The tax rate limitation referred to above does not apply to *ad valorem* taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition. Thus by its terms, the tax rate limitation does not apply to taxes levied to pay debt service on Metropolitan's Bonds, including the 2014 Series A Bonds, because the Bonds were approved by the voters in 1966. Under current judicial and administrative interpretations of Article XIII A, the tax limitations have not significantly affected Metropolitan's financial flexibility in raising revenue.

In 1960, Metropolitan signed the State Water Contract for delivery of 1,500,000 acre-feet of water per annum. For information regarding Metropolitan's obligations under the State Water Contract see APPENDIX A – "METROPOLITAN EXPENDITURES – State Water Contract Obligations." By virtue of a 1983 decision of the California Court of Appeal, the tax rate limitation referred to above also does not apply to taxes levied by Metropolitan to meet its payment obligations under the State Water Contract. With these two exceptions, Article XIII A and implementing legislation have established an overall limitation which effectively precludes a tax levy to be used by Metropolitan for its general purposes.

Metropolitan levies and collects *ad valorem* taxes to meet its Bond debt service and a portion of its payment obligations under the State Water Contract. See "METROPOLITAN TAX REVENUES – Revenue Allocation Policy and Tax Revenues." Metropolitan also levies and collects special taxes pursuant to pre-1978 annexation proceedings, the proceeds of which are used to pay debt service on Metropolitan's Bonds and a certain portion of payments due under the State Water Contract.

**Article XIII B of the California Constitution.** State and local government agencies in California, and the State of California itself, are subject to annual "appropriation limits" imposed by Article XIII B, an initiative constitutional amendment approved by the voters on November 6, 1979, as amended, which prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are authorizations to spend "proceeds of taxes," which consist of tax revenues, certain State subventions and certain other funds, including proceeds from regulatory licenses, other revenues and certain other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product, or service." No limit is imposed on appropriation of funds which are not "proceeds of taxes," nor on debt service for indebtedness existing or authorized by January 1, 1979 (including Metropolitan's Bonds, including the 2014 Series A Bonds), or subsequently authorized by the voters, nor on appropriations required to comply with mandates of courts or the federal government, nor on user charges or fees which do not exceed the cost of the service provided. Metropolitan believes that Article XIII B does not apply to debt service on Metropolitan's Bonds by virtue of specific exemptions contained therein.

**Proposition 218.** Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996, added Articles XIII C and XIII D to the California Constitution. Article XIII C provides that no local government may impose a new special tax or extend or increase an existing special tax unless such tax is submitted to the electorate and approved by a two-thirds vote. Proposition 218 does not limit imposition of the *ad valorem* taxes securing Metropolitan's Bonds, including the 2014 Series A Bonds, which were approved by the voters in 1966.

Article XIII D provides substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge", other than an *ad valorem* tax, levied by a local government upon a parcel of real property or upon a person as an incident of property ownership. See APPENDIX A – "THE

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – California Ballot Initiative.”

**Tax Collection Procedures**

Property taxes are levied by Metropolitan on all secured and unsecured taxable property within the Metropolitan service area. The term “secured property,” as used in California, is defined to include all real property and personal property to the extent that taxes on said property constitute a lien on real property. “Unsecured property” includes all other taxable property.

*Ad valorem* taxes are levied by Metropolitan in August of each year and are generally collected by county officials at the same time and in the same manner as county taxes. Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be prepaid by payment of the delinquent taxes and the delinquency penalty, plus costs and prepayment penalty of one and one-half percent per month to the time of prepayment. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale at auction by the county tax collectors. Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the clerk of the court specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer. Since the timing of tax collections by the counties and remittances to Metropolitan do not coincide, delinquencies carried on county records are not necessarily identical to those carried in Metropolitan’s accounts.

Statutory tax increment allocations are made to certain pass-through entities from gross tax collections by the respective county taxing authorities and net collections, after such allocations, are paid to Metropolitan.



### Assessed Valuations Within Metropolitan's Service Area

California counties report assessed valuations at 100% of full value (defined as market value) and taxing entities, by law, express their levies in percent of full value. The following two tables set forth, for the indicated years, the assessed valuations and related tax rates for Metropolitan and the assessed valuation of the property in each County within Metropolitan's service area.

#### SUMMARY OF ASSESSED VALUATIONS AND TAX RATES Fiscal Years 2005-06 through 2014-15

<u>Fiscal Year</u>	<u>100% Assessed Valuation<sup>(1)</sup> (Dollars in Billions)</u>	<u>Metropolitan Secured Property Percentage Tax Rate</u>
2005-06	\$1,642.2	0.0052%
2006-07	1,839.5	0.0047
2007-08	2,015.4	0.0045
2008-09	2,120.9	0.0043
2009-10	2,081.9	0.0043
2010-11	2,049.1	0.0037
2011-12	2,067.5	0.0037
2012-13	2,097.4	0.0035
2013-14 <sup>(2)</sup>	2,183.4	0.0035
2014-15 <sup>(2)</sup>	2,314.9	0.0035

Source: Metropolitan.

<sup>(1)</sup> Gross assessed valuations (before deduction of Homeowner's and Business Inventory Exemptions), as of August each year, representing estimated market values of all secured and unsecured property within Metropolitan's service area, as certified by the County Auditor-Controllers for the respective counties.

<sup>(2)</sup> Reflects the Board's setting aside of reductions in the *ad valorem* tax rate, as prescribed by the Act, following the satisfaction of certain requirements of the Act, including the finding that the *ad valorem* tax revenue is "essential to the fiscal integrity of the district." See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES."

#### ASSESSED VALUATION WITHIN METROPOLITAN'S SERVICE AREA (BY COUNTIES)

<u>County</u>	<u>Fiscal Year 2013-14</u>		<u>Fiscal Year 2014-15</u>	
	<u>\$ in Billions</u>	<u>Percent of Total AV within Metropolitan</u>	<u>\$ in Billions</u>	<u>Percent of Total AV within Metropolitan</u>
Los Angeles	\$1,060.8	48.6%	\$1,117.4	48.3%
Orange	441.9	20.2	470.7	20.3
San Diego	381.6	17.5	405.0	17.3
Riverside	133.7	6.1	146.3	6.3
San Bernardino	83.5	3.8	89.1	3.8
Ventura	81.8	3.7	86.5	3.7
<b>TOTAL<sup>(1)</sup></b>	<b>\$2,183.4</b>	<b>100.0%</b>	<b>\$2,314.9</b>	<b>100.0%</b>

Source: Metropolitan.

<sup>(1)</sup> Total reflects independent rounding.

Total assessed valuations within Metropolitan's service area increased 6.0% from 2013-14 to 2014-15, reflecting impacts from increasing home prices. All of the six counties located in Metropolitan's service area posted year-to-year increases in assessed valuation, with the smallest increase, 5.3% in Los Angeles County.

### Outstanding General Obligation Bonds

As of November 1, 2014, Metropolitan had outstanding the following Bonds, as shown below:

<u>General Obligation Bonds</u>	<u>Amount Issued<sup>(1)</sup></u>	<u>Principal Outstanding</u>
Waterworks General Obligation Refunding Bonds, 2004 Series A	\$ 68,345,000	\$ 7,090,000
Waterworks General Obligation Refunding Bonds, 2005 Series A*	64,705,000	60,105,000
Waterworks General Obligation Refunding Bonds, 2009 Series A	45,515,000	33,650,000
Waterworks General Obligation Refunding Bonds, 2010 Series A	<u>39,485,000</u>	<u>31,430,000</u>
Total	<u>\$218,050,000</u>	<u>\$132,275,000</u>

Source: Metropolitan

<sup>(1)</sup> Voters authorized Metropolitan to issue \$850,000,000 of Waterworks General Obligation Bonds, Election 1966, in multiple series, in a special election held on June 7, 1966. This authorization has been fully utilized. This table lists bonds that refunded such general obligation bonds.

\* Metropolitan anticipates redeeming these general obligation bonds maturing on and after March 1, 2016 with proceeds of the 2014 Series A Bonds.

### Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt within Metropolitan's service area as of June 30, 2014 is shown below. The issuance of the 2014 Series A Bonds and the refunding to be effected with proceeds thereof are not reflected in the following table.

**METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
**ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT**  
(as of June 30, 2014)

2013-14 Assessed Valuation: \$2,183,386,537,251

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/14</u>
Los Angeles County Flood Control District	94.946%	\$ 16,596,561
Community College Districts	Various	9,404,775,857
Los Angeles Unified School District	99.623	10,505,379,841
San Diego Unified School District	99.952	2,365,276,111
Other Unified School Districts	Various	9,615,120,449
High School and School Districts	Various	4,330,713,289
City of Los Angeles	99.997	991,910,242
Other Cities	Various	352,491,535
Irvine Ranch Water District Improvement Districts	99.999-100.	519,998,779
Santa Margarita Water District Improvement Districts	100.	142,120,000
Other Water Districts	Various	65,538,306
Other Special Districts	Various	679,329,825
Community Facilities Districts	Various	6,886,821,935
1915 Act Bonds and Other Special Assessment District Bonds	Various	<u>1,363,691,558</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$47,239,764,288</b>

**METROPOLITAN WATER DISTRICT TOTAL DIRECT DEBT** **\$132,275,000**

**TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT** **\$47,372,039,288**

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County Obligations	93.091%	\$ 1,717,482,322
Riverside County Obligations	64.049	659,622,278
San Bernardino County Obligations	49.675	485,916,745
San Diego County Obligations	96.600	1,078,843,537
Other Counties Obligations	Various	503,237,886
City of Anaheim General Fund Obligations	99.827	728,415,123
City of Long Beach General Fund Obligations and Pension Obligation Bonds	100.	219,465,000
City of Los Angeles General Fund and Judgment Obligations	99.997	1,756,130,202
City of Pasadena General Fund and Pension Obligation Bonds	100.	608,871,382
City of San Diego General Fund Obligations	99.939	546,596,373
Other City General Fund Obligations	Various	2,883,626,713
Water District General Fund Obligations	Various	136,257,055
Los Angeles Unified School District Certificates of Participation	99.623	364,479,370
Other School District General Fund Obligations	Various	1,872,320,298
Other Special District General Fund Obligations	Various	<u>197,678,761</u>
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>\$13,758,943,045</b>
Less: Obligations supported from other revenue sources		<u>1,316,003,064</u>
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$12,442,939,981</b>

**OVERLAPPING TAX INCREMENT DEBT** **\$9,322,851,776**

**GROSS COMBINED TOTAL DEBT** **\$70,453,834,109<sup>(1)</sup>**

**NET COMBINED TOTAL DEBT** **\$69,137,831,045**

Ratios to 2013-14 Assessed Valuation:

<b>Direct Debt (\$132,275,000)</b> .....	<b>0.01%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	2.17%
Gross Combined Total Debt .....	3.23%
Net Combined Total Debt .....	3.17%

Ratios to Redevelopment Incremental Valuation (\$281,465,454,185):

Total Overlapping Tax Increment Debt 3.31%

Source: California Municipal Statistics, Inc.

<sup>(1)</sup> Debt instruments included are general obligation bonds, lease revenue bonds and certificates of participation (when supported by the general fund), pension obligation bonds, 1915 Act special assessment bonds and Mello-Roos Act special assessment bonds. Excluded are enterprise revenue bonds, mortgage revenue bonds, tax and revenue anticipation notes and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

### Debt Service Requirements

Set forth below is the debt service on all outstanding Bonds, including the debt service for the 2014 Series A Bonds and includes debt service on the Refunded Bonds.

#### DEBT SERVICE REQUIREMENTS FOR GENERAL OBLIGATION BONDS<sup>(1)</sup> (Cash Basis)

Fiscal Year Ending June 30	Outstanding Bonds <sup>(2)</sup>	2014 Series A Bonds			Total Debt Service
		Principal	Interest	Total	
2015	\$23,162,001				
2016	23,322,214				
2017	23,272,676				
2018	18,825,801				
2019	14,358,651				
2020	14,340,420				
2021	8,378,595				
2022	8,519,925				
2023	2,487,175				
2024	2,488,925				
2025	2,487,675				
2026	2,488,425				
2027	2,485,925				
2028	2,485,175				
2029	2,635,925				
2030	2,630,425				
2031	2,629,250				
2032	2,630,750				
2033	2,632,500				
2034	2,629,250				
2035	2,631,000				
2036	2,627,250				
2037	2,633,000				
<b>TOTAL</b>	<b>\$172,782,934</b>				

<sup>(1)</sup> Totals are rounded.

<sup>(2)</sup> Includes principal of and interest on the 2005 Series A Bonds.

## **ACCOUNTING AND BUDGET MATTERS**

### **Accounting Policies**

Metropolitan operates as a utility enterprise. A summary of Metropolitan's significant accounting policies is contained in Note 1 to Metropolitan's audited financial statements for the fiscal years ended June 30, 2014 and June 30, 2013. See APPENDIX B – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013."

### **Budgetary Accounting Method**

Metropolitan's budgeting and financial reporting is done on a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the accrual basis of accounting in the following respects: depreciation and amortization are not recorded and payments of debt service are recorded when due and payable. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES."

### **Financial Statements**

The audited financial statements of Metropolitan for Fiscal Years ended June 30, 2014 and June 30, 2013 are included as APPENDIX B attached hereto. The financial statements for Fiscal Year ended June 30, 2014 have been audited by Macias Gini & O'Connell LLP, Metropolitan's independent auditor, as stated in its Independent Auditor's Report, dated October 17, 2014, included in APPENDIX B. The financial statements for Fiscal Year ended June 30, 2013 were audited by KPMG LLP, Metropolitan's independent auditor for the referenced year. Metropolitan has not requested the consent of Macias Gini & O'Connell LLP or KPMG LLP, nor has Macias Gini & O'Connell LLP or KPMG LLP consented, to the inclusion of the financial statements of Metropolitan or either of the Independent Auditor's Report in APPENDIX B. Macias Gini & O'Connell LLP has not been engaged to perform, and has not performed, since the date of its Independent Auditor's Report, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this official statement.

The financial and statistical information contained in this Official Statement is included herein for informational purposes only and a complete review of the financial statements and the footnotes thereto set forth in APPENDIX B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Official Statement, other than the audited financial statements for the fiscal years ended June 30, 2014 and June 30, 2013 included in APPENDIX B.

### **Budget System**

Metropolitan's budget system incorporates features of program budgeting, management by objectives, and performance reporting which provides for funding, analysis, review, and control.

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

### **LITIGATION**

No litigation is pending, or, to the knowledge of Metropolitan, threatened, questioning (i) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, or (ii) the validity of the 2014 Series A Bonds or the power and authority of Metropolitan to issue the 2014 Series A Bonds, or (iii) which may materially impair the ability of Metropolitan to meet its obligations to the owners of the 2014 Series A Bonds.

Metropolitan is a party to various legal proceedings affecting Metropolitan's water system and is regularly involved in litigation regarding the condemnation of property in accordance with its authorization under the Act to exercise the powers of eminent domain. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA." Metropolitan does not believe that an adverse ruling in any of these proceedings could have an adverse impact on the ability of Metropolitan to meet its obligations to the owners of the 2014 Series A Bonds.

### **TAX MATTERS**

#### **Opinions of Co-Bond Counsel**

In the opinions of Hawkins Delafield & Wood LLP and Alexis S. M. Chiu, Esq., Co-Bond Counsel to Metropolitan, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2014 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2014 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinions, Co-Bond Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by Metropolitan in connection with the 2014 Series A Bonds, and Co-Bond Counsel have assumed compliance by Metropolitan with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2014 Series A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Co-Bond Counsel to Metropolitan, under existing statutes, interest on the 2014 Series A Bonds is exempt from personal income taxes imposed by the State of California.

Co-Bond Counsel express no opinion regarding any other Federal or state tax consequences with respect to the 2014 Series A Bonds. Co-Bond Counsel render their respective opinions under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement their opinions to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to their attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Co-Bond Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross

income for Federal income tax purposes of interest on the 2014 Series A Bonds, or under state and local tax law.

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

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2014 Series A Bonds in order that interest on such 2014 Series A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2014 Series A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2014 Series A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. Metropolitan has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2014 Series A Bonds from gross income under Section 103 of the Code.

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

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2014 Series A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2014 Series A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2014 Series A Bonds.

Prospective owners of the 2014 Series A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2014 Series A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

### **Bond Premium**

In general, if an owner acquires a 2014 Series A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2014 Series A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that 2014 Series A Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances,

the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **Original Issue Discount**

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a 2014 Series A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the 2014 Series A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2014 Series A Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Co-Bond Counsel further are of the opinion that, for any 2014 Series A Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2014 Series A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such 2014 Series A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

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

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

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2014 Series A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2014 Series A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2014 Series A Bonds from gross income for Federal income tax purposes. Any amounts



withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

### **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2014 Series A Bonds under Federal or state law or otherwise prevent beneficial owners of the 2014 Series A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2014 Series A Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014, by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest." The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond. Similarly, on February 26, 2014, Dave Camp, Chairman of the United States House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%) which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their "modified adjusted gross income," defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date.

Prospective purchasers of the 2014 Series A Bonds should consult their own tax advisors regarding the foregoing matters.

### **UNDERWRITING**

The 2014 Series A Bonds were sold at competitive bid on December \_\_, 2014. The 2014 Series A Bonds were awarded to \_\_\_\_\_ (the "Underwriter") at a purchase price of \$\_\_\_\_\_ (consisting of the principal amount of 2014 Series A Bonds, plus/minus a net original issue premium/discount of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_). The Official Notice Inviting Bids provides that all 2014 Series A Bonds would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice Inviting Bids, the approval of certain legal matters by Co-Bond Counsel and certain other conditions. The Underwriter will represent to Metropolitan that the 2014 Series A Bonds have been re-offered to the public at the price or yield as stated on the cover page hereof.

### **LEGAL MATTERS**

Hawkins Delafield & Wood LLP, Los Angeles, California, and Alexis S. M. Chiu, Esq., San Francisco, California, Co-Bond Counsel to Metropolitan, will render their respective opinions with respect to the 2014 Series A Bonds, substantially in the form set forth in APPENDIX F – "FORM OF OPINION OF CO-BOND COUNSEL." Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel.

### **FINANCIAL ADVISOR**

Metropolitan has retained Public Resources Advisory Group as financial advisor (the “Financial Advisor”) in connection with the issuance of the 2014 Series A Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to Metropolitan, with respect to accuracy and completeness of disclosure of such information. The Financial Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement.

### **RATINGS**

Fitch Ratings (“Fitch”), Moody’s Investors Service Inc. (“Moody’s”) and Standard & Poor’s Financial Services LLC (“S&P”) have assigned the 2014 Series A Bonds their ratings of “\_\_\_”, “\_\_\_” and “\_\_\_”, respectively. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor’s, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2014 Series A Bonds.

### **CONTINUING DISCLOSURE**

Metropolitan has agreed to execute a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”), which provides for disclosure obligations on the part of Metropolitan for so long as the 2014 Series A Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2014 Series A Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants will be made to assist the Underwriters of the 2014 Series A Bonds in complying with the Rule. See APPENDIX G – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” Metropolitan supplemented its annual report for 2011 with respect to its General Obligation Bonds to provide additional regional assessed valuation information omitted from such timely filed annual report. Metropolitan implemented additional procedures to file complete annual reports.

**MISCELLANEOUS**

The terms of the 2014 Series A Bonds are set forth in the Resolutions and the Notice Inviting Bids dated November \_\_, 2014. Copies of such documents may be obtained from the office of the Assistant General Manager/Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012, telephone (213) 217-7121. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Official Statement may be directed to the Assistant General Manager/Chief Financial Officer.

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

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

THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

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

**EXISTING ISSUE REMARKETED  
(FULL BOOK-ENTRY)**

**RATINGS: See "RATINGS" herein.  
CUSIP Nos. 59266T EK3, 59266T EH0**

*On June 2, 2011, the date that Metropolitan issued the 2011 A-1 Bonds and the 2011 A-3 Bonds, which were issued together with the 2011 A-2 Bonds and the 2011 A-4 Bonds (collectively, the "2011A Bonds"), Co-Bond Counsel to Metropolitan opined that, under then existing law and assuming compliance with tax covenants made by Metropolitan, and the accuracy of representations and certifications made by Metropolitan, interest on the 2011A Bonds was excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and was not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals or corporations. Co-Bond Counsel were of the opinion that interest on the 2011A Bonds was, however, included in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel were further of the opinion that interest on the 2011A Bonds was exempt from personal income taxes of the State of California. Such opinions spoke only as of their date and have not been updated in connection with this remarketing.*

[MWD logo]

**\$128,875,000**

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
Water Revenue Refunding Bonds  
(SIFMA Index Mode)**

**\$64,440,000  
2011 Series A-1**

**\$64,435,000  
2011 Series A-3**

**Scheduled Mandatory Tender Date: January 4, 2016**

**Dated Date: June 2, 2011**

**Price: 100%**

**Due: July 1, 2036**

The Metropolitan Water District of Southern California ("Metropolitan") is remarketing all of its Water Revenue Refunding Bonds, 2011 Series A-1 (the "2011 A-1 Bonds") and 2011 Series A-3 (the "2011 A-3 Bonds" and, together with the 2011 A-1 Bonds, the "2011 A-1/A-3 Bonds" and each a "Series") on December 5, 2014. A new Tender Period with respect to each Series of 2011 A-1/A-3 Bonds will commence on December 5, 2014, during which each Series will bear interest in an Index Mode at an Index Tender Rate. The Index Tender Rate for each Series will be equal to the sum of (a) the SIFMA Average Index Rate and (b) an Index Spread that the applicable Remarketing Agent will determine for that Series on or about December 3, 2014 for the new Tender Period. Promptly after the applicable Remarketing Agent determines the Index Spread, Metropolitan will publish it by supplementing this Remarketing Statement and posting the supplement on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. **See APPENDIX 1 for definitions of capitalized terms not otherwise defined herein.**

The 2011 A-1/A-3 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2011 A-1/A-3 Bonds tendered for purchase is an unsecured obligation payable solely from the sources specified in this Remarketing Statement. As of November 1, 2014, Metropolitan had outstanding \$4.17 billion aggregate principal amount of its Bonds payable from Net Operating Revenues (including the 2011 A-1/A-3 Bonds). The 2011 A-1/A-3 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2011 A-1/A-3 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on, or the Purchase Price upon a tender for purchase of, the 2011 A-1/A-3 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

*Metropolitan anticipates that the remarketed 2011 A-1/A-3 Bonds will be available for delivery through the facilities of DTC on December 5, 2014.*

**Morgan Stanley  
as Remarketing Agent for the 2011 A-1 Bonds**

**Barclays  
as Remarketing Agent for the 2011 A-3 Bonds**

November 24, 2014

**MAJOR WATER CONVEYANCE FACILITIES  
TO SOUTHERN CALIFORNIA**

[map to come]

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
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**Western Municipal Water District of Riverside County**

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

**JEFFREY KIGHTLINGER**  
*General Manager*

**MARCIA SCULLY**  
*General Counsel*

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

**DEENA GHALY**  
*Ethics Officer*

**DEBRA C. MAN**  
*Assistant General  
Manager/Chief  
Operating Officer*

**GILBERT F. IVEY**  
*Assistant General  
Manager/Chief  
Administrative Officer*

**GARY BREAUX**  
*Assistant General  
Manager/Chief Financial  
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**ROGER K. PATTERSON**  
*Assistant General  
Manager/Strategic Water  
Initiatives*

**DEE ZINKE**  
*Deputy General Manager/External Affairs*

**DAWN M. CHIN**  
*Board Executive Secretary*

---

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**Financial Advisor**

Public Resources Advisory Group  
Los Angeles, California

**Paying Agent**

Wells Fargo Bank, National Association  
Los Angeles, California

**Fiscal Agent**

Roger N. Marumoto  
Metropolitan Treasurer

This Remarketing Statement does not constitute an offer to sell the 2011 A-1/A-3 Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Remarketing Statement is not to be construed as a contract with the purchasers of the 2011 A-1/A-3 Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the remarketing of the 2011 A-1/A-3 Bonds, and if given or made, investors must not rely on such information or representations.

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

The Remarketing Agents have provided the following three sentences for inclusion in this Remarketing Statement. The Remarketing Agents have reviewed the information in this Remarketing Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information. **In connection with the remarketing of the 2011 A-1/A-3 Bonds, the Remarketing Agents may overallocate or effect transactions which stabilize or maintain the market prices of the 2011 A-1/A-3 Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association, and is set forth herein for convenience of reference only. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of Metropolitan, the Remarketing Agents nor the Financial Advisor assume any responsibility for the accuracy of such data.

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

Metropolitan maintains a website. However, the information presented on that website is not part of this Remarketing Statement and should not be relied upon in making investment decisions with respect to the 2011 A-1/A-3 Bonds.



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## SUMMARY STATEMENT

*Investors must read the entire Remarketing Statement to obtain information essential to making an informed investment decision. This Summary Statement is subject in all respects to the more complete information contained in this Remarketing Statement and should not be considered to be a complete statement of the facts material to making an informed investment decision. Capitalized terms used in this Summary Statement, if not defined herein, have the meanings given such terms in APPENDIX 1, the Resolutions or the applicable Paying Agent Agreement.*

### **Metropolitan**

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 37-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the Board, is to provide its service area with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way. The member agencies of Metropolitan are not currently obligated by contract to purchase water from Metropolitan. For a description of voluntary purchase orders entered into by member agencies, see Referenced Appendix A (defined below) under the caption “METROPOLITAN REVENUES – Member Agency Purchase Orders.”

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated [November \_\_], 2014 relating to its Waterworks General Obligation Refunding Bonds, 2014 Series A (the “2014 Series A Official Statement”), which consists of the following:

1. APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” (referred to herein as “Referenced Appendix A”)
2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013” (referred to herein as “Referenced Appendix B”)
3. APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA” (referred to herein as “Referenced Appendix E”)

Metropolitan includes by this specific reference into this Remarketing Statement Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2014 Series A Official Statement is on file with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (the “EMMA System”) and can be accessed at <http://emma.msrb.org/>.

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

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

## **Authorization for the 2011 A-1/A-3 Bonds**

Metropolitan issued its Water Revenue Refunding Bonds, 2011 Series A-1 (the "2011 A-1 Bonds") and 2011 Series A-3 (the "2011 A-3 Bonds" and, together with the 2011 A-1 Bonds, the "2011 A-1/A-3 Bonds" and each a "Series") pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to herein as the "Bonds." The 2011 A-1/A-3 Bonds are further described in the Paying Agent Agreements, each dated as of June 1, 2011 (each a "Paying Agent Agreement" and together, the "Paying Agent Agreements"), each by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent").

## **Remarketing of the 2011 A-1/A-3 Bonds and Selected Terms of the 2011 A-1/A-3 Bonds**

***Remarketing of the 2011 A-1/A-3 Bonds.*** Metropolitan is remarketing all of the 2011 Series A-1 Bonds and all of the 2011 Series A-3 Bonds in connection with an Index Mode Unscheduled Mandatory Tender pursuant to which Metropolitan will require all of the existing Owners of the 2011 Series A-1 Bonds and the 2011 Series A-3 Bonds to tender their respective 2011 A-1/A-3 Bonds for purchase on December 5, 2014. Metropolitan intends to pay the Purchase Price of each Series of 2011 A-1/A-3 Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of such Series of 2011 A-1/A-3 Bonds. The remarketing of each Series of 2011 A-1/A-3 Bonds upon the Index Mode Unscheduled Mandatory Tender on December 5, 2014 is referred to in this Remarketing Statement as the "Remarketing." The Depository Trust Company, New York, New York ("DTC"), is the registered owner of the 2011 A-1/A-3 Bonds and, as such, it will tender the 2011 A-1/A-3 Bonds on behalf of the Beneficial Owners upon the Index Mode Unscheduled Mandatory Tender. See APPENDIX 2 – "BOOK-ENTRY ONLY SYSTEM."

The Remarketing with respect to each Series will only occur if Metropolitan purchases all of such Series of 2011 A-1/A-3 Bonds on December 5, 2014 pursuant to the Index Mode Unscheduled Mandatory Tender. Under the terms of each Paying Agent Agreement, Metropolitan may rescind an Index Mode Unscheduled Mandatory Tender. In addition, Index Mode Unscheduled Mandatory Tenders are conditioned on amounts sufficient to pay the Purchase Price of a Series of 2011 A-1/A-3 Bonds tendered for purchase being on deposit with the Paying Agent on the Mandatory Purchase Date.

For a more detailed description of Index Mode Unscheduled Mandatory Tenders and the process of the remarketing of 2011 A-1/A-3 Bonds during the Index Mode, see "DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Tender and Purchase of the 2011 A-1/A-3 Bonds–*Index Mode Unscheduled Mandatory Tender*" and "–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.*"

***This Remarketing Statement describes the 2011 A-1/A-3 Bonds only while bearing interest in the Index Mode. There are significant differences in the terms of the 2011 A-1/A-3 Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to a Series of 2011 A-1/A-3 Bonds bearing interest in an Interest Mode other than the Index Mode. Owners and prospective purchasers of the 2011 A-1/A-3 Bonds should not rely on this Remarketing Statement for information in connection with any change of the 2011 A-1/A-3 Bonds to a different Interest Mode.***

***2011 A-1/A-3 Bonds in the Index Mode.*** Following the Remarketing, the 2011 A-1/A-3 Bonds will bear interest in the Index Mode. Accordingly, each Series of 2011 A-1/A-3 Bonds will be subject to all of the terms and provisions of the applicable Paying Agent Agreement governing such Series in the Index Mode. This includes provisions of each Paying Agent Agreement that (a) require the Owners of the 2011 A-1/A-3 Bonds to tender their 2011 A-1/A-3 Bonds for Purchase on any Scheduled Mandatory Tender Date for the New Tender Period, on any Unscheduled Mandatory Tender Date from and after the Call Protection Date for the New Tender Period and on other dates described in this Remarketing Statement and (b) permit Metropolitan to redeem or change the Interest Mode with respect to the 2011 A-1/A-3 Bonds from and after the Call Protection Date for the New Tender Period.

***Establishment of a New Tender Period.*** Upon the Remarketing, the existing Tender Period for each Series of 2011 A-1/A-3 Bonds will terminate and a new Tender Period for each Series will commence (such new Tender Period is referred to herein as the “New Tender Period”). For a more detailed description of Tender Periods, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Interest Rate Provisions–Tender Periods.”

***Determination and Notification of Index Spread.*** Each Remarketing Agent will determine the Index Spread for the applicable Series of 2011 A-1/A-3 Bonds for the New Tender Period on or about December 3, 2014. Each Remarketing Agent must determine an Index Spread for such Series that will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to such Series and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by such Series, would enable such Remarketing Agent to sell all of such Series on December 5, 2014 at a Purchase Price equal to the principal amount thereof. Promptly after the Remarketing Agents determine the applicable Index Spread for the New Tender Period, Metropolitan will publish it by supplementing this Remarketing Statement and posting the supplement on the EMMA System.

***Interest Rate During the New Tender Period.*** During the New Tender Period, each Series of 2011 A-1/A-3 Bonds will bear interest at the Index Tender Rate; provided, however, that, during a Purchase Default Period, all of the 2011 A-1/A-3 Bonds of the affected Series will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The Index Tender Rate for the New Tender Period for a Series will be the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread that the Remarketing Agent for such Series determines on or about December 3, 2014.

During the New Tender Period, Metropolitan will pay interest on each Series of 2011 A-1/A-3 Bonds on (a) the first Business Day of each calendar month, commencing January 2, 2015, (b) each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series and (c) each Scheduled Mandatory Tender Date for such Series.

For a description of the terms relating to interest on the 2011 A-1/A-3 Bonds, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Interest Rate Provisions.” For a description of the process by which the Remarketing Agents will determine the Index Spread for the New Tender Period, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender–Determination of Index Spread.*”

***Scheduled Mandatory Tender Date.*** The Scheduled Mandatory Tender Date for the New Tender Period for each Series of 2011 A-1/A-3 Bonds will be January 4, 2016, and for each subsequent Tender Period, will be the date that Metropolitan determines pursuant to the provisions of the applicable Paying Agent Agreement. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”

***Call Protection Date.*** The Call Protection Date for the New Tender Period for each Series of 2011 A-1/A-3 Bonds will be July 8, 2015. For any subsequent Tender Period, the Call Protection Date with respect to each Series of 2011 A-1/A-3 Bonds will be the applicable Standard Call Protection Date unless Metropolitan determines a different date. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”

***Notification Following Remarketing.*** Within two (2) Business Days after the Remarketing, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to the Owners of each Series of 2011 A-1/A-3 Bonds at their respective addresses appearing on the registration books and one or more Information Services (currently, the EMMA System), which will state: (a) that the immediately preceding Tender Period for such Series has terminated; (b) that the New Tender Period for such Series has commenced; (c) the day on which the Scheduled Mandatory Tender Date for such Series will occur with respect to the New Tender Period; (d) the day on which the Call Protection Date for such Series will occur with respect to the New Tender Period; and (e) the Index Spread that the Remarketing Agent for such Series determined. Absent manifest error, upon delivery of such notice, the Tender Period for each Series in effect immediately preceding the Remarketing will be deemed to have terminated and the New Tender Period will be deemed to have commenced.

### **Book-Entry Only**

The 2011 A-1/A-3 Bonds will be sold to the purchasers in the Remarketing as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the remarketed 2011 A-1/A-3 Bonds. Purchasers will not receive certificates representing 2011 A-1/A-3 Bonds purchased by them. Metropolitan will pay principal of and interest on the 2011 A-1/A-3 Bonds directly to DTC as the registered owner of the 2011 A-1/A-3 Bonds. Payments of the Purchase Price for any 2011 A-1/A-3 Bonds will be paid directly to DTC as the registered owner of the 2011 A-1/A-3 Bonds. Upon receipt of payments of principal, interest or Purchase Price, DTC is obligated to remit such payments of principal, interest and Purchase Price to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 2011 A-1/A-3 Bonds. See “DESCRIPTION OF THE 2011A-1/A-3 BONDS – Book-Entry Only System” and APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM.”

### **Redemption of the 2011 A-1/A-3 Bonds**

***Optional Redemption.*** While the 2011 A-1/A-3 Bonds of a Series bear interest in the Index Mode, each Series of 2011 A-1/A-3 Bonds will be subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, during the applicable Tender Period for such Series, on any Business Day on or after the applicable Call Protection Date for such Tender Period at a redemption

price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium; *provided, however*, that, during a Purchase Default Period, the affected Series of 2011 A-1/A-3 Bonds will not be subject to optional redemption. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Redemption of the 2011 A-1/A-3 Bonds—*Optional Redemption of 2011 A-1/A-3 Bonds in the Index Mode.*”

***Mandatory Sinking Fund Redemption.*** Each Series of 2011 A-1/A-3 Bonds will be subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from Mandatory Sinking Account Payments which will have been deposited in the Bond Service Fund. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Redemption of the 2011 A-1/A-3 Bonds—*Mandatory Sinking Fund Redemption of 2011 A-1/A-3 Bonds.*”

***Special Mandatory Redemption.*** During any Purchase Default Period with respect to any Series, the 2011 A-1/A-3 Bonds of such Series will be subject to special mandatory redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from Special Mandatory Redemption Payments which will have been deposited in the Bond Service Fund; *provided, however*, that, upon the termination of such Purchase Default Period, the 2011 A-1/A-3 Bonds of such Series will no longer be subject to special mandatory redemption. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Redemption of the 2011 A-1/A-3 Bonds—*Special Mandatory Redemption of 2011 A-1/A-3 Bonds.*”

***Selection of 2011 A-1/A-3 Bonds for Redemption.*** Other than a redemption of the 2011 A-1/A-3 Bonds pursuant to a special mandatory redemption, in the case of redemption in part, the Paying Agent will select the 2011 A-1/A-3 Bonds to be redeemed by lot. In the case of any redemption of 2011 A-1/A-3 Bonds pursuant to a special mandatory redemption, the Paying Agent will select the 2011 A-1/A-3 Bonds to be redeemed on a pro rata basis from all Owners, calculated based on the Outstanding principal amount of the 2011 A-1/A-3 Bonds held by each Owner compared to the total amount of 2011 A-1/A-3 Bonds Outstanding on the Record Date in respect of the applicable Redemption Date.

### **Tender and Purchase of the 2011 A-1/A-3 Bonds**

While the 2011 A-1/A-3 Bonds of a Series bear interest in the Index Mode, the Owners of all of the 2011 A-1/A-3 Bonds of such Series must tender for purchase, and Metropolitan must purchase, all of the 2011 A-1/A-3 Bonds of such Series on the Scheduled Mandatory Tender Date of each Tender Period for such Series. While the 2011 A-1/A-3 Bonds bear interest in the Index Mode, during each Tender Period applicable for a Series of 2011 A-1/A-3 Bonds, such Series will be subject to mandatory tender for purchase (in whole but not in part), pursuant to an Index Mode Unscheduled Mandatory Tender, on the Mandatory Purchase Date at a Purchase Price equal to the principal amount thereof, on any Business Day from and after the Call Protection Date for such Series. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Tender and Purchase of the 2011 A-1/A-3 Bonds.”

### **Event of Default and Purchase Default Period**

If Metropolitan does not pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of a Series pursuant to an Index Mode Scheduled Mandatory Tender, then such failure will be an “Event of Default” under the applicable Paying Agent Agreement and a Purchase Default Period for such Series will commence.



During a Purchase Default Period with respect to a Series of 2011 A-1/A-3 Bonds, the following will apply:

(a) All of the 2011 A-1/A-3 Bonds of such Series will bear interest at the Purchase Default Rate, which will be a per annum rate equal to the lower of (i) twelve percent (12%) and (ii) the higher of (A) eight percent (8%) and (B) the Prime Rate plus three percent (3%);

(b) The 2011 A-1/A-3 Bonds of such Series will not be subject to optional redemption (but as provided in (f) below, Metropolitan will remain obligated to purchase the 2011 A-1/A-3 Bonds of such Series);

(c) The 2011 A-1/A-3 Bonds of such Series will remain subject to Mandatory Sinking Fund Redemption;

(d) The 2011 A-1/A-3 Bonds of such Series will be subject to special mandatory redemption on the dates and in the principal amounts as set forth below under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Redemption of the 2011 A-1/A-3 Bonds–*Special Mandatory Redemption of 2011 A-1/A-3 Bonds*”;

(e) Metropolitan will not require the Owners to tender their 2011 A-1/A-3 Bonds of such Series for purchase as set forth below under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Tender and Purchase of the 2011 A-1/A-3 Bonds”;

(f) Metropolitan will continue to be obligated to purchase all of the 2011 A-1/A-3 Bonds of such Series at the Purchase Price, notwithstanding, and in addition to, its obligation to redeem Outstanding 2011 A-1/A-3 Bonds of such Series from Special Mandatory Redemption Payments; and

(g) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2011 A-1/A-3 Bonds of such Series, the Owners thereof will be obligated to sell and deliver their 2011 A-1/A-3 Bonds to Metropolitan.

**Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of such Series will not constitute an Event of Default under the Master Resolution or under any other provision of the Resolutions.**

### **Security for the 2011 A-1/A-3 Bonds**

The 2011 A-1/A-3 Bonds are limited obligations of Metropolitan payable as to principal and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described herein. Metropolitan will pay the principal of and interest on the 2011 A-1/A-3 Bonds on parity with its other Bonds (the “Parity Bonds”). As of November 1, 2014, Metropolitan had \$4.17 billion aggregate principal amount of Bonds (including the 2011 A-1/A-3 Bonds) outstanding. Metropolitan also will pay the principal of and interest on the 2011 A-1/A-3 Bonds on parity with the existing Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS.”

Metropolitan’s obligation to pay the Purchase Price of any 2011 A-1/A-3 Bonds tendered for purchase is an unsecured obligation of Metropolitan payable solely from the sources specified in this Remarketing Statement. The 2011 A-1/A-3 Bonds do not constitute general obligation indebtedness of

Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2011 A-1/A-3 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on, or the Purchase Price upon a tender for purchase of, the 2011 A-1/A-3 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

Metropolitan has established reserve funds for some of the series of outstanding Bonds, but Metropolitan did not fund a reserve fund for the 2011 A-1/A-3 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS—No Reserve Fund Moneys."

### **Rate Covenant**

Metropolitan covenants under the Master Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority: (1) Operation and Maintenance Expenditures; (2) the interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds and Parity Obligations as they become due and payable; (3) all other payments required for compliance with the Master Resolution or any Supplemental Resolution; and (4) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues. Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2011 A-1/A-3 Bonds, including any Mandatory Sinking Fund Payments and, during any Purchase Default Period, Special Mandatory Redemption Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2011 A-1/A-3 Bonds in setting its rates and charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS—Rate Covenant."

### **Additional Indebtedness**

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2011 A-1/A-3 Bonds, the Parity Bonds or the Parity Obligations.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on parity with the 2011 A-1/A-3 Bonds, the Parity Bonds and the existing Parity Obligations to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Resolution. Metropolitan may also incur obligations junior and subordinate to the 2011 A-1/A-3 Bonds or any Parity Bonds or Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS—Additional Indebtedness."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on parity with Metropolitan's obligation to pay principal of and interest on the 2011 A-1/A-3 Bonds and the Parity Bonds. See Referenced Appendix A under the caption "METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations."

**Continuing Disclosure**

Metropolitan agreed to provide with respect to the 2011 A-1/A-3 Bonds, or to cause to be provided, to the EMMA System, for purposes of Rule 15c2-12(b)(5) (the “Rule”) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events. These covenants were made in order to assist Morgan Stanley & Co. LLC, as underwriter for the 2011 A-1 Bonds, and Barclays Capital Inc., as underwriter for the 2011 A-3 Bonds in complying with the Rule at the time of their offering. See “CONTINUING DISCLOSURE” and APPENDIX 4 – “COPY OF CONTINUING DISCLOSURE UNDERTAKING.”

Metropolitan has not failed in the previous five years to comply in any material respect with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule except perhaps insofar as Metropolitan supplemented its annual report for 2011 with respect to its General Obligation Bonds to provide additional regional assessed valuation information omitted from those timely filed annual reports. As of the date hereof, Metropolitan is in compliance in all material respects with its undertakings with regard to the provision of annual reports and notices of certain events as required by the Rule. Metropolitan has implemented additional procedures to file complete annual reports in the future.

**Miscellaneous**

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

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## REMARKETING STATEMENT

**\$128,875,000**

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
Water Revenue Refunding Bonds  
(SIFMA Index Mode)**

**\$64,440,000  
2011 Series A-1**

**\$64,435,000  
2011 Series A-3**

## INTRODUCTION

Metropolitan is remarketing all of its Water Revenue Refunding Bonds, 2011 Series A-1 (the “2011 A-1 Bonds”) and 2011 Series A-3 (the “2011 A-3 Bonds” and, together with the 2011 A-1 Bonds, the “2011 A-1/A-3 Bonds” and each a “Series”) in connection with an Index Mode Unscheduled Mandatory Tender pursuant to which Metropolitan will require all of the existing Owners of the 2011 Series A-1 Bonds and the 2011 Series A-3 Bonds to tender their respective 2011 A-1/A-3 Bonds for purchase on December 5, 2014. Metropolitan intends to pay the Purchase Price of each Series of 2011 A-1/A-3 Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of such Series of 2011 A-1/A-3 Bonds. The remarketing of each Series of 2011 A-1/A-3 Bonds upon the Index Mode Unscheduled Mandatory Tender on December 5, 2014 is referred to in this Remarketing Statement as the “Remarketing.” Upon the Remarketing, a new Tender Period with respect to each Series of 2011 A-1/A-3 Bonds will commence during which each Series of 2011 A-1/A-3 Bonds will bear interest in an Index Mode.

***This Remarketing Statement describes the 2011 A-1/A-3 Bonds only while bearing interest in the Index Mode. There are significant differences in the terms of the 2011 A-1/A-3 Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to a Series of 2011 A-1/A-3 Bonds bearing interest in an Interest Mode other than the Index Mode. Owners and prospective purchasers of the 2011 A-1/A-3 Bonds should not rely on this Remarketing Statement for information in connection with any change of the 2011 A-1/A-3 Bonds to a different Interest Mode.***

Metropolitan issued the 2011 A-1/A-3 Bonds on June 2, 2011, pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, and Chapter 3 of Part 1, Division 2, Title 5 of the California Government Code, as amended (the “Act”), Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the “Master Resolution”), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the “Fourth Supplemental Resolution” and, together with the Master Resolution, the “Resolutions”). The voters in Metropolitan’s service area approved Metropolitan’s issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to herein as the “Bonds.” The 2011 A-1/A-3 Bonds are further described in the Paying Agent Agreements, each dated as of June 1, 2011 (each a “Paying Agent Agreement” and together, the “Paying Agent Agreements”), each by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the “Paying Agent”).

Metropolitan will pay the principal of and interest on the 2011 A-1/A-3 Bonds on parity with its other Bonds (the “Parity Bonds”). As of November 1, 2014, Metropolitan had \$4.17 billion aggregate principal amount of Bonds (including the 2011 A-1/A-3 Bonds) outstanding. Metropolitan may issue

additional Parity Bonds and other obligations (the “Parity Obligations”) from time to time payable and secured on parity with the 2011 A-1/A-3 Bonds upon action of Metropolitan’s Board of Directors (the “Board”) under the Master Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS–Parity Bonds and Parity Obligations” and “OPERATING REVENUES AND DEBT SERVICE–Anticipated Financings.”

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on parity with the 2011 A-1/A-3 Bonds, the Parity Bonds and the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS–Parity Bonds and Parity Obligations–*Interest Rate Swap Agreements*” and Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2011 A-1/A-3 Bonds, the Parity Bonds or the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS–Additional Indebtedness.”

Metropolitan did not fund a reserve fund for the 2011 A-1/A-3 Bonds.

This Introduction is not a summary of this Remarketing Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Remarketing Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Remarketing Statement. References to, and summaries of, provisions of the Constitution of, and laws of, the State of California (the “State”), including the Act, the 2011 A-1/A-3 Bonds, the Resolutions, the Paying Agent Agreements, and documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The source of information herein is Metropolitan unless otherwise stated. Capitalized terms used in this Remarketing Statement and not otherwise defined shall have the meanings ascribed thereto in APPENDIX 1, the Resolutions or the applicable Paying Agent Agreement. A summary of the Resolutions and the Paying Agent Agreements and a list of selected defined terms are set forth in APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

## **REMARKETING OF THE 2011 A-1/A-3 BONDS**

### **General**

Metropolitan is remarketing all of the 2011 Series A-1 Bonds and all of the 2011 Series A-3 Bonds in connection with an Index Mode Unscheduled Mandatory Tender pursuant to which Metropolitan will require all of the existing Owners of the 2011 Series A-1 Bonds and the 2011 Series A-3 Bonds to tender their respective 2011 A-1/A-3 Bonds for purchase on December 5, 2014. Metropolitan intends to pay the Purchase Price of each Series of 2011 A-1/A-3 Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of such Series of 2011 A-1/A-3 Bonds. The remarketing of each Series of 2011 A-1/A-3 Bonds upon the Index Mode Unscheduled Mandatory Tender on December 5, 2014 is referred to in this Remarketing Statement as the “Remarketing.”

The Remarketing with respect to each Series will only occur if Metropolitan purchases all of such Series of 2011 A-1/A-3 Bonds on December 5, 2014 pursuant to the Index Mode Unscheduled Mandatory

Tender. Under the terms of each Paying Agent Agreement, Metropolitan may rescind an Index Mode Unscheduled Mandatory Tender. In addition, Index Mode Unscheduled Mandatory Tenders are conditioned on amounts sufficient to pay the Purchase Price of a Series of 2011 A-1/A-3 Bonds tendered for purchase being on deposit with the Paying Agent on the Mandatory Purchase Date.

For a more detailed description of Index Mode Unscheduled Mandatory Tenders and the process of the remarketing of 2011 A-1/A-3 Bonds during the Index Mode, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Tender and Purchase of the 2011 A-1/A-3 Bonds–*Index Mode Unscheduled Mandatory Tender*” and “–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender*.”

***This Remarketing Statement describes the 2011 A-1/A-3 Bonds only while bearing interest in the Index Mode. There are significant differences in the terms of the 2011 A-1/A-3 Bonds while they bear interest in an Interest Mode other than the Index Mode.***

### **2011 A-1/A-3 Bonds in the Index Mode**

Following the Remarketing, the 2011 A-1/A-3 Bonds will bear interest in the Index Mode. Accordingly, each Series of 2011 A-1/A-3 Bonds will be subject to all of the terms and provisions of the applicable Paying Agent Agreement governing such Series in the Index Mode. This includes provisions of each Paying Agent Agreement that (a) require the Owners of the 2011 A-1/A-3 Bonds to tender their 2011 A-1/A-3 Bonds for Purchase on any Scheduled Mandatory Tender Date for the New Tender Period (described below), on any Unscheduled Mandatory Tender Date from and after the Call Protection Date for the New Tender Period and on other dates described in this Remarketing Statement and (b) permit Metropolitan to redeem or change the Interest Mode with respect to the 2011 A-1/A-3 Bonds from and after the Call Protection Date for the New Tender Period.

### **Establishment of a New Tender Period**

Upon the Remarketing, the existing Tender Period for each Series of 2011 A-1/A-3 Bonds will terminate and a new Tender Period for each Series will commence (such new Tender Period is referred to herein as the “New Tender Period”). For a more detailed description of Tender Periods, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Interest Rate Provisions–*Tender Periods*.”

### **Determination and Notification of Index Spread**

Each Remarketing Agent will determine the Index Spread for the applicable Series of 2011 A-1/A-3 Bonds for the New Tender Period on or about December 3, 2014. Each Remarketing Agent must determine an Index Spread for such Series that will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to such Series and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by such Series, would enable such Remarketing Agent to sell all of such Series on December 5, 2014 at a Purchase Price equal to the principal amount thereof. Promptly after the Remarketing Agents determine the applicable Index Spread for the New Tender Period, Metropolitan will publish it by supplementing this Remarketing Statement and posting the supplement on the EMMA System.

**Interest Rate During the New Tender Period**

During the New Tender Period, each Series of 2011 A-1/A-3 Bonds will bear interest at the Index Tender Rate; provided, however, that, during a Purchase Default Period, all of the 2011 A-1/A-3 Bonds of the affected Series will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The Index Tender Rate for the New Tender Period for a Series will be the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread that the Remarketing Agent for such Series determines on or about December 3, 2014.

During the New Tender Period, Metropolitan will pay interest on each Series of 2011 A-1/A-3 Bonds on (a) the first Business Day of each calendar month, commencing January 2, 2015, (b) each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series and (c) each Scheduled Mandatory Tender Date for such Series.

For a description of the terms relating to interest on the 2011 A-1/A-3 Bonds, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Interest Rate Provisions.” For a description of the process by which the Remarketing Agents will determine the Index Spread for the New Tender Period, see “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender–Determination of Index Spread.*”

**Scheduled Mandatory Tender Date**

The Scheduled Mandatory Tender Date for the New Tender Period for each Series of 2011 A-1/A-3 Bonds will be January 4, 2016, and for each subsequent Tender Period, will be the date that Metropolitan determines pursuant to the provisions of the applicable Paying Agent Agreement. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”

**Call Protection Date**

The Call Protection Date for the New Tender Period for each Series of 2011 A-1/A-3 Bonds will be July 8, 2015. For any subsequent Tender Period, the Call Protection Date with respect to each Series of 2011 A-1/A-3 Bonds will be the applicable Standard Call Protection Date unless Metropolitan determines a different date. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode.”

**Notification Following Remarketing**

Within two (2) Business Days after the Remarketing, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to the Owners of each Series of 2011 A-1/A-3 Bonds at their respective addresses appearing on the registration books and one or more Information Services (currently, the EMMA System), which will state: (a) that the immediately preceding Tender Period for such Series has terminated; (b) that the New Tender Period for such Series has commenced; (c) the day on which the Scheduled Mandatory Tender Date for such Series will occur with respect to the New Tender Period; (d) the day on which the Call Protection Date for such Series will occur with respect to the New Tender Period; and (e) the Index Spread that the Remarketing Agent for such Series determined. Absent manifest error, upon delivery of such notice, the Tender Period for each Series in effect immediately preceding the Remarketing will be deemed to have terminated and the New Tender Period will be deemed to have commenced.

## DESCRIPTION OF THE 2011 A-1/A-3 BONDS

### General

The 2011 A-1/A-3 Bonds are dated June 2, 2011, the date Metropolitan issued the 2011 A-1/A-3 Bonds. The 2011 A-1/A-3 Bonds bear interest in the Index Mode and will continue to bear interest in the Index Mode following the Remarketing. Under the terms of the Paying Agent Agreements, Metropolitan may designate a new Interest Mode.

Metropolitan will pay principal of, and premium, if any, on any 2011 A-1/A-3 Bond in lawful money of the United States of America upon presentment and surrender of such 2011 A-1/A-3 Bond at the Corporate Trust Office of the Paying Agent.

If under the applicable Paying Agent Agreement the Paying Agent is required to deliver any notice to the Owners of 2011 A-1/A-3 Bonds, then, within two (2) Business Days after the delivery of such notice, the Paying Agent will deliver such notice by first-class United States mail, postage prepaid, to any Beneficial Owner that delivers its postal address to the Paying Agent no less than thirty (30) days before the date that the Paying Agent delivers such notice to the Owners of the 2011 A-1/A-3 Bonds.

### Book-Entry Only System

Metropolitan issued the 2011 A-1/A-3 Bonds as fully registered bonds. The 2011 A-1/A-3 Bonds will be registered in the name of Cede & Co., as nominee of DTC, and will be available to Beneficial Owners (as defined in APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM) only under the book-entry system maintained by DTC. Beneficial Owners of 2011 A-1/A-3 Bonds will not receive physical certificates representing their interests in the 2011 A-1/A-3 Bonds. So long as the 2011 A-1/A-3 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the 2011 A-1/A-3 Bonds. Metropolitan will pay principal of and interest on the 2011 A-1/A-3 Bonds directly to DTC or Cede & Co., so long as DTC or Cede & Co. is the registered owner of the 2011 A-1/A-3 Bonds. Payments of Purchase Price for any 2011 A-1/A-3 Bonds will be paid directly to DTC as the registered owner of the 2011 A-1/A-3 Bonds. Upon receipt of payments of principal, interest or Purchase Price, DTC is obligated to remit such payments of principal, interest and Purchase Price, to DTC’s Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC’s Direct Participants and Indirect Participants (“Participants”). See APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM.”

Metropolitan and the Paying Agent will have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2011 A-1/A-3 Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2011 A-1/A-3 Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of, premium, if any, or interest on, the 2011 A-1/A-3 Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2011 A-1/A-3 Bonds are redeemed in part. See APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM.”

### Interest Rate Provisions

**Index Tender Rate.** While the 2011 A-1/A-3 Bonds bear interest at an Index Tender Rate, during any Index Rate Accrual Period, the Series of 2011 A-1/A-3 Bonds will bear a rate of interest equal to the



sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread for that Series for the related Tender Period; *provided, however*, that, during a Purchase Default Period, all of the 2011 A-1/A-3 Bonds of the affected Series will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. Each Remarketing Agent will determine the Index Spread for the applicable Series for the New Tender Period on or about December 3, 2014.

***Interest Payment Date.*** During the New Tender Period, interest on each Series of 2011 A-1/A-3 Bonds will be payable (including during any Purchase Default Period) (a) monthly on the first Business Day of each calendar month, commencing January 2, 2015, (b) on each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series, and (c) on each Scheduled Mandatory Tender Date for such Series (each, an “Interest Payment Date”).

***Determination of SIFMA Average Index Rate and Index Tender Rate.*** During any Tender Period (but not during any Purchase Default Period), no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Interest Payment Date applicable to a Series of 2011 A-1/A-3 Bonds, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the applicable Remarketing Agent specifying the SIFMA Average Index Rate and the Index Tender Rate for, and the aggregate amount of interest accrued during, the Index Rate Accrual Period ending on such Business Day together with a detailed calculation of the foregoing. Determination by the Fiscal Agent of the SIFMA Average Index Rate and the Index Tender Rate will be, absent manifest error, conclusive and binding on the Owners of such Series of 2011 A-1/A-3 Bonds and Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

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

“SIFMA” means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

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

“Index Rate Accrual Period” means, for 2011 A-1/A-3 Bonds in an Index Mode, the period from each Interest Accrual Date to and including (a) the day next preceding the next Interest Payment Date for such 2011 A-1/A-3 Bonds and (b) the day next preceding any Redemption Date, as applicable; *provided, however*, that the first Index Rate Accrual Period will begin on the date of delivery of the 2011 A-1/A-3 Bonds.

“Interest Accrual Date” means with respect to any period during which the 2011 A-1/A-3 Bonds bear interest at an Index Tender Rate, the first day of each Tender Period and, thereafter, each Interest Payment Date during that Tender Period.

***Tender Periods.*** The duration of each Tender Period is determined as described below. At the beginning of each Tender Period, the applicable Remarketing Agent will determine the Index Spread with respect to all of the 2011 A-1/A-3 Bonds of a Series. No Tender Period will last beyond the Scheduled

Mandatory Tender Date on which the Owners of all of the 2011 A-1/A-3 Bonds of a Series must tender for purchase, and Metropolitan must purchase, all of the 2011 A-1/A-3 Bonds of such Series.

*Commencement of Tender Periods.* The New Tender Period for each Series of 2011 A-1/A-3 Bonds will commence on December 5, 2014. Thereafter, each Tender Period will commence on the first to occur of (a) the applicable Scheduled Mandatory Tender Date of the Tender Period immediately preceding such Tender Period, unless a Purchase Default Period commences on such Scheduled Mandatory Tender Date, or (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender if all 2011 A-1/A-3 Bonds of a Series are actually purchased.

*Termination of Tender Periods.* Each Tender Period will terminate on the first to occur of (a) the applicable Scheduled Mandatory Tender Date, (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender if all 2011 A-1/A-3 Bonds of the applicable Series are actually purchased, (c) the first date on which the 2011 A-1/A-3 Bonds of the applicable Series bear interest in an Interest Mode other than the Index Mode, (d) a Fixed Rate Date, or (e) the date on which all 2011 A-1/A-3 Bonds of the applicable Series are redeemed in accordance with the terms of the applicable Paying Agent Agreement and the Master Resolution or all principal and accrued interest on all 2011 A-1/A-3 Bonds of such Series are otherwise paid in full. During any Purchase Default Period of a Series of 2011 A-1/A-3 Bonds, there will be no Tender Period in effect with respect to such Series of 2011 A-1/A-3 Bonds.

### **Tender and Purchase of the 2011 A-1/A-3 Bonds**

*Index Mode Scheduled Mandatory Tender.* While the 2011 A-1/A-3 Bonds of a Series bear interest in an Index Mode, the Owners of all of the 2011 A-1/A-3 Bonds of such Series must tender for purchase, and Metropolitan must purchase, all of the 2011 A-1/A-3 Bonds of such Series on the Scheduled Mandatory Tender Date of each Tender Period for such Series. The Scheduled Mandatory Tender Date for each Series of 2011 A-1/A-3 Bonds for the New Tender Period will be January 4, 2016.

Metropolitan is irrevocably committed to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of a Series subject to an Index Mode Scheduled Mandatory Tender as set forth in the applicable Paying Agent Agreement.

#### ***Index Mode Unscheduled Mandatory Tender.***

*Metropolitan's Right to Require Index Mode Unscheduled Mandatory Tender.* While the 2011 A-1/A-3 Bonds of a Series bear interest in an Index Mode, at its option, Metropolitan may require, during each Tender Period for such Series, the Owners of all (but not less than all) of the 2011 A-1/A-3 Bonds of a Series to tender their 2011 A-1/A-3 Bonds of such Series to Metropolitan for purchase, on any Business Day from and after the Call Protection Date of the applicable Tender Period, which for the New Tender Period will be July 8, 2015, which will be the Standard Call Protection Date for the New Tender Period. A mandatory tender as described in the immediately preceding sentence is referred to herein as an "Index Mode Unscheduled Mandatory Tender." Metropolitan will exercise its option by delivering written notice of Index Mode Unscheduled Mandatory Tender to the Paying Agent at its Corporate Trust Office and the applicable Remarketing Agent no later than seven (7) days before the Mandatory Purchase Date. The Paying Agent will pay to the Owners of the 2011 A-1/A-3 Bonds of a Series in connection with an Index Mode Unscheduled Mandatory Tender the Purchase Price, which is equal to the principal amount of the 2011 A-1/A-3 Bonds of such Series, on the related Mandatory Purchase Date from the sources of funds described herein, unless Metropolitan elects to rescind such Index Mode Unscheduled Mandatory Tender or any of the conditions of such Index Mode Unscheduled Mandatory Tender is not satisfied.

*Rescission.* Metropolitan will have the right to deliver to the Paying Agent at its Corporate Trust Office and the applicable Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Mandatory Purchase Date, a notice to the effect that Metropolitan elects to rescind any Index Mode Unscheduled Mandatory Tender. If Metropolitan rescinds any Index Mode Unscheduled Mandatory Tender, then no purchase will occur, the 2011 A-1/A-3 Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during such Tender Period, without change or modification, and the Tender Period then in effect will continue until terminated.

*Failure to Meet Conditions.* Any Index Mode Unscheduled Mandatory Tender for a Series will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. Funds for the payment of the Purchase Price of such mandatory tender will be derived from the sources described below under the caption “–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.*” If amounts sufficient to pay the Purchase Price of any Series of 2011 A-1/A-3 Bonds subject to mandatory tender are not on deposit with the Paying Agent on the Mandatory Purchase Date, or if Metropolitan fails to deliver a Favorable Opinion of Bond Counsel in connection with any change in the Call Protection Date, then no purchase will occur and the 2011 A-1/A-3 Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

Failure by Metropolitan to pay or cause to be paid the Purchase Price of all of the 2011 A-1/A-3 Bonds of a Series pursuant to an Index Mode Unscheduled Mandatory Tender, for any reason, will not constitute an Event of Default by Metropolitan under the applicable Paying Agent Agreement or the Resolutions. No such failure will affect Metropolitan’s right to require the Owners of 2011 A-1/A-3 Bonds to tender their 2011 A-1/A-3 Bonds during any Tender Period and during any subsequent Tender Period.

*Mandatory Tender for Purchase upon Change of Interest Mode.* The 2011 A-1/A-3 Bonds of a Series will be subject to mandatory tender for purchase on the effective date of a change in the Interest Mode of that Series, at the Purchase Price, payable in immediately available funds; *provided however*, that during any Purchase Default Period, the 2011 A-1/A-3 Bonds of such Series will not be subject to mandatory tender for purchase. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any change from an Index Mode to a different Interest Mode will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2011 A-1/A-3 Bonds of such Series will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

*Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate.* The 2011 A-1/A-3 Bonds of a Series will be subject to mandatory tender for purchase on the Fixed Rate Date at a Purchase Price, payable in immediately available funds; *provided, however*, that, during any Purchase Default Period, the 2011 A-1/A-3 Bonds of such Series will not be subject to mandatory tender for purchase. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any conversion to a Fixed Interest Rate will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2011 A-1/A-3 Bonds of such Series will continue to bear interest at the

Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

***Notice of Index Mode Scheduled Mandatory Tender.*** The Paying Agent will give notice by first-class United States mail, postage prepaid, of each Index Mode Scheduled Mandatory Tender to the Owners of the 2011 A-1/A-3 Bonds of a Series not less than thirty (30) days prior to the Scheduled Mandatory Tender Date. Such notice will state: (A) the date of such notice; (B) the distinguishing designation of the 2011 A-1/A-3 Bonds of such Series; (C) the date of issue of the 2011 A-1/A-3 Bonds of such Series; (D) the Scheduled Mandatory Tender Date; and (E) the CUSIP number of the 2011 A-1/A-3 Bonds of such Series. Each such notice will also state that the Owners of all of the 2011 A-1/A-3 Bonds of a Series are required to tender, and Metropolitan is required to purchase, all of the 2011 A-1/A-3 Bonds of such Series on the Scheduled Mandatory Tender Date of that Tender Period. All 2011 A-1/A-3 Bonds of such Series will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

***Notice of Index Mode Unscheduled Mandatory Tender.*** The Paying Agent will give notice of any Index Mode Unscheduled Mandatory Tender for a Series by first-class United States mail, postage prepaid, to the Owners of the 2011 A-1/A-3 Bonds of such Series not less than seven (7) days prior to the date on which such Series of 2011 A-1/A-3 Bonds will be purchased. Such notice will state: (A) the Mandatory Purchase Date; (B) that the Purchase Price of any 2011 A-1/A-3 Bond of such Series will be payable only upon surrender of such 2011 A-1/A-3 Bond to the Paying Agent at its Corporate Trust Office for delivery of the 2011 A-1/A-3 Bonds of such Series, accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series of 2011 A-1/A-3 Bonds by the applicable Remarketing Agent or from Metropolitan, all 2011 A-1/A-3 Bonds of such Series so subject to Index Mode Unscheduled Mandatory Tender will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2011 A-1/A-3 Bond of such Series subject to Index Mode Unscheduled Mandatory Tender does not surrender such 2011 A-1/A-3 Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2011 A-1/A-3 Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of such 2011 A-1/A-3 Bonds of a Series have not been provided to the Paying Agent either through the remarketing of such 2011 A-1/A-3 Bonds or from Metropolitan, that such 2011 A-1/A-3 Bonds will not be purchased or deemed purchased and will continue to bear interest as if no such Index Mode Unscheduled Mandatory Tender notice had been given; and (E) that the Index Mode Unscheduled Mandatory Tender is subject to rescission by Metropolitan, is subject to the condition that amounts sufficient to pay the Purchase Price of such Index Mode Unscheduled Mandatory Tender are on deposit with the Paying Agent on the Mandatory Purchase Date and, if applicable, is subject to the condition that Metropolitan delivers a Favorable Opinion of Bond Counsel in connection with a change of the Call Protection Date. All 2011 A-1/A-3 Bonds of such Series subject to Index Mode Unscheduled Mandatory Tender will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

If Metropolitan delivers a notice of an Index Mode Unscheduled Mandatory Tender and such Index Mode Unscheduled Mandatory Tender does not occur, then the Paying Agent will give notice by first-class United States mail, postage prepaid, to the Owners of the affected Series of 2011 A-1/A-3

Bonds, as soon as practicable, which states that such Index Mode Unscheduled Mandatory Tender for purchase has not occurred.

***Notice of Mandatory Tender for Purchase upon Change in Interest Mode.*** In connection with any mandatory tender for purchase of a Series of 2011 A-1/A-3 Bonds upon a change in the Interest Mode for such Series of 2011 A-1/A-3 Bonds, the Paying Agent will give notice of a mandatory tender for purchase by first-class United States mail, postage prepaid, not less than seven (7) days prior to the date on which the 2011 A-1/A-3 Bonds will be subject to such mandatory tender. Such notice will state: (A) the type of Interest Rate Period to commence on such Mandatory Purchase Date; (B) that the Purchase Price of any 2011 A-1/A-3 Bond so subject to mandatory tender for purchase will be payable only upon surrender of such 2011 A-1/A-3 Bond to the Paying Agent at its Corporate Trust Office for delivery of 2011 A-1/A-3 Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series of 2011 A-1/A-3 Bonds by the applicable Remarketing Agent, all 2011 A-1/A-3 Bonds of such Series so subject to mandatory tender for purchase will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2011 A-1/A-3 Bond so subject to mandatory tender for purchase does not surrender such 2011 A-1/A-3 Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2011 A-1/A-3 Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of such 2011 A-1/A-3 Bonds of such Series have not been provided to the Paying Agent either through the remarketing of such 2011 A-1/A-3 Bonds or from other moneys received from Metropolitan, that such 2011 A-1/A-3 Bonds of such Series will not be purchased or deemed purchased and will continue to bear interest as if such failed purchase had not occurred; and (E) if applicable, that the mandatory tender for purchase is subject to the condition that amounts sufficient to pay the Purchase Price of such mandatory tender for purchase are on deposit with the Paying Agent on the Mandatory Purchase Date.

***Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate.*** In connection with any mandatory tender for purchase of a Series of 2011 A-1/A-3 Bonds upon a conversion to a Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, any Liquidity Provider, the applicable Remarketing Agent and the Owners. Such notice will state: (A) that the interest rate with respect to the 2011 A-1/A-3 Bonds of such Series so subject to mandatory tender for purchase will be converted to the Fixed Interest Rate; (B) the Fixed Rate Date; (C) the date the Fixed Interest Rate is to be established; (D) that interest represented by the 2011 A-1/A-3 Bonds of such Series will be payable on each January 1 and July 1 after the Fixed Rate Date; (E) that subsequent to the Fixed Rate Date, the Owners will no longer have the right to deliver the 2011 A-1/A-3 Bonds of such Series to the Paying Agent for purchase; (F) that all Outstanding 2011 A-1/A-3 Bonds of such Series will be purchased on the Fixed Rate Date; and (G) that on and after the Fixed Rate Date, the Owners of the 2011 A-1/A-3 Bonds of such Series immediately preceding the Fixed Rate Date will be deemed to have tendered their 2011 A-1/A-3 Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, said Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for such Series of 2011 A-1/A-3 Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, such Series of 2011 A-1/A-3 Bonds will no longer otherwise be entitled to the benefits of the applicable Paying Agent Agreement.

***Undelivered Bonds.*** The Paying Agent may refuse to accept delivery of any 2011 A-1/A-3 Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such 2011 A-1/A-3 Bond as described in this Remarketing Statement. If any Owner of 2011 A-1/A-3 Bonds subject to mandatory tender for purchase fails to deliver such 2011 A-1/A-3 Bond to the Paying Agent at the place and on the applicable date and at the time specified, or fails to deliver such 2011 A-1/A-3 Bond properly endorsed, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent for such purpose, such 2011 A-1/A-3 Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bonds (including any Undelivered Bonds in connection with an Index Mode Unscheduled Mandatory Tender) are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery: (1) each Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the applicable Paying Agent Agreement; (2) interest will no longer accrue thereon; and (3) funds in the amount of the Purchase Price of each such Undelivered Bond will be held by the Paying Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Paying Agent at its Corporate Trust Office for delivery of the 2011 A-1/A-3 Bonds.

***Delivery of 2011 A-1/A-3 Bonds and Payment of the Purchase Price of 2011 A-1/A-3 Bonds Subject to Mandatory Tender for Purchase.***

***Payment of Purchase Price Upon Delivery of 2011 A-1/A-3 Bonds.*** For payment of the Purchase Price of any 2011 A-1/A-3 Bond of a Series subject to an Index Mode Scheduled Mandatory Tender or an Index Mode Unscheduled Mandatory Tender, or of any 2011 A-1/A-3 Bond of a Series subject to mandatory tender for purchase upon a change in the Interest Mode or upon conversion to a Fixed Interest Rate, on the specified Mandatory Purchase Date, such 2011 A-1/A-3 Bond of a Series must be delivered, at or prior to 12:00 noon (New York City time), on the Mandatory Purchase Date, to the Paying Agent at its Corporate Trust Office for delivery of such 2011 A-1/A-3 Bonds of a Series accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. In the event any such 2011 A-1/A-3 Bond of a Series is delivered after 12:00 noon (New York City time) on the Mandatory Purchase Date, payment of the Purchase Price of such 2011 A-1/A-3 Bond of a Series need not be made until the Business Day following the date of delivery of such 2011 A-1/A-3 Bond of a Series but such 2011 A-1/A-3 Bond of a Series will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

***Delivery of 2011 A-1/A-3 Bonds.*** If moneys sufficient to effect a purchase pursuant to an Index Mode Scheduled Mandatory Tender or an Index Mode Unscheduled Mandatory Tender, or upon a change in the Interest Mode or upon a conversion to a Fixed Interest Rate, have been provided through the remarketing of such Series of 2011 A-1/A-3 Bonds by the applicable Remarketing Agent or otherwise, all 2011 A-1/A-3 Bonds of such Series shall be purchased on the Mandatory Purchase Date. If any Owner of a 2011 A-1/A-3 Bond of such Series does not deliver such 2011 A-1/A-3 Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2011 A-1/A-3 Bond will be deemed to be an "Undelivered Bond," and no interest will accrue thereon from and after such Mandatory Purchase Date and the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof calculated as of such Mandatory Purchase Date.

**Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode*****Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Scheduled Mandatory Tender.***

*Remarketing of 2011 A-1/A-3 Bonds.* While the 2011 A-1/A-3 Bonds of a Series bear interest in the Index Mode, commencing thirty (30) days before the Scheduled Mandatory Tender Date of each Tender Period, the applicable Remarketing Agent will offer for sale and use its best efforts to sell all of the 2011 A-1/A-3 Bonds of such Series, in accordance with the applicable Remarketing Agreement, on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount of the 2011 A-1/A-3 Bonds of such Series, such that the Index Spread for the next Tender Period will be adjusted (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See “*Determination of Index Spread*” below.

*Determination of the Following Scheduled Mandatory Tender Date.* Metropolitan, by written direction to the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent by telephone, telecopy, or telex confirmed by written notice not later than thirty (30) days before a Scheduled Mandatory Tender Date of a Tender Period, will determine the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2011 A-1/A-3 Bonds of a Series in connection with an Index Mode Scheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date to be any Business Day during the next Tender Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three (3) months after the commencement of the Tender Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2011 A-1/A-3 Bonds of such Series pursuant to an Index Mode Scheduled Mandatory Tender will be the date that is one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

*Establishment of Call Protection Date.* With respect to any Tender Period commencing on a Scheduled Mandatory Tender Date in connection with an Index Mode Scheduled Mandatory Tender, the Call Protection Date will be the Standard Call Protection Date. The Standard Call Protection Date will be (a) the Tender Period Halfway Date, if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is one year or less or (b) the date that is 180 days before the Scheduled Mandatory Tender Date, if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is more than one year. The Tender Period Halfway Date will be, with respect to any Tender Period, the date occurring halfway between the commencement of such Tender Period and the Scheduled Mandatory Tender Date, which will be calculated by (a) dividing (i) the number of days from and including the date on which such Tender Period commences to and not including the Scheduled Mandatory Tender Date by (ii) two (2) and, if necessary, rounding the result down to the nearest whole number and (b) adding the resulting number of days to the commencement date of such Tender Period.

*Determination of Index Spread.* No later than the date that is twenty-five (25) days (or, if such date is not a Business Day, the Business Day immediately succeeding such date) before each Scheduled Mandatory Tender Date, the applicable Remarketing Agent will determine the Index Spread with respect to the Tender Period immediately following such Scheduled Mandatory Tender Date. The applicable Remarketing Agent will determine the Index Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the applicable Remarketing Agent, to the 2011 A-1/A-3 Bonds of such Series and known by the applicable Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2011 A-1/A-3 Bonds of such Series, would enable the Remarketing

Agent to sell all 2011 A-1/A-3 Bonds of such Series on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount thereof. This determination by the Remarketing Agent of the Index Spread will be conclusive and binding on the Owners of the 2011 A-1/A-3 Bonds of such Series, Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

*Purchase of 2011 A-1/A-3 Bonds.* The 2011 A-1/A-3 Bonds of a Series to be purchased in connection with an Index Mode Scheduled Mandatory Tender will be purchased from the Owners thereof, on the Scheduled Mandatory Tender Date at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of 2011 A-1/A-3 Bonds of the same Series remarketed to any person and furnished to the Paying Agent by the applicable Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
- (ii) moneys furnished by or on behalf of Metropolitan to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund.

Metropolitan is irrevocably committed to pay the Purchase Price of all 2011 A-1/A-3 Bonds of a Series on the Scheduled Mandatory Tender Date as set forth in the applicable Paying Agent Agreement.

The applicable Remarketing Agent will offer for sale and use its best efforts to sell all 2011 A-1/A-3 Bonds of a Series purchased by or on behalf of Metropolitan pursuant to an Index Mode Scheduled Mandatory Tender. The applicable Remarketing Agent will offer for sale all of the 2011 A-1/A-3 Bonds of a Series to be purchased in connection with an Index Mode Tender and all of such Series of 2011 A-1/A-3 Bonds purchased by or on behalf of Metropolitan (other than 2011 A-1/A-3 Bonds of a Series purchased by the applicable Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on such Series of 2011 A-1/A-3 Bonds; *provided, however*, that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the applicable Remarketing Agent to sell all 2011 A-1/A-3 Bonds of a Series subject to an Index Mode Scheduled Mandatory Tender or all such Series of 2011 A-1/A-3 Bonds purchased by or on behalf of Metropolitan at a discount or at a premium.

*Limited Security for the Payment of the Purchase Price.* Metropolitan's obligation to pay the Purchase Price of the 2011 A-1/A-3 Bonds of an affected Series in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of the 2011 A-1/A-3 Bonds of such Series on any Scheduled Mandatory Tender Date; however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2011 A-1/A-3 Bonds.

*Consequences of an Index Mode Scheduled Mandatory Tender Failure.* Upon the occurrence of an Index Mode Scheduled Mandatory Tender Failure with respect to any Series on any Scheduled Mandatory Tender Date, the following will occur:

- (i) The Paying Agent will return all 2011 A-1/A-3 Bonds of such Series to the Owners thereof together with notice of such insufficiency and the Paying Agent and the applicable Remarketing Agent will return all remarketing proceeds to the persons providing such moneys without interest;



- (ii) The Tender Period then in effect will terminate on such Scheduled Mandatory Tender Date;
- (iii) A Purchase Default Period will commence on such Scheduled Mandatory Tender Date; and
- (iv) An Event of Default under the applicable Paying Agent Agreement will occur.

Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of a Series will not constitute an Event of Default under the Resolutions. See “–Event of Default and Purchase Default Period” below.

*Notification of Index Mode Scheduled Mandatory Tender Failure.* Within two (2) Business Days after any Index Mode Scheduled Mandatory Tender Failure with respect to any Series, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) Metropolitan, (ii) the respective Owners of the affected Series of 2011 A-1/A-3 Bonds at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services (currently, the EMMA System), which will state that (A) an Index Mode Scheduled Mandatory Tender Failure occurred, (B) the Paying Agent will return all 2011 A-1/A-3 Bonds of such Series tendered on the Scheduled Mandatory Tender Date to the Owners thereof, and (C) a Purchase Default Period has commenced on the Scheduled Mandatory Tender Date under the applicable Paying Agent Agreement.

*Effect of a Successful Remarketing.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of the 2011 A-1/A-3 Bonds of a Series to be purchased on a Scheduled Mandatory Tender Date and all other conditions are satisfied, the following will occur:

- (i) The Tender Period in effect immediately before such purchase will terminate on the Scheduled Mandatory Tender Date and a new Tender Period will commence; and
- (ii) The Index Spread with respect to the 2011 A-1/A-3 Bonds of such Series for the new Tender Period will be the Index Spread determined by the applicable Remarketing Agent as described above under the caption “–*Determination of Index Spread.*”

*Notification of New Tender Period.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of a Series on a Scheduled Mandatory Tender Date and all other conditions are satisfied, then, within two (2) Business Days after such Scheduled Mandatory Tender Date, the Paying Agent will deliver, by first-class United States mail, postage prepaid, a notice to (i) Metropolitan, (ii) the respective Owners of all 2011 A-1/A-3 Bonds of such Series at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent and (v) one or more Information Services (currently, the EMMA System) which will state (A) that the immediately preceding Tender Period has terminated, (B) that a new Tender Period has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Tender Period, (D) the day on which the Call Protection Date will occur with respect to such Tender Period, and (E) the Index Spread determined by the applicable Remarketing Agent as described above under the caption “–*Determination of Index Spread.*” Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding such Scheduled Mandatory Tender Date with respect to such Series of 2011 A-1/A-3 Bonds will be deemed to have terminated on such Scheduled Mandatory Tender Date of that Tender Period and a new Tender Period will be deemed to have commenced on such Scheduled Mandatory Tender Date.

***Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.***

*Remarketing of 2011 A-1/A-3 Bonds.* Upon receipt of notice by Metropolitan of an Index Mode Unscheduled Mandatory Tender for any Series, the applicable Remarketing Agent will offer for sale and use its best efforts to sell, in accordance with the applicable Remarketing Agreement, the 2011 A-1/A-3 Bonds of such Series at a Purchase Price equal to the principal amount of the 2011 A-1/A-3 Bonds of such Series, such that the Index Spread for the next Tender Period will be determined (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See “–*Determination of Index Spread*” below.

*Determination of the Scheduled Mandatory Tender Date.* Metropolitan, by direction to the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender for a Series, will determine the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of the 2011 A-1/A-3 Bonds of such Series in connection with such Index Mode Unscheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date to be any Business Day during the next Tender Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three (3) months after the commencement of the Tender Period. If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2011 A-1/A-3 Bonds of such Series will be the date that is one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

*Establishment of Call Protection Date.* With respect to any Tender Period commencing on a date on which any Series of 2011 A-1/A-3 Bonds of are purchased in connection with an Index Mode Unscheduled Mandatory Tender, the Call Protection Date will be the Standard Call Protection Date. However, Metropolitan may, by direction to the Fiscal Agent, the applicable Remarketing Agent, and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender, determine the Call Protection Date for such Tender Period to be a date that is different than the Standard Call Protection Date. If Metropolitan delivers a written direction determining the Call Protection Date to be a date other than the Standard Call Protection Date, then, on the Mandatory Purchase Date on which such Tender Period will commence, the related Index Mode Unscheduled Mandatory Tender will be conditioned upon the delivery by Metropolitan on and as of such Mandatory Purchase Date of a Favorable Opinion of Bond Counsel with respect to the change in the Call Protection Date. If Metropolitan determines the Call Protection Date to be a date that is different than the Standard Call Protection Date with respect to any Tender Period, then that determination will not apply to any subsequent Tender Period unless Metropolitan delivers written direction with respect to such subsequent Tender Period.

*Determination of Index Spread.* No later than 5:00 p.m. (New York City time) one (1) Business Day before the Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender for a Series, the applicable Remarketing Agent will determine the Index Spread with respect to the Tender Period immediately following such Mandatory Purchase Date. The applicable Remarketing Agent will determine the Index Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2011 A-1/A-3 Bonds of such Series and known by such Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2011 A-1/A-3 Bonds of such Series, would enable the Remarketing Agent to sell all 2011 A-1/A-3 Bonds of such Series on the Mandatory Purchase Date at a Purchase Price equal to the principal amount thereof.

This determination by such Remarketing Agent of the Index Spread with respect to 2011 A-1/A-3 Bonds of such Series in the Index Mode will be conclusive and binding on the Owners of the 2011 A-1/A-3 Bonds of such Series and Metropolitan, the Fiscal Agent, the Remarketing Agent and the Paying Agent.

*Purchase of 2011 A-1/A-3 Bonds.* Metropolitan will cause the 2011 A-1/A-3 Bonds of a Series required to be purchased in connection with an Index Mode Unscheduled Mandatory Tender to be purchased from the Owners thereof, on the applicable Mandatory Purchase Date at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of such 2011 A-1/A-3 Bonds of the same Series remarketed to any person and furnished to the Paying Agent by the applicable Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
- (ii) moneys furnished by or on behalf of Metropolitan to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund;

*provided, however,* that if Metropolitan rescinds any Index Mode Unscheduled Mandatory Tender, or if any of the conditions of any Index Mode Unscheduled Mandatory Tender is not satisfied, then Metropolitan will not have any obligation to purchase any 2011 A-1/A-3 Bonds, no purchase will occur, the 2011 A-1/A-3 Bonds will continue to bear interest at the Index Tender Rate in effect during such Tender Period without change or modification and the Tender Period then in effect will continue until terminated.

The applicable Remarketing Agent will offer for sale and use its best efforts to sell any 2011 A-1/A-3 Bonds of a Series purchased by or on behalf of Metropolitan pursuant to an Index Mode Unscheduled Mandatory Tender. The applicable Remarketing Agent will offer for sale any 2011 A-1/A-3 Bonds of a Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender and any 2011 A-1/A-3 Bonds of such Series purchased by or on behalf of Metropolitan (other than 2011 A-1/A-3 Bonds of such Series purchased by the applicable Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on such Series of 2011 A-1/A-3 Bonds; *provided, however,* that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the applicable Remarketing Agent to sell all 2011 A-1/A-3 Bonds of a Series subject to an Index Mode Unscheduled Mandatory Tender or all such Series of 2011 A-1/A-3 Bonds purchased by or on behalf of Metropolitan at a discount or at a premium.

*Effect of a Successful Remarketing.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of 2011 A-1/A-3 Bonds of any Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender and all other conditions are satisfied, the following will occur:

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

*Notification of New Tender Period.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of the 2011 A-1/A-3 Bonds of a Series to be purchased in connection with an Index Mode Unscheduled Mandatory Tender on the Mandatory Purchase Date and all other

conditions are satisfied, then within two (2) Business Days after such Mandatory Purchase Date, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) Metropolitan, (ii) the respective Owners of any 2011 A-1/A-3 Bonds of such Series at their addresses appearing on the registration books, (iii) the applicable Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services (currently, the EMMA System), which will state (A) that the immediately preceding Tender Period has terminated, (B) that a new Tender Period has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Tender Period, (D) the day on which the Call Protection Date will occur with respect to any new Tender Period, and (E) the Index Spread determined by the applicable Remarketing Agent as described above under the caption “–*Determination of Index Spread.*” Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding such Mandatory Purchase Date will be deemed to have terminated and a new Tender Period will be deemed to have commenced.

### **Remarketing Agents**

Morgan Stanley & Co. LLC (“Morgan Stanley”) has been appointed remarketing agent for the 2011 A-1 Bonds under the terms of a remarketing agreement between Metropolitan and Morgan Stanley. The principal office of Morgan Stanley, in its capacity as remarketing agent for the 2011 A-1 Bonds, is 1585 Broadway, 11th Floor, New York, New York 10036, Attn: Municipal Short Term Products. Barclays Capital Inc. (“Barclays”) has been appointed remarketing agent for the 2011 A-3 Bonds under the terms of a remarketing agreement between Metropolitan and Barclays. The principal office of Barclays, in its capacity as remarketing agent for the 2011 A-3 Bonds, is 745 Seventh Avenue, 2<sup>nd</sup> Floor, New York, New York 10019. Morgan Stanley and Barclays, in their respective capacities as remarketing agents, are referred to herein each as a “Remarketing Agent” and together as “Remarketing Agents.”

Either Remarketing Agent may resign or be removed as remarketing agent by Metropolitan upon thirty (30) days' notice in accordance with the terms of the applicable Remarketing Agreement (provided, that neither Remarketing Agent may resign or be discharged of the duties and obligations created under the applicable Paying Agent Agreement on any date that is less than sixty (60) days before a Scheduled Mandatory Tender Date of the affected Series).

### **Redemption of the 2011 A-1/A-3 Bonds**

***Optional Redemption of 2011 A-1/A-3 Bonds in the Index Mode.*** The 2011 A-1/A-3 Bonds of a Series in the Index Mode will be subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, during the applicable Tender Period for such Series, on any Business Day on or after the applicable Call Protection Date for such Tender Period at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium; *provided, however,* that, during a Purchase Default Period, the affected Series of 2011 A-1/A-3 Bonds will not be subject to optional redemption. For a description of the Call Protection Date, see “REMARKETING OF THE 2011 A-1/A-3 BONDS–Call Protection Date.”

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***Mandatory Sinking Fund Redemption of 2011 A-1/A-3 Bonds.*** The 2011 A-1/A-3 Bonds will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2016 and on each July 1 thereafter through and including July 1, 2036, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments (as defined in the Master Resolution) which have been deposited in the Bond Service Fund, for such Series and in the principal amounts set forth below.

<b>Redemption Date (July 1)</b>	<b>Principal Amount</b>	
	<b>2011 A-1</b>	<b>2011 A-3</b>
2016	\$ 135,000	\$ 135,000
2017	145,000	135,000
2018	140,000	140,000
2019	145,000	140,000
2020	140,000	145,000
2021	150,000	145,000
2022	150,000	150,000
2023	155,000	145,000
2024	150,000	160,000
2025	1,635,000	1,630,000
2026	1,655,000	1,665,000
2027	1,695,000	1,695,000
2028	1,725,000	1,730,000
2029	6,125,000	6,120,000
2030	4,350,000	4,360,000
2031	4,525,000	4,515,000
2032	4,685,000	4,690,000
2033	4,795,000	4,795,000
2034	4,955,000	4,960,000
2035	5,180,000	5,175,000
2036 <sup>†</sup>	21,805,000	21,805,000

<sup>†</sup> Final Maturity

Mandatory Sinking Account Payments for the 2011 A-1/A-3 Bonds of a Series will be reduced to the extent Metropolitan has purchased 2011 A-1/A-3 Bonds of such Series and surrendered such 2011 A-1/A-3 Bonds to the Fiscal Agent for cancellation. If 2011 A-1/A-3 Bonds of a Series have been redeemed as described under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Redemption of the 2011 A-1/A-3 Bonds,” then the amount of the 2011 A-1/A-3 Bonds of a Series so redeemed will be credited to such future Mandatory Sinking Account Payments of such Series as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments in any twelve-month period ending July 1 will reduce the principal amount of 2011 A-1/A-3 Bonds of a Series subject to mandatory sinking fund redemption on that July 1. While the 2011 A-1/A-3 Bonds are in an Index Mode, the 2011 A-1/A-3 Bonds of a Series will remain subject to mandatory sinking fund redemption during any Purchase Default Period of such Series.

***Special Mandatory Redemption of 2011 A-1/A-3 Bonds.*** During any Purchase Default Period with respect to any Series, the 2011 A-1/A-3 Bonds of such Series will be subject to special mandatory redemption prior to maturity, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Special Mandatory Redemption Payments which have been deposited in the Bond Service Fund, in the following principal amounts:

(i) on the first Business Day on or after the date that is 18 months following the commencement of such Purchase Default Period, a principal amount of such Series of 2011 A-1/A-3 Bonds equal to 33 1/3% of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination);

(ii) on the first Business Day on or after the date that is 36 months following the commencement of such Purchase Default Period, a principal amount of such Series of 2011 A-1/A-3 Bonds equal to 33 1/3% of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination); and

(iii) on the first Business Day on or after the date that is 54 months following the commencement of such Purchase Default Period, all of the principal amount of such Series of 2011 A-1/A-3 Bonds Outstanding as of such Redemption Date.

If, during any Purchase Default Period for a Series, Metropolitan purchases a portion of the 2011 A-1/A-3 Bonds of such Series or redeems the 2011 A-1/A-3 Bonds of such Series from Mandatory Sinking Account Payments, then the amount of the 2011 A-1/A-3 Bonds of such Series so purchased or redeemed will be credited as may be specified by Metropolitan to such Special Mandatory Redemption Payments of that Purchase Default Period occurring after such purchase or redemption.

Upon the termination of such Purchase Default Period, the 2011 A-1/A-3 Bonds of such Series will no longer be subject to special mandatory redemption.

The term "Special Mandatory Redemption Amount" means, with respect to special mandatory redemption during any Purchase Default Period, the aggregate principal amount of 2011 A-1/A-3 Bonds of the affected Series outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period commenced.

**Notice of Redemption.** Notice of redemption will be given by the Paying Agent by first-class United States mail, postage prepaid, not less than twenty (20) nor more than forty five (45) days prior to the Redemption Date to (a) the respective Owners of any 2011 A-1/A-3 Bonds of a Series designated for redemption at their addresses appearing on the register maintained by the Paying Agent, (b) the applicable Remarketing Agent, (c) the Fiscal Agent, and (d) one or more Information Services (currently, the EMMA System). Notice of redemption will also be given by telecopy, certified, registered or overnight mail to DTC upon mailing of notice of redemption to the Owners and the Information Services (currently, the EMMA System). Each notice of redemption will state the date of such notice, the distinguishing designation of the 2011 A-1/A-3 Bonds of such Series, the date of issue of the 2011 A-1/A-3 Bonds of such Series, the Redemption Date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent), the CUSIP number, if any, of the maturity or maturities and, if less than all of such maturity, the distinctive certificate numbers of the 2011 A-1/A-3 Bonds of such Series of such maturity to be redeemed and, in the case of 2011 A-1/A-3 Bonds of a Series to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable with respect to each of said 2011 A-1/A-3 Bonds of such Series the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2011 A-1/A-3 Bond to be redeemed in part only, and that from and after such Redemption Date, the related interest due with respect thereto will cease to accrue, and will require that such 2011 A-1/A-3 Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notice of any redemption will either (i) 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 2011 A-1/A-3 Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full Redemption Price of the

2011 A-1/A-3 Bonds to be redeemed is on deposit in the applicable fund or account. All such amounts will be held uninvested or will be invested in Federal Securities (as defined in the Resolutions) which mature on or prior to such Redemption Date.

Failure by the Paying Agent to give notice as described above to the applicable Remarketing Agent, the Owners of the 2011 A-1/A-3 Bonds of a Series designated for redemption or any one or more of the Information Services (currently, the EMMA System) or DTC or any defect in such notice will not affect the sufficiency of the proceedings for redemption.

***Selection of 2011 A-1/A-3 Bonds for Redemption.*** Other than a redemption of 2011 A-1/A-3 Bonds pursuant to a special mandatory redemption, in the case of redemption in part, the Paying Agent will select the 2011 A-1/A-3 Bonds to be redeemed by lot. In the case of any redemption of 2011 A-1/A-3 Bonds pursuant to a special mandatory redemption, the Paying Agent will select the 2011 A-1/A-3 Bonds to be redeemed on a *pro rata* basis from all Owners, calculated based on the Outstanding principal amount of the 2011 A-1/A-3 Bonds held by each Owner compared to the total amount of 2011 A-1/A-3 Bonds Outstanding on the Record Date in respect of the applicable Redemption Date.

***Effect of Redemption.*** If notice of redemption has been duly given as aforesaid and funds for the payment of the Redemption Price of a Series of 2011 A-1/A-3 Bonds to be redeemed are held by the Paying Agent on the designated Redemption Date, then on the Redemption Date designated in such notice, the Redemption Price of such Series of 2011 A-1/A-3 Bonds so called for redemption will become due and payable as specified in such notice; and from and after the date so designated, interest due with respect to such Series of 2011 A-1/A-3 Bonds or portions thereof so called for redemption will cease to accrue, such Series of 2011 A-1/A-3 Bonds will cease to be entitled to any benefit, protection or security under the applicable Paying Agent Agreement and the Owners of such Series of 2011 A-1/A-3 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price. The Paying Agent will, upon surrender for payment of any such Series of 2011 A-1/A-3 Bonds to be redeemed on their respective Redemption Dates, pay such Series of 2011 A-1/A-3 Bonds at the Redemption Price. If said moneys are not available on the Redemption Date, such Series of 2011 A-1/A-3 Bonds will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

#### **Event of Default and Purchase Default Period**

***Event of Default.*** If Metropolitan does not pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of a Series pursuant to an Index Mode Scheduled Mandatory Tender, then such failure will be an “Event of Default” under the applicable Paying Agent Agreement and a Purchase Default Period for such Series will commence.

***Purchase Default Period.*** During a Purchase Default Period with respect to a Series of 2011 A-1/A-3 Bonds, the following will apply:

- (a) All of the 2011 A-1/A-3 Bonds of such Series will bear interest at the Purchase Default Rate, which will be a per annum rate equal to the lower of (i) twelve percent (12%) and (ii) the higher of (A) eight percent (8%) and (B) the Prime Rate plus three percent (3%);
- (b) The 2011 A-1/A-3 Bonds of such Series will not be subject to optional redemption (but as provided in (f) below, Metropolitan will remain obligated to purchase the 2011 A-1/A-3 Bonds of such Series);
- (c) The 2011 A-1/A-3 Bonds of such Series will remain subject to Mandatory Sinking Fund Redemption;

(d) The 2011 A-1/A-3 Bonds of such Series will be subject to special mandatory redemption on the dates and in the principal amounts as set forth below under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Redemption of the 2011 A-1/A-3 Bonds–*Special Mandatory Redemption of 2011 A-1/A-3 Bonds*”;

(e) Metropolitan will not require the Owners to tender their 2011 A-1/A-3 Bonds of such Series for purchase as set forth above under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Tender and Purchase of the 2011 A-1/A-3 Bonds”;

(f) Metropolitan will continue to be obligated to purchase all of the 2011 A-1/A-3 Bonds of such Series at the Purchase Price, notwithstanding, and in addition to, its obligation to redeem Outstanding 2011 A-1/A-3 Bonds of such Series from Special Mandatory Redemption Payments; and

(g) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2011 A-1/A-3 Bonds of such Series, the Owners thereof will be obligated to sell and deliver their 2011 A-1/A-3 Bonds to Metropolitan.

**Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds of such Series will not constitute an Event of Default under the Master Resolution or under any other provision of the Resolutions.**

***Determination of Prime Rate and Purchase Default Rate.*** During each Purchase Default Period for any Series (but not during any Tender Period), no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Interest Payment Date while the 2011 A-1/A-3 Bonds bear interest in the Index Mode, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the applicable Remarketing Agent specifying the Prime Rate and the Purchase Default Rate for, and the aggregate amount of interest on, the 2011 A-1/A-3 Bonds that is due and payable on such Interest Payment Date together with a detailed calculation of the foregoing. All percentages resulting from the calculation of the Prime Rate will be rounded, if necessary, to the nearest ten-thousandth of a percentage point with five hundred thousandths of a percentage point rounded upward, and all dollar amounts used in or resulting from the calculation of the Purchase Default Rate will be rounded to the nearest cent (with one-half cent being rounded upward). This determination by the Fiscal Agent of the Prime Rate and the Purchase Default Rate will be conclusive and binding on the Owners of the 2011 A-1/A-3 Bonds of such Series, Metropolitan, the Fiscal Agent, the applicable Remarketing Agent and the Paying Agent.

***Purchase and Sale of 2011 A-1/A-3 Bonds During Purchase Default Period.*** During a Purchase Default Period for a Series, Metropolitan will pay the Purchase Price of such Series of 2011 A-1/A-3 Bonds by delivering the Purchase Price for such Series of 2011 A-1/A-3 Bonds to be purchased to the Paying Agent at its Corporate Trust Office on any Business Day.

If on any Business Day Metropolitan pays the Purchase Price with respect to only a portion of the affected Series of 2011 A-1/A-3 Bonds, then Metropolitan will purchase such Series of 2011 A-1/A-3 Bonds from each of the Owners on a *pro rata* basis, calculated based on the outstanding principal amount of the 2011 A-1/A-3 Bonds held by each Owner compared to the total amount of 2011 A-1/A-3 Bonds of such Series Outstanding on such Business Day.

From and after the Business Day on which Metropolitan delivers the Purchase Price of all or any portion of the affected Series of 2011 A-1/A-3 Bonds to the Paying Agent, such Series of 2011 A-1/A-3 Bonds will be deemed purchased by Metropolitan, no interest will accrue on such Series of 2011 A-1/A-3



Bonds and the Owners thereof will have no rights under the Resolutions other than to receive payment of the Purchase Price thereof.

***Termination of a Purchase Default Period.*** During any Purchase Default Period for any Series, upon the purchase by Metropolitan of all of the affected Series of 2011 A-1/A-3 Bonds, the Event of Default under the applicable Paying Agent Agreement will be cured and the Purchase Default Period attributable to such Event of Default will terminate on the date next preceding the date on which such purchase occurs.

***Bondholders' Committee.*** In addition to any rights that the Owners of the 2011 A-1/A-3 Bonds may have under the Resolutions, if an Event of Default has occurred and is continuing under a Paying Agent Agreement for a Series, the Owners of twenty five percent (25%) in aggregate principal amount of the 2011 A-1/A-3 Bonds of such Series then Outstanding may call a meeting of the Owners of the affected Series of 2011 A-1/A-3 Bonds for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate principal amount of 2011 A-1/A-3 Bonds of the related Series must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee will be deemed trustee for the Owners of all of the then outstanding 2011 A-1/A-3 Bonds of the affected Series, and will be empowered to exercise in the name of the Owners all the rights and powers conferred in the applicable Paying Agent Agreement on any Owner, provided, however, that whenever the consent, approval or concurrence of the Owners of a specified percentage of principal of the then outstanding 2011 A-1/A-3 Bonds of such Series is required, in order to exercise the right or power conferred in the applicable Paying Agent Agreement on the Owners to which such percentage pertains, the Bondholders' Committee either must have been elected by or their election must have been approved by or concurred by, and such committee must then represent, the Owners of such specified percentage of the principal amount of the then outstanding 2011 A-1/A-3 Bonds of the related Series. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, must be filed with the Authorized Representative.

Any Bondholders' Committee elected under the applicable Paying Agent Agreement is distinct from any similar committee elected under the Resolutions, with its own limited rights as specified in the applicable Paying Agent Agreement.

***Other Remedies, Rights of Owners of the 2011 A-1/A-3 Bonds.*** Upon the occurrence and continuation of an Event of Default under a Paying Agent Agreement, the Owners of the 2011 A-1/A-3 Bonds of the affected Series may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of the applicable Paying Agent Agreement.

The rights of the Owners of the 2011 A-1/A-3 Bonds under the applicable Paying Agent Agreement are in addition to any rights that the Owners of the 2011 A-1/A-3 Bonds may have under the Master Resolution and the Fourth Supplemental Resolution.

No Owner of 2011 A-1/A-3 Bonds has the right to declare the principal and accrued interest on the 2011 A-1/A-3 Bonds to be immediately due and payable except as provided in the Resolutions.

### **Change to a Different Interest Mode**

***Change of Interest Mode.*** At Metropolitan's discretion, each Series of 2011 A-1/A-3 Bonds may bear interest from time to time at (a) the Index Tender Rate, (b) the Daily Rate, (c) the Weekly Rate, (d) the Bond Interest Term Rate, (e) the Long Rate or (f) a Fixed Interest Rate, as such terms are defined and as more fully described in the applicable Paying Agent Agreement. However, all of the 2011 A-1/A-3 Bonds of a Series will bear interest in the same Interest Mode or at a Fixed Interest Rate.

***Notice of Different Interest Mode.*** The Paying Agent will give notice, together with the notice of mandatory tender for purchase, by first-class United States mail, postage prepaid, of a change to a different Interest Mode to the Owners of the 2011 A-1/A-3 Bonds not less than seven (7) days prior to the effective date of such different Interest Mode. Such notice will state, among other matters, (i) that the interest rate on the 2011 A-1/A-3 Bonds of such Series will be changed to a different Interest Mode, (ii) the effective date of the new Interest Mode, and (iii) if applicable, that the 2011 A-1/A-3 Bonds of such Series are subject to mandatory tender for purchase on such effective date and the applicable Purchase Price.

***Change of Interest Mode from an Index Mode.*** During any Tender Period while 2011 A-1/A-3 Bonds of a Series bear interest in the Index Mode, Metropolitan may change the Interest Mode and may convert to a Fixed Interest Rate (as defined in the applicable Paying Agent Agreement) only from and after the applicable Call Protection Date of such Tender Period.

### **SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS**

Metropolitan's obligation to pay principal of and interest on 2011 A-1/A-3 Bonds is a limited obligation of Metropolitan payable solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues and the other funds, assets and security described under the Resolutions. See APPENDIX 1 – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS." As defined in the Master Resolution, "Net Operating Revenues" are Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues. "Operating Revenues" are all revenues received by Metropolitan from charges for the sale and availability of water. "Operation and Maintenance Expenditures" are the necessary expenditures for operating and maintaining the properties, works and facilities of Metropolitan, including expenditures for such charges as may be payable by Metropolitan under the State Water Contract and the Devil Canyon-Castaic Contract, which charges constitute operation, maintenance, power and replacement charges; any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants; and such other expenditures of Metropolitan generally classified as operating and maintenance expenditures, excluding any charges for depreciation or amortization. The State Water Contract and the Devil Canyon-Castaic Contract are discussed in Referenced Appendix A under the caption "METROPOLITAN'S EXPENDITURES—State Water Contract Obligations." Payment of capital costs and some other payments under the State Water Contract and the Devil Canyon-Castaic Contract are subordinate to the obligation of Metropolitan for payment of Operation and Maintenance Expenditures and debt service on the 2011 A-1/A-3 Bonds, the Parity Bonds and the Parity Obligations. Accordingly, the debt service coverage on the 2011 A-1/A-3 Bonds, the Parity Bonds and the Parity Obligations does not take into account such expenses. See Referenced Appendix A under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."

The 2011 A-1/A-3 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2011 A-1/A-3 Bonds tendered for purchase is an unsecured obligation payable solely from the sources specified in this Remarketing Statement. The 2011 A-1/A-3 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2011 A-1/A-3 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on or the Purchase Price upon a tender for purchase of, the 2011 A-1/A-3 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

### **Rate Covenant**

Metropolitan covenants in the Master Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues (*i.e.*, interest, profits and other income received from the investment of any moneys of Metropolitan and other revenues of Metropolitan (other than Operating Revenues) to the extent available to pay debt service on the 2011 A-1/A-3 Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the following order:

1. Operation and Maintenance Expenditures;
2. Interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds and Parity Obligations as the same become due and payable;
3. All other payments required for compliance with the Master Resolution or any Supplemental Resolution; and
4. All other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

Metropolitan previously issued and designated three series of Bonds in the aggregate principal amount of \$578,385,000 as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Build America Bonds"). Except as they may be reduced by sequestration as described in the following paragraph, Metropolitan currently expects to receive cash subsidies from the United States Treasury equal to 35% of the interest payable on all such outstanding Build America Bonds (the "Interest Subsidy Payments"). See "OPERATING REVENUES AND DEBT SERVICE – Operating Revenues." The Interest Subsidy Payments in connection with the Build America Bonds do not constitute Operating Revenues under the Master Resolution. Such Interest Subsidy Payments will constitute Additional Revenues, which Metropolitan may take into consideration when establishing its rates and charges and will be available to Metropolitan to pay principal and interest on the 2011 A-1/A-3 Bonds.

The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure to reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. These reductions began on March 1, 2013 pursuant to an executive

order that reduced budgetary authority for expenditures subject to sequestration, including subsidies for Build America Bonds. Pursuant to this executive order, the approximately \$6.64 million interest subsidy payment that Metropolitan received on or about July 1, 2013 in connection with its Build America Bonds was reduced by 8.7%, or \$578,000, to \$6.06 million. Refund payments processed on or after October 1, 2014 and on or before September 30, 2015 are anticipated to be reduced by the fiscal year 2015 sequestration rate of 7.3%, or approximately \$964,000 of the \$13.2 million originally projected to be received over this period. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Metropolitan can offer no assurances as to future subsidy payments and expects that once it receives less than any full 35% subsidy payment, the United States Treasury will not thereafter reimburse Metropolitan for payments not made.

Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2011 A-1/A-3 Bonds, including any Mandatory Sinking Fund Payments and, during any Purchase Default Period, Special Mandatory Redemption Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2011 A-1/A-3 Bonds in setting its rates and charges.

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

### **Parity Bonds and Parity Obligations**

As of November 1, 2014, Metropolitan had \$4.17 billion aggregate principal amount of Bonds (including the 2011 A-1/A-3 Bonds) outstanding. Metropolitan's outstanding Bonds include, among other things, Index Tender Bonds, Term Mode Bonds and Self-Liquidity Bonds, as more fully described in Referenced Appendix A under "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations" and "– Other Revenue Obligations." Metropolitan has, and may in the future, enter into one or more revolving credit agreements for purposes of paying the purchase price of any Self-Liquidity Bonds. Metropolitan has secured, and may in the future secure, its obligation to pay principal and interest under any revolving credit agreement as a Parity Obligation under the Master Resolution. See Referenced Appendix A – "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations" and "– Revolving Credit Agreement" for information regarding the revolving credit agreement to which Metropolitan is a party. Metropolitan also has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan's obligation to pay principal of and interest on the 2011 A-1/A-3 Bonds, Parity Bonds and other Parity Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as described in Referenced Appendix A under "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

Metropolitan's obligation to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of any 2011 A-1/A-3 Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender; however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2011 A-1/A-3 Bonds.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2011 A-1/A-3 Bonds, the Parity Bonds and existing Parity Obligations, subject to the limitations, terms and conditions of the Master Resolution. See “– Additional Indebtedness” below and APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Covenants – Limits on Additional Debt.”

### **Additional Indebtedness**

Metropolitan covenants in the Master Resolution that no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2011 A-1/A-3 Bonds, the Parity Bonds or the Parity Obligations.

In addition, Metropolitan covenants in the Master Resolution that, except for Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations will be created or incurred unless:

**FIRST:** Metropolitan is not in default under the terms of the Resolutions, including as supplemented, modified or amended by any Supplemental Resolution.

**SECOND:** Either (1) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan, or (2) the estimated Net Operating Revenues for the first complete Fiscal Year when improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations will be in operation as estimated by and set forth in a certificate of Metropolitan plus, at the option of Metropolitan, any or all of certain other items permitted by the Resolutions, will have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations. In making this calculation, Metropolitan may take into consideration any increases in water rates or charges which have become effective prior to the creation of such additional Bonds or Parity Obligations, any increase in Net Operating Revenues which may arise from additions or improvements to the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or using the proceeds of Bonds previously issued, or from additions recently placed in service, Additional Revenues and other funds specified in the Resolutions.

**THIRD:** On the date of delivery of and payment for such additional Bonds or Parity Obligations, the amount in any reserve fund or account for any Bonds or Parity Obligations previously established will

not be less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The Interest Subsidy Payments that Metropolitan expects to receive, subject to sequestration as described above, from the United States Treasury in connection with its previously issued and designated Build America Bonds do not constitute Operating Revenues under the Master Resolution and are not pledged for the payment of debt service on the Build America Bonds or any Parity Bonds and Parity Obligations. Such subsidy will, however, constitute Additional Revenues, which Metropolitan will use when determining whether it has satisfied the requirements set forth in the Master Resolution for the creation or incurrence of additional Bonds or Parity Obligations. See APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS– THE MASTER RESOLUTION–Covenants–*Limits on Additional Debt.*”

Metropolitan’s obligation to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds, the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of any 2011 A-1/A-3 Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender; however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2011 A-1/A-3 Bonds. See Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES–Variable Rate and Swap Obligations.”

Under the Act, the amount of outstanding Bonds and other evidences of indebtedness may not exceed 15 percent of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of November 1, 2014, Metropolitan’s outstanding Bonds and other indebtedness, in the aggregate amount of \$4.31 billion, constituted approximately 0.19 percent of the fiscal year 2014-15 taxable assessed valuation of approximately \$2,314.9 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100 percent of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2014 were \$7.20 billion. The aggregate amount of Bonds outstanding (including the 2011 A-1/A-3 Bonds) as of November 1, 2014 was \$4.17 billion.

### **Subordinate Obligations**

Under the Resolutions, Metropolitan may issue obligations junior and subordinate to the Bonds, including the 2011 A-1/A-3 Bonds, and the Parity Obligations, subject to the provisions of the Act. Metropolitan currently is authorized to issue up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

In addition, Metropolitan obtained a \$20 million California Safe Drinking Water Revolving Fund Loan (the “California Safe Drinking Water Revolving Fund Loan”) in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Mills Filtration Plant in Riverside County. The loan will be repaid over twenty years. Payments commenced January 1, 2005. The loan payment obligation is subordinate to the Bonds, including the 2011 A-1/A-3

Bonds, and the Parity Obligations. The outstanding principal balance on the California Safe Drinking Water Revolving Fund Loan as of November 1, 2014 was \$11.2 million.

Under some circumstances, some interest rate swap agreements are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Some of such termination payments are secured on a basis subordinate in payment priority to the Bonds, including the 2011 A-1/A-3 Bonds, and the Parity Obligations. See Referenced Appendix A under the captions "METROPOLITAN EXPENDITURES–Variable Rate and Swap Obligations," "–Other Revenue Obligations" and "–Subordinate Revenue Obligations."

### **No Reserve Fund Moneys**

The Fourth Supplemental Resolution provides for the establishment and maintenance of a Reserve Fund for Bonds issued thereunder and the maintenance in such Reserve Fund of an amount equal to the Bond Reserve Requirement for such Bonds, as set forth in the applicable bond purchase contract. The Bond Reserve Requirement for the 2011 A-1/A-3 Bonds was established at \$0 pursuant to the bond purchase contracts related to the 2011 A-1/A-3 Bonds, and no Reserve Fund for any of the 2011 A-1/A-3 Bonds, or for any other outstanding Index Tender Bonds, was established or will be maintained. **Amounts held or to be held in a reserve fund or account established for any other series of Bonds or any Reserve Fund Credit Policy for any other series of Bonds shall not be used or drawn upon to pay principal of, redemption premium, if any, or interest on, or Purchase Price of, the 2011 A-1/A-3 Bonds.**

### **Flow of Funds**

Metropolitan will allocate all Operating Revenues to the Water Revenue Fund and will effect transfers from the Water Revenue Fund to the following funds or accounts as soon as practicable in each calendar month in the following order of priority, and such amounts will be withdrawn from said funds or accounts only for the following:

*First*, to the Operation and Maintenance Fund, an amount sufficient, together with any other revenues lawfully available therefor, to provide for the estimated Operation and Maintenance Expenditures during the current calendar month and the next succeeding calendar month.

*Second*, to the Bond Service Fund, an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of the interest becoming due and payable on the next interest payment date for all such Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110% of the aggregate amount of interest, estimated by the Treasurer of Metropolitan in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided that such amount may be reduced and will be increased under certain circumstances, as set forth in the Resolutions), and (iii) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual

Mandatory Sinking Account Payments due within the next six months, plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. Such amount is subject to adjustment as set forth in the Resolutions, in the event Term Bonds are purchased from the Bond Service Fund, redeemed by Metropolitan or deposited by Metropolitan with the Fiscal Agent. No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Master Resolution and then Outstanding but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates, and (ii) there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Master Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

*Third*, to the extent of any deficiency in any reserve fund or account for Bonds or Parity Obligations, to such reserve fund or account for such other Bonds or Parity Obligations (i) one-sixth of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and (ii) the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required to restore such reserve fund or account to the amount required to be maintained therein. If there is a deficiency of Operating Revenues to make the deposits required by this Third paragraph, such Operating Revenues will be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency.

*Fourth*, to any such excess earnings or rebate fund or account for Bonds or Parity Obligations, the amount (if any) required in accordance with a Supplemental Resolution or Metropolitan's tax and nonarbitrage certificate delivered in connection with the issuance of the Bonds or Parity Obligations.

*Fifth*, for any required transfer or deposit for the payment of any obligation of Metropolitan with a lien on, or payable from, Net Operating Revenues junior to the lien thereon of the Bonds and any Parity Obligations.

*Sixth*, except as otherwise provided in a Supplemental Resolution, to the Revenue Remainder Fund, any amounts remaining in the Water Revenue Fund after the above transfers. Provided Metropolitan is in compliance with all covenants contained in the Resolutions, the Revenue Remainder Fund may be used for any lawful purpose of Metropolitan.

See APPENDIX 1 – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE MASTER RESOLUTION-Water Revenue Fund."



## RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2011 A-1/A-3 Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. The ability of Metropolitan to pay the Purchase Price of any 2011 A-1/A-3 Bonds depends primarily upon Metropolitan's receipt of the proceeds of remarketing of the 2011 A-1/A-3 Bonds and other available sources. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2011 A-1/A-3 Bonds or from receiving a sufficient amount of remarketing proceeds and other available funds to enable it to pay the Purchase Price of the 2011 A-1/A-3 Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2011 A-1/A-3 Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Remarketing Statement, including the appendices, and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E to obtain information essential to making an informed investment decision.

### Risks Relating to the Index Mode

***Metropolitan's Ability to Pay the Purchase Price on the Scheduled Mandatory Tender Date May Be Limited.*** As described in this Remarketing Statement, the Owners of all of the 2011 A-1/A-3 Bonds must tender for purchase, and Metropolitan must purchase, all of the 2011 A-1/A-3 Bonds on the Scheduled Mandatory Tender Date. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the Purchase Price on the Scheduled Mandatory Tender Date. The ability of Metropolitan to pay the Purchase Price will depend on its ability to successfully remarket the 2011 A-1/A-3 Bonds and otherwise to provide funds to pay the Purchase Price. Metropolitan's primary source of funds to pay the Purchase Price, other than remarketing proceeds, will be Net Operating Revenues. Metropolitan may not have sufficient funds to pay the Purchase Price of all of the 2011 A-1/A-3 Bonds on any Scheduled Mandatory Tender Date.

Metropolitan's obligation to pay the Purchase Price of the 2011 A-1/A-3 Bonds of a Series in connection with an Index Mode Scheduled Mandatory Tender related thereto is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of the 2011 A-1/A-3 Bonds on any Scheduled Mandatory Tender Date. However, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2011 A-1/A-3 Bonds.

During each Tender Period, Metropolitan will review its financing alternatives before each Scheduled Mandatory Tender Date. After the Call Protection Date of any Tender Period, Metropolitan may (a) remarket the 2011 A-1/A-3 Bonds in an Index Mode through an Index Mode Unscheduled Mandatory Tender, (b) change the Interest Mode of 2011 A-1/A-3 Bonds or convert the 2011 A-1/A-3 Bonds to a Fixed Interest Rate or (c) issue Water Revenue Refunding Bonds to refund all or any portion of the 2011 A-1/A-3 Bonds. In order to manage the 2011 A-1/A-3 Bonds in an Index Mode so as to avoid a failed remarketing on a Scheduled Mandatory Tender Date, Metropolitan currently plans to use one of these three financing alternatives before a Scheduled Mandatory Tender Date.

***Limited Remedies and Consequences Upon Failure to Pay Purchase Price.*** If Metropolitan does not pay the Purchase Price of any 2011 A-1/A-3 Bonds of a Series on a Scheduled Mandatory Tender Date, then an Event of Default will occur under the applicable Paying Agent Agreement and a Purchase Default Period will commence. During the occurrence and continuance of a Purchase Default Period, among other consequences: (a) all of the 2011 A-1/A-3 Bonds will bear interest at the Purchase

Default Rate; (b) the 2011 A-1/A-3 Bonds will be subject to special mandatory redemption on the dates and in the principal amounts as set forth above under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Redemption of the 2011 A-1/A-3 Bonds–*Special Mandatory Redemption of 2011 A-1/A-3 Bonds*”; and (c) Metropolitan will be obligated to purchase all of the 2011 A-1/A-3 Bonds at the Purchase Price and, upon payment of the Purchase Price, the Owners of any purchased 2011 A-1/A-3 Bonds will be obligated to sell and deliver such 2011 A-1/A-3 Bonds to Metropolitan. The Paying Agent Agreements also provide for other consequences of an Event of Default thereunder. See “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Event of Default and Purchase Default Period.”

Under the Master Resolution, an Event of Default occurs if Metropolitan fails to pay principal of or interest on any Bonds, including the 2011 A-1/A-3 Bonds, or if certain other events occur. See APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE MASTER RESOLUTION–Defaults and Remedies under the Master Resolution.” However, Metropolitan’s failure to pay the Purchase Price is not an event that gives rise to an Event of Default under the Master Resolution. Furthermore, except in limited circumstances, the Owners of the Bonds (including the 2011 A-1/A-3 Bonds) do not, even upon the occurrence of an Event of Default under the Master Resolution, have the right to accelerate the payment of principal of any Bonds.

***Secondary Market May Not Develop.*** There is not an established secondary market for bonds issued in an Index Mode and one may not develop. Therefore, an Owner may be unable to sell its 2011 A-1/A-3 Bond in the secondary market.

### **Risks Relating to Water Sales**

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

***Water Supply Shortages.*** Metropolitan’s principal sources of water are the State Water Project and the Colorado River, both of which are subject to drought conditions that in recent years have contributed to lower overall water deliveries to Metropolitan. While Metropolitan plans and manages its supplies to account for normal occurrences of drought conditions, recent drought conditions and court-ordered restrictions in connection with the State Water Project, including but not limited to restrictions under the Federal and California Endangered Species Acts (the “ESAs”), have placed additional limitations on Metropolitan’s ability to obtain and deliver water supplies to its member agencies. See Referenced Appendix A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN’S WATER SUPPLY – State Water Project – *Endangered Species Act Considerations.*” For additional information regarding the impact of current drought conditions on Metropolitan’s water supply, see Referenced Appendix A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN’S WATER SUPPLY.” Metropolitan may obtain supplies to meet demands during water supply shortages by, among other things, drawing on its stored water supplies and pursuing additional water transfers. See Referenced Appendix A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN’S WATER SUPPLY – Drought Response Actions.” If Metropolitan anticipates that supplies will be insufficient to meet demands, Metropolitan may allocate available supplies among its member agencies

pursuant to its Water Supply Allocation Plan. See Referenced Appendix A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN’S WATER SUPPLY – Water Supply Allocation Plan.”

***Economic Conditions.*** Retail level water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and Metropolitan’s water sales. If economic conditions return to pre-recession levels, Metropolitan anticipates that demands for water will increase accordingly. See Referenced Appendix E.

***Weather Conditions.*** Metropolitan provides a supplemental supply of water to its member agencies, most of whom have other sources of water. Regional water supplies are described in Referenced Appendix A under the caption “REGIONAL WATER RESOURCES.” Climatic conditions in Metropolitan’s service area and availability of local supplies affect demands for imported water purchased from Metropolitan. Metropolitan uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. Metropolitan’s reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan’s water sales. See Referenced Appendix A under the caption “METROPOLITAN REVENUES–Financial Reserve Policy.”

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

***Actions to Manage Risks Relating to Water Sales.*** Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. A reduction in water deliveries to Metropolitan’s member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 A-1/A-3 BONDS–Rate Covenant.” To address supply shortages due to prolonged drought conditions and environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2011 A-1/A-3 BONDS–Rate Covenant.” See also Referenced Appendix A under the captions “METROPOLITAN’S WATER SUPPLY” and “CAPITAL INVESTMENT PLAN.”

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

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

### **Limitations on Remedies**

Upon the occurrence and continuance of an Event of Default under the Resolutions, the Owners of the 2011 A-1/A-3 Bonds have limited remedies and, except for limited circumstances, the Owners of the 2011 A-1/A-3 Bonds do not have the right to accelerate the payment of principal of or interest on the 2011 A-1/A-3 Bonds. See APPENDIX 1 – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE MASTER RESOLUTION–Defaults and Remedies under the Master Resolution."

In addition, the rights of the Owners of the 2011 A-1/A-3 Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

### **Limited Obligations**

The 2011 A-1/A-3 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2011 A-1/A-3 Bonds tendered for purchase is an unsecured obligation of Metropolitan payable solely from the sources specified in this Remarketing Statement. The 2011 A-1/A-3 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2011 A-1/A-3 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of and interest on, or the Purchase Price upon a tender for purchase for the 2011 A-1/A-3 Bonds, is not a debt of Metropolitan, nor a legal or equitable pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

Net Operating Revenues might not be realized by Metropolitan in amounts sufficient to pay principal of and interest on the 2011 A-1/A-3 Bonds and all other Outstanding Bonds. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. See Referenced Appendix A and Referenced Appendix E. Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its member agencies and establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Expenditures and debt service.

### **Tax Law Proposals**

See "TAX MATTERS" below.

## THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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

Metropolitan has described its finances and operations in detail in Referenced Appendix A and Referenced Appendix B. In addition, Metropolitan has presented selected demographic and economic information for its service area in Referenced Appendix E. Metropolitan includes by specific reference into this Remarketing Statement each of Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2014 Series A Official Statement, including Referenced Appendix A, Referenced Appendix B and Referenced Appendix E, is on file with the EMMA System and can be accessed at <http://emma.msrb.org/>. To obtain information essential to making an informed investment decision, potential investors must read the entire Remarketing Statement, including the appendices, and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E in their entirety.

### OPERATING REVENUES AND DEBT SERVICE

#### Operating Revenues

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge and capacity charge. Metropolitan describes its water sales revenues in more detail in Referenced Appendix A under the captions "METROPOLITAN REVENUES--Water Sales Revenues," "--Rate Structure" and "--Additional Revenue Components." In meeting the requirements of the Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and interest subsidy payments that may be received by Metropolitan in connection with any existing and future "Build America Bonds." No assurances are provided that Metropolitan will receive all or a portion of the interest subsidy payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2011 A-1/A-3 Bonds. For a description of "Operating Revenues" and the effect of Operation and Maintenance Expenditures on the amount of revenues available for payment of the 2011 A-1/A-3 Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS." See also APPENDIX 1 - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS." For information on Metropolitan's revenues and expenses, including historical and projected revenues and expenditures, see Referenced Appendix A under the captions "METROPOLITAN REVENUES," "METROPOLITAN EXPENDITURES," and "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES." See also Metropolitan's financial statements contained in Referenced Appendix B.

**Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues**

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2011 A-1/A-3 Bonds, the Parity Bonds or the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS–Additional Indebtedness.”

Metropolitan has issued Parity Bonds (which include the 2011 A-1/A-3 Bonds) pursuant to the applicable Resolutions, which are outstanding in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES.” Principal of and interest on the 2011 A-1/A-3 Bonds will be payable from Net Operating Revenues on parity with the Parity Bonds and the Parity Obligations.

**Anticipated Financings**

Metropolitan anticipates that it will issue bonds, notes or other evidences of indebtedness under the Master Resolution in addition to the 2011 A-1/A-3 Bonds, the Parity Bonds and the Parity Obligations to finance improvements to its Water System and to refund outstanding revenue bonds or general obligation bonds from time to time depending on market conditions and other factors. The current Capital Investment Plan is described in Referenced Appendix A under the caption “CAPITAL INVESTMENT PLAN.”

The Master Resolution permits subsequent authorizations of additional Bonds as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS–Additional Indebtedness.” The Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues on parity with the Outstanding Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS–Additional Indebtedness.” Metropolitan may also issue obligations junior and subordinate to the 2011 A-1/A-3 Bonds, subject to the limitations in the Act.

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

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## Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan's outstanding Parity Bonds and the 2011 A-1/A-3 Bonds. Such debt service is not net of the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with its outstanding Build America Bonds, subject to sequestration as described above under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2011 A-1/A-3 BONDS – Rate Covenant."

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

Fiscal Year Ending June 30	Outstanding Bonds Debt Service <sup>(1)(2)(3)</sup>	2011 A-1/A-3 Bonds Principal	2011 A-1/A-3 Bonds Interest <sup>(4)</sup>	Total <sup>(5)</sup>
2015	\$ 286,515,110	\$ -	\$ 1,131,275	\$ 287,646,385
2016	308,092,729	-	2,319,750	310,412,479
2017	305,054,003	270,000	2,315,295	307,639,298
2018	319,479,935	280,000	2,310,270	322,070,205
2019	311,495,456	280,000	2,305,230	314,080,686
2020	305,443,240	285,000	2,300,107	308,028,348
2021	296,145,725	285,000	2,294,977	298,725,702
2022	292,300,785	295,000	2,289,682	294,885,467
2023	286,273,387	300,000	2,284,290	288,857,677
2024	286,188,544	300,000	2,278,890	288,767,434
2025	268,976,842	310,000	2,273,325	271,560,167
2026	268,927,291	3,265,000	2,218,987	274,411,278
2027	268,401,384	3,320,000	2,159,310	273,880,694
2028	264,263,981	3,390,000	2,098,395	269,752,376
2029	202,851,355	3,455,000	2,036,302	208,342,658
2030	255,782,690	12,245,000	1,829,077	269,856,767
2031	245,485,020	8,710,000	1,666,995	255,862,015
2032	245,897,861	9,040,000	1,504,770	256,442,631
2033	247,903,756	9,375,000	1,336,522	258,615,278
2034	247,836,683	9,590,000	1,164,225	258,590,908
2035	247,576,345	9,915,000	986,242	258,477,587
2036	247,311,241	10,355,000	800,512	258,466,753
2037	213,303,235	43,610,000	65,415	256,978,650
2038	183,453,855	-	-	183,453,855
2039	113,853,020	-	-	113,853,020
2040	111,641,748	-	-	111,641,748
2041	109,154,195	-	-	109,154,195
<b>Total<sup>(5)</sup></b>	<b>\$6,739,609,412</b>	<b>\$128,875,000</b>	<b>\$41,969,848</b>	<b>\$6,910,454,260</b>

Source: Metropolitan.

<sup>(1)</sup> For the \$493.6 million of variable rate bonds associated with particular interest rate swap agreements, interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements. For the remaining \$450 million of variable rate debt, interest is calculated at an assumed interest rate of 1.80% per annum. Actual rates may differ from those set forth in this footnote.

<sup>(2)</sup> Indicated amounts reflect the stated interest rate on Metropolitan's Water Revenue Bonds 2008 Authorization, Series C (Taxable Build America Bonds), Metropolitan's Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) and the 2010 Authorization, Series A (Taxable Build America Bonds), and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Bonds.

<sup>(3)</sup> Assumes each Series of Term Mode Bonds are remarketed to a variable rate after the initial call protection date for such Series. Interest after the initial call protection date is calculated at an assumed interest rate of 1.80% per annum.

<sup>(4)</sup> Interest is calculated at an assumed interest rate of 1.80% per annum.

<sup>(5)</sup> Totals are rounded.

## Summary of Net Operating Revenues

For a description of actual and projected Net Operating Revenues available for debt service on the outstanding Parity Bonds and Parity Obligations of Metropolitan, including the 2011 A-1/A-3 Bonds and additional Bonds that Metropolitan projects it will issue, see the table included under the caption

“HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in Referenced Appendix A. See also Referenced Appendix A under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES – Water Sales Receipts.”

### **Debt Service Coverage**

For a summary of actual and projected debt service coverage on the outstanding Bonds and Parity Obligations, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in Referenced Appendix A.

### **Metropolitan’s Investment Portfolio**

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

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

## **ACCOUNTING AND BUDGET MATTERS**

### **Accounting Policies**

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s accrual basis financial statements for the fiscal years ended June 30, 2014 and June 30, 2013. See Referenced Appendix B.

### **Budgetary Accounting Method**

Metropolitan’s budgeting and financial reporting is done on a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the accrual basis of accounting in the following respects: depreciation and amortization are not recorded and payments of debt service are recorded when due and payable. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. See Referenced Appendix A under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.”

### **Financial Statements**

The audited financial statements of Metropolitan for Fiscal Years ended June 30, 2014 and June 30, 2013 are included in Referenced Appendix B. The financial statements for Fiscal Year ended June 30, 2014 have been audited by Macias Gini & O’Connell LLP, Metropolitan’s independent auditor, as stated in its Independent Auditor’s Report, dated October 17, 2014, included in Referenced Appendix B. The financial statements for Fiscal Year ended June 30, 2013 were audited by KPMG LLP, Metropolitan’s independent auditor for the referenced year. Metropolitan has not requested the consent of



Macias Gini & O'Connell LLP or KPMG LLP, nor has Macias Gini & O'Connell LLP or KPMG LLP consented, to the inclusion of the financial statements of Metropolitan or either of the Independent Auditor's Report in Referenced Appendix B. Macias Gini & O'Connell LLP has not been engaged to perform, and has not performed, since the date of its Independent Auditor's Report, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this Remarketing Statement.

The financial and statistical information contained in this Remarketing Statement is included herein for informational purposes only and a complete review of the financial statements and the footnotes thereto set forth in Referenced Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Remarketing Statement, other than the audited financial statements for the fiscal years ended June 30, 2014 and June 30, 2013 included in Referenced Appendix B.

### **Budget System**

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

### **LITIGATION**

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (i) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, or (ii) the validity of the 2011 A-1/A-3 Bonds or the power and authority of Metropolitan to remarket the 2011 A-1/A-3 Bonds, or (iii) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Resolutions.

For a discussion of litigation challenging the allocation of costs to certain rates adopted on April 13, 2010 and April 10, 2012, which could require changes in such rates, see Referenced Appendix A, including information under the caption "METROPOLITAN REVENUES-Litigation Challenging Rate Structure." The San Diego County Water Authority, one of Metropolitan's member agencies and currently Metropolitan's largest customer, is the plaintiff in such litigation. For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see Referenced Appendix A, including information under the captions "METROPOLITAN EXPENDITURES-State Water Contract Obligations," "METROPOLITAN'S WATER SUPPLY-State Water Project-*Endangered Species Act Considerations*" and "*-Colorado River Aqueduct-QSA Related Litigation.*"

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

## TAX MATTERS

Metropolitan issued the 2011 A-1 Bonds and the 2011 A-3 Bonds together with the 2011 A-2 Bonds and the 2011 A-4 Bonds (collectively, the “2011A Bonds”). On June 2, 2011, the date that Metropolitan issued the 2011 A-1/A-3 Bonds, Nixon Peabody LLP and Curls Bartling P.C., Co-Bond Counsel, each delivered an opinion to the effect that, as of that date, under then existing law, and assuming compliance with certain tax covenants made by Metropolitan, and the accuracy of representations and certifications made by Metropolitan, interest on the 2011A Bonds was excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and was not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals or corporations (the “Co-Bond Counsel Opinions”). Co-Bond Counsel were of the opinion as of that date that interest on the 2011A Bonds was, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel were further of the opinion that, under then existing law, interest on the 2011A Bonds is exempt from personal income taxes of the State of California. Complete copies of the Co-Bond Counsel Opinions are included as APPENDIX 3 hereto. Such opinions spoke only as of their date and have not been updated in connection with this remarketing.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2011A Bonds. Metropolitan has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2011A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2011A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the 2011A Bonds. The Co-Bond Counsel Opinions assumed compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Co-Bond Counsel’s attention after the date of issuance of the 2011A Bonds may adversely affect the value of, or the tax status of interest on, the 2011A Bonds. In the Co-Bond Counsel Opinions, Co-Bond Counsel expressed no opinion as to federal, state or local tax law consequences with respect to the 2011A Bonds or the interest thereon if any action is taken with respect to the 2011A Bonds or the proceeds thereof upon the advice or approval of other counsel.

Although Co-Bond Counsel opined that interest on the 2011A Bonds was excluded from gross income for federal income tax purposes and was exempt from personal income taxes imposed by the State of California, the ownership or disposition of, or the accrual or receipt of interest on, the 2011A Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or Beneficial Owner’s other items of income or deduction. Co-Bond Counsel expressed no opinion regarding any such other tax consequences.

We note that the President released legislative proposals in 2011 and again in 2012 that would, among other things, subject interest on tax-exempt bonds (including the 2011A Bonds) to a federal income tax for taxpayers with incomes above certain thresholds. We further note that there has been significant recent discussion of these proposals in Congress in connection with the broader discussion of addressing the federal deficit. It is not possible to predict whether these proposals will be enacted into law. If enacted into law, such proposals could affect the value or marketability of tax-exempt bonds (including the 2011A Bonds). More generally, legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on 2011A Bonds for federal or state income tax purposes, and thus on

the value or marketability of the 2011A Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the 2011A Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the 2011A Bonds may occur, including the legislative proposals described above. Prospective purchasers of the 2011 A-1/A-3 Bonds should consult their own tax advisors regarding the impact of any change in law on the 2011 A-1/A-3 Bonds.

The Co-Bond Counsel Opinions with respect to federal tax law were based on then-current legal authority, covered matters not directly addressed by such authorities, and represented Co-Bond Counsel's judgment as to the proper treatment of the 2011A Bonds for federal income tax purposes. Such opinions are not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and have not given any opinion or assurance about the future activities of Metropolitan, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. Metropolitan has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel are not obligated to defend the Beneficial Owners regarding the tax-exempt status of the 2011A Bonds (including the 2011 A-1/A-3 Bonds) in the event of an audit examination by the IRS. Further, under current procedures, parties other than Metropolitan and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which Metropolitan legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2011 A-1/A-3 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2011 A-1/A-3 Bonds, and may cause Metropolitan or the Beneficial Owners to incur significant expense.

#### **FINANCIAL ADVISOR**

Metropolitan retained Public Resources Advisory Group as financial advisor to Metropolitan (the "Financial Advisor") in connection with the issuance of the 2011 A-1/A-3 Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Remarketing Statement, or any other related information available to Metropolitan, with respect to the accuracy and completeness of the disclosure of such information. The Financial Advisor has reviewed this Remarketing Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Remarketing Statement.

#### **LEGAL MATTERS**

Nixon Peabody LLP, Los Angeles, California, and Curlls Bartling P.C., Oakland, California, Co-Bond Counsel to Metropolitan, rendered their opinions with respect to the 2011 A-1/A-3 Bonds on the date the 2011 A-1/A-3 Bonds were issued. Copies of the Co-Bond Counsel Opinions are set forth in APPENDIX 3 – "COPY OF OPINIONS OF CO-BOND COUNSEL." Such opinions speak only as of their date and have not been updated in connection with this remarketing. Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Remarketing Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Remarketing Agents by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

## RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of Standard & Poor's Financial Services LLC ("S&P"), and Fitch Ratings ("Fitch") have assigned short-term ratings to the 2011 A-1/A-3 Bonds of "VMIG 1", "A-1+" and "F1+", respectively. Moody's and Fitch have assigned long-term ratings to the 2011 A-1/A-3 Bonds of "Aa1" and "AA+," respectively. As of the date of this Remarketing Statement, these credit ratings have not been changed, withdrawn or suspended. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2011 A-1/A-3 Bonds.

## CONTINUING DISCLOSURE

Metropolitan has executed a continuing disclosure undertaking (the "Continuing Disclosure Undertaking"), which provides for disclosure obligations on the part of Metropolitan for so long as the 2011 A-1/A-3 Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan covenanted for the benefit of Owners and Beneficial Owners of the 2011 A-1/A-3 Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Notice Events") in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants were made to assist Morgan Stanley, as underwriter for the 2011 A-1 Bonds, and Barclays, as underwriter for the 2011 A-3 Bonds, in complying with the Rule. See APPENDIX 4 – "COPY OF CONTINUING DISCLOSURE UNDERTAKING."

Metropolitan has not failed in the previous five years to comply in any material respect with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule except perhaps insofar as Metropolitan supplemented its annual report for 2011 with respect to its General Obligation Bonds to provide additional regional assessed valuation information omitted from those timely filed annual reports. As of the date hereof, Metropolitan is in compliance in all material respects with its undertakings with regard to the provision of annual reports and notices of certain events as required by the Rule. Metropolitan has implemented additional procedures to file complete annual reports in the future.

For so long as the 2011 A-1/A-3 Bonds bear interest at the Index Mode, Metropolitan will post on its website in an electronic format within sixty (60) days after the end of each quarter of each fiscal year, the unaudited financial statements of Metropolitan as of the end of such fiscal quarter. The information presented on that website is not incorporated by reference into this Remarketing Statement.

**MISCELLANEOUS**

The terms of the 2011 A-1/A-3 Bonds are set forth in the Resolutions, the Paying Agent Agreements and the Remarketing Agreements. Copies of such documents may be obtained from the office of the Assistant General Manager / Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Remarketing Statement may be directed to the Assistant General Manager / Chief Financial Officer.

The attached appendices are integral parts of this Remarketing Statement and should be read in their entirety. Potential purchasers must read the entire Remarketing Statement to obtain information essential to making an informed investment decision.

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

**THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA**

By: /s/ Jeffrey Kightlinger  
General Manager

**APPENDIX 1**

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**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS**

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## APPENDIX 1

### SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Master Resolution and the Fourth Supplemental Resolution, together with a summary of certain definitions contained in the Paying Agent Agreements. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

### DEFINITIONS

The following are definitions of terms used in this Summary. Such definitions also apply to terms used in the Remarketing Statement, to the extent such terms are not otherwise defined in the Remarketing Statement. Terms used in this summary but not defined herein have the meanings specified in the Resolutions.

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

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

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

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

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

**“Authorized Denominations”** means, with respect to any 2011 A-1/A-3 Bonds bearing interest at an Index Tender Rate, \$100,000 and any integral multiple of \$5,000 in excess thereof.

**“Board”** or **“Board of Directors”** means the Board of Directors of Metropolitan.

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

Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

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

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

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

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

**“Call Protection Date”** means, with respect to the New Tender Period, July 5, 2015, and, with respect to each subsequent Tender Period, the Standard Call Protection Date, unless Metropolitan determines a different date as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode—*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Scheduled Mandatory Tender—Establishment of Call Protection Date*” and “*—Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender—Establishment of Call Protection Date.*”

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

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

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

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

**“Corporate Trust Office”** means with respect to the initial Paying Agent its corporate trust office located at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017. The Paying Agent may designate alternate Corporate Trust Offices and any successor Paying Agent shall designate its Corporate Trust Office by written notice delivered to Metropolitan, the Fiscal Agent, the Remarketing Agent, the Paying Agent and the Liquidity Provider, if any.

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



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

**“Excess Earnings Fund”** means, with respect to a Series of Refunding Bonds, the Water Revenue Refunding Bonds Excess Earnings Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

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

**“Expenditures”** means cash disbursements of Metropolitan.

**“Favorable Opinion of Bond Counsel”** means, with respect to any action, an unqualified opinion of Bond Counsel to the effect that such action is authorized and permitted under the Act, the Resolutions and the Paying Agent Agreements, complies with the Resolutions and the Paying Agent Agreements and will not impair the exclusion of interest on the 2011 A-1/A-3 Bonds from gross income for purposes of federal income taxation or the exemption of interest on the 2011 A-1/A-3 Bonds from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the 2011 A-1/A-3 Bonds).

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

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

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

**“Fourth Supplemental Resolution”** means Resolution 8387 adopted by Metropolitan on January 12, 1993, and any amendments, modifications or supplements thereto.

**“Index Mode Scheduled Mandatory Tender”** means any tender for purchase of 2011 A-1/A-3 Bonds of a Series in the Index Mode on the Scheduled Mandatory Tender Date of each Tender Period for such Series, as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Tender and Purchase of the 2011 A-1/A-3 Bonds—*Index Mode Scheduled Mandatory Tender.*”

**“Index Mode Scheduled Mandatory Tender Failure”** means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all 2011 A-1/A-3 Bonds of a Series tendered pursuant to an Index Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date for such Series.

**“Index Mode Unscheduled Mandatory Tender”** means any tender for purchase of 2011 A-1/A-3 Bonds of a Series in the Index Mode on any Business Day from and after the Call Protection Date of the applicable Tender Period, as described in the Remarketing Statement under the caption

“DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Tender and Purchase of the 2011 A-1/A-3 Bonds–*Index Mode Unscheduled Mandatory Tender*” and excludes any mandatory tender of 2011 A-1/A-3 Bonds of a Series upon a change in the Interest Mode or upon a conversion to a Fixed Interest Rate.

“**Index Rate Accrual Period**” means, for 2011 A-1/A-3 Bonds in an Index Mode, the period from each Interest Accrual Date to and including (a) the day next preceding the next Interest Payment Date for such 2011 A-1/A-3 Bonds and (b) the day next preceding any Redemption Date, as applicable; *provided, however*, that the first Index Rate Accrual Period will begin on the date of delivery of the 2011 A-1/A-3 Bonds.

“**Information Services**” means, in accordance with then current guidelines of the Securities and Exchange Commission, one or more bond redemption information services selected by the Paying Agent, or, if the Paying Agent does not select a service, then such service or services as Metropolitan may designate in a certificate of Metropolitan delivered to the Paying Agent.

“**Index Spread**” means a fixed per annum rate determined by the applicable Remarketing Agent as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Scheduled Mandatory Tender–Determination of Index Spread*” and “–*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender–Determination of Index Spread.*”

“**Index Tender Rate**” means the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread applicable for the related Tender Period.

“**Interest Payment Date**” means, during such time as the 2011 A-1/A-3 Bonds of a Series are in an Index Mode (including during any Purchase Default Period), the first Business Day of each calendar month, each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender for such Series, and each Scheduled Mandatory Tender Date for such Series.

“**Mandatory Purchase Date**” means any date upon which any 2011 A-1/A-3 Bonds have been called for mandatory tender for purchase as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Tender and Purchase of 2011 A-1/A-3 Bonds.”

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

“**Master Resolution**” means Resolution 8329 adopted by Metropolitan on July 9, 1991, as amended and supplemented.

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

- (a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;
- (b) if the Parity Obligations or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation

which has a lien on Net Operating Revenues subordinate to the lien of the Parity Obligations or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Obligations or Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Obligations or Bonds on the date of calculation or, if such Parity Obligations or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Obligations or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan;

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

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

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

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

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

(i) 0, and

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

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

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

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

**“Maximum Interest Rate”** means the lesser of (a) twelve percent (12%) per annum, or (b) the maximum interest rate allowed by federal law and the laws of the State of California.

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

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

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

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

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

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

**“New Tender Period”** means the Tender Period for each Series of 2011 A-1/A-3 Bonds commencing on December 5, 2014 upon the remarketing of each Series of 2011 A-1/A-3 Bonds.

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

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

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

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

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

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

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

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

**“Prime Rate”** means the rate per annum equal to the “prime rate” listed daily in the “Money Rate” section of The Wall Street Journal. If The Wall Street Journal is not published on any Business Day or if The Wall Street Journal does not publish a “prime rate” for any Business Day, then the “Prime Rate” for that Business Day shall be the “prime rate” published on the display designated as page “PRIMBB” on the Bloomberg Financial Markets News Service until the next Business Day on which The Wall Street Journal publishes the “prime rate.” If neither The Wall Street Journal nor the Bloomberg Financial Markets News Service publish a “prime rate” for a Business Day, then the “Prime Rate” shall mean the “prime rate” most recently published in The Wall Street Journal or the Bloomberg Financial Markets News Service.

**“Purchase Default Period”** means the period from and after the Scheduled Mandatory Tender Date on which an Index Mode Scheduled Mandatory Tender Failure occurs until the date next preceding the date on which the earlier of the following occurs: (a) the purchase by Metropolitan of all then-Outstanding 2011 A-1/A-3 Bonds of a Series and (b) the redemption of all then-Outstanding 2011 A-1/A-3 Bonds of a Series in connection with a mandatory sinking fund redemption or a special mandatory redemption.

**“Purchase Default Rate”** means a per annum rate equal to the lower of (a) twelve percent (12%) and (b) the higher of (i) eight percent (8%) and (ii) the Prime Rate plus three percent (3%).

**“Purchase Price”** means, with respect to any 2011 A-1/A-3 Bonds of a Series purchased in connection with an Index Mode Scheduled Mandatory Tender, an Index Mode Unscheduled Mandatory Tender, a mandatory tender upon a change in the Interest Mode or a mandatory tender upon conversion to a Fixed Interest Rate, an amount equal to the principal amount of 2011 A-1/A-3 Bonds of such Series, plus accrued and unpaid interest to the purchase date (unless the purchase date is an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which will be paid in the normal course). With respect to any 2011 A-1/A-3 Bonds of a Series purchased during any Purchase Default Period, the “Purchase Price” means an amount equal to the principal amount of such 2011 A-1/A-3 Bonds of such Series, plus accrued and unpaid interest to the Purchase Default Period Purchase Date (unless such Purchase Default Period Purchase Date is an Interest Payment Date, in which case the Purchase Price will not include accrued interest, which will be paid in the normal course).

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

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

**“Record Date”** the Business Day immediately preceding each Interest Payment Date, and, with respect to any special mandatory redemption of 2011 A-1/A-3 Bonds during a Purchase Default Period, the Business Day immediately preceding the applicable Redemption Date.

**“Redemption Date”** means the date fixed for redemption of 2011 A-1/A-3 Bonds prior to maturity as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Redemption of the 2011 A-1/A-3 Bonds.”

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

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

**“Refunding Bonds”** means Bonds authorized by the Fourth Supplemental Resolution to be issued pursuant to the Act and the Master Resolution, which Bonds are designated as “The Metropolitan Water District of Southern California Water Revenue Refunding Bonds.”

**“Request”** of Metropolitan means a written request signed by an authorized representative of Metropolitan.

**“Reserve Fund”** means, with respect to a Series of Refunding Bonds, a Water Revenue Refunding Bonds Reserve Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

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

**“Resolution”** means the Master Resolution as supplemented, modified or amended by each Supplemental Resolution, including without limitation, the Fourth Supplemental Resolution.

**“Revenue Remainder Fund”** means the fund of that name established and continued pursuant to the Master Resolution.

**“Scheduled Mandatory Tender Date”** means, with respect to the New Tender Period, January 4, 2016, and, with respect to each subsequent Tender Period for a Series, the date or dates determined by Metropolitan as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Provisions of Paying Agent Agreements Relating to Remarketing and Purchase During Index Mode—*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Scheduled Mandatory Tender—Determination of the Following Scheduled Mandatory Tender Date*” and “—*Remarketing and Purchase of 2011 A-1/A-3 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender—Determination of the Scheduled Mandatory Tender Date.*”

**“Securities Depositories”** means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and such other securities depositories as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

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

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

**“SIFMA”** means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

**“Special Mandatory Redemption Amount”** means, with respect to special mandatory redemption during any Purchase Default Period, the aggregate principal amount of 2011 A-1/A-3 Bonds of a Series outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period commenced.

**“Special Mandatory Redemption Payments”** means, with respect to 2011 A-1/A-3 Bonds of a Series bearing interest in an Index Mode, the amount required to be deposited by the Treasurer in the Bond Service Fund for the payment of such Series of 2011 A-1/A-3 Bonds, as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS—Redemption of the 2011 A-1/A-3 Bonds—*Special Mandatory Redemption of 2011 A-1/A-3 Bonds.*”

**“Standard Call Protection Date”** means (a) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is one year or less, the Tender Period Halfway Date and (b) if the duration from the beginning of the applicable Tender Period until the Scheduled Mandatory Tender Date is more than one year, the date that is 180 days before the Scheduled Mandatory Tender Date.

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

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

**“Tax and Nonarbitrage Certificate”** means, with respect to a Series of Refunding Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of Refunding Bonds.

**“Tender Period”** means, with respect to 2011 A-1/A-3 Bonds of a Series bearing interest in an Index Mode, the period determined as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2011 A-1/A-3 BONDS–Interest Rate Provisions–*Tender Periods*.”

**“Tender Period Halfway Date”** means, with respect to any Tender Period, the date occurring halfway between the commencement of such Tender Period and the Scheduled Mandatory Tender Date, which shall be calculated by (a) dividing (i) the number of days from and including the date on which such Tender Period commences to and not including the Scheduled Mandatory Tender Date by (ii) two (2) and, if necessary, rounding the result down to the nearest whole number and (b) adding the resulting number of days to the commencement date of such Tender Period.

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

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

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

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

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

## THE MASTER RESOLUTION

### General

The Master Resolution authorizes the creation of “The Metropolitan Water District of Southern California Water Revenue Bonds,” which Bonds may be issued in the aggregate principal amount set forth under the Act and the Resolutions as described in the Remarketing Statement and shall be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Master Resolution.

### Supplemental Resolutions; Additional Bonds

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

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



## **Redemption of Bonds**

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

Selection of Bonds to be Redeemed. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all Bonds of that Series are to be redeemed, the maturities of Bonds to be redeemed may be selected by Metropolitan. Metropolitan shall give written notice of its selection not later than 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent for that Series may give notice of redemption to the Owners of the Bonds of that Series. If Metropolitan does not give notice of its selection, such Fiscal Agent shall, unless otherwise provided in the Supplemental Resolution creating such Series of Bonds, select the Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all of the Bonds of like maturity of that Series are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Fiscal Agent for such Series in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. Unless otherwise specified in a Supplemental Resolution creating a Series of Bonds, each notice of redemption of Bonds of any Series shall be mailed by first class mail by the Fiscal Agent for that Series, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner whose Bonds are called for redemption, the Securities Depositories and one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered or overnight mail. Each notice of redemption shall state the date of such notice, the distinguishing designation of the Series of Bonds to which such notice relates, the date of issue of such Series of Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent for that Series), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither Metropolitan nor the Fiscal Agent for such Series shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither Metropolitan nor the Fiscal Agent for such Series shall be liable for any inaccuracy in such numbers.

Failure by the Fiscal Agent for a Series of Bonds being redeemed to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Master Resolution, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a Bond, Metropolitan shall execute and the Fiscal Agent for that Bond shall authenticate and deliver, upon the surrender of such Bond,

without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portion thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

### **Pledge of Net Operating Revenues**

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

### **Equality of Security**

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

### **Water Revenue Fund**

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

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

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

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.

Reserve Funds. Metropolitan shall deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there shall be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues shall be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency. The 2011 A-1/A-3 Bonds are not secured by a reserve fund or account.

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

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

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

### **Establishment, Funding and Application of Redemption Fund**

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

### **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be invested solely in any securities in which Metropolitan may legally invest funds

subject to its control; provided that such securities must mature or be available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or any Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be credited to such fund or account.

### **Covenants**

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

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

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

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

call and redeem Outstanding Bonds in the manner provided in the Master Resolution or any Supplemental Resolutions.

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

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

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

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

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

Rates and Charges. Metropolitan shall prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay the following amounts in the order set forth: (a) Operation and Maintenance Expenditures; (b) the interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds (whether Serial or Term Bonds) and Parity Obligations as they become due and payable; (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolutions; and (d) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

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

Limits on Additional Debt. Except Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of

such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations shall be created or incurred unless:

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

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

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

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

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

(c) Any Additional Revenues.

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

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

Nothing in the Master Resolution shall limit the ability of Metropolitan to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations

are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Master Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations, as the same become due and payable and at the times and in the manner as required in the Master Resolution or any Parity Obligations documents.

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

### **Amendments to Master Resolution**

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

No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Master Resolution prior to or on a parity with the lien created by the Master Resolution, or deprive the Owners of the Bonds of the lien created by the Master Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Master Resolution), without the consent of the Owners of all of the Bonds then Outstanding or (3) modify any rights or duties of the Fiscal Agent without its consent.

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



interest on any Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion, and (7) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

### **Defeasance**

Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways:

- (i) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (ii) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or
- (iii) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer, the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), then, after irrevocable notice or provision therefor to the Owners in the case of a redemption prior to maturity, all liability of Metropolitan in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment.

The money or securities referenced above must be one or more of the following:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bond Obligation and all unpaid interest thereon to maturity or the Redemption Price and unpaid interest thereon to the redemption date, as the case may be; or
- (b) direct non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent (upon which opinion the Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed.

### **Payment of Bonds After Discharge of the Master Resolution**

Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in the Master Resolution), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when such Bond became so due and payable, shall, upon Request of Metropolitan, be released from the trusts created by the Master Resolution and transferred to the Treasurer, and all liability of the Fiscal Agent for such Series, an escrow agent or other fiduciary with respect to such moneys shall thereupon cease; provided, however, that before the release of such trust as aforesaid, such Fiscal Agent may (at the cost of Metropolitan) first mail to the Owners of any Bonds of such Series remaining unpaid at the addresses shown on the registration books maintained by such Fiscal Agent a notice, in such form as may be deemed appropriate by such Fiscal

Agent, with respect to the Bonds of such Series so payable and not presented and with respect to the provisions relating to the repayment to the Treasurer of the moneys held for the payment thereof. All moneys held by or on behalf of the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary for the payment of Bond Obligation of or interest or premium on Bonds of such Series, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary shall not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds shall be promptly released to Metropolitan and shall be promptly deposited into the Water Revenue Fund.

### **Defaults and Remedies under the Master Resolution**

Events of Default. Each of the following events shall be an “Event of Default” under the Master Resolution:

(a) Default by Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value of any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by Metropolitan in the due and punctual payment of the interest on any Bond;

(c) Failure of Metropolitan to observe and perform any of its other covenants, conditions or agreements under the Master Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) (1) Failure of Metropolitan generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or to the taking possession by any such official of the Water System or any substantial part of Metropolitan’s property, (4) making by Metropolitan of any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of any of the foregoing;

(e) The entry of any (1) decree or order for relief by a court having jurisdiction over Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for Metropolitan, the Water System or any substantial part of Metropolitan’s property, or (3) order for the termination or liquidation of Metropolitan or its affairs; or

(f) Failure of Metropolitan within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of subsection (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Master Resolution, Metropolitan shall not be deemed in default during the continuance of such disability. The term “force majeure” as used in the Master Resolution shall include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public

enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Metropolitan, and Metropolitan shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing under the Master Resolution, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Master Resolution of any Owner, provided, however, that whenever any provision thereof requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Master Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation.

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

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed

may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do.

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

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

#### **FOURTH SUPPLEMENTAL RESOLUTION**

The Fourth Supplemental Resolution authorizes the issuance of Refunding Bonds issued pursuant to the Master Resolution. The provisions of the Fourth Supplemental Resolution include, but are not limited to, the following:

##### **General**

The Treasurer has been appointed as Fiscal Agent to act as the agent of Metropolitan for the Refunding Bonds. The Fiscal Agent shall perform such duties and only such duties as are specifically set forth in the Resolutions.

##### **Redemption**

Optional Redemption. The Refunding Bonds of any Series shall be subject to call and redemption prior to maturity, at the option of Metropolitan, in the amounts, at the redemption prices and on the dates as set forth in the Bond Purchase Contract with respect to that Series.

Mandatory Sinking Account Payments. The Outstanding 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 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 Bond Purchase Contract with respect to that Series.

##### **Reserve Fund**

In connection with the issuance of a Series of Refunding Bonds, Metropolitan shall establish and the Treasurer shall maintain and hold in trust a fund separate from any other fund established or maintained under the Master Resolution and designated as the "Water Revenue Refunding Bonds Reserve Fund" and shall bear such additional designation as shall be determined by Metropolitan. Each Reserve Fund shall be funded as set forth in the Fourth Supplemental Resolution. All amounts held by the Treasurer in the Reserve Fund established with respect to such Series of Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such Series of Refunding Bonds in

accordance with their terms. The 2011 A-1/A-3 Bonds are not secured by a reserve fund or account, and the amount of the Bond Reserve Requirement for the 2011 A-1/A-3 Bonds was set at zero.

Metropolitan shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the Reserve Fund established with respect to a Series of Refunding Bonds until such Series is discharged in accordance with the provisions of the Master Resolution. The amount of the Bond Reserve Requirement applicable to a designated Series of Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. The amount of the Bond Reserve Requirement for the 2011 A-1/A-3 Bonds was set at zero. In the event of any deficiency in a Reserve Fund, the Treasurer shall replenish such deficiency in accordance with the provisions of the Master Resolution.

All amounts in the Reserve Fund established with respect to a Series of Refunding Bonds shall be used and withdrawn by the Treasurer, as provided in the Resolutions, solely for the purpose of (i) paying principal of and interest on such Series of 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 Refunding Bonds. Any amounts in the Reserve Fund established with respect to a Series of 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 a Metropolitan.

### **Reserve Fund Credit Policy**

At the option of Metropolitan, 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 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 applicable Refunding Bonds then in effect by the Rating Agencies. Any such substituted moneys shall be applied as provided in a certificate of Metropolitan. 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 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 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.

### **Excess Earnings Funds**

To ensure proper compliance with the tax covenants contained in the Fourth Supplemental Resolution, Metropolitan shall establish and the Treasurer shall maintain a fund for each Series of Refunding Bonds issued under the Fourth Supplemental Resolution, which fund shall be separate from any other fund or account established and maintained thereunder or under the Master Resolution and shall be designated as the “Water Revenue Refunding Bonds Excess Earnings Fund” and shall bear such additional designation as shall be ascribed thereto by Metropolitan. All money at any time deposited in the Excess Earnings Fund with respect to a Series of 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 Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any Bonds of such Series of Refunding Bonds 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 the Fourth Supplemental Resolution and by the applicable 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 Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

**Tax Covenants**

In order to maintain the exclusion from gross income of the interest on the Refunding Bonds for federal income tax purposes, Metropolitan covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and Metropolitan agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate, as a source of guidance for compliance with such provisions. Notwithstanding any other provisions of the Master Resolution or the Fourth Supplemental Resolution to the contrary, upon Metropolitan's failure to observe, or refusal to comply with, these tax covenants, no Person other than the Owners of the Refunding Bonds shall be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Fourth Supplemental Resolution on the basis of Metropolitan's failure to observe, or refusal to comply with, such covenants.

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**APPENDIX 2**

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**BOOK-ENTRY ONLY SYSTEM**

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## APPENDIX 2

### BOOK-ENTRY ONLY SYSTEM

#### Introduction

*Unless otherwise noted, the information contained under the caption “–General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites as described under “–General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The beneficial owners of the 2011 A-1/A-3 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.*

**NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER (AS DEFINED BELOW) WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2011 A-1/A-3 BONDS UNDER THE RESOLUTIONS OR THE PAYING AGENT AGREEMENTS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2011 A-1/A-3 BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2011 A-1/A-3 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2011 A-1/A-3 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.**

#### General

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2011 A-1/A-3 Bonds. The 2011 A-1/A-3 Bonds will be remarketed as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2011 A-1/A-3 Bond certificate will be issued for the 2011 A-1/A-3 Bonds in the aggregate principal amount, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and other organizations. DTC is a wholly-owned subsidiary



of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information set forth on such websites is not incorporated herein by reference.

Purchases of 2011 A-1/A-3 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 A-1/A-3 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2011 A-1/A-3 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011 A-1/A-3 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2011 A-1/A-3 Bonds, except in the event that use of the book-entry system for the 2011 A-1/A-3 Bonds is discontinued.

To facilitate subsequent transfers, all 2011 A-1/A-3 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2011 A-1/A-3 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2011 A-1/A-3 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2011 A-1/A-3 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2011 A-1/A-3 Bonds may wish to take steps to augment the transmission to them of notices of significant events with respect to the 2011 A-1/A-3 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2011 A-1/A-3 Bonds documents. For example, Beneficial Owners of the 2011 A-1/A-3 Bonds may wish to ascertain that the nominee holding the 2011 A-1/A-3 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011 A-1/A-3 Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2011 A-1/A-3 Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to

those Direct Participants to whose accounts the 2011 A-1/A-3 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, interest and premium, if any, on and the Purchase Price of the 2011 A-1/A-3 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, the Paying Agent or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, interest and premium, if any, and the Purchase Price of the 2011 A-1/A-3 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2011 A-1/A-3 Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such 2011 A-1/A-3 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2011 A-1/A-3 Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of the 2011 A-1/A-3 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2011 A-1/A-3 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2011 A-1/A-3 Bonds to the Paying Agent's DTC account.

**NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF 2011 A-1/A-3 BONDS FOR REDEMPTION.**

DTC, the DTC Participants or others might not distribute payments with respect to the 2011 A-1/A-3 Bonds paid to DTC or its nominee as the registered owner, might not distribute any notices, to the Beneficial Owners or might not do so on a timely basis, and might not serve and act in the manner described in this Remarketing Statement. Metropolitan, the Fiscal Agent and the Remarketing Agents are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2011 A-1/A-3 Bonds or for any error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2011 A-1/A-3 Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2011 A-1/A-3 Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2011 A-1/A-3 Bond certificates will be printed and delivered to DTC.

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

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2011 A-1/A-3 BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT OR THE PAYING AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

In the event that the book-entry only system is discontinued, payments of principal and purchase price of and interest on the 2011 A-1/A-3 Bonds will be payable as described in this Remarketing Statement under the caption "DESCRIPTION OF THE 2011 A 1/A 3 BONDS-General."

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**APPENDIX 3**

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**COPY OF OPINIONS OF CO-BOND COUNSEL**

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**NIXON PEABODY**<sup>LLP</sup>  
ATTORNEYS AT LAW

Gas Company Tower  
555 West Fifth St., 46th Floor  
Los Angeles, California 90013-1010  
(213) 629-6000  
Fax: (213) 629-6001

June 2, 2011

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

***Re: \$228,875,000 The Metropolitan Water District of Southern California,  
Water Revenue Refunding Bonds (SIFMA Index Mode),  
2011 Series A-1, 2011 Series A-2, 2011 Series A-3 and 2011 Series A-4***

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Ladies and Gentlemen:

We have examined certified copies of the proceedings of the issuance of \$228,875,000 aggregate principal amount of bonds of The Metropolitan Water District of Southern California (the "District") and the sale of said bonds to the purchasers thereof. Said bonds are designated "\$64,440,000 Water Revenue Refunding Bonds, 2011 Series A-1" (the "2011 Series A-1 Bonds"), "\$50,000,000 Water Revenue Refunding Bonds, 2011 Series A-2" (the "2011 Series A-2 Bonds"), "\$64,435,000 Water Revenue Refunding Bonds, 2011 Series A-3" (the "2011 Series A-3 Bonds"), and "\$50,000,000 Water Revenue Refunding Bonds, 2011 Series A-4" (the "2011 Series A-4 Bonds" and together with the 2011 Series A-1 Bonds, the 2011 Series A-2 Bonds and the 2011 Series A-3 Bonds, the "Series 2011A Bonds"). The Series 2011A Bonds mature in the amounts and in the years and bear interest in accordance with Resolution 8329 of the Board of Directors of the District (the "Board") adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), and Resolution 8387 of the Board adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"), and the Paying Agent Agreements, each dated as of June 1, 2011 (each a "Paying Agent Agreement" and collectively, the "Paying Agent Agreements"), and each by and between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"). The Series 2011A Bonds are subject to call and redemption prior to maturity on the dates, at the prices and upon the notice authorized by the Resolutions and the applicable Paying Agent Agreement. All terms used herein and not otherwise defined shall have the meanings given such terms in the Resolutions.

Our services as Co-Bond Counsel to the District were limited to an examination of the transcript of legal proceedings referred to above and to the rendering of the opinions set forth in the following paragraphs. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified in the transcript of legal proceedings referred to above, and we have assumed the genuineness of all documents and signatures presented to us

The Metropolitan Water District of Southern California  
June 2, 2011  
Page 2

(whether as originals or copies) and the due and legal execution and delivery thereof by, and the validity against, any parties other than the District thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We assume no responsibility to inform any person whether any such actions are taken or omitted or events do occur, or whether any matters come to our attention after the date hereof. We call attention to the fact that the enforceability of the agreements, covenants and obligations described in the foregoing paragraphs may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws); (ii) general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; (iii) the exercise of judicial discretion in appropriate cases; (iv) the limitations on legal remedies imposed on actions against public entities in the State of California; and (v) the application of California laws relating to conflicts of interest to which public entities are subject. We express no opinion regarding the availability of equitable remedies. We also express no opinion as to any provision in the Resolutions, the applicable Paying Agent Agreement or the Bonds with respect to the priority of any pledge or security interest, indemnification, or governing law. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2011A Bonds and express no opinion with respect thereto in this letter.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2011A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and constitute the legally valid and binding obligations of the District, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. The District is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds (including principal of and interest on the Series 2011A Bonds) and Parity Obligations as the same shall become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of the District that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

The Metropolitan Water District of Southern California  
June 2, 2011  
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3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of the District, enforceable in accordance with their terms.

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2011A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2011A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2011A Bonds. Pursuant to the Resolutions and in the District's Tax and Nonarbitrage Certificate of even date herewith concerning the investment and use of the proceeds of the Series 2011A Bonds (the "Tax and Nonarbitrage Certificate"), the District has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2011A Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the District has made certain other covenants, representations and certifications in the Resolutions and the Tax and Nonarbitrage Certificate. Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned covenants, representations and certifications, we are of the opinion that interest on the Series 2011A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2011A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. We are further of the opinion that the interest on the Series 2011A Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding two paragraphs, we express no opinion as to any other Federal, state or local tax consequences of the ownership or disposition of the Series 2011A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2011A Bonds, or the interest thereon, if any action is taken with respect to the Series 2011A Bonds or the proceeds thereof upon the advice or approval of other counsel. This opinion is limited to the laws of the State of California and the Federal laws of the United States, and is not a guarantee of result and is not binding on the Internal Revenue Service.

The opinion set forth in paragraph 1 above assumes that the Paying Agent has duly authenticated the Series 2011A Bonds.

We have acted in this transaction solely as Co-Bond Counsel to the District. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Series 2011A Bonds on the date hereof. No persons other than you may rely upon this letter

The Metropolitan Water District of Southern California  
June 2, 2011  
Page 4

without our express prior written consent. This opinion may not be used for any other purpose and may not be quoted without our express prior written consent. The opinion speaks only as of its date and is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to review, update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention, or to reflect any changes in laws which may hereafter occur.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nixon Peabody LLP", is written below the text "Respectfully submitted,".



**CURLS BARTLING P.C.**  
*a professional law corporation*

June 2, 2011

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

***Re: \$228,875,000 The Metropolitan Water District of Southern California,  
Water Revenue Refunding Bonds (SIFMA Index Mode),  
2011 Series A-1, 2011 Series A-2, 2011 Series A-3 and 2011 Series A-4***

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Ladies and Gentlemen:

We have examined certified copies of the proceedings of the issuance of \$228,875,000 aggregate principal amount of bonds of The Metropolitan Water District of Southern California (the "District") and the sale of said bonds to the purchasers thereof. Said bonds are designated "\$64,440,000 Water Revenue Refunding Bonds, 2011 Series A-1" (the "2011 Series A-1 Bonds"), "\$50,000,000 Water Revenue Refunding Bonds, 2011 Series A-2" (the "2011 Series A-2 Bonds"), "\$64,435,000 Water Revenue Refunding Bonds, 2011 Series A-3" (the "2011 Series A-3 Bonds"), and "\$50,000,000 Water Revenue Refunding Bonds, 2011 Series A-4" (the "2011 Series A-4 Bonds" and together with the 2011 Series A-1 Bonds, the 2011 Series A-2 Bonds and the 2011 Series A-3 Bonds, the "Series 2011A Bonds"). The Series 2011A Bonds mature in the amounts and in the years and bear interest in accordance with Resolution 8329 of the Board of Directors of the District (the "Board") adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), and Resolution 8387 of the Board adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"), and the Paying Agent Agreements, each dated as of June 1, 2011 (each a "Paying Agent Agreement" and collectively, the "Paying Agent Agreements"), and each by and between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"). The Series 2011A Bonds are subject to call and redemption prior to maturity on the dates, at the prices and upon the notice authorized by the Resolutions and the applicable Paying Agent Agreement. All terms used herein and not otherwise defined shall have the meanings given such terms in the Resolutions.

Our services as Co-Bond Counsel to the District were limited to an examination of the transcript of legal proceedings referred to above and to the rendering of the opinions set forth in the following paragraphs. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified in the transcript of legal proceedings referred to above, and we have assumed the genuineness of all documents and signatures presented to us

The Metropolitan Water District of Southern California  
June 2, 2011  
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(whether as originals or copies) and the due and legal execution and delivery thereof by, and the validity against, any parties other than the District thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We assume no responsibility to inform any person whether any such actions are taken or omitted or events do occur, or whether any matters come to our attention after the date hereof. We call attention to the fact that the enforceability of the agreements, covenants and obligations described in the foregoing paragraphs may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws); (ii) general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; (iii) the exercise of judicial discretion in appropriate cases; (iv) the limitations on legal remedies imposed on actions against public entities in the State of California; and (v) the application of California laws relating to conflicts of interest to which public entities are subject. We express no opinion regarding the availability of equitable remedies. We also express no opinion as to any provision in the Resolutions, the applicable Paying Agent Agreement or the Bonds with respect to the priority of any pledge or security interest, indemnification, or governing law. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2011A Bonds and express no opinion with respect thereto in this letter.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2011A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and constitute the legally valid and binding obligations of the District, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. The District is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds (including principal of and interest on the Series 2011A Bonds) and Parity Obligations as the same shall become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of the District that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

The Metropolitan Water District of Southern California  
June 2, 2011  
Page 3

3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of the District, enforceable in accordance with their terms.

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2011A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2011A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2011A Bonds. Pursuant to the Resolutions and in the District's Tax and Nonarbitrage Certificate of even date herewith concerning the investment and use of the proceeds of the Series 2011A Bonds (the "Tax and Nonarbitrage Certificate"), the District has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2011A Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the District has made certain other covenants, representations and certifications in the Resolutions and the Tax and Nonarbitrage Certificate. Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned covenants, representations and certifications, we are of the opinion that interest on the Series 2011A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2011A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. We are further of the opinion that the interest on the Series 2011A Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding two paragraphs, we express no opinion as to any other Federal, state or local tax consequences of the ownership or disposition of the Series 2011A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2011A Bonds, or the interest thereon, if any action is taken with respect to the Series 2011A Bonds or the proceeds thereof upon the advice or approval of other counsel. This opinion is limited to the laws of the State of California and the Federal laws of the United States, and is not a guarantee of result and is not binding on the Internal Revenue Service.

The opinion set forth in paragraph 1 above assumes that the Paying Agent has duly authenticated the Series 2011A Bonds.

We have acted in this transaction solely as Co-Bond Counsel to the District. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Series 2011A Bonds on the date hereof. No persons other than you may rely upon this letter

The Metropolitan Water District of Southern California  
June 2, 2011  
Page 4

without our express prior written consent. This opinion may not be used for any other purpose and may not be quoted without our express prior written consent. The opinion speaks only as of its date and is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to review, update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention, or to reflect any changes in laws which may hereafter occur.

Respectfully submitted,

*Curtis Brantling P.C.*

**APPENDIX 4**

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**COPY OF CONTINUING DISCLOSURE UNDERTAKING**

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## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is dated June 2, 2011 by The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of its \$228,875,000 aggregate principal amount of Water Revenue Refunding Bonds, 2011 Series A-1, 2011 Series A-2, 2011 Series A-3 and 2011 Series A-4 (the "Bonds"). The Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented by Article 11 of Chapter 3, and Chapter 6, of Part 1, Division 2, Title 5 of the California Government Code, as amended, Resolution 8329, adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), and Resolution 8387 adopted by the Board on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

### ARTICLE I Definitions

Section I.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption "OPERATING REVENUES AND DEBT SERVICE—Debt Service Requirements" in the forepart of the Official Statement; (ii) under the caption "METROPOLITAN'S WATER SUPPLY" in APPENDIX A to the Official Statement, the table "Metropolitan's Water Storage Capacity and Water in Storage"; (iii) under the caption "METROPOLITAN REVENUES" in APPENDIX A to the Official Statement, the tables "Summary of Receipts by Source", "Summary of Water Sold and Water Sales Receipts", "Summary of Water Rates", and "Ten Largest Water Customers"; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption "METROPOLITAN EXPENDITURES" in APPENDIX A to the Official Statement, the table "Summary of Expenditures"; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long-term commitments, and the information described under the sub-caption "Defined Benefit Pension Plan"; (v) under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in APPENDIX A to the Official Statement, historical revenues and expenditures for the then-immediately past fiscal year, as presented in the table "Historical and Projected Revenues and Expenditures"; (vi) under the caption "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in APPENDIX A to the Official Statement, the percentage of operation and maintenance expenditures to total costs; (vii) under the caption "POWER SOURCES AND COSTS" in APPENDIX A to the Official Statement, the expenditures for electric power, for so long as such information shall be deemed to be material by Metropolitan; and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

(3) "Counsel" means Nixon Peabody LLP, Los Angeles, California or Curls Bartling P.C., Oakland, California or another nationally recognized bond counsel or counsel expert in Federal securities laws, in each case acceptable to Metropolitan.

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

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

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

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

(8) "Notice Event" means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notice of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of any Bonds;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;

- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(9) "Official Statement" means the Official Statement dated May 24, 2011, of Metropolitan relating to the Bonds.

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

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "State" means State of California.

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

## ARTICLE II The Undertaking

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

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2010-11, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.



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

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

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

Section 2.5. Additional Disclosure Obligations. Metropolitan acknowledges and understands that other state and Federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to Metropolitan, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of Metropolitan under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Event Notice.

Section 2.7. No Previous Non-Compliance. Metropolitan represents that in the previous five years it has not failed to comply, in any material respects, with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

### ARTICLE III Operating Rules

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

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

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

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) the MSRB through the EMMA System or (ii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan's sole determination, subject to technical and economic

feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of Metropolitan's information and notices.

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

#### ARTICLE IV Termination, Amendment and Enforcement

##### Section 4.1. Effective Date; Termination.

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

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

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

##### Section 4.2. Amendment.

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

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed

to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

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

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

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


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

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

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

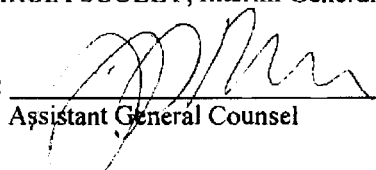
(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of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

THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

By:   
Thomas E. DeBacker  
Interim Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, Interim General Counsel

By:   
Assistant General Counsel

**EXISTING ISSUE REMARKETED  
(FULL BOOK-ENTRY)****RATINGS: See "RATINGS" herein.  
CUSIP No. 59266T CX7**

*On May 20, 2009, the date that Metropolitan issued the 2009A-2 Bonds, which were issued together with the 2009 A-1 Bonds (together, the "2009A Bonds"), Co-Bond Counsel to Metropolitan opined that, under then existing law and assuming compliance with tax covenants made by Metropolitan, and the accuracy of representations and certifications made by Metropolitan, interest on the 2009A Bonds was excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and was not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals or corporations. Co-Bond Counsel were of the opinion that interest on the 2009A Bonds was, however, included in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel were further of the opinion that interest on the 2009A Bonds was exempt from personal income taxes of the State of California. Such opinions spoke only as of their date and have not been updated in connection with this remarketing.*

**[MWD logo]****\$104,180,000****THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA****Water Revenue Refunding Bonds****(SIFMA Index Mode)****2009 Series A-2****Scheduled Mandatory Tender Date: January 11, 2016****Dated Date: May 20, 2009****Price: 100%****Due: July 1, 2030**

The Metropolitan Water District of Southern California ("Metropolitan") is remarketing all of its Water Revenue Refunding Bonds, 2009 Series A-2 (the "2009 A-2 Bonds") on January 9, 2015. A new Tender Period with respect to the 2009 A-2 Bonds will commence on January 9, 2015, during which the 2009 A-2 Bonds will bear interest in an Index Mode at an Index Tender Rate. The Index Tender Rate will be equal to the sum of (a) the SIFMA Average Index Rate and (b) an Index Spread that the Remarketing Agent will determine on or about January 7, 2015, for the new Tender Period. Promptly after the Remarketing Agent determines the Index Spread, Metropolitan will publish it by supplementing this Remarketing Statement and posting the supplement on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. **See APPENDIX 1 for definitions of capitalized terms not otherwise defined herein.**

The 2009 A-2 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2009 A-2 Bonds tendered for purchase is an unsecured obligation payable solely from the sources specified in this Remarketing Statement. As of November 1, 2014, Metropolitan had outstanding \$4.17 billion aggregate principal amount of its Bonds payable from Net Operating Revenues (including the 2009 A-2 Bonds). The 2009 A-2 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2009 A-2 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on, or the Purchase Price upon a tender for purchase of, the 2009 A-2 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

*Metropolitan anticipates that the remarketed 2009 A-2 Bonds will be available for delivery through the facilities of DTC on January 9, 2015.*

**Stifel  
as Remarketing Agent**

December 18, 2014

**MAJOR WATER CONVEYANCE FACILITIES  
TO SOUTHERN CALIFORNIA**

[map to come]

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

**Chairman**

RANDY A. RECORD

**Vice Chair**

LINDA ACKERMAN

**Vice Chair**

GLORIA D. GRAY

**Vice Chair**

JOHN W. MURRAY JR.

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CYNTHIA KURTZ

**San Fernando**

SYLVIA BALLIN

**San Marino**

JOHN T. MORRIS

**Santa Ana**

DANIEL E. GRISET

**Santa Monica**

JUDY ABDO

**Torrance**

RUSSELL LEFEVRE

**Calleguas Municipal Water District**

STEVE BLOIS

**Central Basin Municipal Water District**

ROBERT APODACA

PHILLIP D. HAWKINS

**Eastern Municipal Water District**

RANDY A. RECORD

**Foothill Municipal Water District**

RICHARD W. ATWATER

**Inland Empire Utilities Agency**

MICHAEL CAMACHO

**Las Virgenes Municipal Water District**

GLEN D. PETERSON

**Municipal Water District of Orange County**

LINDA ACKERMAN

BRETT R. BARBRE

LARRY D. DICK

LARRY MCKENNEY

**San Diego County Water Authority**

MICHAEL T. HOGAN

KEITH LEWINGER

FERN STEINER

YEN C. TU

**Three Valleys Municipal Water District**

DAVID D. DE JESUS

**Upper San Gabriel Valley Municipal Water District**

MICHAEL TOUHEY

**West Basin Municipal Water District**

DONALD L. DEAR

GLORIA D. GRAY

**Western Municipal Water District of Riverside County**

THOMAS P. EVANS

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

**JEFFREY KIGHTLINGER**  
*General Manager*

**MARCIA SCULLY**  
*General Counsel*

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

**DEENA GHALY**  
*Ethics Officer*

**DEBRA C. MAN**  
*Assistant General  
Manager/Chief  
Operating Officer*

**GILBERT F. IVEY**  
*Assistant General  
Manager/Chief  
Administrative Officer*

**GARY BREAUX**  
*Assistant General  
Manager/Chief Financial  
Officer*

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

**DEE ZINKE**  
*Deputy General Manager/External Affairs*

**DAWN M. CHIN**  
*Board Executive Secretary*

---

**Co-Bond Counsel**

Nixon Peabody LLP  
Los Angeles, California

Curly Bartling P.C.  
Oakland, California

**Financial Advisor**

Public Resources Advisory Group  
Los Angeles, California

**Paying Agent**

Wells Fargo Bank, National Association  
Los Angeles, California

**Fiscal Agent**

Roger N. Marumoto  
Metropolitan Treasurer



This Remarketing Statement does not constitute an offer to sell the 2009 A-2 Bonds in any state to any person to whom it is unlawful to make such an offer in such state. This Remarketing Statement is not to be construed as a contract with the purchasers of the 2009 A-2 Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the remarketing of the 2009 A-2 Bonds, and if given or made, investors must not rely on such information or representations.

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

The Remarketing Agent has provided the following three sentences for inclusion in this Remarketing Statement. The Remarketing Agent has reviewed the information in this Remarketing Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. **In connection with the remarketing of the 2009 A-2 Bonds, the Remarketing Agent may over allot or effect transactions which stabilize or maintain the market prices of the 2009 A-2 Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association, and is set forth herein for convenience of reference only. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of Metropolitan, the Remarketing Agent nor the Financial Advisor assume any responsibility for the accuracy of such data.

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

Metropolitan maintains a website. However, the information presented on that website is not part of this Remarketing Statement and should not be relied upon in making investment decisions with respect to the 2009 A-2 Bonds.

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## SUMMARY STATEMENT

*Investors must read the entire Remarketing Statement to obtain information essential to making an informed investment decision. This Summary Statement is subject in all respects to the more complete information contained in this Remarketing Statement and should not be considered to be a complete statement of the facts material to making an informed investment decision. Capitalized terms used in this Summary Statement, if not defined herein, have the meanings given such terms in APPENDIX 1, the Resolutions or the Paying Agent Agreement.*

### **Metropolitan**

The Metropolitan Water District of Southern California (“Metropolitan”) is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan’s primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 37-member Board of Directors (the “Board”), with each member agency having at least one representative on the Board. Representation and voting rights are based upon the assessed valuation of real property within the jurisdictional boundary of each member agency. Metropolitan imports water from two principal sources, the State Water Project in Northern California, via the California Aqueduct, and the Colorado River, via the Colorado River Aqueduct.

The mission of Metropolitan, as promulgated by the Board, is to provide its service area with adequate and reliable supplies of high quality water to meet present and future needs in an environmentally and economically responsible way. The member agencies of Metropolitan are not currently obligated by contract to purchase water from Metropolitan. For a description of voluntary purchase orders entered into by member agencies, see Referenced Appendix A (defined below) under the caption “METROPOLITAN REVENUES – Member Agency Purchase Orders.”

Metropolitan has described its finances and operations in detail and has presented certain economic and demographic information in its Official Statement dated [November \_\_], 2014 relating to its Waterworks General Obligation Refunding Bonds, 2014 Series A (the “2014 Series A Official Statement”), which consists of the following:

1. APPENDIX A – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA” (referred to herein as “Referenced Appendix A”)
2. APPENDIX B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013” (referred to herein as “Referenced Appendix B”)
3. APPENDIX E – “SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN’S SERVICE AREA” (referred to herein as “Referenced Appendix E”)

Metropolitan includes by this specific reference into this Remarketing Statement Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2014 Series A Official Statement is on file with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (the “EMMA System”) and can be accessed at <http://emma.msrb.org/>.

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

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

## **Authorization for the 2009 A-2 Bonds**

Metropolitan issued the 2009 A-2 Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to herein as the "Bonds." The 2009A-2 Bonds are further described in the Paying Agent Agreement, dated as of May 1, 2009 (the "Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent").

## **Remarketing of the 2009 A-2 Bonds and Selected Terms of the 2009 A-2 Bonds**

***Remarketing of the 2009 A-2 Bonds.*** Metropolitan is remarketing all of the 2009 A-2 Bonds in connection with an Index Mode Unscheduled Mandatory Tender pursuant to which Metropolitan will require all of the existing Owners of the 2009 A-2 Bonds to tender their 2009 A-2 Bonds for purchase on January 9, 2015. Metropolitan intends to pay the Purchase Price of the 2009 A-2 Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of the remarketing of the 2009 A-2 Bonds. The remarketing of the 2009 A-2 Bonds upon the Index Mode Unscheduled Mandatory Tender on January 9, 2015 is referred to in this Remarketing Statement as the "Remarketing." The Depository Trust Company, New York, New York ("DTC"), is the registered owner of the 2009 A-2 Bonds and, as such, it will tender the 2009 A-2 Bonds on behalf of the Beneficial Owners upon the Index Mode Unscheduled Mandatory Tender. See APPENDIX 2—"BOOK-ENTRY ONLY SYSTEM."

The Remarketing will only occur if Metropolitan purchases all of the 2009 A-2 Bonds on January 9, 2015 pursuant to the Index Mode Unscheduled Mandatory Tender. Under the terms of the Paying Agent Agreement, Metropolitan may rescind an Index Mode Unscheduled Mandatory Tender. In addition, Index Mode Unscheduled Mandatory Tenders are conditioned on amounts sufficient to pay the Purchase Price of the 2009 A-2 Bonds tendered for purchase being on deposit with the Paying Agent on the Mandatory Purchase Date.

For a more detailed description of Index Mode Unscheduled Mandatory Tenders and the process of the remarketing of 2009 A-2 Bonds during the Index Mode, see "DESCRIPTION OF THE 2009 A-2 BONDS—Tender and Purchase of the 2009 A-2 Bonds—*Index Mode Unscheduled Mandatory Tender*" and "—Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode—*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.*"

***This Remarketing Statement describes the 2009 A-2 Bonds only while bearing interest in the Index Mode. There are significant differences in the terms of the 2009 A-2 Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to a Series of 2009 A-2 Bonds bearing interest in an Interest Mode***

***other than the Index Mode. Owners and prospective purchasers of the 2009 A-2 Bonds should not rely on this Remarketing Statement for information in connection with any change of the 2009 A-2 Bonds to a different Interest Mode.***

***2009 A-2 Bonds in the Index Mode.*** Following the Remarketing, the 2009 A-2 Bonds will bear interest in the Index Mode. Accordingly, the 2009 A-2 Bonds will be subject to all of the terms and provisions of the Paying Agent Agreement governing the 2009 A-2 Bonds in the Index Mode. This includes provisions of the Paying Agent Agreement that (a) require the Owners of the 2009 A-2 Bonds to tender their 2009 A-2 Bonds for Purchase on any Scheduled Mandatory Tender Date for the New Tender Period, on any Unscheduled Mandatory Tender Date from and after the Call Protection Date for the New Tender Period and on other dates described in this Remarketing Statement and (b) permit Metropolitan to redeem or change the Interest Mode with respect to the 2009 A-2 Bonds from and after the Call Protection Date for the New Tender Period.

***Establishment of a New Tender Period.*** Upon the Remarketing, the existing Tender Period for the 2009 A-2 Bonds will terminate and a new Tender Period will commence (such new Tender Period is referred to herein as the “New Tender Period”). For a more detailed description of Tender Periods, see “DESCRIPTION OF THE 2009 A-2 BONDS–Interest Rate Provisions–*Tender Periods*.”

***Determination and Notification of Index Spread.*** The Remarketing Agent will determine the Index Spread for the 2009 A-2 Bonds for the New Tender Period on or about January 7, 2015. The Remarketing Agent must determine an Index Spread that will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2009A-2 Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2009A-2 Bonds, would enable the Remarketing Agent to sell all of the 2009 A-2 Bonds on January 9, 2015 at a Purchase Price equal to the principal amount thereof. Promptly after the Remarketing Agent determines the Index Spread for the New Tender Period, Metropolitan will publish it by supplementing this Remarketing Statement and posting the supplement on the EMMA System.

***Interest Rate During the New Tender Period.*** During the New Tender Period, the 2009 A-2 Bonds will bear interest at the Index Tender Rate; provided, however, that, during a Purchase Default Period, all of the 2009 A-2 Bonds will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The Index Tender Rate for the New Tender Period will be the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread that the Remarketing Agent determines on or about January 7, 2015.

During the New Tender Period, Metropolitan will pay interest on the 2009 A-2 Bonds on (a) the first Business Day of each calendar month, commencing February 2, 2015, (b) each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender and (c) each Scheduled Mandatory Tender Date.

For a description of the terms relating to interest on the 2009 A-2 Bonds, see “DESCRIPTION OF THE 2009 A-2 BONDS–Interest Rate Provisions.” For a description of the process by which the Remarketing Agent will determine the Index Spread for the New Tender Period, see “DESCRIPTION OF THE 2009 A-2 BONDS–Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender–Determination of Index Spread*.”

***Scheduled Mandatory Tender Date.*** The Scheduled Mandatory Tender Date for the New Tender Period for the 2009 A-2 Bonds will be January 11, 2016, and for each subsequent Tender Period will be the date that Metropolitan determines pursuant to the provisions of the Paying Agent Agreement. See “DESCRIPTION OF THE 2009 A-2 BONDS—Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode.”

***Call Protection Date.*** The Call Protection Date for the New Tender Period for the 2009 A-2 Bonds will be July 11, 2015. For any subsequent Tender Period, the Call Protection Date with respect to the 2009 A-2 Bonds will be the applicable Standard Call Protection Date unless Metropolitan determines a different date. See “DESCRIPTION OF THE 2009 A-2 BONDS—Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode.”

***Notification Following Remarketing.*** Within two (2) Business Days after the Remarketing, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to the Owners of the 2009 A-2 Bonds at their respective addresses appearing on the registration books and one or more Information Services (currently, the EMMA System), which will state: (a) that the immediately preceding Tender Period has terminated; (b) that the New Tender Period has commenced; (c) the day on which the Scheduled Mandatory Tender Date will occur with respect to the New Tender Period; (d) the day on which the Call Protection Date will occur with respect to the New Tender Period; and (e) the Index Spread that the Remarketing Agent determined. Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding the Remarketing will be deemed to have terminated and the New Tender Period will be deemed to have commenced.

### **Book-Entry Only**

The 2009 A-2 Bonds will be sold to the purchasers in the Remarketing as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the remarketed 2009 A-2 Bonds. Purchasers will not receive certificates representing 2009 A-2 Bonds purchased by them. Metropolitan will pay principal of and interest on the 2009 A-2 Bonds directly to DTC or Cede & Co. as the registered owner of the 2009 A-2 Bonds. Payments of the Purchase Price for any 2009 A-2 Bonds will be paid directly to DTC or Cede & Co. as the registered owner of the 2009 A-2 Bonds. Upon receipt of payments of principal, interest or Purchase Price, DTC is obligated to remit such payments of principal, interest and Purchase Price to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 2009 A-2 Bonds. See “DESCRIPTION OF THE 2009 A-2 BONDS – Book-Entry Only System” and APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM.”

### **Redemption of the 2009 A-2 Bonds**

***Optional Redemption.*** While the 2009 A-2 Bonds bear interest in the Index Mode, the 2009 A-2 Bonds will be subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, during any Tender Period, on any Business Day on or after the applicable Call Protection Date at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium; *provided, however*, that, during a Purchase Default Period, the 2009 A-2 Bonds will not be subject to optional redemption. See “DESCRIPTION OF THE 2009 A-2 BONDS—Redemption of the 2009 A-2 Bonds—*Optional Redemption of 2009 A-2 Bonds in the Index Mode.*”

***Mandatory Sinking Fund Redemption.*** The 2009 A-2 Bonds will be subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from Mandatory Sinking Account Payments which will have been deposited in the Bond Service Fund. See “DESCRIPTION OF THE 2009



A-2 BONDS—Redemption of the 2009 A-2 Bonds—*Mandatory Sinking Fund Redemption of 2009 A-2 Bonds.*”

***Special Mandatory Redemption.*** During any Purchase Default Period, the 2009 A-2 Bonds will be subject to special mandatory redemption prior to maturity at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date from Special Mandatory Redemption Payments which will have been deposited in the Bond Service Fund; *provided, however,* that, upon the termination of a Purchase Default Period, the 2009 A-2 Bonds will no longer be subject to special mandatory redemption. See “DESCRIPTION OF THE 2009 A-2 BONDS—Redemption of the 2009 A-2 Bonds—*Special Mandatory Redemption of 2009 A-2 Bonds.*”

***Selection of 2009 A-2 Bonds for Redemption.*** Other than a redemption of the 2009 A-2 Bonds pursuant to a special mandatory redemption, in the case of redemption in part, the Paying Agent will select the 2009 A-2 Bonds to be redeemed by lot. In the case of any redemption of 2009 A-2 Bonds pursuant to a special mandatory redemption, the Paying Agent will select the 2009 A-2 Bonds to be redeemed on a pro rata basis from all Owners, calculated based on the Outstanding principal amount of the 2009 A-2 Bonds held by each Owner compared to the total amount of 2009 A-2 Bonds Outstanding on the Record Date in respect of the applicable Redemption Date.

#### **Tender and Purchase of the 2009 A-2 Bonds**

While the 2009 A-2 Bonds bear interest in the Index Mode, the Owners of all of the 2009 A-2 Bonds must tender for purchase, and Metropolitan must purchase, all of the 2009 A-2 Bonds on the Scheduled Mandatory Tender Date of each Tender Period. While the 2009 A-2 Bonds bear interest in the Index Mode, during each Tender Period, the 2009 A-2 Bonds will be subject to mandatory tender for purchase (in whole but not in part), pursuant to an Index Mode Unscheduled Mandatory Tender, on the Mandatory Purchase Date at a Purchase Price equal to the principal amount thereof, on any Business Day from and after the Call Protection Date. See “DESCRIPTION OF THE 2009 A-2 BONDS—Tender and Purchase of the 2009 A-2 Bonds.”

#### **Event of Default and Purchase Default Period**

If Metropolitan does not pay the Purchase Price of all of the 2009 A-2 Bonds pursuant to an Index Mode Scheduled Mandatory Tender, then such failure will be an “Event of Default” under the Paying Agent Agreement and a Purchase Default Period will commence.

During a Purchase Default Period with respect to the 2009 A-2 Bonds, the following will apply:

- (a) All of the 2009 A-2 Bonds will bear interest at the Purchase Default Rate, which will be a per annum rate equal to the lower of (i) twelve percent (12%) and (ii) the higher of (A) eight percent (8%) and (B) the Prime Rate plus three percent (3%);
- (b) The 2009 A-2 Bonds will not be subject to optional redemption (but as provided in (f) below, Metropolitan will remain obligated to purchase the 2009 A-2 Bonds);
- (c) The 2009 A-2 Bonds will remain subject to Mandatory Sinking Fund Redemption;
- (d) The 2009 A-2 Bonds will be subject to special mandatory redemption on the dates and in the principal amounts as set forth below under the caption “DESCRIPTION OF THE

2009 A-2 BONDS–Redemption of the 2009 A-2 Bonds–*Special Mandatory Redemption of 2009 A-2 Bonds*”;

(e) Metropolitan will not require the Owners to tender their 2009 A-2 Bonds for purchase as set forth below under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Tender and Purchase of the 2009 A-2 Bonds”;

(f) Metropolitan will continue to be obligated to purchase all of the 2009 A-2 Bonds at the Purchase Price, notwithstanding, and in addition to, its obligation to redeem Outstanding 2009 A-2 Bonds from Special Mandatory Redemption Payments; and

(g) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2009 A-2 Bonds, the Owners thereof will be obligated to sell and deliver their 2009 A-2 Bonds to Metropolitan.

**Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2009 A-2 Bonds will not constitute an Event of Default under the Master Resolution or under any other provision of the Resolutions.**

### **Security for the 2009 A-2 Bonds**

The 2009 A-2 Bonds are limited obligations of Metropolitan payable as to principal and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Net Operating Revenues are revenues received by Metropolitan from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures as described herein. Metropolitan will pay the principal of and interest on the 2009 A-2 Bonds on parity with its other Bonds (the “Parity Bonds”). As of November 1, 2014, Metropolitan had \$4.17 billion aggregate principal amount of Bonds (including the 2009 A-2 Bonds) outstanding. Metropolitan also will pay the principal of and interest on the 2009 A-2 Bonds on parity with the existing Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS.”

Metropolitan’s obligation to pay the Purchase Price of any 2009 A-2 Bonds tendered for purchase is an unsecured obligation of Metropolitan payable solely from the sources specified in this Remarketing Statement. The 2009 A-2 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2009 A-2 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on, or the Purchase Price upon a tender for purchase of, the 2009 A-2 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan’s property or its income, receipts or revenues except as described in this Remarketing Statement.

Metropolitan has established reserve funds for some of the series of outstanding Bonds, but Metropolitan did not fund a reserve fund for the 2009 A-2 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS–No Reserve Fund Moneys.”

### **Rate Covenant**

Metropolitan covenants under the Master Resolution that it will prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority: (1) Operation and Maintenance Expenditures; (2) the interest on and Bond Obligation (including Mandatory Sinking

Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds and Parity Obligations as they become due and payable; (3) all other payments required for compliance with the Master Resolution or any Supplemental Resolution; and (4) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues. Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2009 A-2 Bonds, including any Mandatory Sinking Fund Payments and, during any Purchase Default Period, Special Mandatory Redemption Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2009 A-2 Bonds in setting its rates and charges. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS–Rate Covenant.”

### **Additional Indebtedness**

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2009 A-2 Bonds, the Parity Bonds or the Parity Obligations.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on parity with the 2009 A-2 Bonds, the Parity Bonds and the existing Parity Obligations to finance the costs of improvements to the Water System or to refund any bond or other indebtedness of Metropolitan, subject to the limitations, terms and conditions of the Master Resolution. Metropolitan may also incur obligations junior and subordinate to the 2009 A-2 Bonds or any Parity Bonds or Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS–Additional Indebtedness.”

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on parity with Metropolitan’s obligation to pay principal of and interest on the 2009 A-2 Bonds and the Parity Bonds. See Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES–Variable Rate and Swap Obligations.”

### **Continuing Disclosure**

Metropolitan agreed to provide with respect to the 2009 A-2 Bonds, or to cause to be provided, to the EMMA System, for purposes of Rule 15c2–12(b)(5) (the “Rule”) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events. These covenants were made in order to assist Stifel, Nicolaus & Company, Incorporated, as the underwriter for the 2009 A-2 Bonds in complying with the Rule. See “CONTINUING DISCLOSURE” and APPENDIX 4 – “COPY OF CONTINUING DISCLOSURE UNDERTAKING.”

Metropolitan has not failed in the previous five years to comply in any material respect with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule except perhaps insofar as Metropolitan supplemented its annual report for 2011 with respect to its General Obligation Bonds to provide additional regional assessed valuation information omitted from those timely filed annual reports. As of the date hereof, Metropolitan is in compliance in all material respects with its undertakings with regard to the provision of annual reports and notices of certain events as required by the Rule. Metropolitan has implemented additional procedures to file complete annual reports in the future.

**Miscellaneous**

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

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**REMARKETING STATEMENT****\$104,180,000****THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
Water Revenue Refunding Bonds  
(SIFMA Index Mode)  
2009 Series A-2****INTRODUCTION**

Metropolitan is remarketing all of its Water Revenue Refunding Bonds, 2009 Series A-2 (the "2009 A-2 Bonds") in connection with an Index Mode Unscheduled Mandatory Tender pursuant to which Metropolitan will require all of the existing Owners of the 2009 A-2 Bonds to tender their 2009 A-2 Bonds for purchase on January 9, 2015. Metropolitan intends to pay the Purchase Price of the 2009 A-2 Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of this remarketing of the 2009 A-2 Bonds. The remarketing of the 2009 A-2 Bonds upon the Index Mode Unscheduled Mandatory Tender on January 9, 2015 is referred to in this Remarketing Statement as the "Remarketing." Upon the Remarketing, a new Tender Period with respect to the 2009 A-2 Bonds will commence during which the 2009 A-2 Bonds will bear interest in an Index Mode.

***This Remarketing Statement describes the 2009 A-2 Bonds only while bearing interest in the Index Mode. There are significant differences in the terms of the 2009 A-2 Bonds while they bear interest in an Interest Mode other than the Index Mode. This Remarketing Statement is not intended to provide information with respect to the 2009 A-2 Bonds bearing interest in an Interest Mode other than the Index Mode. Owners and prospective purchasers of the 2009 A-2 Bonds should not rely on this Remarketing Statement for information in connection with any change of the 2009 A-2 Bonds to a different Interest Mode.***

Metropolitan issued the 2009 A-2 Bonds on May 20, 2009, pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, and Chapter 3 of Part 1, Division 2, Title 5 of the California Government Code, as amended (the "Act"), Resolution 8329 adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 8387 adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The voters in Metropolitan's service area approved Metropolitan's issuance of revenue bonds at a special election held on June 4, 1974, as required by the Act. Bonds issued by Metropolitan pursuant to the Resolutions are referred to herein as the "Bonds." The 2009 A-2 Bonds are further described in the Paying Agent Agreement, dated as of May 1, 2009 (the "Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent").

Metropolitan will pay the principal of and interest on the 2009 A-2 Bonds on parity with its other Bonds (the "Parity Bonds"). As of November 1, 2014, Metropolitan had \$4.17 billion aggregate principal amount of Bonds (including the 2009 A-2 Bonds) outstanding. Metropolitan may issue additional Parity Bonds and other obligations (the "Parity Obligations") from time to time payable and secured on parity with the 2009 A-2 Bonds upon action of Metropolitan's Board of Directors (the "Board") under the Master Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS—Parity Bonds and Parity Obligations" and "OPERATING REVENUES AND DEBT SERVICE—Anticipated Financings."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on parity with the 2009 A-2 Bonds, the Parity Bonds and the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS–Parity Bonds and Parity Obligations” and Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2009 A-2 Bonds, the Parity Bonds or the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS–Additional Indebtedness.”

Metropolitan did not fund a reserve fund for the 2009 A-2 Bonds.

This Introduction is not a summary of this Remarketing Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Remarketing Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Remarketing Statement. References to, and summaries of, provisions of the Constitution of, and laws of, the State of California (the “State”), including the Act, the 2009 A-2 Bonds, the Resolutions, the Paying Agent Agreement, and documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The source of information herein is Metropolitan unless otherwise stated. Capitalized terms used in this Remarketing Statement and not otherwise defined shall have the meanings ascribed thereto in APPENDIX 1, the Resolutions or the Paying Agent Agreement. A summary of the Resolutions and the Paying Agent Agreement and a list of selected defined terms are set forth in APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

## **REMARKETING OF THE 2009 A-2 BONDS**

### **General**

Metropolitan is remarketing all of the 2009 A-2 Bonds in connection with an Index Mode Unscheduled Mandatory Tender pursuant to which Metropolitan will require all of the existing Owners of the 2009 A-2 Bonds to tender their 2009 A-2 Bonds for purchase on January 9, 2015. Metropolitan intends to pay the Purchase Price of the 2009 A-2 Bonds in connection with such Index Mode Unscheduled Mandatory Tender from the proceeds of this remarketing of the 2009 A-2 Bonds. The remarketing of the 2009 A-2 Bonds upon the Index Mode Unscheduled Mandatory Tender on January 9, 2015 is referred to in this Remarketing Statement as the “Remarketing.”

The Remarketing will only occur if Metropolitan purchases all of the 2009 A-2 Bonds on January 9, 2015 pursuant to the Index Mode Unscheduled Mandatory Tender. Under the terms of the Paying Agent Agreement, Metropolitan may rescind an Index Mode Unscheduled Mandatory Tender. In addition, Index Mode Unscheduled Mandatory Tenders are conditioned on amounts sufficient to pay the Purchase Price of the 2009 A-2 Bonds tendered for purchase being on deposit with the Paying Agent on the Mandatory Purchase Date.

For a more detailed description of Index Mode Unscheduled Mandatory Tenders and the process of the remarketing of 2009 A-2 Bonds during the Index Mode, see “DESCRIPTION OF THE 2009 A-2 BONDS–Tender and Purchase of the 2009 A-2 Bonds–*Index Mode Unscheduled Mandatory Tender*” and “–Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode–

*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.”*

***This Remarketing Statement describes the 2009 A-2 Bonds only while bearing interest in the Index Mode. There are significant differences in the terms of the 2009 A-2 Bonds while they bear interest in an Interest Mode other than the Index Mode.***

### **2009 A-2 Bonds in the Index Mode**

Following the Remarketing, the 2009 A-2 Bonds will bear interest in the Index Mode. Accordingly, the 2009 A-2 Bonds will be subject to all of the terms and provisions of the Paying Agent Agreement governing the 2009 A-2 Bonds in the Index Mode. This includes provisions of the Paying Agent Agreement that (a) require the Owners of the 2009 A-2 Bonds to tender their 2009 A-2 Bonds for Purchase on the Scheduled Mandatory Tender Date for the New Tender Period (described below), on any Unscheduled Mandatory Tender Date from and after the Call Protection Date for the New Tender Period and on other dates described in this Remarketing Statement and (b) permit Metropolitan to redeem or change the Interest Mode with respect to the 2009 A-2 Bonds from and after the Call Protection Date for the New Tender Period.

### **Establishment of a New Tender Period**

Upon the Remarketing, the existing Tender Period for the 2009 A-2 Bonds will terminate and a new Tender Period will commence (such new Tender Period is referred to herein as the “New Tender Period”). For a more detailed description of Tender Periods, see “DESCRIPTION OF THE 2009 A-2 BONDS—Interest Rate Provisions—*Tender Periods*.”

### **Determination and Notification of Index Spread**

The Remarketing Agent will determine the Index Spread for the 2009 A-2 Bonds for the New Tender Period on or about January 7, 2015. The Remarketing Agent must determine an Index Spread that will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2009 A-2 Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2009 A-2 Bonds, would enable the Remarketing Agent to sell all of the 2009 A-2 Bonds on January 9, 2015 at a Purchase Price equal to the principal amount thereof. Promptly after the Remarketing Agent determines the Index Spread for the New Tender Period, Metropolitan will publish it by supplementing this Remarketing Statement and posting the supplement on the EMMA System.

### **Interest Rate During the New Tender Period**

During the New Tender Period, the 2009 A-2 Bonds will bear interest at the Index Tender Rate; provided, however, that, during a Purchase Default Period, all of the 2009 A-2 Bonds will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The Index Tender Rate for the New Tender Period will be the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread that the Remarketing Agent determines on or about January 7, 2015.

During the New Tender Period, Metropolitan will pay interest on the 2009 A-2 Bonds on (a) the first Business Day of each calendar month, commencing February 2, 2015, (b) each Mandatory Purchase

Date in connection with an Index Mode Unscheduled Mandatory Tender and (c) each Scheduled Mandatory Tender Date.

For a description of the terms relating to interest on the 2009 A-2 Bonds, see “DESCRIPTION OF THE 2009 A-2 BONDS–Interest Rate Provisions.” For a description of the process by which the Remarketing Agent will determine the Index Spread for the New Tender Period, see “DESCRIPTION OF THE 2009 A-2 BONDS–Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode–*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender–Determination of Index Spread.*”

### **Scheduled Mandatory Tender Date**

The Scheduled Mandatory Tender Date for the New Tender Period for the 2009 A-2 Bonds is January 11, 2016, and for each subsequent Tender Period, will be the date that Metropolitan determines pursuant to the provisions of the Paying Agent Agreement. See “DESCRIPTION OF THE 2009 A-2 BONDS–Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode.”

### **Call Protection Date**

The Call Protection Date for the New Tender Period for the 2009 A-2 Bonds will be July 11, 2015. For any subsequent Tender Period, the Call Protection Date with respect to the 2009 A-2 Bonds will be the Tender Period Halfway Date unless Metropolitan determines a different date. See “DESCRIPTION OF THE 2009 A-2 BONDS–Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode.”

### **Notification Following Remarketing**

Within two (2) Business Days after the Remarketing, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to the Owners of the 2009 A-2 Bonds at their respective addresses appearing on the registration books and one or more Information Services (currently, the EMMA System), which will state: (a) that the immediately preceding Tender Period has terminated; (b) that the New Tender Period has commenced; (c) the day on which the Scheduled Mandatory Tender Date will occur with respect to the New Tender Period; (d) the day on which the Call Protection Date will occur with respect to the New Tender Period; and (e) the Index Spread that the Remarketing Agent determined. Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding the Remarketing will be deemed to have terminated and the New Tender Period will be deemed to have commenced.

## **DESCRIPTION OF THE 2009 A-2 BONDS**

### **General**

The 2009 A-2 Bonds are dated May 20, 2009, the date Metropolitan issued the 2009 A-2 Bonds. The 2009 A-2 Bonds bear interest in the Index Mode and will continue to bear interest in the Index Mode following the Remarketing. Under the terms of the Paying Agent Agreement, Metropolitan may designate a new Interest Mode.

Metropolitan will pay principal of, and premium, if any, on any 2009 A-2 Bond in lawful money of the United States of America upon presentment and surrender of such 2009 A-2 Bond at the Corporate Trust Office of the Paying Agent.



If under the Paying Agent Agreement the Paying Agent is required to deliver any notice to the Owners of 2009 A-2 Bonds, then, within two (2) Business Days after the delivery of such notice, the Paying Agent will deliver such notice by first-class United States mail, postage prepaid, to any Beneficial Owner that delivers its postal address to the Paying Agent no less than thirty (30) days before the date that the Paying Agent delivers such notice to the Owners of the 2009 A-2 Bonds.

### **Book-Entry Only System**

Metropolitan issued the 2009 A-2 Bonds as fully registered bonds. The 2009 A-2 Bonds will be registered in the name of Cede & Co., as nominee of DTC, and will be available to Beneficial Owners (as defined in APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM”) only under the book-entry system maintained by DTC. Beneficial Owners of 2009 A-2 Bonds will not receive physical certificates representing their interests in the 2009 A-2 Bonds. So long as the 2009 A-2 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the 2009 A-2 Bonds. Metropolitan will pay principal of and interest on the 2009 A-2 Bonds directly to DTC or Cede & Co., so long as DTC or Cede & Co. is the registered owner of the 2009 A-2 Bonds. Payments of Purchase Price for any 2009 A-2 Bonds will be paid directly to DTC as the registered owner of the 2009 A-2 Bonds. Upon receipt of payments of principal, interest or Purchase Price, DTC is obligated to remit such payments of principal, interest and Purchase Price, to DTC’s Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC’s Direct Participants and Indirect Participants (“Participants”). See APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM.”

Metropolitan and the Paying Agent will have no responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2009 A-2 Bonds; (ii) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2009 A-2 Bonds; (iii) the payment to any Participant, Beneficial Owner or other Person, other than DTC, of any amount with respect to the principal of, premium, if any, or interest on, the 2009 A-2 Bonds; (iv) any consent given by DTC or its nominee as Owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2009 A-2 Bonds are redeemed in part. See APPENDIX 2 – “BOOK-ENTRY ONLY SYSTEM.”

### **Interest Rate Provisions**

**Index Tender Rate.** While the 2009 A-2 Bonds bear interest at an Index Tender Rate, during each Index Rate Accrual Period, the 2009 A-2 Bonds will bear a rate of interest equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread applicable for the related Tender Period; *provided, however*, that, during a Purchase Default Period, all of the 2009 A-2 Bonds will bear interest at the Purchase Default Rate until the termination of the Purchase Default Period. The Remarketing Agent will determine the Index Spread for the New Tender Period on or about January 7, 2015.

**Interest Payment Date.** During the New Tender Period, interest on the 2009 A-2 Bonds will be payable (including during any Purchase Default Period) (a) monthly on the first Business Day of each calendar month, commencing February 2, 2015, (b) on each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender, and (c) on each Scheduled Mandatory Tender Date (each, an “Interest Payment Date”).

**Determination of SIFMA Average Index Rate and Index Tender Rate.** During any Tender Period (but not during any Purchase Default Period), no later than 11:00 a.m. (New York City time) on

the Business Day immediately preceding each Interest Payment Date, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the Remarketing Agent specifying the SIFMA Average Index Rate and the Index Tender Rate for, and the aggregate amount of interest accrued during, the Index Rate Accrual Period ending on such Business Day together with a detailed calculation of the foregoing. Determination by the Fiscal Agent of the SIFMA Average Index Rate and the Index Tender Rate will be, absent manifest error, conclusive and binding on the Owners of the 2009 A-2 Bonds and Metropolitan, the Fiscal Agent, the Remarketing Agent and the Paying Agent.

The following terms used in this Remarketing Statement relating to the Index Mode are defined in the Paying Agent Agreement as follows:

“SIFMA” means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

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

“Index Rate Accrual Period” means, for 2009 A-2 Bonds in an Index Mode, the period from each Interest Accrual Date to and including (a) the day next preceding the next Interest Payment Date for such 2009 A-2 Bonds and (b) the day next preceding any Redemption Date, as applicable; *provided, however*, that the first Index Rate Accrual Period will begin on the date of delivery of the 2009 A-2 Bonds.

“Interest Accrual Date” means with respect to any period during which the 2009 A-2 Bonds bear interest at an Index Tender Rate, the first day of each Tender Period and, thereafter, each Interest Payment Date during that Tender Period.

***Tender Periods.*** The duration of each Tender Period is determined as described below. At the beginning of each Tender Period, the Remarketing Agent will determine the Index Spread with respect to all of the 2009 A-2 Bonds. No Tender Period will last beyond the Scheduled Mandatory Tender Date on which the Owners of all of the 2009 A-2 Bonds must tender for purchase, and Metropolitan must purchase, all of the 2009 A-2 Bonds.

***Commencement of Tender Periods.*** The New Tender Period for the 2009 A-2 Bonds will commence on January 9, 2015. Thereafter, each Tender Period will commence on the first to occur of (a) the Scheduled Mandatory Tender Date of the Tender Period immediately preceding such Tender Period, unless a Purchase Default Period commences on such Scheduled Mandatory Tender Date, or (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender if all 2009 A-2 Bonds are actually purchased.

***Termination of Tender Periods.*** Each Tender Period will terminate on the first to occur of (a) the Scheduled Mandatory Tender Date, (b) a Mandatory Purchase Date in connection with any Index Mode Unscheduled Mandatory Tender if all 2009 A-2 Bonds are actually purchased, (c) the first date on which the 2009 A-2 Bonds bear interest in an Interest Mode other than the Index Mode, (d) a Fixed Rate Date, or (e) the date on which all 2009 A-2 Bonds are redeemed in accordance with the terms of the Paying Agent Agreement and the Master Resolution or all principal and accrued interest on all 2009 A-2 Bonds

are otherwise paid in full. During any Purchase Default Period of the 2009 A-2 Bonds, there will be no Tender Period in effect with respect to such 2009 A-2 Bonds.

### **Tender and Purchase of the 2009 A-2 Bonds**

***Index Mode Scheduled Mandatory Tender.*** While the 2009 A-2 Bonds bear interest in an Index Mode, the Owners of all of the 2009 A-2 Bonds must tender for purchase, and Metropolitan must purchase, all of the 2009 A-2 Bonds on the Scheduled Mandatory Tender Date of each Tender Period. The Scheduled Mandatory Tender Date for the 2009 A-2 Bonds for the New Tender Period will be January 11, 2016.

Metropolitan is irrevocably committed to pay the Purchase Price of all of the 2009 A-2 Bonds subject to an Index Mode Scheduled Mandatory Tender as set forth in the Paying Agent Agreement.

### ***Index Mode Unscheduled Mandatory Tender.***

***Metropolitan's Right to Require Index Mode Unscheduled Mandatory Tender.*** While the 2009 A-2 Bonds bear interest in an Index Mode, at its option, Metropolitan may require, during each Tender Period, the Owners of all (but not less than all) of the 2009 A-2 Bonds to tender their 2009 A-2 Bonds to Metropolitan for purchase, on any Business Day from and after the Call Protection Date of the applicable Tender Period, which for the New Tender Period will be July 11, 2015, which will be the Tender Period Halfway Date for the New Tender Period. A mandatory tender as described in the immediately preceding sentence is referred to herein as an "Index Mode Unscheduled Mandatory Tender." Metropolitan will exercise its option by delivering written notice of an Index Mode Unscheduled Mandatory Tender to the Paying Agent at its Corporate Trust Office and the Remarketing Agent no later than seven (7) days before the Mandatory Purchase Date. The Paying Agent will pay to the Owners of the 2009 A-2 Bonds in connection with an Index Mode Unscheduled Mandatory Tender the Purchase Price, which is equal to the principal amount of the 2009 A-2 Bonds, on the related Mandatory Purchase Date from the sources of funds described herein, unless Metropolitan elects to rescind such Index Mode Unscheduled Mandatory Tender or any of the conditions of such Index Mode Unscheduled Mandatory Tender is not satisfied.

***Rescission.*** Metropolitan will have the right to deliver to the Paying Agent at its Corporate Trust Office and the Remarketing Agent, on or prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Mandatory Purchase Date, a notice to the effect that Metropolitan elects to rescind any Index Mode Unscheduled Mandatory Tender. If Metropolitan rescinds any Index Mode Unscheduled Mandatory Tender, then no purchase will occur, the 2009 A-2 Bonds will continue to bear interest at the Index Tender Rate in effect during such Tender Period, without change or modification, and the Tender Period then in effect will continue until terminated.

***Failure to Meet Conditions.*** Any Index Mode Unscheduled Mandatory Tender will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. Funds for the payment of the Purchase Price of such mandatory tender will be derived from the sources described below under the caption "*Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode—Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.*" If amounts sufficient to pay the Purchase Price of such 2009 A-2 Bonds subject to mandatory tender are not on deposit with the Paying Agent on the Mandatory Purchase Date, or if Metropolitan fails to deliver a Favorable Opinion of Bond Counsel in connection with any change in the Call Protection Date, then no purchase will occur and the 2009 A-2 Bonds will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

Failure by Metropolitan to pay or cause to be paid the Purchase Price of all of the 2009 A-2 Bonds pursuant to an Index Mode Unscheduled Mandatory Tender, for any reason, will not constitute an Event of Default by Metropolitan under the Paying Agent Agreement or the Resolutions. No such failure will affect Metropolitan's right to require the Owners of 2009 A-2 Bonds to tender their 2009 A-2 Bonds during any Tender Period and during any subsequent Tender Period.

***Mandatory Tender for Purchase upon Change of Interest Mode.*** The 2009 A-2 Bonds will be subject to mandatory tender for purchase on the effective date of a change in the Interest Mode, at the Purchase Price, payable in immediately available funds; *provided however*, that during any Purchase Default Period, the 2009 A-2 Bonds will not be subject to mandatory tender for purchase. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any change from an Index Mode to a different Interest Mode will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2009 A-2 Bonds will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

***Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rate.*** The 2009 A-2 Bonds will be subject to mandatory tender for purchase on the Fixed Rate Date at a Purchase Price, payable in immediately available funds; *provided, however*, that, during any Purchase Default Period, the 2009 A-2 Bonds will not be subject to mandatory tender for purchase. Notwithstanding the foregoing, any mandatory tender for purchase in connection with any conversion to a Fixed Interest Rate will be conditioned upon amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit with the Paying Agent on the Mandatory Purchase Date. If, on a Mandatory Purchase Date, the condition described in the immediately preceding sentence is not satisfied, then no purchase will occur, the 2009 A-2 Bonds will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated.

***Notice of Index Mode Scheduled Mandatory Tender.*** The Paying Agent will give notice by first-class United States mail, postage prepaid, of each Index Mode Scheduled Mandatory Tender to the Owners of the 2009 A-2 Bonds not less than thirty (30) days prior to the Scheduled Mandatory Tender Date. Such notice will state: (A) the date of such notice; (B) the distinguishing designation of the 2009 A-2 Bonds; (C) the date of issue of the 2009 A-2 Bonds; (D) the Scheduled Mandatory Tender Date; and (E) the CUSIP number of the 2009 A-2 Bonds. Each such notice will also state that the Owners of all of the 2009 A-2 Bonds are required to tender, and Metropolitan is required to purchase, all of the 2009 A-2 Bonds on the Scheduled Mandatory Tender Date of that Tender Period. All 2009 A-2 Bonds will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

***Notice of Index Mode Unscheduled Mandatory Tender.*** The Paying Agent will give notice of any Index Mode Unscheduled Mandatory Tender by first-class United States mail, postage prepaid, to the Owners of the 2009 A-2 Bonds not less than seven (7) days prior to the date on which such 2009 A-2 Bonds will be purchased. Such notice will state: (A) the Mandatory Purchase Date; (B) that the Purchase Price of any 2009 A-2 Bond will be payable only upon surrender of such 2009 A-2 Bond to the Paying Agent at its Corporate Trust Office for delivery of the 2009 A-2 Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the

remarketing of such 2009 A-2 Bonds by the Remarketing Agent or from Metropolitan, all 2009 A-2 Bonds so subject to Index Mode Unscheduled Mandatory Tender will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2009 A-2 Bond subject to Index Mode Unscheduled Mandatory Tender does not surrender such 2009 A-2 Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2009 A-2 Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of such 2009 A-2 Bonds have not been provided to the Paying Agent either through the remarketing of such 2009 A-2 Bonds or from Metropolitan, that such 2009 A-2 Bonds will not be purchased or deemed purchased and will continue to bear interest as if no such Index Mode Unscheduled Mandatory Tender notice had been given; and (E) that the Index Mode Unscheduled Mandatory Tender is subject to rescission by Metropolitan, is subject to the condition that amounts sufficient to pay the Purchase Price of such Index Mode Unscheduled Mandatory Tender are on deposit with the Paying Agent on the Mandatory Purchase Date and, if applicable, is subject to the condition that Metropolitan delivers a Favorable Opinion of Bond Counsel in connection with a change of the Call Protection Date. All 2009 A-2 Bonds subject to Index Mode Unscheduled Mandatory Tender will be subject to tender by the Owners thereof and to purchase by Metropolitan notwithstanding any failure of the Paying Agent to deliver such notice or the inadequacy or incompleteness of any notice the Paying Agent delivers.

If Metropolitan delivers a notice of an Index Mode Unscheduled Mandatory Tender and such Index Mode Unscheduled Mandatory Tender does not occur, then the Paying Agent will give notice by first-class United States mail, postage prepaid, to the Owners of the 2009 A-2 Bonds, as soon as practicable, which states that such Index Mode Unscheduled Mandatory Tender for purchase has not occurred.

***Notice of Mandatory Tender for Purchase upon Change in Interest Mode.*** In connection with any mandatory tender for purchase of the 2009 A-2 Bonds upon a change in the Interest Mode for such 2009 A-2 Bonds, the Paying Agent will give notice of a mandatory tender for purchase by first-class United States mail, postage prepaid, not less than seven (7) days prior to the date on which the 2009 A-2 Bonds will be subject to such mandatory tender. Such notice will state: (A) the type of Interest Rate Period to commence on such Mandatory Purchase Date; (B) that the Purchase Price of any 2009 A-2 Bond so subject to mandatory tender for purchase will be payable only upon surrender of such 2009 A-2 Bond to the Paying Agent at its Corporate Trust Office for delivery of 2009 A-2 Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or its duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (C) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such 2009 A-2 Bonds by the Remarketing Agent, all 2009 A-2 Bonds so subject to mandatory tender for purchase will be purchased on the Mandatory Purchase Date, and that if any Owner of a 2009 A-2 Bond so subject to mandatory tender for purchase does not surrender such 2009 A-2 Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2009 A-2 Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof; (D) in the event that moneys sufficient to pay the Purchase Price of such 2009 A-2 Bonds have not been provided to the Paying Agent either through the remarketing of such 2009 A-2 Bonds or from other moneys received from Metropolitan, that such 2009 A-2 Bonds will not be purchased or deemed purchased and will continue to bear interest as if such failed purchase had not occurred; and (E) if applicable, that the mandatory tender for purchase is subject to the condition that amounts sufficient to

pay the Purchase Price of such mandatory tender for purchase are on deposit with the Paying Agent on the Mandatory Purchase Date.

***Notice of Mandatory Tender for Purchase upon Conversion to Fixed Interest Rate.*** In connection with any mandatory tender for purchase of the 2009 A-2 Bonds upon a conversion to a Fixed Interest Rate, the Paying Agent will give notice of such conversion to the Rating Agencies, any Liquidity Provider, the Remarketing Agent and the Owners. Such notice will state: (A) that the interest rate with respect to the 2009 A-2 Bonds so subject to mandatory tender for purchase will be converted to the Fixed Interest Rate; (B) the Fixed Rate Date; (C) the date the Fixed Interest Rate is to be established; (D) that interest represented by the 2009 A-2 Bonds will be payable on each January 1 and July 1 after the Fixed Rate Date; (E) that subsequent to the Fixed Rate Date, the Owners will no longer have the right to deliver the 2009 A-2 Bonds to the Paying Agent for purchase; (F) that all Outstanding 2009 A-2 Bonds will be purchased on the Fixed Rate Date; and (G) that on and after the Fixed Rate Date, the Owners of the 2009 A-2 Bonds immediately preceding the Fixed Rate Date will be deemed to have tendered their 2009 A-2 Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, said Owners will not be entitled to any payment (including any interest to accrue from and after the Fixed Rate Date) other than the Purchase Price for such 2009 A-2 Bonds which will be an amount equal to the principal amount thereof plus accrued interest, if any, with respect thereto, calculated as of the Fixed Rate Date. From and after the Fixed Rate Date, such 2009 A-2 Bonds will no longer otherwise be entitled to the benefits of the Paying Agent Agreement.

***Undelivered Bonds.*** The Paying Agent may refuse to accept delivery of any 2009 A-2 Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such 2009 A-2 Bond as described in this Remarketing Statement. If any Owner of 2009 A-2 Bonds subject to mandatory tender for purchase fails to deliver such 2009 A-2 Bond to the Paying Agent at the place and on the applicable date and at the time specified, or fails to deliver such 2009 A-2 Bond properly endorsed, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent for such purpose, such 2009 A-2 Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bonds (including any Undelivered Bonds in connection with an Index Mode Unscheduled Mandatory Tender) are available for payment to the Owner thereof on the date and at the time specified, from and after the date and time of that required delivery: (1) each Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Paying Agent Agreement; (2) interest will no longer accrue thereon; and (3) funds in the amount of the Purchase Price of each such Undelivered Bond will be held by the Paying Agent for the benefit of the Owner thereof (provided that the Owner will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Paying Agent at its Corporate Trust Office for delivery of the 2009 A-2 Bonds.

***Delivery of 2009 A-2 Bonds and Payment of the Purchase Price of 2009 A-2 Bonds Subject to Mandatory Tender for Purchase.***

***Payment of Purchase Price Upon Delivery of 2009 A-2 Bonds.*** For payment of the Purchase Price of any 2009 A-2 Bond subject to an Index Mode Scheduled Mandatory Tender or an Index Mode Unscheduled Mandatory Tender, or of any 2009 A-2 Bond subject to mandatory tender for purchase upon a change in the Interest Mode or upon conversion to a Fixed Interest Rate, on the specified Mandatory Purchase Date, such 2009 A-2 Bond must be delivered, at or prior to 12:00 noon (New York City time), on the Mandatory Purchase Date, to the Paying Agent at its Corporate Trust Office for delivery of such 2009 A-2 Bonds accompanied by an instrument of transfer thereof, in form satisfactory to the Paying Agent, executed in blank by the Owner thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. In the event any such 2009 A-2 Bond is delivered after 12:00 noon (New York City time) on the Mandatory Purchase Date, payment of the Purchase Price of

such 2009 A-2 Bond need not be made until the Business Day following the date of delivery of such 2009 A-2 Bond but such 2009 A-2 Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

*Delivery of 2009 A-2 Bonds.* If moneys sufficient to effect a purchase pursuant to an Index Mode Scheduled Mandatory Tender or an Index Mode Unscheduled Mandatory Tender, or upon a change in the Interest Mode or upon a conversion to a Fixed Interest Rate, have been provided through the remarketing of 2009 A-2 Bonds by the Remarketing Agent or otherwise, all 2009 A-2 Bonds will be purchased on the Mandatory Purchase Date. If any Owner of a 2009 A-2 Bond does not deliver such 2009 A-2 Bond to the Paying Agent for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the Purchase Price thereof are on deposit with the Paying Agent, then such 2009 A-2 Bond will be deemed to be an "Undelivered Bond," and no interest will accrue thereon from and after such Mandatory Purchase Date and the Owner thereof will have no rights under the Resolutions, including the Fourth Supplemental Resolution, other than to receive payment of the Purchase Price thereof calculated as of such Mandatory Purchase Date.

### **Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode**

#### ***Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Scheduled Mandatory Tender.***

*Remarketing of 2009 A-2 Bonds.* While the 2009 A-2 Bonds bear interest in the Index Mode, commencing thirty (30) days before the Scheduled Mandatory Tender Date of each Tender Period, the Remarketing Agent will offer for sale and use its best efforts to sell all of the 2009 A-2 Bonds, in accordance with the Remarketing Agreement, on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount of the 2009 A-2 Bonds, such that the Index Spread for the next Tender Period will be adjusted (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See "*-Determination of Index Spread*" below.

*Determination of the Following Scheduled Mandatory Tender Date.* Metropolitan, by written direction to the Fiscal Agent, the Remarketing Agent and the Paying Agent by telephone, teletype, or telex confirmed by written notice not later than thirty (30) days before a Scheduled Mandatory Tender Date of a Tender Period, will determine the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2009 A-2 Bonds in connection with an Index Mode Scheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date to be any Business Day during the next Tender Period except that the Scheduled Mandatory Tender Date (a) will not be a date that is earlier than three (3) months after the commencement of the Tender Period and (b) will not be a date that is later than one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case not later than the first Business Day following such date). If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2009 A-2 Bonds pursuant to an Index Mode Scheduled Mandatory Tender will be the date that is one (1) year after the commencement of such Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

*Establishment of Call Protection Date.* With respect to any Tender Period commencing on a Scheduled Mandatory Tender Date in connection with an Index Mode Scheduled Mandatory Tender, the Call Protection Date will be the Tender Period Halfway Date. The Tender Period Halfway Date will be, with respect to any Tender Period, the date occurring halfway between the commencement of such Tender Period and the Scheduled Mandatory Tender Date, which will be calculated by (a) dividing (i) the number of days from and including the date on which such Tender Period commences to and not

including the Scheduled Mandatory Tender Date by (ii) two (2) and, if necessary, rounding the result down to the nearest whole number and (b) adding the resulting number of days to the commencement date of such Tender Period.

*Determination of Index Spread.* No later than the date that is twenty-five (25) days (or, if such date is not a Business Day, the Business Day immediately succeeding such date) before each Scheduled Mandatory Tender Date, the Remarketing Agent will determine the Index Spread with respect to the Tender Period immediately following such Scheduled Mandatory Tender Date. The Remarketing Agent will determine the Index Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2009 A-2 Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2009 A-2 Bonds, would enable the Remarketing Agent to sell all 2009 A-2 Bonds on the Scheduled Mandatory Tender Date at a Purchase Price equal to the principal amount thereof. This determination by the Remarketing Agent of the Index Spread will be conclusive and binding on the Owners of the 2009 A-2 Bonds, Metropolitan, the Fiscal Agent, the Remarketing Agent and the Paying Agent.

*Purchase of 2009 A-2 Bonds.* The 2009 A-2 Bonds to be purchased in connection with an Index Mode Scheduled Mandatory Tender will be purchased from the Owners thereof, on the Scheduled Mandatory Tender Date at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of such 2009 A-2 Bonds remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
- (ii) moneys furnished by or on behalf of Metropolitan to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund.

Metropolitan is irrevocably committed to pay the Purchase Price of all 2009 A-2 Bonds on the Scheduled Mandatory Tender Date.

The Remarketing Agent will offer for sale and use its best efforts to sell all 2009 A-2 Bonds purchased by or on behalf of Metropolitan pursuant to an Index Mode Scheduled Mandatory Tender. The Remarketing Agent will offer for sale all of the 2009 A-2 Bonds to be purchased in connection with an Index Mode Tender and all of the 2009 A-2 Bonds purchased by or on behalf of Metropolitan (other than 2009 A-2 Bonds purchased by the Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on the 2009 A-2 Bonds; *provided, however*, that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the Remarketing Agent to sell all 2009 A-2 Bonds subject to an Index Mode Scheduled Mandatory Tender or all of the 2009 A-2 Bonds purchased by or on behalf of Metropolitan at a discount or at a premium.

*Limited Security for the Payment of the Purchase Price.* Metropolitan's obligation to pay the Purchase Price of all of the 2009 A-2 Bonds in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of the 2009 A-2 Bonds on any Scheduled Mandatory Tender Date; however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2009 A-2 Bonds.



*Consequences of an Index Mode Scheduled Mandatory Tender Failure.* Upon the occurrence of an Index Mode Scheduled Mandatory Tender Failure on any Scheduled Mandatory Tender Date, the following will occur:

- (i) The Paying Agent will return all 2009 A-2 Bonds to the Owners thereof together with notice of such insufficiency and the Paying Agent and the Remarketing Agent will return all remarketing proceeds to the persons providing such moneys without interest;
- (ii) The Tender Period then in effect will terminate on such Scheduled Mandatory Tender Date;
- (iii) A Purchase Default Period will commence on such Scheduled Mandatory Tender Date; and
- (iv) An Event of Default under the Paying Agent Agreement will occur.

Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2009 A-2 Bonds will not constitute an Event of Default under the Resolutions. See “–Event of Default and Purchase Default Period” below.

*Notification of Index Mode Scheduled Mandatory Tender Failure.* Within two (2) Business Days after any Index Mode Scheduled Mandatory Tender Failure, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) Metropolitan, (ii) the Owners of the 2009 A-2 Bonds at their addresses appearing on the registration books, (iii) the Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services (currently, the EMMA System), which will state that (A) an Index Mode Scheduled Mandatory Tender Failure occurred, (B) the Paying Agent will return all 2009 A-2 Bonds tendered on the Scheduled Mandatory Tender Date to the Owners thereof, and (C) a Purchase Default Period has commenced on the Scheduled Mandatory Tender Date under the Paying Agent Agreement.

*Effect of a Successful Remarketing.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of the 2009 A-2 Bonds to be purchased on a Scheduled Mandatory Tender Date and all other conditions are satisfied, the following will occur:

- (i) The Tender Period in effect immediately before such purchase will terminate on the Scheduled Mandatory Tender Date and a new Tender Period will commence; and
- (ii) The Index Spread with respect to the 2009 A-2 Bonds for the new Tender Period will be the Index Spread determined by the Remarketing Agent as described above under the caption “–Determination of Index Spread.”

*Notification of New Tender Period.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of all of the 2009 A-2 Bonds on a Scheduled Mandatory Tender Date and all other conditions are satisfied, then, within two (2) Business Days after such Scheduled Mandatory Tender Date, the Paying Agent will deliver, by first-class United States mail, postage prepaid, a notice to (i) Metropolitan, (ii) the Owners of all of the 2009 A-2 Bonds at their addresses appearing on the registration books, (iii) the Remarketing Agent, (iv) the Fiscal Agent and (v) one or more Information Services (currently, the EMMA System) which will state (A) that the immediately preceding Tender Period has terminated, (B) that a new Tender Period has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Tender Period, (D) the day on which the Call Protection Date will occur with respect to such Tender Period, and (E) the Index Spread determined by

the Remarketing Agent as described above under the caption “–*Determination of Index Spread.*” Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding such Scheduled Mandatory Tender Date with respect to the 2009 A-2 Bonds will be deemed to have terminated on such Scheduled Mandatory Tender Date of that Tender Period and a new Tender Period will be deemed to have commenced on such Scheduled Mandatory Tender Date.

***Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender.***

*Remarketing of 2009 A-2 Bonds.* Upon receipt of notice by Metropolitan of an Index Mode Unscheduled Mandatory Tender, the Remarketing Agent will offer for sale and use its best efforts to sell, in accordance with the Remarketing Agreement, the 2009 A-2 Bonds at a Purchase Price equal to the principal amount of the 2009 A-2 Bonds, such that the Index Spread for the next Tender Period will be determined (as described below) to be the minimum fixed per annum interest rate spread to SIFMA available in the marketplace. See “–*Determination of Index Spread*” below.

*Determination of the Scheduled Mandatory Tender Date.* Metropolitan, by direction to the Fiscal Agent, the Remarketing Agent and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender, will determine the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of the 2009 A-2 Bonds in connection with such Index Mode Unscheduled Mandatory Tender. Metropolitan may determine the Scheduled Mandatory Tender Date to be any Business Day during the next Tender Period except that the Scheduled Mandatory Tender Date (a) will not be a date that is earlier than three (3) months after the commencement of the Tender Period and (b) will not be a date that is later than one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case not later than the first Business Day following such date). If Metropolitan does not deliver such written direction, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2009 A-2 Bonds will be the date that is one (1) year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

*Establishment of Call Protection Date.* With respect to any Tender Period commencing on a date on which 2009 A-2 Bonds are purchased in connection with an Index Mode Unscheduled Mandatory Tender, the Call Protection Date will be the Tender Period Halfway Date. However, Metropolitan may, by direction to the Fiscal Agent, the Remarketing Agent, and the Paying Agent by telephone, telecopy or telex confirmed by written notice not later than seven (7) days before a Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender, determine the Call Protection Date for such Tender Period to be a date that is different than the Tender Period Halfway Date. If Metropolitan delivers a written direction determining the Call Protection Date to be a date other than the Tender Period Halfway Date, then, on the Mandatory Purchase Date on which such Tender Period will commence, the related Index Mode Unscheduled Mandatory Tender will be conditioned upon the delivery by Metropolitan on and as of such Mandatory Purchase Date of a Favorable Opinion of Bond Counsel with respect to the change in the Call Protection Date. If Metropolitan determines the Call Protection Date to be a date that is different than the Tender Period Halfway Date with respect to any Tender Period, then that determination will not apply to any subsequent Tender Period unless Metropolitan delivers written direction with respect to such subsequent Tender Period.

*Determination of Index Spread.* No later than 5:00 p.m. (New York City time) two (2) Business Days before the Mandatory Purchase Date with respect to any Index Mode Unscheduled Mandatory Tender, the Remarketing Agent will determine the Index Spread with respect to the Tender Period immediately following such Mandatory Purchase Date. The Remarketing Agent will determine the Index

Spread which will be equal to the minimum fixed per annum interest rate spread to SIFMA (based on an examination of tax exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the 2009 A-2 Bonds and known by such Remarketing Agent to have been priced or traded under then-prevailing market conditions) which, if borne by the 2009 A-2 Bonds, would enable the Remarketing Agent to sell all 2009 A-2 Bonds on the Mandatory Purchase Date at a Purchase Price equal to the principal amount thereof. This determination by such Remarketing Agent of the Index Spread with respect to 2009 A-2 Bonds in the Index Mode will be conclusive and binding on the Owners of the 2009 A-2 Bonds and Metropolitan, the Fiscal Agent, the Remarketing Agent and the Paying Agent.

*Purchase of 2009 A-2 Bonds.* Metropolitan will cause the 2009 A-2 Bonds required to be purchased in connection with an Index Mode Unscheduled Mandatory Tender to be purchased from the Owners thereof, on the applicable Mandatory Purchase Date at the Purchase Price from the following sources in the order of priority indicated:

- (i) proceeds of the sale of such 2009 A-2 Bonds remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the related Remarketing Proceeds Account of the Purchase Fund; and
- (ii) moneys furnished by or on behalf of Metropolitan to the Paying Agent for deposit into the related Purchase Account of the Purchase Fund;

*provided, however,* that if Metropolitan rescinds any Index Mode Unscheduled Mandatory Tender, or if any of the conditions of any Index Mode Unscheduled Mandatory Tender is not satisfied, then Metropolitan will not have any obligation to purchase any 2009 A-2 Bonds, no purchase will occur, the 2009 A-2 Bonds will continue to bear interest at the Index Tender Rate in effect during such Tender Period without change or modification and the Tender Period then in effect will continue until terminated.

The Remarketing Agent will offer for sale and use its best efforts to sell any 2009 A-2 Bonds purchased by or on behalf of Metropolitan pursuant to an Index Mode Unscheduled Mandatory Tender. The Remarketing Agent will offer for sale any 2009 A-2 Bonds to be purchased in connection with an Index Mode Unscheduled Mandatory Tender and any 2009 A-2 Bonds purchased by or on behalf of Metropolitan (other than 2009 A-2 Bonds purchased by the Remarketing Agent for its own account) at a price equal to principal plus any accrued and unpaid interest on the 2009 A-2 Bonds; *provided, however,* that if Metropolitan delivers a Favorable Opinion of Bond Counsel, Metropolitan will have the right to direct the Remarketing Agent to sell all 2009 A-2 Bonds subject to an Index Mode Unscheduled Mandatory Tender or all the 2009 A-2 Bonds purchased by or on behalf of Metropolitan at a discount or at a premium.

*Effect of a Successful Remarketing.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of 2009 A-2 Bonds to be purchased in connection with an Index Mode Unscheduled Mandatory Tender and all other conditions are satisfied, the following will occur:

- (i) The Tender Period in effect immediately before such tender will terminate on such Mandatory Purchase Date and a new Tender Period will commence on such date; and
- (ii) The Index Spread with respect to the 2009 A-2 Bonds for the new Tender Period will be the Index Spread determined by the Remarketing Agent as described above under the caption “– *Determination of Index Spread.*”

*Notification of New Tender Period.* In the event moneys on deposit with the Paying Agent are sufficient to pay the Purchase Price of the 2009 A-2 Bonds to be purchased in connection with an Index

Mode Unscheduled Mandatory Tender on the Mandatory Purchase Date and all other conditions are satisfied, then within two (2) Business Days after such Mandatory Purchase Date, the Paying Agent will deliver a notice by first-class United States mail, postage prepaid, to (i) Metropolitan, (ii) the respective Owners of any 2009 A-2 Bonds at their addresses appearing on the registration books, (iii) the Remarketing Agent, (iv) the Fiscal Agent, and (v) one or more Information Services (currently, the EMMA System), which will state (A) that the immediately preceding Tender Period has terminated, (B) that a new Tender Period has commenced, (C) the day on which the Scheduled Mandatory Tender Date will occur with respect to the new Tender Period, (D) the day on which the Call Protection Date will occur with respect to the new Tender Period, and (E) the Index Spread determined by the Remarketing Agent as described above under the caption “– *Determination of Index Spread.*” Absent manifest error, upon delivery of such notice, the Tender Period in effect immediately preceding such Mandatory Purchase Date will be deemed to have terminated and a new Tender Period will be deemed to have commenced.

### **Remarketing Agent**

Stifel, Nicolaus & Company, Incorporated is serving as Remarketing Agent for the 2009 A-2 Bonds pursuant to the terms of a Remarketing Agreement dated May 1, 2009 (the “Remarketing Agreement”) by and between Metropolitan and Stone & Youngberg LLC. On October 3, 2011, Stone & Youngberg LLC was acquired by Stifel Financial Corp. and remarketing agent services of Stone & Youngberg LLC under the Remarketing Agreement and the Paying Agent Agreement were transferred to Stifel, Nicolaus & Company, Incorporated. The principal office of the Remarketing Agent is: One Montgomery Street, 35th Floor, San Francisco, California 94104.

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

### **Redemption of the 2009 A-2 Bonds**

***Optional Redemption of 2009 A-2 Bonds in the Index Mode.*** The 2009 A-2 Bonds in the Index Mode will be subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, during any Tender Period, on any Business Day on or after the applicable Call Protection Date at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium; *provided, however*, that, during a Purchase Default Period, the 2009 A-2 Bonds will not be subject to optional redemption. (For a description of the Call Protection Date, see “REMARKETING OF THE 2009 A-2 BONDS–Call Protection Date.”)

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**Mandatory Sinking Fund Redemption of 2009 A-2 Bonds.** The 2009 A-2 Bonds will be subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2020 and on each July 1 thereafter through and including July 1, 2030, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Mandatory Sinking Account Payments (as defined in the Master Resolution) which have been deposited in the Bond Service Fund, in the principal amounts set forth below.

<b>Redemption Date (July 1)</b>	<b>Principal Amount</b>
2020	\$ 4,150,000
2021	5,930,000
2022	6,160,000
2023	6,395,000
2024	16,360,000
2025	17,005,000
2026	17,660,000
2027	18,350,000
2028	2,470,000
2029	2,575,000
2030 <sup>†</sup>	7,125,000

<sup>†</sup> Final Maturity

Mandatory Sinking Account Payments for the 2009 A-2 Bonds will be reduced to the extent Metropolitan has purchased 2009 A-2 Bonds and surrendered such 2009 A-2 Bonds to the Fiscal Agent for cancellation. If 2009 A-2 Bonds have been redeemed as described under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Redemption of the 2009 A-2 Bonds,” then the amount of the 2009 A-2 Bonds so redeemed will be credited to such future Mandatory Sinking Account Payments as may be specified by Metropolitan. A reduction of Mandatory Sinking Account Payments in any twelve-month period ending July 1 will reduce the principal amount of 2009 A-2 Bonds subject to mandatory sinking fund redemption on that July 1. While the 2009 A-2 Bonds are in an Index Mode, the 2009 A-2 Bonds will remain subject to mandatory sinking fund redemption during any Purchase Default Period.

**Special Mandatory Redemption of 2009 A-2 Bonds.** During any Purchase Default Period, the 2009 A-2 Bonds will be subject to special mandatory redemption prior to maturity, at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, from Special Mandatory Redemption Payments which have been deposited in the Bond Service Fund, in the following principal amounts:

- (i) on the first Business Day on or after the date that is 18 months following the commencement of such Purchase Default Period, a principal amount of the 2009 A-2 Bonds equal to 33 1/3% of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination);
- (ii) on the first Business Day on or after the date that is 36 months following the commencement of such Purchase Default Period, a principal amount of the 2009 A-2 Bonds equal to 33 1/3% of the Special Mandatory Redemption Amount (rounded up to an Authorized Denomination); and

(iii) on the first Business Day on or after the date that is 54 months following the commencement of such Purchase Default Period, all of the principal amount of the 2009 A-2 Bonds Outstanding as of such Redemption Date.

If, during any Purchase Default Period, Metropolitan purchases a portion of the 2009 A-2 Bonds or redeems the 2009 A-2 Bonds from Mandatory Sinking Account Payments, then the amount of the 2009 A-2 Bonds so purchased or redeemed will be credited as may be specified by Metropolitan to such Special Mandatory Redemption Payments of that Purchase Default Period occurring after such purchase or redemption.

Upon the termination of a Purchase Default Period, the 2009 A-2 Bonds will no longer be subject to special mandatory redemption.

The term "Special Mandatory Redemption Amount" means, with respect to special mandatory redemption during any Purchase Default Period, the aggregate principal amount of 2009 A-2 Bonds outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period commenced.

**Notice of Redemption.** Notice of redemption will be given by the Paying Agent by first-class United States mail, postage prepaid, not less than seven (7) nor more than forty five (45) days prior to the Redemption Date to (a) the Owners of any 2009 A-2 Bonds designated for redemption at their addresses appearing on the register maintained by the Paying Agent, (b) the Remarketing Agent, (c) the Fiscal Agent, and (d) one or more Information Services (currently, the EMMA System). Notice of redemption will also be given by telecopy, certified, registered or overnight mail to DTC upon mailing of notice of redemption to the Owners and the Information Services (currently, the EMMA System). Each notice of redemption will state the date of such notice, the distinguishing designation of the 2009 A-2 Bonds, the date of issue of the 2009 A-2 Bonds, the Redemption Date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent), the CUSIP number, if any, of the maturity or maturities and, if less than all of such maturity, the distinctive certificate numbers of the 2009 A-2 Bonds of such maturity to be redeemed and, in the case of 2009 A-2 Bonds to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable with respect to each of said 2009 A-2 Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2009 A-2 Bond to be redeemed in part only, and that from and after such Redemption Date, the related interest due with respect thereto will cease to accrue, and will require that such 2009 A-2 Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notice of any redemption will either (i) 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 2009 A-2 Bonds to be redeemed, or (ii) be sent only if sufficient money to pay the full Redemption Price of the 2009 A-2 Bonds to be redeemed is on deposit in the applicable fund or account. All such amounts will be held uninvested or will be invested in Federal Securities (as defined in the Resolutions) which mature on or prior to such Redemption Date.

Failure by the Paying Agent to give notice as described above to the Remarketing Agent, the Owners of the 2009 A-2 Bonds designated for redemption or any one or more of the Information Services (currently, the EMMA System) or DTC or any defect in such notice will not affect the sufficiency of the proceedings for redemption.

**Selection of 2009 A-2 Bonds for Redemption.** Other than a redemption of 2009 A-2 Bonds pursuant to a special mandatory redemption, in the case of redemption in part, the Paying Agent will select the 2009 A-2 Bonds to be redeemed by lot. In the case of any redemption of 2009 A-2 Bonds

pursuant to a special mandatory redemption, the Paying Agent will select the 2009 A-2 Bonds to be redeemed on a *pro rata* basis from all Owners, calculated based on the Outstanding principal amount of the 2009 A-2 Bonds held by each Owner compared to the total amount of 2009 A-2 Bonds Outstanding on the Record Date in respect of the applicable Redemption Date.

***Effect of Redemption.*** If notice of redemption has been duly given as aforesaid and funds for the payment of the Redemption Price of the 2009 A-2 Bonds to be redeemed are held by the Paying Agent on the designated Redemption Date, then on the Redemption Date designated in such notice, the Redemption Price of the 2009 A-2 Bonds so called for redemption will become due and payable as specified in such notice; and from and after the date so designated, interest due with respect to such 2009 A-2 Bonds or portions thereof so called for redemption will cease to accrue, the 2009 A-2 Bonds will cease to be entitled to any benefit, protection or security under the Paying Agent Agreement and the Owners of such 2009 A-2 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price. The Paying Agent will, upon surrender for payment of any of the 2009 A-2 Bonds to be redeemed on their respective Redemption Dates, pay such 2009 A-2 Bonds at the Redemption Price. If said moneys are not available on the Redemption Date, such 2009 A-2 Bonds will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

#### **Event of Default and Purchase Default Period**

***Event of Default.*** If Metropolitan does not pay the Purchase Price of all of the 2009 A-2 Bonds pursuant to an Index Mode Scheduled Mandatory Tender, then such failure will be an “Event of Default” under the Paying Agent Agreement and a Purchase Default Period will commence.

***Purchase Default Period.*** During a Purchase Default Period with respect to the 2009 A-2 Bonds, the following will apply:

- (a) All of the 2009 A-2 Bonds will bear interest at the Purchase Default Rate, which will be a per annum rate equal to the lower of (i) twelve percent (12%) and (ii) the higher of (A) eight percent (8%) and (B) the Prime Rate plus three percent (3%);
- (b) The 2009 A-2 Bonds will not be subject to optional redemption (but as provided in (f) below, Metropolitan will remain obligated to purchase the 2009 A-2 Bonds);
- (c) The 2009 A-2 Bonds will remain subject to Mandatory Sinking Fund Redemption;
- (d) The 2009 A-2 Bonds will be subject to special mandatory redemption on the dates and in the principal amounts as set forth below under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Redemption of the 2009 A-2 Bonds–*Special Mandatory Redemption of 2009 A-2 Bonds*”;
- (e) Metropolitan will not require the Owners to tender their 2009 A-2 Bonds for purchase as set forth above under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Tender and Purchase of the 2009 A-2 Bonds”;
- (f) Metropolitan will continue to be obligated to purchase all of the 2009 A-2 Bonds at the Purchase Price, notwithstanding, and in addition to, its obligation to redeem Outstanding 2009 A-2 Bonds from Special Mandatory Redemption Payments; and

(g) If Metropolitan pays the Purchase Price, on any date, of all or any portion of the 2009 A-2 Bonds, the Owners thereof will be obligated to sell and deliver their 2009 A-2 Bonds to Metropolitan.

**Notwithstanding the foregoing, the failure of Metropolitan to pay the Purchase Price of all of the 2009 A-2 Bonds will not constitute an Event of Default under the Master Resolution or under any other provision of the Resolutions.**

***Determination of Prime Rate and Purchase Default Rate.*** During each Purchase Default Period (but not during any Tender Period), no later than 11:00 a.m. (New York City time) on the Business Day immediately preceding each Interest Payment Date while the 2009 A-2 Bonds bear interest in the Index Mode, the Fiscal Agent will deliver written notice to Metropolitan, the Paying Agent and the Remarketing Agent specifying the Prime Rate and the Purchase Default Rate for, and the aggregate amount of interest on, the 2009 A-2 Bonds that is due and payable on such Interest Payment Date together with a detailed calculation of the foregoing. All percentages resulting from the calculation of the Prime Rate will be rounded, if necessary, to the nearest ten-thousandth of a percentage point with five hundred thousandths of a percentage point rounded upward, and all dollar amounts used in or resulting from the calculation of the Purchase Default Rate will be rounded to the nearest cent (with one-half cent being rounded upward). This determination by the Fiscal Agent of the Prime Rate and the Purchase Default Rate will be conclusive and binding on the Owners of the 2009 A-2 Bonds, Metropolitan, the Fiscal Agent, the Remarketing Agent and the Paying Agent.

***Purchase and Sale of 2009 A-2 Bonds During Purchase Default Period.*** During a Purchase Default Period, Metropolitan will pay the Purchase Price of the 2009 A-2 Bonds by delivering the Purchase Price for the 2009 A-2 Bonds to be purchased to the Paying Agent at its Corporate Trust Office on any Business Day.

If on any Business Day Metropolitan pays the Purchase Price with respect to only a portion of the 2009 A-2 Bonds, then Metropolitan will purchase the 2009 A-2 Bonds from each of the Owners on a *pro rata* basis, calculated based on the outstanding principal amount of the 2009 A-2 Bonds held by each Owner compared to the total amount of 2009 A-2 Bonds Outstanding on such Business Day.

From and after the Business Day on which Metropolitan delivers the Purchase Price of all or any portion of the 2009 A-2 Bonds to the Paying Agent, the 2009 A-2 Bonds will be deemed purchased by Metropolitan, no interest will accrue on the 2009 A-2 Bonds and the Owners thereof will have no rights under the Resolutions other than to receive payment of the Purchase Price thereof.

***Termination of a Purchase Default Period.*** During any Purchase Default Period, upon the purchase by Metropolitan of all of the 2009 A-2 Bonds, the Event of Default under the Paying Agent Agreement will be cured and the Purchase Default Period attributable to such Event of Default will terminate on the date next preceding the date on which such purchase occurs.

***Bondholders' Committee.*** In addition to any rights that the Owners of the 2009 A-2 Bonds may have under the Resolutions, if an Event of Default has occurred and is continuing under the Paying Agent Agreement, the Owners of twenty five percent (25%) in aggregate principal amount of the 2009 A-2 Bonds then Outstanding may call a meeting of the Owners of the 2009 A-2 Bonds for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate principal amount of 2009 A-2 Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a



majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee will be deemed trustee for the Owners of all of the then outstanding 2009 A-2 Bonds, and will be empowered to exercise in the name of the Owners all the rights and powers conferred in the Paying Agent Agreement on any Owner, provided, however, that whenever the consent, approval or concurrence of the Owners of a specified percentage of principal of the then outstanding 2009 A-2 Bonds is required, in order to exercise the right or power conferred in the Paying Agent Agreement on the Owners to which such percentage pertains, the Bondholders' Committee either must have been elected by or their election must have been approved by or concurred by, and such committee must then represent, the Owners of such specified percentage of the principal amount of the then outstanding 2009 A-2 Bonds. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, must be filed with the Authorized Representative.

Any Bondholders' Committee elected under the Paying Agent Agreement is distinct from any similar committee elected under the Resolutions, with its own limited rights as specified in the Paying Agent Agreement.

***Other Remedies, Rights of Owners of the 2009 A-2 Bonds.*** Upon the occurrence and continuation of an Event of Default under a Paying Agent Agreement, the Owners of the 2009 A-2 Bonds may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of the Paying Agent Agreement.

The rights of the Owners of the 2009 A-2 Bonds under the Paying Agent Agreement are in addition to any rights that the Owners of the 2009 A-2 Bonds may have under the Master Resolution and the Fourth Supplemental Resolution.

No Owner of 2009 A-2 Bonds has the right to declare the principal and accrued interest on the 2009 A-2 Bonds to be immediately due and payable except as provided in the Resolutions.

### **Change to a Different Interest Mode**

***Change of Interest Mode.*** At Metropolitan's discretion, the 2009 A-2 Bonds may bear interest from time to time at (a) the Index Tender Rate, (b) the Daily Rate, (c) the Weekly Rate, (d) the Bond Interest Term Rate, (e) the Long Rate or (f) a Fixed Interest Rate, as such terms are defined and as more fully described in the Paying Agent Agreement. However, all of the 2009 A-2 Bonds will bear interest in the same Interest Mode or at a Fixed Interest Rate.

***Notice of Different Interest Mode.*** The Paying Agent will give notice, together with the notice of mandatory tender for purchase, by first-class United States mail, postage prepaid, of a change to a different Interest Mode to the Owners of the 2009 A-2 Bonds not less than seven (7) days prior to the effective date of such different Interest Mode. Such notice will state, among other matters, (i) that the interest rate on the 2009 A-2 Bonds will be changed to a different Interest Mode, (ii) the effective date of the new Interest Mode, and (iii) if applicable, that the 2009 A-2 Bonds are subject to mandatory tender for purchase on such effective date and the applicable Purchase Price.

***Change of Interest Mode from an Index Mode.*** During any Tender Period while 2009 A-2 Bonds bear interest in the Index Mode, Metropolitan may change the Interest Mode and may convert to a

Fixed Interest Rate (as defined in the Paying Agent Agreement) only from and after the applicable Call Protection Date of such Tender Period.

### **SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS**

Metropolitan's obligation to pay principal of and interest on 2009 A-2 Bonds is a limited obligation of Metropolitan payable solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues and the other funds, assets and security described under the Resolutions. See APPENDIX 1 – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS." As defined in the Master Resolution, "Net Operating Revenues" are Operating Revenues less Operation and Maintenance Expenditures paid from Operating Revenues. "Operating Revenues" are all revenues received by Metropolitan from charges for the sale and availability of water. "Operation and Maintenance Expenditures" are the necessary expenditures for operating and maintaining the properties, works and facilities of Metropolitan, including expenditures for such charges as may be payable by Metropolitan under the State Water Contract and the Devil Canyon-Castaic Contract, which charges constitute operation, maintenance, power and replacement charges; any necessary contributions to medical, health, retirement or other similar benefits of Metropolitan employees and annuitants; and such other expenditures of Metropolitan generally classified as operating and maintenance expenditures, excluding any charges for depreciation or amortization. The State Water Contract and the Devil Canyon-Castaic Contract are discussed in Referenced Appendix A under the caption "METROPOLITAN'S EXPENDITURES—State Water Contract Obligations." Payment of capital costs and some other payments under the State Water Contract and the Devil Canyon-Castaic Contract are subordinate to the obligation of Metropolitan for payment of Operation and Maintenance Expenditures and debt service on the 2009 A-2 Bonds, the Parity Bonds and the Parity Obligations. Accordingly, the debt service coverage on the 2009 A-2 Bonds, the Parity Bonds and the Parity Obligations does not take into account such expenses. See Referenced Appendix A under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."

The 2009 A-2 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2009 A-2 Bonds tendered for purchase is an unsecured obligation payable solely from the sources specified in this Remarketing Statement. The 2009 A-2 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2009 A-2 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of, interest and redemption premium, if any, on or the Purchase Price upon a tender for purchase of, the 2009 A-2 Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

#### **Rate Covenant**

Metropolitan covenants in the Master Resolution that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System (defined in the Resolutions as the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water) which, after making allowances for contingencies and error in estimates, will provide Operating Revenues, together with any Additional Revenues (*i.e.*, interest, profits and other income received from the investment of any moneys of Metropolitan and other revenues of Metropolitan (other than Operating Revenues) to the extent available to pay debt service on the 2009 A-2 Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the following order:

1. Operation and Maintenance Expenditures;
2. Interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds and Parity Obligations as the same become due and payable;
3. All other payments required for compliance with the Master Resolution or any Supplemental Resolution; and
4. All other payments required to meet any other obligations of Metropolitan that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

Metropolitan previously issued and designated three series of Bonds in the aggregate principal amount of \$578,385,000 as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (the “Build America Bonds”). Except as they may be reduced by sequestration as described in the following paragraph, Metropolitan currently expects to receive cash subsidies from the United States Treasury equal to 35% of the interest payable on all such outstanding Build America Bonds (the “Interest Subsidy Payments”). See “OPERATING REVENUES AND DEBT SERVICE – Operating Revenues.” The Interest Subsidy Payments in connection with the Build America Bonds do not constitute Operating Revenues under the Master Resolution. Such Interest Subsidy Payments will constitute Additional Revenues, which Metropolitan may take into consideration when establishing its rates and charges and will be available to Metropolitan to pay principal and interest on the 2009 A-2 Bonds.

The Budget Control Act of 2011 (the “Budget Control Act”) provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure to reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. These reductions began on March 1, 2013 pursuant to an executive order that reduced budgetary authority for expenditures subject to sequestration, including subsidies for Build America Bonds. Pursuant to this executive order, the approximately \$6.64 million interest subsidy payment that Metropolitan received on or about July 1, 2013 in connection with its Build America Bonds was reduced by 8.7%, or \$578,000, to \$6.06 million. Refund payments processed on or after October 1, 2014 and on or before September 30, 2015 are anticipated to be reduced by the fiscal year 2015 sequestration rate of 7.3%, or approximately \$964,000 of the \$13.2 million originally projected to be received over this period. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Metropolitan can offer no assurances as to future subsidy payments and expects that once it receives less than any full 35% subsidy payment, the United States Treasury will not thereafter reimburse Metropolitan for payments not made.

Metropolitan is required to take into account in setting its rates and charges the amount of any scheduled payments of principal of and interest on the 2009 A-2 Bonds, including any Mandatory Sinking Fund Payments and, during any Purchase Default Period, Special Mandatory Redemption Payments. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered 2009 A-2 Bonds in setting its rates and charges.

Water rates are established by a majority of the voting power of the Board. Metropolitan’s water rates are not subject to regulation by the Public Utilities Commission of California or by any other state, local or federal agency. Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996, imposes additional limitations on the manner in which local agencies may impose taxes, fees, charges and assessments. Some of Metropolitan’s Operating Revenues are derived from standby and water availability charges. These revenues may be affected by the application of Proposition

218. Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of “tax” in Article XIII C of the California Constitution to include levies, charges and exactions imposed by local governments. Metropolitan believes its water rates and charges are not taxes under Proposition 26. Nevertheless, Metropolitan is assessing whether Proposition 26 may affect future water rates and charges. These revenues may be affected by the application of Proposition 26. See Referenced Appendix A under the caption “METROPOLITAN REVENUES–California Ballot Initiatives.”

### **Parity Bonds and Parity Obligations**

As of November 1, 2014, Metropolitan had \$4.17 billion aggregate principal amount of Bonds (including the 2009 A-2 Bonds) outstanding. Metropolitan’s outstanding Bonds include, among other things, Index Tender Bonds, Term Mode Bonds and Self-Liquidity Bonds, as more fully described in Referenced Appendix A under “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations” and “– Other Revenue Obligations.” Metropolitan has, and may in the future, enter into one or more revolving credit agreements for purposes of paying the purchase price of any Self-Liquidity Bonds. Metropolitan has secured, and may in the future secure, its obligation to pay principal and interest under any revolving credit agreement as a Parity Obligation under the Master Resolution. See Referenced Appendix A – “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations” and “– Revolving Credit Agreement” for information regarding the revolving credit agreement to which Metropolitan is a party. Metropolitan also has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan’s obligation to pay principal of and interest on the 2009 A-2 Bonds, Parity Bonds and other Parity Obligations. The payments by Metropolitan are secured as described in, and the interest rate swap agreements entail risks to Metropolitan as described in Referenced Appendix A under “METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations.”

Metropolitan’s obligation to pay the Purchase Price of all of the 2009 A-2 Bonds in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of any 2009 A-2 Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender; however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2009 A-2 Bonds.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2009 A-2 Bonds, the Parity Bonds and existing Parity Obligations, subject to the limitations, terms and conditions of the Master Resolution. See “– Additional Indebtedness” below and APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS – THE MASTER RESOLUTION – Covenants – Limits on Additional Debt.”

### **Additional Indebtedness**

Metropolitan covenants in the Master Resolution that no additional indebtedness evidenced by bonds, notes or any other evidences of indebtedness payable out of its Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2009 A-2 Bonds, the Parity Bonds or the Parity Obligations.

In addition, Metropolitan covenants in the Master Resolution that, except for Refunding Bonds or Parity Obligations to the extent incurred to pay or discharge Outstanding Bonds or Parity Obligations and

which do not result in an increase in the average annual debt service on all Bonds or Parity Obligations to be Outstanding after the issuance of such Refunding Bonds or Parity Obligations, no additional Bonds or Parity Obligations will be created or incurred unless:

FIRST: Metropolitan is not in default under the terms of the Resolutions, including as supplemented, modified or amended by any Supplemental Resolution.

SECOND: Either (1) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last completed 24-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Obligations as set forth in a certificate of Metropolitan, or (2) the estimated Net Operating Revenues for the first complete Fiscal Year when improvements to the Water System financed with the proceeds of the additional Bonds or Parity Obligations will be in operation as estimated by and set forth in a certificate of Metropolitan plus, at the option of Metropolitan, any or all of certain other items permitted by the Resolutions, will have amounted to not less than 1.20 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds and Parity Obligations to be Outstanding immediately subsequent to the incurring of such additional Bonds or Parity Obligations. In making this calculation, Metropolitan may take into consideration any increases in water rates or charges which have become effective prior to the creation of such additional Bonds or Parity Obligations, any increase in Net Operating Revenues which may arise from additions or improvements to the Water System to be made or acquired with the proceeds of such additional Bonds or Parity Obligations or using the proceeds of Bonds previously issued, or from additions recently placed in service, Additional Revenues and other funds specified in the Resolutions.

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

The Interest Subsidy Payments that Metropolitan expects to receive, subject to sequestration as described above, from the United States Treasury in connection with its previously issued and designated Build America Bonds do not constitute Operating Revenues under the Master Resolution and are not pledged for the payment of debt service on the Build America Bonds or any Parity Bonds and Parity Obligations. Such subsidy will, however, constitute Additional Revenues, which Metropolitan will use when determining whether it has satisfied the requirements set forth in the Master Resolution for the creation or incurrence of additional Bonds or Parity Obligations. See APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS– THE MASTER RESOLUTION–Covenants–*Limits on Additional Debt.*”

Metropolitan’s obligation to pay the Purchase Price of all of the 2009 A-2 Bonds in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds, the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of any 2009 A-2 Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender; however, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2009 A-2 Bonds. See Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES–Variable Rate and Swap Obligations.”

Under the Act, the amount of outstanding Bonds and other evidences of indebtedness may not exceed 15 percent of the assessed value of all taxable property within Metropolitan, as shown by county

assessment records. As of November 1, 2014, Metropolitan's outstanding Bonds and other indebtedness, in the aggregate amount of \$4.31 billion, constituted approximately 0.19 percent of the fiscal year 2014-15 taxable assessed valuation of approximately \$2,314.9 billion within the geographical boundaries of Metropolitan. The Act also specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100 percent of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The latter statutory limitation does not apply to forms of financing available to Metropolitan other than revenue bonds. The net assets of Metropolitan at June 30, 2014 were \$7.20 billion. The aggregate amount of Bonds outstanding (including the 2009 A-2 Bonds) as of November 1, 2014 was \$4.17 billion.

### **Subordinate Obligations**

Under the Resolutions, Metropolitan may issue obligations junior and subordinate to the Bonds, including the 2009 A-2 Bonds, and the Parity Obligations, subject to the provisions of the Act. Metropolitan currently is authorized to issue up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time.

In addition, Metropolitan obtained a \$20 million California Safe Drinking Water Revolving Fund Loan (the "California Safe Drinking Water Revolving Fund Loan") in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Mills Filtration Plant in Riverside County. The loan will be repaid over twenty years. Payments commenced January 1, 2005. The loan payment obligation is subordinate to the Bonds, including the 2009 A-2 Bonds, and the Parity Obligations. The outstanding principal balance on the California Safe Drinking Water Revolving Fund Loan as of November 1, 2014 was \$11.2 million.

Under some circumstances, some interest rate swap agreements are subject to early termination, in which event Metropolitan may be obligated to make a substantial payment to the applicable counterparty. Some of such termination payments are secured on a basis subordinate in payment priority to the Bonds, including the 2009 A-2 Bonds, and the Parity Obligations. See Referenced Appendix A under the captions "METROPOLITAN EXPENDITURES-Variable Rate and Swap Obligations," "-Other Revenue Obligations" and "-Subordinate Revenue Obligations."

### **No Reserve Fund Moneys**

The Fourth Supplemental Resolution provides for the establishment and maintenance of a Reserve Fund for Bonds issued thereunder and the maintenance in such Reserve Fund of an amount equal to the Bond Reserve Requirement for such Bonds, as set forth in the applicable bond purchase contract. The Bond Reserve Requirement for the 2009 A-2 Bonds was established at \$0 pursuant to the Bond Purchase Contract related to the 2009 A-2 Bonds, and no Reserve Fund for any of the 2009 A-2 Bonds, or for any other outstanding Index Tender Bonds, was established or will be maintained. **Amounts held or to be held in a reserve fund or account established for any other series of Bonds or any Reserve Fund Credit Policy for any other series of Bonds shall not be used or drawn upon to pay principal of, redemption premium, if any, or interest on, or Purchase Price of, the 2009 A-2 Bonds.**

### **Flow of Funds**

Metropolitan will allocate all Operating Revenues to the Water Revenue Fund and will effect transfers from the Water Revenue Fund to the following funds or accounts as soon as practicable in each

calendar month in the following order of priority, and such amounts will be withdrawn from said funds or accounts only for the following:

*First*, to the Operation and Maintenance Fund, an amount sufficient, together with any other revenues lawfully available therefor, to provide for the estimated Operation and Maintenance Expenditures during the current calendar month and the next succeeding calendar month.

*Second*, to the Bond Service Fund, an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of the interest becoming due and payable on the next interest payment date for all such Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such account, (ii) 110% of the aggregate amount of interest, estimated by the Treasurer of Metropolitan in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided that such amount may be reduced and will be increased under certain circumstances, as set forth in the Resolutions), and (iii) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of Metropolitan for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (B) (i) one-sixth of the aggregate semi-annual amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (ii) one-twelfth of the aggregate yearly amount of any Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the Board irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve account established and maintained for Bonds of that Series, no amounts need be set aside toward such principal to be so refunded or paid. Such amount is subject to adjustment as set forth in the Resolutions, in the event Term Bonds are purchased from the Bond Service Fund, redeemed by Metropolitan or deposited by Metropolitan with the Fiscal Agent. No deposit need be made into the Bond Service Fund if (i) the amount contained therein is at least equal to the interest to become due and payable on the estimated interest payment dates falling within the next six months upon all of the Bonds issued under the Master Resolution and then Outstanding but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates, and (ii) there shall be in such fund moneys sufficient to pay the Bond Obligations of all Bonds issued under the Master Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If Metropolitan issues or incurs any Parity Obligations, the payments required to be placed in any debt service fund or sinking fund to pay the principal or Accreted Value of, or mandatory sinking fund payments or interest with respect to, such Parity Obligations will rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

*Third*, to the extent of any deficiency in any reserve fund or account for Bonds or Parity Obligations, to such reserve fund or account for such other Bonds or Parity Obligations (i) one-sixth of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and (ii) the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required

to restore such reserve fund or account to the amount required to be maintained therein. If there is a deficiency of Operating Revenues to make the deposits required by this Third paragraph, such Operating Revenues will be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency.

*Fourth*, to any such excess earnings or rebate fund or account for Bonds or Parity Obligations, the amount (if any) required in accordance with a Supplemental Resolution or Metropolitan's tax and nonarbitrage certificate delivered in connection with the issuance of the Bonds or Parity Obligations.

*Fifth*, for any required transfer or deposit for the payment of any obligation of Metropolitan with a lien on, or payable from, Net Operating Revenues junior to the lien thereon of the Bonds and any Parity Obligations.

*Sixth*, except as otherwise provided in a Supplemental Resolution, to the Revenue Remainder Fund, any amounts remaining in the Water Revenue Fund after the above transfers. Provided Metropolitan is in compliance with all covenants contained in the Resolutions, the Revenue Remainder Fund may be used for any lawful purpose of Metropolitan.

See APPENDIX 1 – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE MASTER RESOLUTION-Water Revenue Fund."

## **RISK FACTORS**

The ability of Metropolitan to pay principal of and interest on the 2009 A-2 Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. The ability of Metropolitan to pay the Purchase Price of any 2009 A-2 Bonds depends primarily upon Metropolitan's receipt of the proceeds of remarketing of the 2009 A-2 Bonds and other available sources. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2009 A-2 Bonds or from receiving a sufficient amount of remarketing proceeds and other available funds to enable it to pay the Purchase Price of the 2009 A-2 Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2009 A-2 Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Remarketing Statement, including the appendices, and Referenced Appendix A, Referenced Appendix B and Referenced Appendix E to obtain information essential to making an informed investment decision.

### **Risks Relating to the Index Mode**

***Metropolitan's Ability to Pay the Purchase Price on the Scheduled Mandatory Tender Date May Be Limited.*** As described in this Remarketing Statement, the Owners of all of the 2009 A-2 Bonds must tender for purchase, and Metropolitan must purchase, all of the 2009 A-2 Bonds on the Scheduled Mandatory Tender Date. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the Purchase Price on the Scheduled Mandatory Tender Date. The ability of Metropolitan to pay the Purchase Price will depend on its ability to successfully remarket the 2009 A-2 Bonds and otherwise to provide funds to pay the Purchase Price. Metropolitan's primary source of funds to pay the Purchase Price, other than remarketing proceeds, will be Net Operating Revenues. Metropolitan may not have sufficient funds to pay the Purchase Price of all of the 2009 A-2 Bonds on any Scheduled Mandatory Tender Date.

Metropolitan's obligation to pay the Purchase Price of all of the 2009 A-2 Bonds in connection with an Index Mode Scheduled Mandatory Tender is an unsecured obligation of Metropolitan that it



would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Parity Bonds, the Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan may (or may not) have other funds available from time to time to pay the Purchase Price of the 2009 A-2 Bonds on any Scheduled Mandatory Tender Date. However, if available, Metropolitan does not have any obligation to use such funds to pay the Purchase Price of any 2009 A-2 Bonds.

During each Tender Period, Metropolitan will review its financing alternatives before each Scheduled Mandatory Tender Date. After the Call Protection Date of any Tender Period, Metropolitan may (a) remarket the 2009 A-2 Bonds in an Index Mode through an Index Mode Unscheduled Mandatory Tender, (b) change the Interest Mode of 2009 A-2 Bonds or convert the 2009 A-2 Bonds to a Fixed Interest Rate or (c) issue Water Revenue Refunding Bonds to refund all or any portion of the 2009 A-2 Bonds. In order to manage the 2009 A-2 Bonds in an Index Mode so as to avoid a failed remarketing on a Scheduled Mandatory Tender Date, Metropolitan currently plans to use one of these three financing alternatives before a Scheduled Mandatory Tender Date.

***Limited Remedies and Consequences Upon Failure to Pay Purchase Price.*** If Metropolitan does not pay the Purchase Price of any 2009 A-2 Bonds on the Scheduled Mandatory Tender Date, then an Event of Default will occur under the Paying Agent Agreement and a Purchase Default Period will commence. During the occurrence and continuance of a Purchase Default Period, among other consequences: (a) all of the 2009 A-2 Bonds will bear interest at the Purchase Default Rate; (b) the 2009 A-2 Bonds will be subject to special mandatory redemption on the dates and in the principal amounts as set forth above under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Redemption of the 2009 A-2 Bonds–*Special Mandatory Redemption of 2009 A-2 Bonds*”; and (c) Metropolitan will be obligated to purchase all of the 2009 A-2 Bonds at the Purchase Price and, upon payment of the Purchase Price, the Owners of any purchased 2009 A-2 Bonds will be obligated to sell and deliver such 2009 A-2 Bonds to Metropolitan. The Paying Agent Agreement also provides for other consequences of an Event of Default thereunder. See “DESCRIPTION OF THE 2009 A-2 BONDS–Event of Default and Purchase Default Period.”

Under the Master Resolution, an Event of Default occurs if Metropolitan fails to pay principal of or interest on any Bonds, including the 2009 A-2 Bonds, or if certain other events occur. See APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE MASTER RESOLUTION–Defaults and Remedies under the Master Resolution.” However, Metropolitan’s failure to pay the Purchase Price is not an event that gives rise to an Event of Default under the Master Resolution. Furthermore, except in limited circumstances, the Owners of the Bonds (including the 2009 A-2 Bonds) do not, even upon the occurrence of an Event of Default under the Master Resolution, have the right to accelerate the payment of principal of any Bonds.

***Secondary Market May Not Develop.*** There is not an established secondary market for bonds issued in an Index Mode and one may not develop. Therefore, an Owner may be unable to sell its 2009 A-2 Bond in the secondary market.

### **Risks Relating to Water Sales**

Metropolitan’s primary purpose is to provide a supplemental supply of imported water to its member public agencies. Metropolitan describes its water supply in more detail in Referenced Appendix A under the caption “METROPOLITAN’S WATER SUPPLY.” The demand for supplemental supplies is dependent on water use at the retail consumer level and the amount of locally supplied water. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. See “REGIONAL WATER RESOURCES—Local Water Supplies” in Referenced Appendix A. In recent

years supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described below. Future water sales will be subject to variability due to these and other factors.

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

**Economic Conditions.** Retail level water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and Metropolitan's water sales. If economic conditions return to pre-recession levels, Metropolitan anticipates that demands for water will increase accordingly. See Referenced Appendix E.

**Weather Conditions.** Metropolitan provides a supplemental supply of water to its member agencies, most of whom have other sources of water. Regional water supplies are described in Referenced Appendix A under the caption "REGIONAL WATER RESOURCES." Climatic conditions in Metropolitan's service area and availability of local supplies affect demands for imported water purchased from Metropolitan. Metropolitan uses its financial reserves and budgetary tools to manage reductions in revenues due to reduced sales. Metropolitan's reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan's water sales. See Referenced Appendix A under the caption "METROPOLITAN REVENUES–Financial Reserve Policy."

**Environmental Considerations.** Current and proposed environmental laws, regulations and judicial decisions, including court-ordered restrictions and Federal and State administrative determinations relating to species on the "endangered" or "threatened" lists under the Federal or California ESAs, have materially affected the operations of the State Water Project and the water deliveries therefrom. Metropolitan cannot predict when and how additional laws, regulations, judicial decisions and other determinations (including listings of additional species under the Federal or California ESAs) will affect State Water Project and Colorado River operations, the water deliveries therefrom and Metropolitan's operations in the future by requiring, among other things, additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Any of these laws, regulations and judicial decisions and other official determinations relating to

Metropolitan's water supply could have a materially adverse impact on the operation of the State Water Project and Colorado River operations and Metropolitan's water reserves. See Referenced Appendix A under the captions "METROPOLITAN'S WATER SUPPLY – State Water Project" and "– Colorado River Aqueduct."

***Actions to Manage Risks Relating to Water Sales.*** Drought, weather conditions, regional economy and environmental considerations referred to above in recent years have contributed to lower water deliveries at a higher cost to Metropolitan. A reduction in water deliveries to Metropolitan's member agencies might adversely affect its Net Operating Revenues and Metropolitan may be required to further increase its rates and charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 A-2 BONDS–Rate Covenant." To address supply shortages due to prolonged drought conditions and environmental restrictions, Metropolitan may pursue additional water transfers and investments in capital projects. However, these actions and expenditures may not result in reliable alternate supplies of water at costs that, together with other available supplies and storage, will generate sufficient Net Operating Revenues and may require Metropolitan to increase its rates and charges. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 A-2 BONDS–Rate Covenant." See also Referenced Appendix A under the captions "METROPOLITAN'S WATER SUPPLY" and "CAPITAL INVESTMENT PLAN."

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

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

### **Limitations on Remedies**

Upon the occurrence and continuance of an Event of Default under the Resolutions, the Owners of the 2009 A-2 Bonds have limited remedies and, except for limited circumstances, the Owners of the 2009 A-2 Bonds do not have the right to accelerate the payment of principal of or interest on the 2009 A-2 Bonds. See APPENDIX 1 – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE MASTER RESOLUTION–Defaults and Remedies under the Master Resolution."

In addition, the rights of the Owners of the 2009 A-2 Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

### **Limited Obligations**

The 2009 A-2 Bonds are limited obligations of Metropolitan payable as to principal and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any 2009 A-2 Bonds tendered for purchase is an unsecured obligation of Metropolitan payable solely from the sources specified in this Remarketing Statement. The 2009 A-2 Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor the taxing power of Metropolitan is pledged for the payment of the 2009 A-2 Bonds or the interest thereon or the Purchase Price thereof. The obligation to pay the principal of and interest on, or the Purchase Price upon a tender for purchase for the 2009 A-2 Bonds, is not a debt of

Metropolitan, nor a legal or equitable pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except as described in this Remarketing Statement.

Net Operating Revenues might not be realized by Metropolitan in amounts sufficient to pay principal of and interest on the 2009 A-2 Bonds and all other Outstanding Bonds. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of Net Operating Revenues that Metropolitan receives. See Referenced Appendix A and Referenced Appendix E. Further, the amount of future Net Operating Revenues that Metropolitan receives is subject to, among other things, its ability to provide water to its member agencies and establish, maintain and collect rates and charges sufficient to pay for Operation and Maintenance Expenditures and debt service.

### **Tax Law Proposals**

See "TAX MATTERS" below.

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

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

Metropolitan has described its finances and operations in detail in Referenced Appendix A and Referenced Appendix B. In addition, Metropolitan has presented selected demographic and economic information for its service area in Referenced Appendix E. Metropolitan includes by specific reference into this Remarketing Statement each of Referenced Appendix A, Referenced Appendix B and Referenced Appendix E. The 2014 Series A Official Statement, including Referenced Appendix A, Referenced Appendix B and Referenced Appendix E, is on file with the EMMA System and can be accessed at <http://emma.msrb.org/>. To obtain information essential to making an informed investment decision, potential investors must read the entire Remarketing Statement, including the appendices,

### **OPERATING REVENUES AND DEBT SERVICE**

#### **Operating Revenues**

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge and capacity charge. Metropolitan describes its water sales revenues in more detail in Referenced Appendix A under the captions "METROPOLITAN REVENUES—Water Sales Revenues," "—Rate Structure" and "—Additional Revenue Components." In meeting the requirements of the Resolutions related to rates and additional obligations, Metropolitan may include in its calculations, to the extent available, revenues which include, among other things, investment income and income from the sale of energy from Metropolitan's hydroelectric power recovery plants and interest subsidy payments that may be received by Metropolitan in connection with any existing and future "Build America Bonds." No assurances are provided that Metropolitan will receive all or a portion of the interest subsidy payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of

proceeds thereof and the use of property financed thereby. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the revenue bonds issued by Metropolitan, including the 2009 A-2 Bonds. For a description of “Operating Revenues” and the effect of Operation and Maintenance Expenditures on the amount of revenues available for payment of the 2009 A-2 Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS.” See also APPENDIX 1 – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.” For information on Metropolitan’s revenues and expenses, including historical and projected revenues and expenditures, see Referenced Appendix A under the captions “METROPOLITAN REVENUES,” “METROPOLITAN EXPENDITURES,” and “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” See also Metropolitan’s financial statements contained in Referenced Appendix B.

### **Existing Parity Bonds and Parity Obligations Payable From Net Operating Revenues**

Metropolitan covenants in the Master Resolution that no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues will be issued having any priority in payment of principal, redemption premium, if any, or interest over the 2009 A-2 Bonds, the Parity Bonds or the Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS—Additional Indebtedness.”

Metropolitan has issued Parity Bonds (which include the 2009 A-2 Bonds) pursuant to the applicable Resolutions, which are outstanding in the amounts listed in Referenced Appendix A under the caption “METROPOLITAN EXPENDITURES.” Principal of and interest on the 2009 A-2 Bonds will be payable from Net Operating Revenues on parity with the Parity Bonds and the Parity Obligations.

### **Anticipated Financings**

Metropolitan anticipates that it will issue bonds, notes or other evidences of indebtedness under the Master Resolution in addition to the 2009 A-2 Bonds, the Parity Bonds and the Parity Obligations to finance improvements to its Water System and to refund outstanding revenue bonds or general obligation bonds from time to time depending on market conditions and other factors. The current Capital Investment Plan is described in Referenced Appendix A under the caption “CAPITAL INVESTMENT PLAN.”

The Master Resolution permits subsequent authorizations of additional Bonds as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS—Additional Indebtedness.” The Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues on parity with the Outstanding Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS—Additional Indebtedness.” Metropolitan may also issue obligations junior and subordinate to the 2009 A-2 Bonds, subject to the limitations in the Act.

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

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## Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan's outstanding Parity Bonds and the 2009 A-2 Bonds. Such debt service is not net of the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with its outstanding Build America Bonds, subject to sequestration as described above under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2009 A-2 BONDS – Rate Covenant."

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

<b>Fiscal Year Ending June 30</b>	<b>Outstanding Bonds Debt Service<sup>(1)(2)(3)</sup></b>	<b>2009 A-2 Bonds Principal</b>	<b>2009 A-2 Bonds Interest<sup>(4)</sup></b>	<b>Total<sup>(5)</sup></b>
2015	\$ 286,911,702	\$ -	\$ 734,683	\$ 287,646,385
2016	308,537,239	-	1,875,240	310,412,479
2017	305,764,058	-	1,875,240	307,639,298
2018	320,194,965	-	1,875,240	322,070,205
2019	312,205,446	-	1,875,240	314,080,686
2020	306,153,108	-	1,875,240	308,028,348
2021	292,768,937	4,150,000	1,806,765	298,725,702
2022	287,252,772	5,930,000	1,702,695	294,885,467
2023	281,105,517	6,160,000	1,592,160	288,857,677
2024	280,895,031	6,395,000	1,477,402	288,767,434
2025	254,002,297	16,360,000	1,197,870	271,560,167
2026	256,513,531	17,005,000	892,747	274,411,278
2027	255,644,844	17,660,000	575,850	273,880,694
2028	251,155,791	18,350,000	246,585	269,752,376
2029	205,694,353	2,470,000	178,305	208,342,658
2030	267,149,655	2,575,000	132,112	269,856,767
2031	248,726,327	7,125,000	10,688	255,862,015
2032	256,442,631	-	-	256,442,631
2033	258,615,278	-	-	258,615,278
2034	258,590,908	-	-	258,590,908
2035	258,477,587	-	-	258,477,587
2036	258,466,753	-	-	258,466,753
2037	256,978,650	-	-	256,978,650
2038	183,453,855	-	-	183,453,855
2039	113,853,020	-	-	113,853,020
2040	111,641,748	-	-	111,641,748
2041	109,154,195	-	-	109,154,195
<b>Total<sup>(5)</sup></b>	<b>\$6,786,350,197</b>	<b>\$104,180,000</b>	<b>\$19,924,063</b>	<b>\$6,910,454,260</b>

Source: Metropolitan.

<sup>(1)</sup> For the \$493.6 million of variable rate bonds associated with particular interest rate swap agreements, interest is calculated at the assumed fixed payor rates of interest to be paid under their respective interest rate swap agreements. For the remaining \$450 million of variable rate debt, interest is calculated at an assumed interest rate of 1.80% per annum. Actual rates may differ from those set forth in this footnote.

<sup>(2)</sup> Indicated amounts reflect the stated interest rate on Metropolitan's Water Revenue Bonds 2008 Authorization, Series C (Taxable Build America Bonds), Metropolitan's Water Revenue Bonds 2008 Authorization, Series D (Taxable Build America Bonds) and the 2010 Authorization, Series A (Taxable Build America Bonds), and have not been reduced to reflect the Interest Subsidy Payments Metropolitan expects to receive from the United States Treasury in connection with such Bonds.

<sup>(3)</sup> Assumes each Series of Term Mode Bonds are remarketed to a variable rate after the initial call protection date for such Series. Interest after the initial call protection date is calculated at an assumed interest rate of 1.80% per annum.

<sup>(4)</sup> Interest is calculated at an assumed interest rate of 1.80% per annum.

<sup>(5)</sup> Totals are rounded.

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

For a description of actual and projected Net Operating Revenues available for debt service on the outstanding Parity Bonds and Parity Obligations of Metropolitan, including the 2009 A-2 Bonds and additional Bonds that Metropolitan projects it will issue, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in Referenced Appendix A. See also Referenced Appendix A under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES – Water Sales Receipts.”

### **Debt Service Coverage**

For a summary of actual and projected debt service coverage on the outstanding Bonds and Parity Obligations, see the table included under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” in Referenced Appendix A.

### **Metropolitan’s Investment Portfolio**

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

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

## **ACCOUNTING AND BUDGET MATTERS**

### **Accounting Policies**

Metropolitan operates as a utility enterprise. A summary of Metropolitan’s significant accounting policies is contained in Note 1 to Metropolitan’s accrual basis financial statements for the fiscal years ended June 30, 2014 and June 30, 2013. See Referenced Appendix B.

### **Budgetary Accounting Method**

Metropolitan’s budgeting and financial reporting is done on a modified accrual basis. The modified accrual basis of accounting that Metropolitan uses varies from the accrual basis of accounting in the following respects: depreciation and amortization are not recorded and payments of debt service are recorded when due and payable. Under this modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus, water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. See Referenced Appendix A under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.”

## Financial Statements

The audited financial statements of Metropolitan for Fiscal Years ended June 30, 2014 and June 30, 2013 are included in Referenced Appendix B. The financial statements for Fiscal Year ended June 30, 2014 have been audited by Macias Gini & O'Connell LLP, Metropolitan's independent auditor, as stated in its Independent Auditor's Report, dated October 17, 2014, included in Referenced Appendix B. The financial statements for Fiscal Year ended June 30, 2013 were audited by KPMG LLP, Metropolitan's independent auditor for the referenced year. Metropolitan has not requested the consent of Macias Gini & O'Connell LLP or KPMG LLP, nor has Macias Gini & O'Connell LLP or KPMG LLP consented, to the inclusion of the financial statements of Metropolitan or either of the Independent Auditor's Report in Referenced Appendix B. Macias Gini & O'Connell LLP has not been engaged to perform, and has not performed, since the date of its Independent Auditor's Report, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this Remarketing Statement.

The financial and statistical information contained in this Remarketing Statement is included herein for informational purposes only and a complete review of the financial statements and the footnotes thereto set forth in Referenced Appendix B is integral to an understanding of such information. No independent auditor has audited the financial tables or other data included in this Remarketing Statement, other than the audited financial statements for the fiscal years ended June 30, 2014 and June 30, 2013 included in Referenced Appendix B.

## Budget System

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

## LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (i) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, or (ii) the validity of the 2009 A-2 Bonds or the power and authority of Metropolitan to remarket the 2009 A-2 Bonds, or (iii) the authority of Metropolitan to fix, charge and collect rates for the sale of water by Metropolitan as provided in the Resolutions.

For a discussion of litigation challenging the allocation of costs to certain rates adopted on April 13, 2010 and April 10, 2012, which could require changes in such rates, see Referenced Appendix A, including information under the caption "METROPOLITAN REVENUES-Litigation Challenging Rate Structure." The San Diego County Water Authority, one of Metropolitan's member agencies and currently Metropolitan's largest customer, is the plaintiff in such litigation. For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see Referenced Appendix A, including information under the captions "METROPOLITAN EXPENDITURES-State Water Contract Obligations," "METROPOLITAN'S WATER SUPPLY-State Water Project-Endangered Species Act Considerations" and "-Colorado River Aqueduct-QSA Related Litigation."



For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see Referenced Appendix A, including information under the captions “METROPOLITAN EXPENDITURES–State Water Contract Obligations,” “METROPOLITAN’S WATER SUPPLY–State Water Project–*Endangered Species Act Considerations*” and “–Colorado River Aqueduct–*QSA Related Litigation*.”

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

### **TAX MATTERS**

Metropolitan issued the 2009 A-2 Bonds together with the 2009 A-1 Bonds (together, the “2009A Bonds”). On May 20, 2009, the date that Metropolitan issued the 2009A Bonds, Nixon Peabody LLP and Curls Bartling P.C., Co-Bond Counsel, each delivered an opinion to the effect that, as of that date, under then existing law, and assuming compliance with certain tax covenants made by Metropolitan, and the accuracy of representations and certifications made by Metropolitan, interest on the 2009A Bonds was excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and was not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals or corporations (the “Co-Bond Counsel Opinions”). Co-Bond Counsel were of the opinion as of that date that interest on the 2009A Bonds was, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel were further of the opinion that, under then existing law, interest on the 2009A Bonds is exempt from personal income taxes of the State of California. Complete copies of the Co-Bond Counsel Opinions are included as APPENDIX 3 hereto. Such opinions spoke only as of their date and have not been updated in connection with this remarketing.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2009A Bonds. Metropolitan has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2009A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2009A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the 2009A Bonds. The Co-Bond Counsel Opinions assumed compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Co-Bond Counsel’s attention after the date of issuance of the 2009A Bonds may adversely affect the value of, or the tax status of interest on, the 2009A Bonds. In the Co-Bond Counsel Opinions, Co-Bond Counsel expressed no opinion as to federal, state or local tax law consequences with respect to the 2009A Bonds or the interest thereon if any action is taken with respect to the 2009A Bonds or the proceeds thereof upon the advice or approval of other counsel.

Although Co-Bond Counsel opined that interest on the 2009A Bonds was excluded from gross income for federal income tax purposes and was exempt from personal income taxes imposed by the State of California, the ownership or disposition of, or the accrual or receipt of interest on, the 2009A Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or Beneficial

Owner's other items of income or deduction. Co-Bond Counsel expressed no opinion regarding any such other tax consequences.

We note that the President released legislative proposals in 2011 and again in 2012 that would, among other things, subject interest on tax-exempt bonds (including the 2009A Bonds) to a federal income tax for taxpayers with incomes above certain thresholds. We further note that there has been significant recent discussion of these proposals in Congress in connection with the broader discussion of addressing the federal deficit. It is not possible to predict whether these proposals will be enacted into law. If enacted into law, such proposals could affect the value or marketability of tax-exempt bonds (including the 2009A Bonds). More generally, legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on 2009A Bonds for federal or state income tax purposes, and thus on the value or marketability of the 2009A Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the 2009A Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the 2009A Bonds may occur, including the legislative proposals described above. Prospective purchasers of the 2009 A-2 Bonds should consult their own tax advisors regarding the impact of any change in law on the 2009 A-2 Bonds.

The Co-Bond Counsel Opinions with respect to federal tax law were based on then-current legal authority, covered matters not directly addressed by such authorities, and represented Co-Bond Counsel's judgment as to the proper treatment of the 2009A Bonds for federal income tax purposes. Such opinions are not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and have not given any opinion or assurance about the future activities of Metropolitan, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. Metropolitan has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel are not obligated to defend the Beneficial Owners regarding the tax-exempt status of the 2009A Bonds (including the 2009 A-2 Bonds) in the event of an audit examination by the IRS. Further, under current procedures, parties other than Metropolitan and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which Metropolitan legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2009 A-2 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2009 A-2 Bonds, and may cause Metropolitan or the Beneficial Owners to incur significant expense.

#### **FINANCIAL ADVISOR**

Metropolitan retained Public Resources Advisory Group as financial advisor to Metropolitan (the "Financial Advisor") in connection with the issuance of the 2009 A-2 Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Remarketing Statement, or any other related information available to Metropolitan, with respect to the accuracy and completeness of the disclosure of such information. The Financial Advisor has reviewed this Remarketing Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Remarketing Statement.

## LEGAL MATTERS

Nixon Peabody LLP, Los Angeles, California, and Curles Bartling P.C., Oakland, California, Co-Bond Counsel to Metropolitan, rendered their opinions with respect to the 2009 A-2 Bonds on the date the 2009 A-2 Bonds were issued. Copies of the Co-Bond Counsel Opinions are set forth in APPENDIX 3 – “COPY OF OPINIONS OF CO-BOND COUNSEL.” Such opinions speak only as of their date and have not been updated in connection with this remarketing. Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Remarketing Statement. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Remarketing Agent by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

## RATINGS

Moody's Investors Service, Inc. (“Moody's”) and Fitch Ratings (“Fitch”) have assigned short-term ratings to the 2009 A-2 Bonds of “VMIG 1” and “F1+”, respectively. Moody's, Standard & Poor's Ratings Service, a Standard & Poor's Financial Services LLC business (“S&P”) and Fitch have assigned long-term ratings to the 2009 A-2 Bonds of “Aa1”, “AAA” and “AA+”, respectively. As of the date of this Remarketing Statement, these credit ratings have not been changed, withdrawn or suspended. Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2009 A-2 Bonds.

## CONTINUING DISCLOSURE

Metropolitan executed a continuing disclosure undertaking (the “Continuing Disclosure Undertaking”), which provides for disclosure obligations on the part of Metropolitan for so long as the 2009 A-2 Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan covenanted for the benefit of Owners and Beneficial Owners of the 2009 A-2 Bonds to provide certain financial information and operating data relating to Metropolitan by not later than 180 days after the end of the prior fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. The Annual Reports and the notices of Notice Events will be filed with the EMMA System. These covenants were made to assist Stifel, Nicolaus & Company, Incorporated, as underwriter of the 2009 A-2 Bonds, in complying with the Rule. See APPENDIX 4 – “COPY OF CONTINUING DISCLOSURE UNDERTAKING.”

Metropolitan has not failed in the previous five years to comply in any material respect with any previous undertaking to provide annual reports or notices of certain events in accordance with the Rule except perhaps insofar as Metropolitan supplemented its annual report for 2011 with respect to its General Obligation Bonds to provide additional regional assessed valuation information omitted from those timely filed annual reports. As of the date hereof, Metropolitan is in compliance in all material respects with its undertakings with regard to the provision of annual reports and notices of certain events as required by the Rule. Metropolitan has implemented additional procedures to file complete annual reports in the future.

For so long as the 2009 A-2 Bonds bear interest at the Index Mode, Metropolitan will post on its website in an electronic format within sixty (60) days after the end of each quarter of each fiscal year, the unaudited financial statements of Metropolitan as of the end of such fiscal quarter. The information presented on that website is not incorporated by reference into this Remarketing Statement.

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**MISCELLANEOUS**

The terms of the 2009 A-2 Bonds are set forth in the Resolutions, the Paying Agent Agreement and the Remarketing Agreement. Copies of such documents may be obtained from the office of the Assistant General Manager / Chief Financial Officer of Metropolitan, 700 North Alameda Street, Los Angeles, California 90012. Metropolitan reserves the right to charge the requesting party for the cost of copying such documents. Questions pertaining to this Remarketing Statement may be directed to the Assistant General Manager / Chief Financial Officer.

The attached appendices and Appendix A, Appendix B and Appendix E to the 2014 Series A Official Statement are integral parts of this Remarketing Statement and should be read in their entirety. Potential purchasers must read the entire Remarketing Statement to obtain information essential to making an informed investment decision.

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

**THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA**

By: /s/ Jeffrey Kightlinger  
General Manager

**APPENDIX 1**

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**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS**

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## APPENDIX 1

### SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Master Resolution and the Fourth Supplemental Resolution, together with a summary of certain definitions contained in the Paying Agent Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

### DEFINITIONS

The following are definitions of terms used in this Summary. Such definitions also apply to terms used in the Remarketing Statement, to the extent such terms are not otherwise defined in the Remarketing Statement. Terms used in this summary but not defined herein have the meanings specified in the Resolutions.

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

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

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

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

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

**“Authorized Denominations”** means, with respect to any 2009 A-2 Bonds bearing interest at an Index Tender Rate, \$100,000 and any integral multiple of \$5,000 in excess thereof.

**“Board”** or **“Board of Directors”** means the Board of Directors of Metropolitan.

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

Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

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

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

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

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

**“Call Protection Date”** means, with respect to the New Tender Period, August 7, 2015, and, with respect to each subsequent Tender Period, the Tender Period Halfway Date, unless Metropolitan determines a different date as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode —*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Scheduled Mandatory Tender—Establishment of Call Protection Date*” and “—*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender—Establishment of Call Protection Date.*”

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

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

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

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

**“Corporate Trust Office”** means with respect to the initial Paying Agent its corporate trust office located at 707 Wilshire Boulevard, 17th Floor, Los Angeles, California 90017. The Paying Agent may designate alternate Corporate Trust Offices and any successor Paying Agent shall designate its Corporate Trust Office by written notice delivered to Metropolitan, the Fiscal Agent, the Remarketing Agent, the Paying Agent and the Liquidity Provider, if any.

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



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

**“Excess Earnings Fund”** means, with respect to a Series of Refunding Bonds, the Water Revenue Refunding Bonds Excess Earnings Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

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

**“Expenditures”** means cash disbursements of Metropolitan.

**“Favorable Opinion of Bond Counsel”** means, with respect to any action, an unqualified opinion of Bond Counsel to the effect that such action is authorized and permitted under the Act, the Resolutions and the Paying Agent Agreement, complies with the Resolutions and the Paying Agent Agreement and will not impair the exclusion of interest on the 2009 A-2 Bonds from gross income for purposes of federal income taxation or the exemption of interest on the 2009 A-2 Bonds from personal income taxation under the laws of the State (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the 2009 A-2 Bonds).

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

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

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

**“Fourth Supplemental Resolution”** means Resolution 8387 adopted by Metropolitan on January 12, 1993, and any amendments, modifications or supplements thereto.

**“Index Mode Scheduled Mandatory Tender”** means any tender for purchase of 2009 A-2 Bonds in the Index Mode on the Scheduled Mandatory Tender Date of each Tender Period, as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Tender and Purchase of the 2009 A-2 Bonds–*Index Mode Scheduled Mandatory Tender*.”

**“Index Mode Scheduled Mandatory Tender Failure”** means the failure of Metropolitan to pay or provide for the payment of the Purchase Price of all 2009 A-2 Bonds tendered pursuant to an Index Mode Scheduled Mandatory Tender on a Scheduled Mandatory Tender Date.

**“Index Mode Unscheduled Mandatory Tender”** means any tender for purchase of 2009 A-2 Bonds in the Index Mode on any Business Day from and after the Call Protection Date of the applicable Tender Period, as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS–Tender and Purchase of the 2009 A-2 Bonds–*Index Mode Unscheduled Mandatory*

*Tender*” and excludes any mandatory tender of 2009 A-2 Bonds upon a change in the Interest Mode or upon a conversion to a Fixed Interest Rate.

**“Index Rate Accrual Period”** means, for 2009 A-2 Bonds in an Index Mode, the period from each Interest Accrual Date to and including (a) the day next preceding the next Interest Payment Date for such 2009 A-2 Bonds and (b) the day next preceding any Redemption Date, as applicable; *provided, however*, that the first Index Rate Accrual Period will begin on the date of delivery of the 2009 A-2 Bonds.

**“Information Services”** means, in accordance with then current guidelines of the Securities and Exchange Commission, one or more bond redemption information services selected by the Paying Agent, or, if the Paying Agent does not select a service, then such service or services as Metropolitan may designate in a certificate of Metropolitan delivered to the Paying Agent.

**“Index Spread”** means a fixed per annum rate determined by the Remarketing Agent as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode—*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Scheduled Mandatory Tender—Determination of Index Spread*” and “*—Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender—Determination of Index Spread.*”

**“Index Tender Rate”** means the rate of interest, determined for any Index Rate Accrual Period, equal to the sum of (a) the SIFMA Average Index Rate calculated for such Index Rate Accrual Period and (b) the Index Spread applicable for the related Tender Period.

**“Interest Payment Date”** means, during such time as the 2009 A-2 Bonds are in an Index Mode (including during any Purchase Default Period), the first Business Day of each calendar month, each Mandatory Purchase Date in connection with an Index Mode Unscheduled Mandatory Tender, and each Scheduled Mandatory Tender Date.

**“Mandatory Purchase Date”** means any date upon which any 2009 A-2 Bonds have been called for mandatory tender for purchase as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Tender and Purchase of 2009 A-2 Bonds.”

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

**“Master Resolution”** means Resolution 8329 adopted by Metropolitan on July 9, 1991, as amended and supplemented.

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

- (a) Excluded Principal Payments shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;
- (b) if the Parity Obligations or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Obligations or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Obligations or

Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Obligations or Bonds on the date of calculation or, if such Parity Obligations or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Obligations or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to Metropolitan;

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

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

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

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

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

(i) 0, and

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

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

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

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

**“Maximum Interest Rate”** means the lesser of (a) twelve percent (12%) per annum, or (b) the maximum interest rate allowed by federal law and the laws of the State of California.

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

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

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

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

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

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

**“New Tender Period”** means the Tender Period for the 2009 A-2 Bonds commencing on February 7, 2015 upon the remarketing of all of the 2009 A-2 Bonds.

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

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

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

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

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

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

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

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

**“Prime Rate”** means the rate per annum equal to the “prime rate” listed daily in the “Money Rate” section of The Wall Street Journal. If The Wall Street Journal is not published on any Business Day or if The Wall Street Journal does not publish a “prime rate” for any Business Day, then the “Prime Rate” for that Business Day shall be the “prime rate” published on the display designated as page “PRIMBB” on the Bloomberg Financial Markets News Service until the next Business Day on which The Wall Street Journal publishes the “prime rate.” If neither The Wall Street Journal nor the Bloomberg Financial Markets News Service publish a “prime rate” for a Business Day, then the “Prime Rate” shall mean the “prime rate” most recently published in The Wall Street Journal or the Bloomberg Financial Markets News Service.

**“Purchase Default Period”** means the period from and after the Scheduled Mandatory Tender Date on which an Index Mode Scheduled Mandatory Tender Failure occurs until the date next preceding the date on which the earlier of the following occurs: (a) the purchase by Metropolitan of all then-Outstanding 2009 A-2 Bonds and (b) the redemption of all then-Outstanding 2009 A-2 Bonds in connection with a mandatory sinking fund redemption or a special mandatory redemption.

**“Purchase Default Rate”** means a per annum rate equal to the lower of (a) twelve percent (12%) and (b) the higher of (i) eight percent (8%) and (ii) the Prime Rate plus three percent (3%).

**“Purchase Price”** means, with respect to any 2009 A-2 Bonds purchased in connection with an Index Mode Scheduled Mandatory Tender, an Index Mode Unscheduled Mandatory Tender, a mandatory tender upon a change in the Interest Mode or a mandatory tender upon conversion to a Fixed Interest Rate, an amount equal to the principal amount of 2009 A-2 Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which will be paid in the normal course). With respect to any 2009 A-2 Bonds purchased during any Purchase Default Period, the “Purchase Price” means an amount equal to the principal amount of such 2009 A-2 Bonds, plus accrued and unpaid interest to the Purchase Default Period Purchase Date (unless such Purchase Default Period Purchase Date is an Interest Payment Date, in which case the Purchase Price will not include accrued interest, which will be paid in the normal course).

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

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

**“Record Date”** the Business Day immediately preceding each Interest Payment Date, and, with respect to any special mandatory redemption of 2009 A-2 Bonds during a Purchase Default Period, the Business Day immediately preceding the applicable Redemption Date.

**“Redemption Date”** means the date fixed for redemption of 2009 A-2 Bonds prior to maturity as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Redemption of the 2009 A-2 Bonds.”

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

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

**“Refunding Bonds”** means Bonds authorized by the Fourth Supplemental Resolution to be issued pursuant to the Act and the Master Resolution, which Bonds are designated as “The Metropolitan Water District of Southern California Water Revenue Refunding Bonds.”

**“Request”** of Metropolitan means a written request signed by an authorized representative of Metropolitan.

**“Reserve Fund”** means, with respect to a Series of Refunding Bonds, a Water Revenue Refunding Bonds Reserve Fund established for such Series of Refunding Bonds pursuant to the Fourth Supplemental Resolution.

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

**“Resolution”** means the Master Resolution as supplemented, modified or amended by each Supplemental Resolution, including without limitation, the Fourth Supplemental Resolution.

**“Revenue Remainder Fund”** means the fund of that name established and continued pursuant to the Master Resolution.

**“Scheduled Mandatory Tender Date”** means, with respect to the New Tender Period, February 7, 2016, and, with respect to each subsequent Tender Period for a Series, the date or dates determined by Metropolitan as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Provisions of Paying Agent Agreement Relating to Remarketing and Purchase During Index Mode—*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Scheduled Mandatory Tender—Determination of the Following Scheduled Mandatory Tender Date*” and “—*Remarketing and Purchase of 2009 A-2 Bonds in Connection with an Index Mode Unscheduled Mandatory Tender—Determination of the Scheduled Mandatory Tender Date.*”

**“Securities Depositories”** means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; or, in accordance with then current guidelines of the Securities and Exchange Commission, to such other addresses and such other securities depositories as Metropolitan may designate in a Request of Metropolitan delivered to any Fiscal Agent.

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

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

**“SIFMA”** means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the S&P Weekly High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

**“Special Mandatory Redemption Amount”** means, with respect to special mandatory redemption during any Purchase Default Period, the aggregate principal amount of 2009 A-2 Bonds outstanding on the Scheduled Mandatory Tender Date on which such Purchase Default Period commenced.

**“Special Mandatory Redemption Payments”** means, with respect to 2009 A-2 Bonds bearing interest in an Index Mode, the amount required to be deposited by the Treasurer in the Bond Service Fund for the payment of 2009 A-2 Bonds, as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Redemption of the 2009 A-2 Bonds—*Special Mandatory Redemption of 2009 A-2 Bonds.*”

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

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

**“Tax and Nonarbitrage Certificate”** means, with respect to a Series of Refunding Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of Refunding Bonds.

**“Tender Period”** means, with respect to 2009 A-2 Bonds bearing interest in an Index Mode, the period determined as described in the Remarketing Statement under the caption “DESCRIPTION OF THE 2009 A-2 BONDS—Interest Rate Provisions—*Tender Periods.*”

**“Tender Period Halfway Date”** means, with respect to any Tender Period, the date occurring halfway between the commencement of such Tender Period and the Scheduled Mandatory Tender Date, which shall be calculated by (a) dividing (i) the number of days from and including the date on which such Tender Period commences to and not including the Scheduled Mandatory Tender Date by (ii) two (2) and, if necessary, rounding the result down to the nearest whole number and (b) adding the resulting number of days to the commencement date of such Tender Period.

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

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

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

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

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

## **THE MASTER RESOLUTION**

### **General**

The Master Resolution authorizes the creation of “The Metropolitan Water District of Southern California Water Revenue Bonds,” which Bonds may be issued in the aggregate principal amount set forth under the Act and the Resolutions as described in the Remarketing Statement and shall be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Master Resolution.

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

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

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

### **Redemption of Bonds**

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



Selection of Bonds to be Redeemed. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all Bonds of that Series are to be redeemed, the maturities of Bonds to be redeemed may be selected by Metropolitan. Metropolitan shall give written notice of its selection not later than 15 Business Days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent for that Series may give notice of redemption to the Owners of the Bonds of that Series. If Metropolitan does not give notice of its selection, such Fiscal Agent shall, unless otherwise provided in the Supplemental Resolution creating such Series of Bonds, select the Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in a Supplemental Resolution creating a Series of Bonds, if less than all of the Bonds of like maturity of that Series are to be redeemed, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Fiscal Agent for such Series in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. Unless otherwise specified in a Supplemental Resolution creating a Series of Bonds, each notice of redemption of Bonds of any Series shall be mailed by first class mail by the Fiscal Agent for that Series, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner whose Bonds are called for redemption, the Securities Depositories and one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered or overnight mail. Each notice of redemption shall state the date of such notice, the distinguishing designation of the Series of Bonds to which such notice relates, the date of issue of such Series of Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent for that Series), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither Metropolitan nor the Fiscal Agent for such Series shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither Metropolitan nor the Fiscal Agent for such Series shall be liable for any inaccuracy in such numbers.

Failure by the Fiscal Agent for a Series of Bonds being redeemed to give notice to any one or more of the Information Services or Securities Depositories or failure of any Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Payment of Redeemed Bonds. Notice having been given in the manner provided in the Master Resolution, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption a portion of a Bond, Metropolitan shall execute and the Fiscal Agent for that Bond shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, a Bond of like Series and maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portion thereof of such Series and maturity so called for redemption shall cease to accrue

and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

### **Pledge of Net Operating Revenues**

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

### **Equality of Security**

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

### **Water Revenue Fund**

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

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

Bond Service Fund. As soon as practicable in each calendar month, there shall be set aside and transferred to the Bond Service Fund an amount equal to (A) (i) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Bond Service Fund from the proceeds of such Series of bonds or other source and reserved as capitalized

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

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.

Reserve Funds. Metropolitan shall deposit as soon as practicable in each calendar month in any reserve fund or account established under a Supplemental Resolution for a Series of Bonds and in any reserve fund or account established for any Parity Obligations, upon the occurrence of any deficiency therein, one-sixth (1/6th) of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and the full amount of any deficiency due to any required valuations of the investments in such reserve fund or account until the balance in such reserve fund or account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve fund or account. If there shall be a deficiency of Operating Revenues to make the deposits required by this paragraph, such Operating Revenues shall be deposited into each reserve fund or account on a pro rata basis based on the amount of each such deficiency. The 2009 A-2 Bonds are not secured by a reserve fund or account.

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

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

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

### **Establishment, Funding and Application of Redemption Fund**

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

### **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent under the Resolution shall be invested solely in any securities in which Metropolitan may legally invest funds subject to its control; provided that such securities must mature or be available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or any Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account shall be credited to such fund or account.

## Covenants

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

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

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

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

Metropolitan covenants that any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain or sale under threat thereof which shall adversely affect the adequacy of Net Operating Revenues to pay principal and Accreted Value of

and interest on the Bonds or any Parity Obligations shall either be used for the acquisition and/or construction of improvements and extensions of the Water System or shall be placed in the Bond Service Fund or the Redemption Fund and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Master Resolution.

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

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

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

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

Rates and Charges. Metropolitan shall prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay the following amounts in the order set forth: (a) Operation and Maintenance Expenditures; (b) the interest on and Bond Obligation (including Mandatory Sinking Account Payments and Special Mandatory Redemption Payments) of the Outstanding Bonds (whether Serial or Term Bonds) and Parity Obligations as they become due and payable; (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolutions; and (d) all other payments required to meet any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

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

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

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

Second: Either (i) the Net Operating Revenues as shown by the books and records of Metropolitan for the latest Fiscal Year or for any 12 consecutive month period within the last

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

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

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

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

(c) Any Additional Revenues.

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

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

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

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

### **Amendments to Master Resolution**

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

No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Master Resolution prior to or on a parity with the lien created by the Master Resolution, or deprive the Owners of the Bonds of the lien created by the Master Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Master Resolution), without the consent of the Owners of all of the Bonds then Outstanding or (3) modify any rights or duties of the Fiscal Agent without its consent.

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



**Defeasance**

Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by Metropolitan in any of the following ways:

- (i) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;
- (ii) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or
- (iii) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer, the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), then, after irrevocable notice or provision therefor to the Owners in the case of a redemption prior to maturity, all liability of Metropolitan in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and Metropolitan shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment.

The money or securities referenced above must be one or more of the following:

- (a) lawful money of the United States of America in an amount equal to the principal amount of such Bond Obligation and all unpaid interest thereon to maturity or the Redemption Price and unpaid interest thereon to the redemption date, as the case may be; or
- (b) direct non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent (upon which opinion the Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed.

**Payment of Bonds After Discharge of the Master Resolution**

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

at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary shall not be required to pay Owners any interest on, or be liable to the Owners or any other Person (other than Metropolitan) for any interest earned on, moneys so held. Any interest earned thereon and not needed to pay principal or Accreted Value of or interest on the Bonds shall be promptly released to Metropolitan and shall be promptly deposited into the Water Revenue Fund.

### **Defaults and Remedies under the Master Resolution**

Events of Default. Each of the following events shall be an "Event of Default" under the Master Resolution:

(a) Default by Metropolitan in the due and punctual payment of the principal of, premium, if any, or Accreted Value of any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by Metropolitan in the due and punctual payment of the interest on any Bond;

(c) Failure of Metropolitan to observe and perform any of its other covenants, conditions or agreements under the Master Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of Metropolitan to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) (1) Failure of Metropolitan generally to pay its debts as the same become due, (2) commencement by Metropolitan of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by Metropolitan to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for Metropolitan, the Water System or any substantial part of Metropolitan's property, or to the taking possession by any such official of the Water System or any substantial part of Metropolitan's property, (4) making by Metropolitan of any assignment for the benefit of creditors, or (5) taking of corporate action by Metropolitan in furtherance of any of the foregoing;

(e) The entry of any (1) decree or order for relief by a court having jurisdiction over Metropolitan or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for Metropolitan, the Water System or any substantial part of Metropolitan's property, or (3) order for the termination or liquidation of Metropolitan or its affairs; or

(f) Failure of Metropolitan within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of subsection (c) above are subject to the limitation that if by reason of force majeure Metropolitan is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Master Resolution, Metropolitan shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Master Resolution shall include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; riots; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people, civil disturbances;

explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of Metropolitan. Metropolitan shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of Metropolitan, and Metropolitan shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing under the Master Resolution, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Master Resolution of any Owner, provided, however, that whenever any provision thereof requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Master Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation.

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

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as Metropolitan itself might do.

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

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

#### **FOURTH SUPPLEMENTAL RESOLUTION**

The Fourth Supplemental Resolution authorizes the issuance of Refunding Bonds issued pursuant to the Master Resolution. The provisions of the Fourth Supplemental Resolution include, but are not limited to, the following:

##### **General**

The Treasurer has been appointed as Fiscal Agent to act as the agent of Metropolitan for the Refunding Bonds. The Fiscal Agent shall perform such duties and only such duties as are specifically set forth in the Resolutions.

##### **Redemption**

Optional Redemption. The Refunding Bonds of any Series shall be subject to call and redemption prior to maturity, at the option of Metropolitan, in the amounts, at the redemption prices and on the dates as set forth in the Bond Purchase Contract with respect to that Series.

Mandatory Sinking Account Payments. The Outstanding 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 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 Bond Purchase Contract with respect to that Series.

##### **Reserve Fund**

In connection with the issuance of a Series of Refunding Bonds, Metropolitan shall establish and the Treasurer shall maintain and hold in trust a fund separate from any other fund established or maintained under the Master Resolution and designated as the "Water Revenue Refunding Bonds Reserve Fund" and shall bear such additional designation as shall be determined by Metropolitan. Each Reserve Fund shall be funded as set forth in the Fourth Supplemental Resolution. All amounts held by the Treasurer in the Reserve Fund established with respect to such Series of Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such Series of Refunding Bonds in accordance with their terms. The 2009 A-2 Bonds are not secured by a reserve fund or account, and the amount of the Bond Reserve Requirement for the 2009 A-2 Bonds was set at zero.

Metropolitan shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the Reserve Fund established with respect to a Series of Refunding Bonds until such

Series is discharged in accordance with the provisions of the Master Resolution. The amount of the Bond Reserve Requirement applicable to a designated Series of Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. The amount of the Bond Reserve Requirement for the 2009 A-2 Bonds was set at zero. In the event of any deficiency in a Reserve Fund, the Treasurer shall replenish such deficiency in accordance with the provisions of the Master Resolution.

All amounts in the Reserve Fund established with respect to a Series of Refunding Bonds shall be used and withdrawn by the Treasurer, as provided in the Resolutions, solely for the purpose of (i) paying principal of and interest on such Series of 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 Refunding Bonds. Any amounts in the Reserve Fund established with respect to a Series of 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 a Metropolitan.

### **Reserve Fund Credit Policy**

At the option of Metropolitan, 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 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 applicable Refunding Bonds then in effect by the Rating Agencies. Any such substituted moneys shall be applied as provided in a certificate of Metropolitan. 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 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 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.

### **Excess Earnings Funds**

To ensure proper compliance with the tax covenants contained in the Fourth Supplemental Resolution, Metropolitan shall establish and the Treasurer shall maintain a fund for each Series of Refunding Bonds issued under the Fourth Supplemental Resolution, which fund shall be separate from any other fund or account established and maintained thereunder or under the Master Resolution and shall be designated as the “Water Revenue Refunding Bonds Excess Earnings Fund” and shall bear such additional designation as shall be ascribed thereto by Metropolitan. All money at any time deposited in the Excess Earnings Fund with respect to a Series of 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 Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any Bonds of such Series of Refunding Bonds 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 the Fourth Supplemental Resolution and by the applicable 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 Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

### **Tax Covenants**

In order to maintain the exclusion from gross income of the interest on the Refunding Bonds for federal income tax purposes, Metropolitan covenants to comply with each applicable requirement of

Section 103 and Sections 141 through 150 of the Code and Metropolitan agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate, as a source of guidance for compliance with such provisions. Notwithstanding any other provisions of the Master Resolution or the Fourth Supplemental Resolution to the contrary, upon Metropolitan's failure to observe, or refusal to comply with, these tax covenants, no Person other than the Owners of the Refunding Bonds shall be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Fourth Supplemental Resolution on the basis of Metropolitan's failure to observe, or refusal to comply with, such covenants.

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**APPENDIX 2**

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**BOOK-ENTRY ONLY SYSTEM**

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**APPENDIX 2****BOOK-ENTRY ONLY SYSTEM****Introduction**

*Unless otherwise noted, the information contained under the caption “–General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites as described under “–General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The beneficial owners of the 2009 A-2 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.*

**NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER (AS DEFINED BELOW) WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2009 A-2 BONDS UNDER THE RESOLUTIONS OR THE PAYING AGENT AGREEMENT; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2009 A-2 BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2009 A-2 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2009 A-2 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.**

**General**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2009 A-2 Bonds. The 2009 A-2 Bonds will be remarketed as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2009 A-2 Bond certificate will be issued for the 2009 A-2 Bonds in the aggregate principal amount, and will be deposited with DTC.

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



registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information set forth on such website is not incorporated herein by reference.

Purchases of 2009 A-2 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 A-2 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2009 A-2 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009 A-2 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2009 A-2 Bonds, except in the event that use of the book-entry system for the 2009 A-2 Bonds is discontinued.

To facilitate subsequent transfers, all 2009 A-2 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2009 A-2 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009 A-2 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2009 A-2 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2009 A-2 Bonds may wish to take steps to augment the transmission to them of notices of significant events with respect to the 2009 A-2 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2009 A-2 Bonds documents. For example, Beneficial Owners of the 2009 A-2 Bonds may wish to ascertain that the nominee holding the 2009 A-2 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2009 A-2 Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2009 A-2 Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2009 A-2 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, interest and premium, if any, on and the Purchase Price of the 2009 A-2 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, the Paying Agent or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, interest and premium, if any, and the Purchase Price of the 2009 A-2 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2009 A-2 Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such 2009 A-2 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2009 A-2 Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of the 2009 A-2 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2009 A-2 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2009 A-2 Bonds to the Paying Agent's DTC account.

**NONE OF METROPOLITAN, THE FISCAL AGENT OR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF 2009 A-2 BONDS FOR REDEMPTION.**

DTC, the DTC Participants or others might not distribute payments with respect to the 2009 A-2 Bonds paid to DTC or its nominee as the registered owner, might not distribute any notices to the Beneficial Owners or might not do so on a timely basis, and might not serve and act in the manner described in this Remarketing Statement. Metropolitan, the Fiscal Agent, the Paying Agent and the Remarketing Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2009 A-2 Bonds or for any error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2009 A-2 Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2009 A-2 Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2009 A-2 Bond certificates will be printed and delivered to DTC.

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

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2009 A-2 BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT OR THE PAYING AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

In the event that the book-entry only system is discontinued, payments of principal and purchase price of and interest on the 2009 A-2 Bonds will be payable as described in this Remarketing Statement under the caption "DESCRIPTION OF THE 2009 A-2 BONDS-General."

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**APPENDIX 3**

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**COPY OF OPINIONS OF CO-BOND COUNSEL**

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**NIXON PEABODY**<sup>LLP</sup>  
ATTORNEYS AT LAW

Gas Company Tower  
555 West Fifth St., 46th Floor  
Los Angeles, California 90013-1010  
(213) 629-6000  
Fax: (213) 629-6001

May 20, 2009

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

***Re: The Metropolitan Water District of Southern California,  
Water Revenue Refunding Bonds, 2009 Series A-1 and Series A-2***

Ladies and Gentlemen:

We have examined certified copies of the proceedings of the issuance of \$208,365,000 of bonds of The Metropolitan Water District of Southern California (the "District") and the sale of said bonds to the purchasers thereof. Said bonds are designated "\$104,185,000 Water Revenue Refunding Bonds, 2009 Series A-1" (the "2009 Series A-1 Bonds") and "\$104,180,000 Water Revenue Refunding Bonds, 2009 Series A-2" (the "2009 Series A-2 Bonds," and together with the 2009 Series A-1 Bonds, the "Series 2009A Bonds"). The 2009 Series A-1 Bonds mature in the amounts and in the years, and bear interest, in accordance with Resolution 8329 of the Board of Directors of the District (the "Board") adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), and Resolution 8387 of the Board adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"), and the Paying Agent Agreement dated as of May 1, 2009, by and between the District and Wells Fargo Bank, National Association, as paying agent, with respect to the 2009 Series A-1 Bonds (the "2009 Series A-1 Paying Agent Agreement"). The 2009 Series A-2 Bonds mature in the amounts and in the years, and bear interest, in accordance with the Resolutions and the Paying Agent Agreement dated as of May 1, 2009, by and between the District and Wells Fargo Bank, National Association, as paying agent, with respect to the 2009 Series A-2 Bonds (the "2009 Series A-2 Paying Agent Agreement"). The Series 2009A Bonds are subject to call and redemption prior to maturity on the dates, at the prices and upon the notice authorized by the Resolutions and the applicable Paying Agent Agreement. All terms used herein and not otherwise defined shall have the meanings given such terms in the Resolutions.

Our services as Co-Bond Counsel to the District were limited to an examination of the transcript of legal proceedings referred to above, and to the rendering of the opinions set forth in the following paragraphs. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified in the transcript of legal proceedings referred to above, and we have assumed the genuineness of all documents and signatures presented to us

The Metropolitan Water District of Southern California  
May 20, 2009  
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(whether as originals or copies) and the due and legal execution and delivery thereof by, and the validity against, any parties other than the District thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We assume no responsibility to inform any person whether any such actions are taken or omitted or events do occur, or whether any matters come to our attention after the date hereof. We call attention to the fact that the enforceability of the agreements, covenants and obligations described in the foregoing paragraphs may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws); (ii) general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; (iii) the exercise of judicial discretion in appropriate cases; (iv) the limitations on legal remedies imposed on actions against public entities in the State of California; and (v) the application of California laws relating to conflicts of interest to which public entities are subject. We express no opinion regarding the availability of equitable remedies. We also express no opinion as to any provision in the Resolutions, the applicable Paying Agent Agreement or the Bonds with respect to the priority of any pledge or security interest, indemnification, or governing law. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2009A Bonds and express no opinion with respect thereto in this letter.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2009A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and constitute the legally valid and binding obligations of the District, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. The District is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds (including principal of and interest on the Series 2009A Bonds) and Parity Obligations as the same shall become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of the District that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

The Metropolitan Water District of Southern California  
May 20, 2009  
Page 3

3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of the District, enforceable in accordance with their terms.

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2009A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2009A Bonds. Pursuant to the Resolutions and in the District's Tax and Nonarbitrage Certificate of even date herewith concerning the investment and use of the proceeds of the Series 2009A Bonds (the "Tax and Nonarbitrage Certificate"), the District has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2009A Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the District has made certain other covenants, representations and certifications in the Resolutions and the Tax and Nonarbitrage Certificate. Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned covenants, representations and certifications, we are of the opinion that interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2009A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. We are further of the opinion that the interest on the Series 2009A Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding two paragraphs, we express no opinion as to any other Federal, state or local tax consequences of the ownership or disposition of the Series 2009A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2009A Bonds, or the interest thereon, if any action is taken with respect to the Series 2009A Bonds or the proceeds thereof upon the advice or approval of other counsel. This opinion is limited to the laws of the State of California and the federal laws of the United States, and is not a guarantee of result and is not binding on the Internal Revenue Service.

The opinion set forth in paragraph 1 above assumes that the Paying Agent has duly authenticated the Series 2009A Bonds.

We have acted in this transaction solely as Co-Bond Counsel to the District. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Series 2009A Bonds on the date hereof. No persons other than you may rely upon this letter

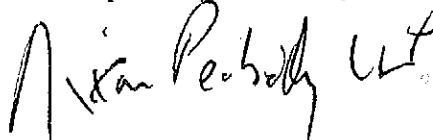
The Metropolitan Water District of Southern California

May 20, 2009

Page 4

without our express prior written consent. This opinion may not be utilized for any other purpose and may not be quoted without our express prior written consent. The opinion speaks only as of its date and is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation to review, update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention, or to reflect any changes in laws which may hereafter occur.

Respectfully submitted,

A handwritten signature in black ink that reads "Nixon Peabody LLP". The signature is written in a cursive, flowing style.



**CURLS BARTLING P.C.***a professional law corporation*

May 20, 2009

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

***Re: The Metropolitan Water District of Southern California,  
Water Revenue Refunding Bonds, 2009 Series A-1 and Series A-2***

Ladies and Gentlemen:

We have examined certified copies of the proceedings of the issuance of \$208,365,000 of bonds of The Metropolitan Water District of Southern California (the "District") and the sale of said bonds to the purchasers thereof. Said bonds are designated "\$104,185,000 Water Revenue Refunding Bonds, 2009 Series A-1" (the "2009 Series A-1 Bonds") and "\$104,180,000 Water Revenue Refunding Bonds, 2009 Series A-2" (the "2009 Series A-2 Bonds," and together with the 2009 Series A-1 Bonds, the "Series 2009A Bonds"). The 2009 Series A-1 Bonds mature in the amounts and in the years, and bear interest, in accordance with Resolution 8329 of the Board of Directors of the District (the "Board") adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), and Resolution 8387 of the Board adopted on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"), and the Paying Agent Agreement dated as of May 1, 2009, by and between the District and Wells Fargo Bank, National Association, as paying agent, with respect to the 2009 Series A-1 Bonds (the "2009 Series A-1 Paying Agent Agreement"). The 2009 Series A-2 Bonds mature in the amounts and in the years, and bear interest, in accordance with the Resolutions and the Paying Agent Agreement dated as of May 1, 2009, by and between the District and Wells Fargo Bank, National Association, as paying agent, with respect to the 2009 Series A-2 Bonds (the "2009 Series A-2 Paying Agent Agreement"). The Series 2009A Bonds are subject to call and redemption prior to maturity on the dates, at the prices and upon the notice authorized by the Resolutions and the applicable Paying Agent Agreement. All terms used herein and not otherwise defined shall have the meanings given such terms in the Resolutions.

Our services as Co-Bond Counsel to the District were limited to an examination of the transcript of legal proceedings referred to above, and to the rendering of the opinions set forth in the following paragraphs. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified in the transcript of legal proceedings referred to above, and we have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and the validity against, any parties other than the District thereto.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date

The Metropolitan Water District of Southern California  
May 20, 2009  
Page 2

hereof. We assume no responsibility to inform any person whether any such actions are taken or omitted or events do occur, or whether any matters come to our attention after the date hereof. We call attention to the fact that the enforceability of the agreements, covenants and obligations described in the foregoing paragraphs may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws); (ii) general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law; (iii) the exercise of judicial discretion in appropriate cases; (iv) the limitations on legal remedies imposed on actions against public entities in the State of California; and (v) the application of California laws relating to conflicts of interest to which public entities are subject. We express no opinion regarding the availability of equitable remedies. We also express no opinion as to any provision in the Resolutions, the applicable Paying Agent Agreement or the Bonds with respect to the priority of any pledge or security interest, indemnification, or governing law. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2009A Bonds and express no opinion with respect thereto in this letter.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2009A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and constitute the legally valid and binding obligations of the District, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

2. The District is obligated by law and the Master Resolution to prescribe, revise and collect rates and charges for the services, facilities, availability and water of the Water System, which, after making allowances for contingencies and error in estimates, shall provide Operating Revenues, together with any Additional Revenues, at least sufficient to pay, in the following order of priority, (a) Operation and Maintenance Expenditures, (b) interest on and Bond Obligation (including Mandatory Sinking Account Payments) of the Outstanding Bonds (including principal of and interest on the Series 2009A Bonds) and Parity Obligations as the same shall become due and payable, (c) all other payments required for compliance with the Master Resolution or any Supplemental Resolution, and (d) all other payments required to meet any other obligations of the District that are charges, liens or encumbrances upon or payable from Net Operating Revenues.

3. The agreements and covenants contained in the Resolutions are authorized by the laws of the State of California and are legally valid and binding obligations of the District, enforceable in accordance with their terms.

The Metropolitan Water District of Southern California  
May 20, 2009  
Page 3

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements that must be met subsequent to the issuance and delivery of the Series 2009A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2009A Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Series 2009A Bonds. Pursuant to the Resolutions and in the District's Tax and Nonarbitrage Certificate of even date herewith concerning the investment and use of the proceeds of the Series 2009A Bonds (the "Tax and Nonarbitrage Certificate"), the District has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2009A Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the District has made certain other covenants, representations and certifications in the Resolutions and the Tax and Nonarbitrage Certificate. Under existing law, assuming compliance with the above-mentioned tax covenants and the accuracy of the above-mentioned covenants, representations and certifications, we are of the opinion that interest on the Series 2009A Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2009A Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. We are further of the opinion that the interest on the Series 2009A Bonds is exempt from personal income taxes of the State of California under present state law.

Except as stated in the preceding two paragraphs, we express no opinion as to any other Federal, state or local tax consequences of the ownership or disposition of the Series 2009A Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Series 2009A Bonds, or the interest thereon, if any action is taken with respect to the Series 2009A Bonds or the proceeds thereof upon the advice or approval of other counsel. This opinion is limited to the laws of the State of California and the federal laws of the United States, and is not a guarantee of result and is not binding on the Internal Revenue Service.

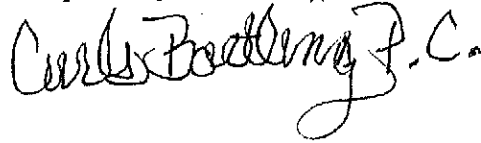
The opinion set forth in paragraph 1 above assumes that the Paying Agent has duly authenticated the Series 2009A Bonds.

We have acted in this transaction solely as Co-Bond Counsel to the District. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Series 2009A Bonds on the date hereof. No persons other than you may rely upon this letter without our express prior written consent. This opinion may not be utilized for any other purpose and may not be quoted without our express prior written consent. The opinion speaks only as of its date and is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters. We assume no obligation

The Metropolitan Water District of Southern California  
May 20, 2009  
Page 4

to review, update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention, or to reflect any changes in laws which may hereafter occur.

Respectfully submitted,



**APPENDIX 4**

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**COPY OF CONTINUING DISCLOSURE UNDERTAKING**

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## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is dated as of May 1, 2009 by The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of its \$208,365,000 aggregate principal amount of Water Revenue Refunding Bonds, 2009 Series A-1 and 2009 Series A-2 (the "Bonds"). The Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the "Act"), Chapter 3 of Part 1, Division 2, Title 5 of the California Government Code, as amended, Resolution 8329, adopted by the Board of Directors of Metropolitan (the "Board") on July 9, 1991, as amended and supplemented (the "Master Resolution"), and Resolution 8387 adopted by the Board on January 12, 1993 (the "Fourth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

### ARTICLE I Definitions

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

(1) "Annual Financial Information" means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) the table under the caption "OPERATING REVENUES AND DEBT SERVICE - Debt Service Requirements" in the forepart of the Official Statement; (ii) under the caption "METROPOLITAN'S WATER SUPPLY" in Appendix A to the Official Statement, the table captioned "Metropolitan's Water Storage Capacity and Water in Storage"; (iii) under the caption "METROPOLITAN REVENUES" in Appendix A to the Official Statement, the tables "Summary of Receipts by Source", "Summary of Water Sold and Water Sales Receipts", "Summary of Water Rates", and "Ten Largest Water Customers"; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; and the total power revenues for the fiscal year; (iv) under the caption "METROPOLITAN EXPENDITURES" in Appendix A to the Official Statement, the table "Summary of Expenditures"; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long-term commitments, and the information described under the sub-caption "Defined Benefit Pension Plan"; (v) under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in Appendix A to the Official Statement, historical revenues and expenditures for the then-immediately past fiscal year, as presented in the table "Historical and Projected Revenues and Expenditures"; (vi) under the caption "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in Appendix A to the Official Statement, the percentage of operation and maintenance expenditures to total costs; (vii) under the caption "POWER SOURCES AND COSTS" in Appendix A to the Official Statement, the expenditures for electric power, for so long as such information shall be deemed to be material by Metropolitan; and

(B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

(3) "Counsel" means Nixon Peabody LLP, Los Angeles, California or Curls Bartling P.C., Oakland, California or another nationally recognized bond counsel or counsel expert in Federal securities laws, in each case acceptable to Metropolitan.

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

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

(6) "Material Event" means any of the following events with respect to the Bonds, whether relating to Metropolitan or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;

- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

(7) "Material Event Notice" means written or electronic notice of a Material Event.

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

(9) "Official Statement" means the Official Statement dated May 18, 2009, of Metropolitan relating to the Bonds.

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

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "State" means State of California.

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

## ARTICLE II The Undertaking

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

### Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with respect to fiscal year 2008-09, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

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

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



Section 2.4. Material Event Notices.

(a) If a Material Event occurs, Metropolitan shall provide or cause to be provided, in a timely manner, a Material Event Notice to the EMMA System and, before July 1, 2009, to the then-existing nationally recognized municipal securities information repositories.

(b) Upon any legal defeasance of Bonds, Metropolitan shall provide notice of such defeasance to the EMMA System, which notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. Metropolitan acknowledges and understands that other state and Federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to Metropolitan, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of Metropolitan under such laws.

Section 2.6. Additional Information. Nothing in this Undertaking shall be deemed to prevent Metropolitan from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Undertaking. If Metropolitan chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Undertaking, Metropolitan shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.7. No Previous Non-Compliance. Metropolitan represents that in the previous five years it has not failed to comply, in any material respects, with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III  
Operating Rules

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

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

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

Section 3.4. Transmission of Information and Notices. Any filing under this Undertaking may be made solely by transmitting such filing to (i) Digital Assurance Certification L.L.C. ("DAC") unless the SEC has withdrawn the no-action position in its letter to DAC dated September 21, 2001, (ii) the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (iii) as otherwise specified in the relevant rules and interpretive advice provided by the SEC. Unless otherwise required by law and, in Metropolitan's sole determination, subject to technical and economic feasibility, Metropolitan shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of Metropolitan's information and notices.

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

#### ARTICLE IV

##### Termination, Amendment and Enforcement

###### Section 4.1. Effective Date; Termination.

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

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

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

###### Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each

case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Resolutions with consent of holders of Bonds, pursuant to the Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

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

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

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

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

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

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of 25% in aggregate amount of Outstanding Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific

performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

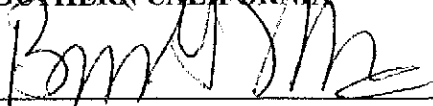
(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolutions and shall not result in any acceleration of payment of the Bonds, and the rights and remedies provided by the Resolutions upon the occurrence of a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

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

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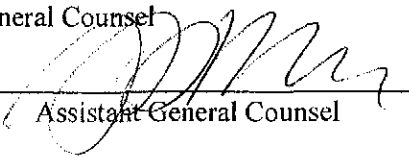
IN WITNESS WHEREOF, the parties have executed this Undertaking effective the date first above written.

**THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA**

By:   
Its: Assistant General Manager/Chief Financial  
Officer

**APPROVED AS TO FORM:**

Karen Tachiki,  
General Counsel

By:   
Assistant General Counsel

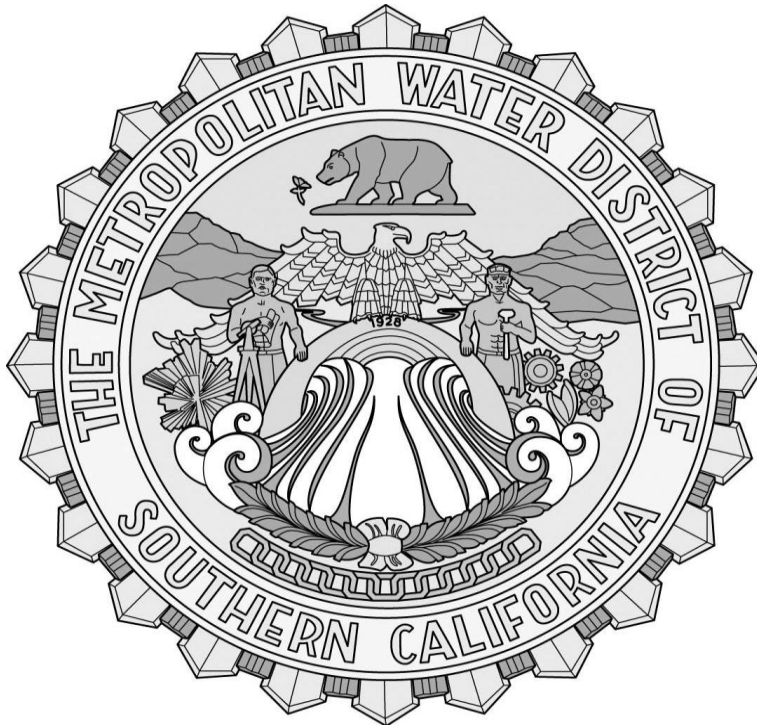
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## **APPENDIX A**

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

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**Draft Dated 11/06/14**

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## INTRODUCTION

*This Appendix A provides general information regarding The Metropolitan Water District of Southern California (“Metropolitan”), including information regarding Metropolitan’s operations and finances. Statements included or incorporated by reference in this Appendix A constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “estimate,” “budget” or other similar words. Such statements are based on facts and assumptions set forth in Metropolitan’s current planning documents including, without limitation, its most recent biennial budget. The achievement of results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results may differ from Metropolitan’s forecasts. Metropolitan is not obligated to issue any updates or revisions to the forward-looking statements in any event.*

*Metropolitan maintains a website that may include information on programs or projects described in this Appendix A; however, none of the information on Metropolitan’s website is incorporated by reference or intended to assist investors in making an investment decision or to provide any additional information with respect to the information included in this Appendix A. The information presented on Metropolitan’s website is not part of the Official Statement and should not be relied upon in making investment decisions.*

### **Formation and Purpose**

Metropolitan is a metropolitan water district created in 1928 under authority of the Metropolitan Water District Act (California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209, as amended (herein referred to as the “Act”). The Act authorizes Metropolitan to: levy property taxes within its service area; establish water rates; impose charges for water standby and service availability; incur general obligation bonded indebtedness and issue revenue bonds, notes and short-term revenue certificates; execute contracts; and exercise the power of eminent domain for the purpose of acquiring property. In addition, Metropolitan’s Board of Directors (the “Board”) is authorized to establish terms and conditions under which additional areas may be annexed to Metropolitan’s service area.

Metropolitan’s primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member public agencies. If additional water is available, such water may be sold for other beneficial uses. Metropolitan serves its member agencies as a water wholesaler and has no retail customers.

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

Metropolitan’s charges for water sales and availability are fixed by its Board, and are not subject to regulation or approval by the California Public Utilities Commission or any other state or federal agency. Metropolitan imports water from two principal sources: northern California via the Edmund G. Brown California Aqueduct (the “California Aqueduct”) of the State Water Project owned by the State of California (the “State” or “California”) and the Colorado River via the Colorado River Aqueduct (“CRA”) owned by Metropolitan.

### **Member Agencies**

Metropolitan is comprised of 26 member public agencies, including 14 cities, 11 municipal water districts, and one county water authority, which collectively serve the residents and businesses of more than 300 cities and numerous unincorporated communities. Member agencies request water from Metropolitan at various delivery points within Metropolitan’s system and pay for such water at uniform rates established by

the Board for each class of water service. Metropolitan's water is a supplemental supply for its member agencies, most of whom have other sources of water. See "METROPOLITAN REVENUES—Principal Customers" in this Appendix A for a listing of the ten member agencies with the highest water purchases from Metropolitan during the fiscal year ended June 30, 2014. Metropolitan's member agencies may, from time to time, develop additional sources of water. No member is required to purchase water from Metropolitan, but all member agencies are required to pay readiness-to-serve charges whether or not they purchase water from Metropolitan. See "METROPOLITAN REVENUES—Rate Structure", "—Member Agency Purchase Orders" and "—Additional Revenue Components" in this Appendix A.

The following table lists the 26 member agencies of Metropolitan.

<u>Municipal Water Districts</u>		<u>Cities</u>		<u>County Water Authority</u>
Calleguas	Las Virgenes	Anaheim	Los Angeles	San Diego <sup>(1)</sup>
Central Basin	Orange County	Beverly Hills	Pasadena	
Eastern	Three Valleys	Burbank	San Fernando	
Foothill	West Basin	Compton	San Marino	
Inland Empire Utilities Agency		Fullerton	Santa Ana	
Upper San Gabriel Valley		Glendale	Santa Monica	
Western of Riverside County		Long Beach	Torrance	

- (1) The San Diego County Water Authority, currently Metropolitan's largest customer, is a plaintiff in litigation challenging the allocation of costs to certain rates adopted by Metropolitan's Board. See "METROPOLITAN REVENUES—Litigation Challenging Rate Structure" in this Appendix A.

### **Service Area**

Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. When Metropolitan began delivering water in 1941, its service area consisted of approximately 625 square miles. Its service area has increased by 4,500 square miles since that time. The expansion was primarily the result of annexation of the service areas of additional member agencies.

Metropolitan estimates that approximately 18.4 million people lived in Metropolitan's service area in 2013, based on official estimates from the California Department of Finance and on population distribution estimates from the Southern California Association of Governments ("SCAG") and the San Diego Association of Governments ("SANDAG"). Population projections prepared by SCAG in 2012 and SANDAG in 2010, as part of their planning process to update regional transportation and land use plans, show expected population growth of about 18 percent in Metropolitan's service area between 2010 and 2035. The 2010 Census population estimates are incorporated into SCAG's 2012 projections. The 2010 SANDAG regional growth projections do not incorporate the 2010 Census population estimates. The economy of Metropolitan's service area is exceptionally diverse. In 2013, the economy of the six counties which contain Metropolitan's service area had a gross domestic product larger than all but fifteen nations of the world. Metropolitan has historically provided between 40 and 60 percent of the water used annually within its service area. For additional economic and demographic information concerning the six county area containing Metropolitan's service area, see Appendix E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

The climate in Metropolitan's service area ranges from moderate temperatures throughout the year in the coastal areas to hot and dry summers in the inland areas. Annual rainfall in an average year has historically been approximately 13 to 15 inches along the coastal area, up to 20 inches in foothill areas and less than 10 inches inland.

## METROPOLITAN'S WATER SUPPLY

Metropolitan faces a number of challenges in providing adequate, reliable and high quality water supplies for southern California. These include, among others: (1) population growth within the service area; (2) increased competition for low-cost water supplies; (3) variable weather conditions; and (4) increased environmental regulations. Metropolitan's resources and strategies for meeting these long-term challenges are set forth in its Integrated Water Resources Plan, as updated from time to time. See "—Integrated Water Resources Plan" below.

Metropolitan's principal sources of water are the State Water Project and the Colorado River. Court decisions have restricted deliveries from the State Water Project in recent years as described below under "—State Water Project—*Endangered Species Act Considerations*." Precipitation, in the form of snow or rain, and its resulting runoff and storage levels are key indicators for Metropolitan's supplies from both its State Water Project and Colorado River sources. Snowpack, as presented below, is a percentage of the April 1 historical average water content. April 1 is recognized as the typical peak of the season in any given year.

California hydrology, which impacts deliveries from the State Water Project, is highly variable from year to year. In March 2011, following a three year drought, California Governor Jerry Brown proclaimed an end to the statewide drought emergency proclaimed in February 2009 by then-Governor Arnold Schwarzenegger. In 2011, California's snowpack peaked at 163 percent of normal. Drier conditions returned for 2012, with California statewide snowpack peaking in mid-April 2012 at 64 percent of normal. After large storms in November and December of 2012, California started 2013 with above normal snowpack conditions for the State. However, the California 2013 snowpack peaked in March at 61 percent of normal, and associated runoff was 65 percent of normal.

Calendar year 2013 was the driest on record in much of California and dry conditions continued through January 2014. Despite above-average precipitation in February and March of 2014, Department of Water Resources ("DWR") storage in key reservoirs has been well below normal in 2014. For example, as of October 5, 2014, storage in Lake Oroville, the principal State Water Project reservoir, was at 49 percent of average capacity and storage in San Luis Reservoir, a joint use facility of the State Water Project and federal Central Valley Project that is located south of the San Francisco Bay/Sacramento-San Joaquin River Delta ("Bay-Delta"), was at 48 percent of average capacity. The 2014 snowpack peaked at 35 percent of normal in April 2014 and associated runoff was 41 percent of normal.

Due to these record-dry conditions and lower than average water levels in State reservoirs, Governor Brown proclaimed a drought emergency on January 17, 2014. On January 31, 2014, DWR reduced the State Water Project allocation percentage to zero, reflecting the severity of California's drought.

On April 18, 2014, DWR increased State Water Project Contractors' allocations of State Water Project water from zero to five percent due to February and March storms. Such allocations are made annually as a percentage of contracted amounts. At five percent, Metropolitan's State Water Project allocation for 2014 is approximately 95,000 acre-feet. DWR may revise allocations if warranted by the year's developing hydrologic and water supply conditions. See "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A.

Despite improved conditions in February and March 2014, drought conditions continue and state water supplies remain far below average. As a result, Governor Brown issued an executive order on April 25, 2014, strengthening the state's authority to respond to the drought. The executive order expedites approvals of water transfers and exchanges, eases some environmental compliance requirements for drought response actions, and calls upon businesses and homeowners to limit potable water consumption, especially for landscaping.

Metropolitan's other principal source of water supply, the Colorado River, comes from watersheds of the Upper Colorado River basin in the states of Colorado, Utah, and Wyoming. Due to the way that Colorado River Supplies are apportioned, snowpack and runoff levels do not impact Metropolitan water supplies in the current year. Instead, snowpack and runoff impact storage levels at Lake Powell and Lake Mead, which in turn affect the likelihood of surplus or shortage conditions in the future. Precipitation in water year 2013-14 (October 1 – September 30) was above average, resulting in unregulated inflow to Lake Powell of approximately 100 percent of normal, which is only the fourth time this has happened since water year 2003-04. As of September 7, 2014 total system storage in the Colorado River Basin was 51 percent of normal, which is equivalent to September 2013 storage levels. See “—Colorado River Aqueduct” below.

Uncertainties from potential future temperature and precipitation changes in a climate driven by increased concentrations of atmospheric carbon dioxide also present challenges. Areas of concern to California water planners identified by researchers include: reduction in Sierra Nevada snowpack; increased intensity and frequency of extreme weather events; and rising sea levels resulting in increased risk of damage from storms, high-tide events, and the erosion of levees and potential cutbacks of deliveries from the State Water Project. While potential impacts from climate change remain subject to study and debate, climate change is among the uncertainties that Metropolitan seeks to address through its planning processes.

### **Drought Response Actions**

At this time, it is not possible to forecast the impact of the current California drought on Metropolitan water supplies. Metropolitan estimates that 2014 year-end overall water storage will be between 1.7 million acre-feet and 2.0 million acre-feet. In 2014, Metropolitan has been able to utilize supplies from the Colorado River to offset reductions in State Water Project supplies and mitigate impacts of the California drought. Metropolitan is also encouraging responsible and efficient water use to lower demands. Since Governor Brown's January 2014 drought emergency proclamation, Metropolitan has worked proactively with its member agencies to conserve water supplies in its service area. In February 2014, Metropolitan declared a Water Supply Alert, calling upon local cities and water agencies to immediately implement extraordinary conservation measures and institute local drought ordinances. Metropolitan also significantly expanded its water conservation and outreach programs. This includes doubling the water conservation budget, increasing the incentive for a turf replacement program, and launching the largest media outreach campaign in Metropolitan's history. Metropolitan also increased incentives for large landscape customers to convert from potable water to recycled water for irrigation. See “—Water Conservation” below.

Metropolitan is prepared to meet water demands in its service area in calendar year 2015 using a combination of CRA deliveries, storage reserves and supplemental water transfers and purchases. In 2015, the CRA is anticipated to operate at capacity and operations to move Colorado River supplies into areas normally served by State Water Project supplies that began in 2014 are expected to continue in 2015. Metropolitan is also working to carryover unused 2014 State Water Project supplies into 2015. These measures will offset potentially low initial State Water Project supply allocations in 2015. Metropolitan also relies upon its Water Surplus and Drought Management Plan (“WSDM Plan”) to identify resource actions in times of shortage and its Water Supply Allocation Plan for equitable distribution of available water supplies in case of extreme shortages. Should drought conditions continue through 2015, Metropolitan is prepared to implement the Water Supply Allocation Plan. See “—Storage Capacity and Water in Storage,” “—Water Conservation” and “—Water Supply Allocation Plan” below.

Metropolitan's financial reserve policy provides funds to manage through periods of reduced sales. See “METROPOLITAN REVENUES—Financial Reserve Policy.” In years when actual sales are less than projections, Metropolitan uses various tools to manage reductions in revenues, such as reducing expenditures below budgeted levels, reducing funding of capital from revenues, and drawing on reserves. In years when actual sales exceed projections, the revenues from water sales during the fiscal year will exceed budget, potentially resulting in an increase in financial reserves. On April 8, 2014, Metropolitan's Board approved multiple uses of certain unrestricted reserves over the target level on June 30, 2014, which included a deposit

of \$252 million to a Water Management Fund, \$232 million of which will cover costs associated with replenishing storage, purchasing transfers and funding drought response programs, and \$20 million for conservation related programs. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Revenues” in this Appendix A.

### **Integrated Water Resources Plan**

The Integrated Water Resources Plan (“IRP”) is Metropolitan’s principal water resources planning document. Metropolitan, its member agencies, sub-agencies and groundwater basin managers developed their first IRP, which was adopted by the Board in January 1996 and updated in 2004, as a long-term planning guideline for resources and capital investments. The next update of the IRP is scheduled to be updated in 2015. The purpose of the IRP was the development of a portfolio of preferred resources (see “—The Integrated Resources Plan Strategy” below) to meet the water supply reliability and water quality needs for the region in a cost-effective and environmentally sound manner.

On October 12, 2010, Metropolitan’s Board adopted an IRP update (the “2010 IRP Update”) as a strategy to set goals and a framework for water resources development. This strategy enables Metropolitan and its member agencies to manage future challenges and changes in California’s water conditions and to balance investments with water reliability benefits. The 2010 IRP Update provides an adaptive management approach to address future uncertainty, including uncertainty from climate change. It was formulated with input from member agencies, retail water agencies, and other stakeholders including water and wastewater managers, environmental and business interests and the community. The framework places an emphasis on regional collaboration.

The 2010 IRP Update seeks to provide regional reliability through 2035 by stabilizing Metropolitan’s traditional imported water supplies and continuing to develop additional local resources, with an increased emphasis on regional collaboration. It also advances long-term planning for potential future contingency resources, such as storm water capture and large-scale seawater desalination, in close coordination with Metropolitan’s 26 member agencies and other utilities.

The 2010 IRP Update is available on Metropolitan’s web site at <http://www.mwdh2o.com/mwdh2o/pages/yourwater/irp/>. Specific projects that may be developed by Metropolitan in connection with the implementation of the IRP will be subject to future Board consideration and approval, as well as environmental and regulatory documentation and compliance. The information set forth on Metropolitan’s website is not incorporated by reference.

### **The Integrated Resources Plan Strategy**

The IRP Strategy identifies a balance of local and imported water resources within Metropolitan’s service area. Metropolitan expects that the core resource strategy, uncertainty buffers and foundational actions in the IRP Strategy will be continually reviewed and updated at least every five years to reflect changing demand and supply conditions. Foundational actions include technical studies and research (up to pilot projects, but not full-scale projects) that enable timely, future implementation of challenging resources, including, but not limited to, recycled water, seawater desalination, stormwater capture, and groundwater enhancement.

The following paragraphs describe several elements of the IRP Strategy.

*State Water Project.* The State Water Project is one of Metropolitan’s two major sources of water. In addition to municipal and industrial use of this core supply, State Water Project supplies are important for maximizing local groundwater potential and the use of recycled water since State Water Project water has lower salinity content than Colorado River Aqueduct water and can be used to increase groundwater conjunctive use applications. See “—State Water Project” below and “REGIONAL WATER RESOURCES—Local Water Supplies” in this Appendix A.

*Colorado River Aqueduct.* The Colorado River Aqueduct delivers water from the Colorado River, Metropolitan's original source of supply. Metropolitan has helped to fund and implement farm and irrigation district conservation programs, improvements to river operation facilities, land management programs and water transfers and exchanges through agreements with agricultural water districts in southern California and entities in Arizona and Nevada that use Colorado River water. See "—Colorado River Aqueduct" below.

*Water Conservation.* Conservation and other water use efficiencies are integral components of Metropolitan's IRP. Metropolitan has invested in conservation programs since the 1980s. Historically, most of the investments have been in water efficient fixtures in the residential sector. Current efforts also focus on outdoor and commercial water use. See "—Water Conservation" below.

*Recycled Water.* Reclaimed or recycled municipal and industrial water is a valuable water resource and can be used for landscape irrigation, agriculture, protecting groundwater basins from saltwater intrusion, industrial processes, and recharging local aquifers. Metropolitan offers financial incentives to member agencies for developing economically viable reclamation projects. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

*Conjunctive Use.* Conjunctive use is the coordinated use of surface water supplies and groundwater storage. It entails storing surplus imported water during the winter months or wet years in local surface reservoirs and recharging local groundwater basins, then using the stored supplies during dry months and droughts, thus increasing the supply reliability of the region. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

*Water Transfers and Exchanges.* Under voluntary water transfer or exchange agreements, agricultural communities using irrigation water may periodically sell some of their water allotments to urban areas. The water may be delivered through existing State Water Project or Colorado River Aqueduct facilities, or may be exchanged for water that is delivered through such facilities. Metropolitan's policy toward potential transfers states that the transfers will be designed to protect and, where feasible, enhance environmental resources and avoid the mining of local groundwater supplies. See "—Water Transfer, Storage and Exchange Programs" below.

*Groundwater Recovery.* Natural groundwater reservoirs serve an important function as storage facilities for local and imported water. In cases where groundwater storage has become contaminated, water agencies have to rely more heavily on imported water supplies. Treatment for polluted groundwater is quite costly and poses environmental challenges. Metropolitan offers financial incentives to help fund member agency groundwater recovery projects. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

*Seawater Desalination.* Seawater desalination is the process of removing salts from ocean water to produce potable supplies. It is a potential new local supply that could help increase supply reliability in Metropolitan's service area. Metropolitan offers financial incentives to member agencies for seawater desalination projects through its Seawater Desalination Program. Currently, there are a number of seawater desalination projects either under development or in the planning phase within Metropolitan's service area. See "REGIONAL WATER RESOURCES—Local Water Supplies" and "METROPOLITAN REVENUES—Rate Structure" in this Appendix A.

## **State Water Project**

*General.* One of Metropolitan's two major sources of water is the State Water Project, which is owned by the State and operated by DWR. This project transports Feather River water stored in and released from Oroville Dam and unregulated flows diverted directly from Bay-Delta south via the California Aqueduct to four delivery points near the northern and eastern boundaries of Metropolitan's service area. The total length of the California Aqueduct is approximately 444 miles.

In 1960, Metropolitan signed a water supply contract (as amended, the “State Water Contract”) with DWR. Metropolitan is one of 29 agencies that have long-term contracts for water service from DWR, and is the largest agency in terms of the number of people it serves (approximately 18.4 million), the share of State Water Project water that it has contracted to receive (approximately 46 percent), and the percentage of total annual payments made to DWR by agencies with State water contracts (approximately 53 percent for 2013). For information regarding Metropolitan's obligations under the State Water Contract, see “METROPOLITAN EXPENDITURES—State Water Contract Obligations” in this Appendix A. Upon expiration of the State Water Contract term (currently in 2035), Metropolitan has the option to continue service under substantially the same terms and conditions. Metropolitan and other agencies with state water supply contracts are currently in negotiations with DWR to extend the State Water Contract. In June 2014, DWR and the State Water Project Contractors reached an Agreement in Principle (“AIP”) to extend the contract to 2085 and to make certain changes related to financial management of the State Water Project in the future. The AIP will serve as the “proposed project” for purposes of environmental review under the California Environmental Quality Act (“CEQA”). DWR issued a Notice of Preparation of an Environmental Impact Report (“EIR”) for the proposed project on September 14, 2014. Following CEQA review, a State Water Project amendment will be prepared. Such amendment will be subject to review by the Legislature.

The State Water Contract, under a 100 percent allocation, provides Metropolitan 1,911,500 acre-feet of water. (An acre-foot is the amount of water that will cover one acre to a depth of one foot and equals approximately 326,000 gallons, which represents the needs of two average families in and around the home for one year.) The 100 percent allocation is referred to as the contracted amount. Each year in November, DWR announces an initial allocation estimate, but may revise the estimate throughout the year if warranted by developing precipitation and water supply conditions. From calendar years 2003 through 2013, the amount of water received by Metropolitan from the State Water Project, including water from water transfer, groundwater banking and exchange programs delivered through the California Aqueduct, described below under “—Water Transfer, Storage and Exchange Programs,” varied from a low of 908,000 acre-feet in calendar year 2009 to a high of 1,800,000 acre-feet in 2004.

For calendar year 2012, DWR’s allocation to State Water Project Contractors was 65 percent of contracted amounts which provided 1,242,475 acre-feet of Metropolitan’s 1,911,500 acre-foot contractual amount. In addition, Metropolitan began 2012 with 243,000 acre-feet of carryover supplies from prior years. In calendar year 2013, DWR’s allocation to State Water Project Contractors was 35 percent of contracted amounts, or 669,000 acre-feet of Metropolitan’s 1,911,500 acre-foot contractual amount. In addition, Metropolitan began 2013 with approximately 281,000 acre-feet of carryover supplies from prior years. See “—Water Transfer, Storage and Exchange Programs” and “—Storage Capacity and Water in Storage” below.

For calendar year 2014, DWR’s allocation to State Water Project Contractors was announced on April 18, 2014, as five percent of its 1,911,500 acre-foot contractual amount. Under this allocation, Metropolitan will receive approximately 95,575 acre-feet of contracted amounts. In addition, Metropolitan began 2014 with approximately 223,000 acre-feet of carryover supplies from prior years, all of which can be drawn in 2014. Through September 2014, Metropolitan has used 215,000 acre-feet of these carryover supplies and plans to use all 223,000 acre-feet by the end of the year. Although Metropolitan plans to use all carry over State Water Project Supplies accumulated in years prior to 2014, it is also working to carry over unused 2014 State Water Project supplies into 2015.

DWR’s 2014 allocation reflects that calendar year 2013 was the driest on record in much of California, dry conditions persisted in 2014, storage levels are low in the State’s major reservoirs, drought conditions occurred in previous years, and federally mandated environmental restrictions have been imposed upon water deliveries from the Bay Delta, including the potential for additional limitations as a result of the currently controlling Delta smelt biological opinion as discussed below. As in previous dry years, Metropolitan is augmenting these deliveries using withdrawals from its storage programs along the State Water Project and through water transfer and exchange programs. See “METROPOLITAN’S WATER SUPPLY—Water Transfer, Storage and Exchange Programs” in this Appendix A.



### *Endangered Species Act Considerations*

*General.* The listing of several fish species as threatened or endangered under the federal or California Endangered Species Acts (respectively, the “Federal ESA” and the “California ESA” and, collectively, the “ESAs”) have adversely impacted State Water Project operations and limited the flexibility of the State Water Project. Currently, five species (the winter-run and spring-run Chinook salmon, Delta smelt, North American green sturgeon and Central Valley steelhead) are listed under the ESAs. In addition, on June 25, 2009, the California Fish and Game Commission declared the longfin smelt a threatened species under the California ESA.

The Federal ESA requires that before any federal agency authorizes funds or carries out an action it must consult with the appropriate federal fishery agency to determine whether the action would jeopardize the continued existence of any threatened or endangered species, or adversely modify habitat critical to the species’ needs. The result of the consultation is known as a “biological opinion.” In the biological opinion the federal fishery agency determines whether the action would cause jeopardy to a threatened or endangered species or adverse modification to critical habitat and recommends reasonable and prudent alternatives or measures that would allow the action to proceed without causing jeopardy or adverse modification. The biological opinion also includes an “incidental take statement.” The incidental take statement allows the action to go forward even though it will result in some level of “take,” including harming or killing some members of the species, incidental to the agency action, provided that the agency action does not jeopardize the continued existence of any threatened or endangered species and complies with reasonable mitigation and minimization measures recommended by the federal fishery agency.

In 2004 and 2005, the United States Fish and Wildlife Service (“USFWS”) and National Marine Fisheries Service issued biological opinions and incidental take statements governing the coordinated operations of the State Water Project and the federal Central Valley Project with respect to the Delta smelt, the winter-run and spring-run Chinook salmon and the Central Valley steelhead. In July 2006, the Bureau of Reclamation reinitiated consultation with the USFWS and National Marine Fisheries Service with respect to the 2004 and 2005 biological opinions (with the addition of the North American green sturgeon, which was listed in April 2006) following the filing of legal challenges to those biological opinions and incidental take statements described under “*Federal ESA Litigation*” below. Under the Federal ESA, critical habitat must also be designated for each listed species. Critical habitat has been designated for each of the currently listed species.

*Federal ESA Litigation.* Litigation filed by several environmental interest groups (*NRDC v. Kempthorne*; and *Pacific Coast Federation of Fishermen’s Associations v. Gutierrez*) in the United States District Court for the Eastern District of California alleged that the 2004 and 2005 biological opinions and incidental take statements inadequately analyzed impacts on listed species under the Federal ESA.

*Delta Smelt Consolidated Cases.* On May 25, 2007, Federal District Judge Wanger issued a decision on summary judgment in *NRDC v. Kempthorne*, finding the USFWS biological opinion for Delta smelt to be invalid. The USFWS released a new biological opinion on the impacts of the State Water Project and Central Valley Project on Delta smelt on December 15, 2008. Metropolitan, the San Luis & Delta Mendota Water Authority, Westlands Water District, Kern County Water Agency, Coalition for a Sustainable Delta and State Water Contractors, a California nonprofit corporation formed by agencies contracting with DWR for water from the State Water Project (the “State Water Contractors”), the Family Farm Alliance and the Pacific Legal Foundation, on behalf of several owners of small farms in California’s Central Valley, filed separate lawsuits in federal district court challenging the biological opinion. The federal court consolidated these lawsuits under the caption *Delta Smelt Consolidated Cases*.

On December 14, 2010, Judge Wanger issued a decision on summary judgment finding that there were major scientific and legal flaws in the Delta smelt biological opinion. The court found that some but not all of the restrictions on project operations contained in the 2008 Delta smelt biological opinion were

arbitrary, capricious and unlawful. On May 18, 2011, Judge Wanger issued a final amended judgment directing the USFWS to complete a new draft biological opinion by October 1, 2011, and a final biological opinion with environmental documentation by December 1, 2013. Later stipulations and orders changed the October 1, 2011 due date for a draft biological opinion to December 14, 2011, and changed the December 1, 2013 due date for the final biological opinion to December 1, 2014. A draft biological opinion was issued on December 14, 2011. The draft biological opinion deferred specification of a reasonable and prudent alternative and an incidental take statement pending completion of environmental impact review under the National Environmental Policy Act (“NEPA”). The federal defendants and environmental intervenors appealed the final judgment invalidating the 2008 Delta smelt biological opinion to the U.S. Court of Appeals for the Ninth Circuit. State Water Project and Central Valley Project contractor plaintiffs, including Metropolitan, cross-appealed from the final judgment. Those appeals and cross-appeals were argued on September 10, 2012.

On March 13, 2014, the Ninth Circuit reversed in part and affirmed in part the district court’s decision. The Ninth Circuit reversed those portions of the district court decision which had found the 2008 Delta smelt biological opinion to be arbitrary and capricious, and held, instead, that the 2008 biological opinion was valid and lawful. Metropolitan’s deliveries from the State Water Project were previously restricted under the 2008 biological opinion for a period prior to 2011. One practical result of the Ninth Circuit’s decision is to legally approve the water supply restrictions in the 2008 biological opinion. These water supply restrictions could have a range of impacts on Metropolitan’s deliveries from the State Water Project depending on hydrologic conditions. The Court denied the petitions for rehearing filed by the Department of Water Resources, Metropolitan and other State Water Contractors, and the Federal Water Contractors. On October 6, 2014, the Federal and State Water Contractors filed a petition for a writ of certiorari to review the Ninth Circuit’s decision with the U.S. Supreme Court.. Any adverse impact of this litigation and ruling on Metropolitan’s State Water Project supplies cannot be determined at this time. See “—State Water Project—*General*,” above and “—*State Water Project Operational Constraints*,” below.

*Consolidated Salmon Cases.* On April 16, 2008, in *Pacific Coast Federation of Fishermen’s Associations v. Gutierrez*, the court invalidated the 2004 National Marine Fisheries Service’s biological opinion for the salmon and other fish species that spawn in rivers flowing into the Bay-Delta. Among other things, the court found that the no-jeopardy conclusions in the biological opinion were inconsistent with some of the factual findings in the biological opinion; that the biological opinion failed to adequately address the impacts of State Water Project and Central Valley Project operations on critical habitat and that there was a failure to consider how climate change and global warming might affect the impacts of the projects on salmonid species.

On June 4, 2009, the National Marine Fisheries Service released a new biological opinion for salmonid species to replace the 2004 biological opinion. The 2009 salmonid species biological opinion contains additional restrictions on State Water Project and Central Valley Project operations. The National Marine Fisheries Service calculated that these restrictions will reduce the amount of water the State Water Project and Central Valley Project combined will be able to export from the Bay-Delta by five to seven percent. DWR had estimated a 10 percent average water loss under this biological opinion. See “—*State Water Project Operational Constraints*” below for the estimated impact to Metropolitan’s water supply. Six lawsuits were filed challenging the 2009 salmon biological opinion. These various lawsuits have been brought by the San Luis & Delta Mendota Water Authority, Westlands Water District, Stockton East Water District, Oakdale Irrigation District, Kern County Water Agency, the State Water Contractors and Metropolitan. The court consolidated the cases under the caption *Consolidated Salmon Cases*.

On May 25, 2010, the court granted the plaintiffs’ request for preliminary injunction in the *Consolidated Salmon Cases*, restraining enforcement of two requirements under the salmon biological opinion that limit exported water during the spring months based on San Joaquin River flows into the Bay-Delta and reverse flows on the Old and Middle Rivers. Hearings on motions for summary judgment in the *Consolidated Salmon Cases* were held on December 16, 2010. On September 20, 2011, Judge Wanger issued

a decision on summary judgment, finding that the salmon biological opinion was flawed, and that some but not all of the project restrictions in the biological opinion were arbitrary and capricious. On December 12, 2011, Judge O'Neill (who was assigned to this case following Judge Wanger's retirement) issued a final judgment in the *Consolidated Salmon Cases*. The final judgment remands the 2009 salmon biological opinion to the National Marine Fisheries Service, and directs that a new draft salmon biological opinion be issued after completion of environmental impact review under NEPA. The due date for the draft salmon biological opinion was extended to October 1, 2015, and the due date for the final opinion was extended to February 1, 2017. On January 19, 2012, Judge O'Neill approved a joint stipulation of the parties that specifies how to comply with one of the salmon biological opinion restrictions that applies to water project operations in April and May of 2012. In January and February 2012, the federal defendants and environmental intervenors filed appeals of the final judgment in the *Consolidated Salmon Cases*, and State Water Project and Central Valley Project contractors filed cross-appeals. Those appeals and cross-appeals were argued on September 15, 2014 and the parties are awaiting a decision from the Ninth Circuit.

*California ESA Litigation.* In addition to the litigation under the Federal ESA, other environmental groups sued DWR on October 4, 2006 in the Superior Court of the State of California for Alameda County alleging that DWR was "taking" listed species without authorization under the California ESA. This litigation (*Watershed Enforcers, a project of the California Sportfishing Protection Alliance v. California Department of Water Resources*) requested that DWR be mandated to either cease operation of the State Water Project pumps, which deliver water to the California Aqueduct, in a manner that results in such "taking" of listed species or obtain authorization for such "taking" under the California ESA. On April 18, 2007, the Alameda County Superior Court issued its Statement of Decision finding that DWR was illegally "taking" listed fish through operation of the State Water Project export facilities. The Superior Court ordered DWR to "cease and desist from further operation" of those facilities within 60 days unless it obtained take authorization from the California Department of Fish and Game.

DWR appealed the Alameda County Superior Court's order on May 7, 2007. This appeal stayed the order pending the outcome of the appeal. The Court of Appeal stayed processing of the appeal in 2009 to allow time for DWR to obtain incidental take authorization for the Delta smelt and salmon under the California ESA, based on the consistency of the federal biological opinions with California ESA requirements ("Consistency Determinations"). After the California Department of Fish & Game issued the Consistency Determinations under the California ESA, authorizing the incidental take of both Delta smelt and salmon, appellants DWR and State Water Contractors dismissed their appeals of the *Watershed Enforcers* decision. The Court of Appeal subsequently issued a decision finding that DWR was a "person" under the California ESA and subject to its take prohibitions, which was the only issue left in the case. The State Water Contractors and Kern County Water Agency have filed suit in state court challenging the Consistency Determinations under the California ESA that have been issued for both Delta smelt and salmon. Those lawsuits challenging the Consistency Determinations have been stayed and are awaiting the final rulings in federal court regarding the validity of the Delta smelt and salmon biological opinions. —See "*Federal ESA Litigation*" above.

The California Fish and Game Commission listed the longfin smelt as a threatened species under the California ESA on June 25, 2009. On February 23, 2009, in anticipation of the listing action, the California Department of Fish and Game issued a California ESA section 2081 incidental take permit to DWR authorizing the incidental take of longfin smelt by the State Water Project. This permit authorizes continued operation of the State Water Project under the conditions specified in the section 2081 permit. The State Water Contractors filed suit against the California Department of Fish and Game on March 25, 2009, alleging that the export restrictions imposed by the section 2081 permit have no reasonable relationship to any harm to longfin smelt caused by State Water Project operations, are arbitrary and capricious and are not supported by the best available science. This lawsuit was voluntarily dismissed in 2014 pursuant to a settlement agreement which set up a collaborative multi-year longfin smelt science program to investigate various factors relating to the impacts of water project operations on longfin smelt.

*State Water Project Operational Constraints.* DWR has altered the operations of the State Water Project to accommodate species of fish listed under the ESAs. These changes in project operations have adversely affected State Water Project deliveries. The impact on total State Water Project deliveries attributable to the Delta smelt and salmonid species biological opinions combined is estimated to be one million acre-feet in an average year, reducing State Water Project deliveries from approximately 3.3 million acre-feet to approximately 2.3 million acre-feet for the year under average hydrology, and are estimated to range from 0.3 million acre-feet during critically dry years to 1.3 million acre-feet in above normal water years. State Water Project deliveries to contractors for calendar years 2008 through 2012 were reduced by a total of approximately 2.3 million acre-feet as a result of pumping restrictions. Pumping restrictions impacting the State Water Project allocation for calendar year 2013 have reduced exports by approximately 596,000 acre-feet.

Operational constraints likely will continue until long-term solutions to the problems in the Bay-Delta are identified and implemented. State and federal resource agencies and various environmental and water user entities are currently engaged in the development of the Bay-Delta Conservation Plan, which is aimed at addressing ecosystem needs and securing long-term operating permits for the State Water Project, and includes the Delta Habitat Conservation and Conveyance Program (“DHCCP”) (together, the “BDCP”). The BDCP’s current efforts consist of the preparation of the environmental documentation and preliminary engineering design for Bay-Delta water conveyance and related habitat conservation measures under the BDCP. These programs are discussed further under “—*Bay-Delta Regulatory and Planning Activities*” below.

Other issues, such as the decline of some fish populations in the Bay-Delta and surrounding regions and certain operational actions in the Bay-Delta, may significantly reduce Metropolitan’s water supply from the Bay-Delta. State Water Project operational requirements may be further modified under new biological opinions for listed species under the Federal ESA or by the California Department of Fish and Game’s issuance of incidental take authorizations under the California ESA. Biological opinions or incidental take authorizations under the Federal ESA and California ESA might further adversely affect State Water Project and Central Valley Project operations. Additionally, new litigation, listings of additional species or new regulatory requirements could further adversely affect State Water Project operations in the future by requiring additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. Metropolitan cannot predict the ultimate outcome of any of the litigation or regulatory processes described above but believes they could have a materially adverse impact on the operation of State Water Project pumps, Metropolitan’s State Water Project supplies and Metropolitan’s water reserves.

*Bay-Delta Regulatory and Planning Activities.* The State Water Resources Control Board (“SWRCB”) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the SWRCB can affect the availability of water to Metropolitan and other users of State Water Project water. The SWRCB exercises its regulatory authority over the Bay-Delta by means of public proceedings leading to regulations and decisions. These include the Bay-Delta Water Quality Control Plan (“WQCP”), which establishes the water quality objectives and proposed flow regime of the estuary, and water rights decisions, which assign responsibility for implementing the objectives of the WQCP to users throughout the system by adjusting their respective water rights. The SWRCB is required by law to periodically review its WQCP to ensure that it meets the changing needs of this complex system.

Since 2000, SWRCB’s Water Rights Decision 1641 (“D-1641”) has governed the State Water Project’s ability to export water from the Bay-Delta for delivery to Metropolitan and other agencies receiving water from the State Water Project. D-1641 allocated responsibility for meeting flow requirements and salinity and other water quality objectives established earlier by the WQCP. The SWRCB also identified additional issues to review, which could result in future changes in water quality objectives and flows that could affect exports of water from the State Water Project. Currently, the SWRCB is reviewing salinity objectives in the Bay-Delta intended to protect Bay-Delta farming and inflow requirements upstream of the

Delta to protect aquatic species. DWR and the Bureau of Reclamation filed a petition on January 29, 2014, requesting changes to D-1641 terms that govern outflows in the Bay-Delta. The SWRCB approved temporary urgency changes in the required outflows into the Bay-Delta on January 31, 2014, enabling water to be conserved in reservoirs in case of continued drought. The temporary urgency changes also permit flexible operation of gates that typically remain closed during the late winter and spring to protect fish. Instead, gates may be operated based on evolving water quality conditions and fish migration information, which will enable greater protection against salt water intrusion to the interior portion of the Bay-Delta while protecting fish populations.

*Bay Delta Planning Activities.* In 2000, several State and federal agencies released the CALFED Bay Delta Programmatic Record of Decision (“ROD”) and Environmental Impact Report/Environmental Impact Statement (“EIR/EIS”) that outlined a 30-year plan to improve the Delta’s ecosystem, water supply reliability, water quality, and levee stability. The CALFED ROD remains in effect and many of the state, federal, and local projects begun under CALFED continue. However, implementation is now coordinated through the Delta Stewardship Council.

Building on CALFED and other Bay-Delta planning activities, in 2006 multiple State and federal resource agencies, water agencies, and other stakeholder groups entered into a planning agreement for the Bay-Delta Conservation Plan (“BDCP”). The BDCP is being developed as a comprehensive conservation strategy for the Delta designed to restore and protect ecosystem health, water supply, and water quality within a stable regulatory framework. The BDCP would result in long-term permits from regulatory agencies in return for meeting the Bay-Delta’s ecological needs. Implementation of the BDCP would occur over a 50-year time frame. The BDCP is intended to create a durable regulatory framework that would allow for fundamental and systematic improvements to water supply reliability and the Delta’s ecosystem health.

The draft BDCP, draft Environmental Impact Report/Environmental Impact Statement (EIR/EIS) and draft Implementing Agreement were made available for public review and comment in December 2013. A supplemental draft EIR/EIS is currently being prepared and will be released for public review in spring 2015.

The Sacramento-San Joaquin Delta Reform Act (“Reform Act”), passed in 2009, made it state policy to manage the Delta in support of the coequal goals of water supply reliability and ecosystem restoration in a manner that acknowledges the evolving nature of the Bay-Delta as a place for people and communities. The Reform Act created the Delta Stewardship Council and empowered it to develop a comprehensive management plan (the “Delta Plan”). State and local agencies proposing certain actions or projects in the Bay-Delta are required to certify for the Delta Stewardship Council that those efforts are consistent with the Delta Plan. The BDCP is intended to be incorporated into the Delta Plan once environmental approvals and requirements are met.

On May 24, 2013, the San Luis & Delta-Mendota Water Authority and Westlands Water District filed litigation in Sacramento Superior Court challenging the adequacy of the Program EIR under CEQA, and alleged that the Delta Plan is invalid because, among other things, it is inconsistent with the Delta Reform Act of 2009. On June 14, 2013, several different actions were filed challenging the adequacy of the Program EIR under CEQA and alleging that the Delta Plan is invalid. The State Water Contractors, Metropolitan, Alameda County Flood Control and Water Conservation District, Zone 7, Santa Clara Valley Water District, Antelope Valley-East Kern Water Agency, and San Bernardino Valley Municipal Water District filed in Sacramento Superior Court; several environmental interest groups, as well as several fishing industry groups and the Winnemem Wintu Tribe filed in San Francisco Superior Court; and the City of Stockton filed in San Joaquin County Superior Court. On June 17, 2013, Save the California Delta Alliance, as well as the Central Delta Water Agency, South Delta Water Agency, Local Agencies of the North Delta, and others filed in San Francisco Superior Court. The impact, if any, that such litigation might have on Metropolitan’s State Water Project supplies cannot be determined at this time. In September 2013, the seven cases were coordinated in Sacramento Superior Court as the Delta Stewardship Council Cases. In March 2014, the court set a schedule

for lodging of the administrative record and other pre-trial motions. The case management conference was held on July 18, 2014. All briefs must be filed by May 21, 2015. No trial date has been set.

On July 25, 2012, Governor Jerry Brown and Secretary of the Interior Ken Salazar announced key proposed elements to advance the BDCP planning process, including north Bay-Delta water diversion facilities with a total capacity of 9,000 cubic-feet per second (“cfs”), two tunnels sized to minimize energy use during operations and a “decision tree” process for unresolved operation criteria such as fall and spring outflows. Preliminary cost estimates for the conveyance portion of this project alternative are approximately \$14 billion. When a decision selecting the final project has been made, costs will be updated and allocated. Metropolitan anticipates that it could bear approximately 25 percent of the costs of the conveyance portion of the project.

Public review drafts of both the BDCP and the BDCP EIR/EIS were released on December 9, 2013. However, due in part to the extensive comments received, on August 27, 2014, DWR and the other state and federal agencies leading the BDCP announced that a Recirculated Draft BDCP, EIR/EIS, and Implementing Agreement will be prepared and released in early 2015. The final planning documents are expected to be completed in the fall of 2015. The planning, environmental documentation and preliminary engineering design for the BDCP are being prepared pursuant to the Delta Habitat Conservation and Conveyance Program Memorandum of Agreement (“MOA”) and are also scheduled to be completed in 2015. The parties to the MOA are DWR, the Bureau of Reclamation, the State and Federal Contractors Water Agency, Metropolitan, Kern County Water Agency, State Water Contractors, San Luis & Delta Mendota Water Authority, Westlands Water District and Santa Clara Valley Water District.

*Water Bond.* On August 13, 2014, the Legislature authorized a \$7.12 billion water bond measure, replacing the previous water bond authorized in 2009. The bond measure, Proposition 1 was approved by voters on November 4, 2014. Proposition 1 also enacted the Water Quality, Supply, and Infrastructure Improvement Act of 2014. Metropolitan is not able to assess at this time the impact that the water bond or the Water Quality, Supply, and Infrastructure Improvement Act of 2014 may have on Metropolitan.

*Sacramento Regional County Sanitation District Litigation.* Metropolitan, along with other State and federal water contractors, has urged action to address water quality concerns with respect to both the aquatic health of the Bay-Delta and drinking water quality. On December 9, 2010, the Central Valley Regional Water Quality Control Board (“Regional Board”) approved a National Pollutant Discharge Elimination System (“NPDES”) permit for the Sacramento Regional County Sanitation District (“Sanitation District”) setting water-quality based requirements for the Sanitation District’s wastewater treatment plant that will require advanced treatment upgrades for the Sanitation District’s wastewater facility. The Sanitation District’s treatment plant is the largest wastewater discharger into the Bay-Delta. The treatment plant provides only a secondary level of treatment and discharges nutrients, pathogens, and total organic carbon into the Bay-Delta water supply. The treatment plant’s discharge of nitrogen, particularly ammonia, has been shown to be altering the food chain in the estuary to the detriment of Delta smelt and other native species. The NPDES permit calls for a significant reduction of the nitrogen and particularly ammonia discharge which will require full nitrification and denitrification treatment by 2020, as well as tertiary filtration treatment to meet pathogen removal requirements. The NPDES permit also includes additional permit limits and monitoring requirements for other water quality constituents, including toxic contaminants.

The Sanitation District petitioned the SWRCB for review of the NPDES permit. SWRCB adopted a final order at a December 4, 2012 hearing, which concluded the administrative appeal process. The SWRCB’s final order rejected the Sanitation District’s arguments, upheld the substantive requirements of the NPDES permit and imposed new, more stringent water quality limits.

While the administrative appeal before the SWRCB was still pending, on December 30, 2011, the Sanitation District filed a lawsuit in Sacramento Superior Court against the Regional Board and SWRCB seeking to overturn and relax the NPDES permit requirements. Metropolitan and other water agencies that

participated in the NPDES permitting process intervened. On April 29, 2013, in a partial settlement of the litigation, the Sanitation District agreed to drop its challenge of the NPDES permit requirements for ammonia and nitrate removal. As part of the settlement, the Sanitation District will comply with a set of milestones resulting in completion of the construction of treatment facilities necessary for full nitrification and denitrification by 2021. In early 2014, the parties reached a settlement on the filtration requirements. The settlement still requires the Sanitation District to implement filtration, but at a lower hydraulic capacity than originally required.

Implementation of the final settlement of the permit litigation required the Central Valley Regional Water Quality Control Board (the "Regional Board") to issue an amended permit. Following publication of a draft permit, the Regional Board adopted the amended permit on August 8, 2014. In September 2014, the parties to the litigation filed the necessary papers with the court to dismiss the case. Final judgment was entered October 8, 2014 concluding this litigation.

In a related proceeding, in 2005, Metropolitan, other urban State Water Contractor agencies and the Contra Costa Water District brought a successful CEQA challenge in response to significant, unmitigated water quality impacts that would occur from a planned expansion of the Sanitation District's treatment plant. The Sanitation District appealed the trial court ruling. In January 2013, the Court of Appeal dismissed the appeal as moot, based on the Sanitation District's representation that the expansion project is no longer planned. That left attorneys' fees for Metropolitan and the other prevailing parties as the only remaining issue in this CEQA case. In September 2014, the parties to the CEQA case reached agreement to settle the attorney fee issue. The settlement calls for the Sanitation District to accelerate completion of a planned treatment component in order to begin nutrient removal two years ahead of the permit compliance date.

*California Water Impact Network Litigation.* On September 3, 2010, the California Water Impact Network and two other non-profit organizations filed a petition for writ of mandate and for declaratory and injunctive relief in Sacramento Superior Court against the SWRCB and DWR. The petition alleges that by permitting and carrying out the export of large volumes of water from the Delta through the State Water Project, the SWRCB and DWR have failed to protect public trust fishery resources in the Delta; have been diverting water from the Bay-Delta wastefully and unreasonably in violation of the prohibition against waste and unreasonable use in the California Constitution; and have failed to enforce and comply with water quality and beneficial use standards in D-1641, the 1995 SWRCB Water Quality Control Plan, and the Porter-Cologne Act. Among the relief sought in the petition is an injunction against Bay-Delta exports by the State Water Project pending compliance with the various laws and administrative orders that are alleged to have been violated. The State Water Contractors filed a motion to intervene in this action, which was granted on March 25, 2011. The court has ordered the plaintiffs to include the Bureau of Reclamation as a party. In response, the Bureau of Reclamation has asserted that federal sovereign immunity bars their inclusion in the state court action. If the court determines that the Bureau of Reclamation is an indispensable party, the lawsuit, or portions of it, may be dismissed.

*Monterey Agreement Litigation.* On September 15, 2000, the Third District Court of Appeal for the State of California issued its decision in *Planning and Conservation League; Citizens Planning Association of Santa Barbara County and Plumas County Flood Control District v. California Department of Water Resources and Central Coast Water Authority*. This case was an appeal of a challenge to the adequacy of the environmental documentation prepared with respect to certain amendments to the State Water Contract (the "Monterey Agreement") which reflects the settlement of certain disputes regarding the allocation of State Water Project water. The Court of Appeal held that the environmental documentation was defective in failing to analyze the environmental effects of the Monterey Agreement's elimination of the permanent shortage provisions of the State Water Contract. The parties negotiated a settlement agreement in the fall of 2002, which allows continued operation of the State Water Project under the Monterey Agreement principles while a new EIR was prepared. DWR completed the final EIR and concluded the remedial CEQA review for the Monterey Agreement on May 4, 2010.

Following DWR's completion of the EIR, three new lawsuits were filed challenging the project. Central Delta Water Agency, South Delta Water Agency, California Water Impact Network, California Sportfishing Protection Alliance, and the Center For Biological Diversity filed a lawsuit against DWR in Sacramento County Superior Court challenging the validity of the EIR under CEQA and the validity of underlying agreements under a reverse validation action (the "*Central Delta I*" case). These same plaintiffs filed a reverse validation lawsuit against the Kern County Water Agency in Kern County Superior Court ("*Central Delta II*"). This lawsuit targets a transfer of land from Kern County Water Agency to the Kern Water Bank, which was completed as part of the original Monterey Agreement. The third lawsuit is an EIR challenge brought by Rosedale-Rio Bravo Water Storage District and Buena Vista Water Storage District against DWR in Kern County Superior Court ("*Rosedale*"). The two Kern County cases were transferred to Sacramento Superior Court and the three cases were consolidated for trial. The *Central Delta II* case was stayed pending resolution of the *Central Delta I* case.

In January 2013, the Court ruled that the validation cause of action in *Central Delta I* was time barred by the statute of limitations. On March 5, 2014 the Court issued its decisions on the EIR challenges in *Central Delta I* and *Rosedale*. The Court granted the petitions for writ of mandate, holding that DWR violated CEQA because the EIR failed to adequately describe, analyze, and mitigate the potential impacts associated with the Kern Water Bank. On October 2, 2014, the court issued its final rulings in *Central Delta I* and *Rosedale*, holding that DWR must complete a limited scope remedial CEQA review addressing the potential impacts of the Kern Water Bank. It also allows operation of the State Water Project to continue under the terms of the Monterey Agreement while the remedial CEQA review is prepared. And importantly, the ruling leaves in place the underlying project approvals while DWR prepares the remedial CEQA review.

The final step for these cases in the trial court is entry of judgment and a writ ordering DWR to decertify the current EIR and prepare the remedial review. Any appeal must be filed 60 days after the entry of judgment. Upon entry of judgment in *Central Delta I*, the stay will lift in *Central Delta II* and it is anticipated that the court will then establish a schedule for resolving the *Central Delta II* case. Any adverse impact of this litigation and ruling on Metropolitan's State Water Project supplies cannot be determined at this time.

### **Colorado River Aqueduct**

*General.* The Colorado River was Metropolitan's original source of water after Metropolitan's establishment in 1928. Metropolitan has a legal entitlement to receive water from the Colorado River under a permanent service contract with the Secretary of the Interior. Water from the Colorado River and its tributaries is also available to other users in California, as well as users in the states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming (the "Colorado River Basin States"), resulting in both competition and the need for cooperation among these holders of Colorado River entitlements. In addition, under a 1944 treaty, Mexico has an allotment of 1.5 million acre-feet of Colorado River water annually except in the event of extraordinary drought or serious accident to the delivery system in the United States, in which event the water allotted to Mexico would be curtailed. Mexico also can schedule delivery of an additional 200,000 acre-feet of Colorado River water per year if water is available in excess of the requirements in the United States and the 1.5 million acre-feet allotted to Mexico.

The Colorado River Aqueduct, which is owned and operated by Metropolitan, transports water from the Colorado River approximately 242 miles to its terminus at Lake Mathews in Riverside County. After deducting for conveyance losses and considering maintenance requirements, up to 1.25 million acre-feet of water a year may be conveyed through the Colorado River Aqueduct to Metropolitan's member agencies, subject to availability of Colorado River water for delivery to Metropolitan as described below.

California is apportioned the use of 4.4 million acre-feet of water from the Colorado River each year plus one-half of any surplus that may be available for use collectively in Arizona, California and Nevada. In addition, California has historically been allowed to use Colorado River water apportioned to but not used by



Arizona or Nevada when such supplies have been requested for use in California. Under the 1931 priority system that has formed the basis for the distribution of Colorado River water made available to California, Metropolitan holds the fourth priority right to 550,000 acre-feet per year. This is the last priority within California's basic apportionment. In addition, Metropolitan holds the fifth priority right to 662,000 acre-feet of water, which is in excess of California's basic apportionment. See the table "PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT" below. Until 2003, Metropolitan had been able to take full advantage of its fifth priority right as a result of the availability of surplus water and apportioned but unused water. However, during the 1990s Arizona and Nevada increased their use of water from the Colorado River, utilizing their respective basic apportionments by 2002 and significantly reducing unused apportionment available for California. In addition, a severe drought in the Colorado River Basin reduced storage in system reservoirs, such that Metropolitan stopped taking surplus deliveries in 2003 in an effort to mitigate the effects of the drought. Prior to 2003, Metropolitan could divert over 1.2 million acre-feet in any year, but since that time, Metropolitan's net diversions of Colorado River water have ranged from a low of nearly 633,000 acre-feet in 2006 to a high of 1,105,232 acre-feet in 2009. Average annual net deliveries for 2003 through 2013 were approximately 838,000 acre-feet, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture. Metropolitan's Colorado River supply was 1,012,715 acre-feet in 2013. See "*Quantification Settlement Agreement*" and "*Interim Surplus Guidelines*" below.

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**PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT<sup>(1)</sup>**

<b>Priority</b>	<b>Description</b>	<b>Acre-Feet Annually</b>
1	Palo Verde Irrigation District gross area of 104,500 acres of land in the Palo Verde Valley	3,850,000
2	Yuma Project in California not exceeding a gross area of 25,000 acres in California	
3(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys <sup>(2)</sup> to be served by All-American Canal	
3(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
4	Metropolitan Water District of Southern California for use on the coastal plain	550,000
	<b>SUBTOTAL</b>	<b>4,400,000</b>
5(a)	Metropolitan Water District of Southern California for use on the coastal plain	550,000
5(b)	Metropolitan Water District of Southern California for use on the coastal plain <sup>(3)</sup>	112,000
6(a)	Imperial Irrigation District and other lands in Imperial and Coachella Valleys to be served by the All-American Canal	300,000
6(b)	Palo Verde Irrigation District - 16,000 acres of land on the Lower Palo Verde Mesa	
	<b>TOTAL</b>	<b>5,362,000</b>
7	Agricultural use in the Colorado River Basin in California	Remaining surplus

Source: Metropolitan.

- (1) Agreement dated August 18, 1931, among Palo Verde Irrigation District, Imperial Irrigation District, Coachella Valley County Water District, Metropolitan, the City of Los Angeles, the City of San Diego and the County of San Diego. These priorities were memorialized in the agencies' respective water delivery contracts with the Secretary of the Interior.
- (2) The Coachella Valley Water District serves Coachella Valley.
- (3) In 1946, the City of San Diego, the San Diego County Water Authority, Metropolitan and the Secretary of the Interior entered into a contract that merged and added the City and County of San Diego's rights to storage and delivery of Colorado River water to the rights of Metropolitan.

Metropolitan has taken steps to augment its share of Colorado River water through agreements with other agencies that have rights to use such water. Under a 1988 water conservation agreement (the "1988 Conservation Agreement") between Metropolitan and the Imperial Irrigation District ("IID"), Metropolitan provided funding for IID to construct and operate a number of conservation projects that are currently conserving up to 105,000 acre-feet of water per year that is provided to Metropolitan. Under the October 2003 Quantification Settlement Agreement and related agreements, Metropolitan, at the request of Coachella Valley Water District ("CVWD"), forgoes up to 20,000 acre-feet of this water each year for diversion by CVWD. See "*Quantification Settlement Agreement*" below. In 2012 and 2013 CVWD's requests were for 10,463 and 6,693 acre-feet respectively, leaving 93,677 acre-feet in 2012 and 98,307 acre-feet in 2013 for Metropolitan. In 1992, Metropolitan entered into an agreement with the Central Arizona Water Conservation

District (“CAWCD”) to demonstrate the feasibility of CAWCD storing Colorado River water in central Arizona for the benefit of an entity outside of the State of Arizona. Pursuant to this agreement, CAWCD created 80,909 acre-feet of long-term storage credits that, under the agreement as amended, were recovered and delivered to Metropolitan between 2007 and 2010.

Metropolitan and the Palo Verde Irrigation District (“PVID”) signed the program agreement for a Land Management, Crop Rotation and Water Supply Program in August 2004. This program provides up to 133,000 acre-feet of water to be available to Metropolitan in certain years. The term of the program is 35 years. Fallowing began on January 1, 2005. In March 2009, Metropolitan and PVID entered into a supplemental fallowing program within PVID that provided for the fallowing of additional acreage in 2009 and 2010. In calendar years 2009 and 2010, respectively, 24,100 acre-feet and 32,300 acre-feet of water were saved and made available to Metropolitan under the supplemental program. The following table shows annual volumes of water saved and made available to Metropolitan:

**WATER AVAILABLE FROM PVID LAND MANAGEMENT, CROP ROTATION AND WATER SUPPLY PROGRAM**

<u>Calendar Year</u>	<u>Volume (acre-feet)</u>
2005	108,700
2006	105,000
2007	72,300
2008	94,300
2009*	144,300
2010*	148,600
2011	122,200
2012	73,700
2013	32,750

*Source: Metropolitan.*

\* Includes water from the supplemental fallowing program that provided for fallowing of additional acreage in 2009 and 2010.

In May 2008, Metropolitan provided \$28.7 million to join the CAWCD and the Southern Nevada Water Authority (“SNWA”) in funding the Bureau of Reclamation’s construction of an 8,000 acre-foot off-stream regulating reservoir near Drop 2 of the All-American Canal in Imperial County (officially renamed the Warren H. Brock Reservoir). Construction was completed in October 2010. The Warren H. Brock Reservoir conserves about 70,000 acre-feet of water per year by capturing and storing otherwise non-storable water flow. The Bureau of Reclamation has refunded to Metropolitan \$2.64 million in unused contingency funds. In return for its funding, Metropolitan received 100,000 acre-feet of water that was stored in Lake Mead, with the ability to deliver up to 40,000 acre-feet of the water which has not yet been used in any one year. Besides the additional water supply, the new reservoir adds to the flexibility of Colorado River operations.

In September 2009, Metropolitan authorized participation with SNWA, the Colorado River Commission of Nevada, the CAWCD and the Bureau of Reclamation in the pilot operation of the Yuma Desalting Plant. The Bureau of Reclamation concluded the pilot operation of the Yuma Desalting Plant in March 2011. Metropolitan’s contribution for the funding agreement was \$8,395,313, of which \$1,087,687 was refunded to Metropolitan. Metropolitan’s yield from the pilot run of the project was 24,397 acre-feet.

In November 2012, Metropolitan executed agreements in support of a program to augment Metropolitan’s Colorado River supply from 2013 through 2017 through an international pilot project in Mexico. Metropolitan’s total share of costs will be \$5 million for 47,500 acre-feet of project supplies. The costs will be paid between 2014 and 2017, and the conserved water will be credited to Metropolitan’s

intentionally-created surplus water account no later than 2017. See “— *Intentionally-Created Surplus Program*” below. In December 2013, Metropolitan and IID executed an agreement under which IID will pay half of Metropolitan’s program costs, or \$2.5 million, in return for half of the project supplies, or 23,750 acre-feet.

*Quantification Settlement Agreement.* The Quantification Settlement Agreement (“QSA”), executed by CVWD, IID and Metropolitan in October 2003, establishes Colorado River water use limits for IID and CVWD, provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years, and restored the opportunity for Metropolitan to receive any “special surplus water” under the Interim Surplus Guidelines. See “—*Interim Surplus Guidelines*” below. The QSA also allows Metropolitan to enter into other cooperative Colorado River supply programs. Related agreements modify existing conservation and cooperative water supply agreements consistent with the QSA, and set aside several disputes among California’s Colorado River water agencies.

Specific programs under the QSA include lining portions of the All-American and Coachella Canals, which conserve approximately 96,000 acre-feet annually. As a result, about 80,000 acre-feet of conserved water is delivered to the San Diego County Water Authority (“SDCWA”) by exchange with Metropolitan. Metropolitan also takes delivery of 16,000 acre-feet annually that will be made available for the benefit of the La Jolla, Pala, Pauma, Rincon and San Pasqual Bands of Mission Indians, the San Luis Rey River Indian Water Authority, the City of Escondido and the Vista Irrigation District, upon completion of a water rights settlement. An amendment to the 1988 Conservation Agreement between Metropolitan and IID and an associated 1989 Approval Agreement among Metropolitan, IID, CVWD and PVID, extended the term of the 1988 Conservation Agreement and limited the single year amount of water used by CVWD to 20,000 acre-feet. Also included under the QSA is the Delivery and Exchange Agreement between Metropolitan and CVWD that provides for Metropolitan to deliver annually up to 35,000 acre-feet of Metropolitan’s State Water Project contractual water to CVWD by exchange with Metropolitan’s available Colorado River supplies. In calendar year 2011, under a supplemental agreement with CVWD, Metropolitan delivered 105,000 acre-feet, which consisted of the full 35,000 acre-feet for 2011 plus advance delivery of the full contractual amounts for 2012 and 2013. In 2013, Metropolitan entered into a second supplemental agreement with CVWD. Under this agreement, Metropolitan delivered to CVWD 2,508 acre-feet of water in 2013 that would otherwise have been available in 2014. In return, CVWD reduced its 2012 Colorado River water order by 9,537 acre-feet and allowed Metropolitan to use that water conserved by IID. In 2021, the transfer of water conserved annually by IID to SDCWA is expected to reach 205,000 acre-feet. See description below under the caption “—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*”; see also “METROPOLITAN REVENUES—Principal Customers” in this Appendix A. With full implementation of the programs identified in the QSA, at times when California is limited to its basic apportionment of 4.4 million acre-feet per year, Metropolitan expects to be able to annually divert to its service area approximately 850,000 acre-feet of Colorado River water plus water from other water augmentation programs it develops, including the PVID program, which provides up to approximately 130,000 acre-feet of water per year. (Amounts of Colorado River water received by Metropolitan in 2003 through 2013 are discussed under the heading “—Colorado River Aqueduct—*General*” above.)

A complicating factor in completing the QSA was the fate of the Salton Sea, an important habitat for a wide variety of fish-eating birds as a stopover spot along the Pacific flyway. Some of these birds are listed as threatened or endangered species under the California and Federal ESAs. Located at the lowest elevations of an inland basin and fed primarily by agricultural drainage with no outflows other than evaporation, the Salton Sea is trending towards hyper-salinity, which has already impacted the Salton Sea’s fishery. Without mitigation, the transfer of water from IID to SDCWA, one of the core programs implemented under the QSA, would reduce the volume of agricultural drainage from IID’s service area into the Salton Sea, which in turn would accelerate this natural trend of the Salton Sea to hyper-salinity. See “—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*” below. In passing legislation to implement the QSA, the Legislature committed the State to undertake restoration of the Salton Sea ecosystem. Restoration of the Salton Sea is subject to selection and approval of an alternative by the Legislature and funding of the

associated capital improvements and operating costs. The Secretary for the California Natural Resources Agency submitted an \$8.9-billion preferred alternative for restoration of the Salton Sea to the Legislature in May 2007. While withholding authorization of the preferred alternative, the Legislature has appropriated funds from Proposition 84 to undertake demonstration projects and investigations called for in the Secretary's recommendation. On September 25, 2010, then-Governor Schwarzenegger signed Senate Bill 51, establishing the "Salton Sea Restoration Council" as a state agency in the Natural Resources Agency to oversee restoration of the Salton Sea. The council was directed to evaluate alternative Salton Sea restoration plans and to report to the Governor and the Legislature by June 30, 2013 with a recommended plan. However, Governor Brown's 2012 Reorganization Plan, as modified by budget trailer bill SB 1018 (Leno), Chapter 39, Statutes of 2012, effective December 31, 2012, eliminated the council before it ever met. The QSA implementing legislation also established the Salton Sea Restoration Fund, to be funded in part by payments made by the parties to the QSA and fees on certain water transfers among the parties to the QSA. Under the QSA agreements Metropolitan agreed to pay \$20 per acre-foot into the Salton Sea Restoration Fund for any special surplus Colorado River water that Metropolitan elects to take under the Interim Surplus Guidelines, if available. Metropolitan also agreed to acquire up to 1.6 million acre-feet of water conserved by IID, excluding water transferred from IID to SDCWA (see "*—Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*" below), if such water can be transferred consistent with plans for Salton Sea restoration, at an acquisition price of \$250 per acre-foot (in 2003 dollars), with net proceeds to be deposited into the Salton Sea Restoration Fund. No conserved water has been made available to Metropolitan under this program. As part of an effort to mitigate the effects of the drought in the Colorado River Basin that began in 2000, Metropolitan elected not to take delivery of special surplus Colorado River water that was available from October 2003 through 2004 and from 2006 through 2007. No special surplus water has been available since 2007. Metropolitan may receive credit for the special surplus water payments against future contributions for the Lower Colorado River Multi-Species Conservation Program (see "*—Environmental Considerations*" below). In consideration of these agreements, Metropolitan will not have or incur any liability for restoration of the Salton Sea.

*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority.* On April 29, 1998, SDCWA and IID executed an agreement (the "Transfer Agreement") for SDCWA's purchase from IID of Colorado River water that is conserved within IID. An amended Transfer Agreement, executed as one of the QSA agreements, set the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to deliver water directly from IID to SDCWA. Accordingly, Metropolitan and SDCWA entered into an exchange contract, pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. See "*—Quantification Settlement Agreement*" above. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower rate is paid by SDCWA for the exchange water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities. See "METROPOLITAN REVENUES—Wheeling and Exchange Charges" and "*—Litigation Challenging Rate Structure*" in this Appendix A for a description of Metropolitan's charges for the conveyance of water through Metropolitan's facilities and litigation in which SDCWA and IID are challenging such charges. In 2011, 143,243 acre-feet were delivered by SDCWA for exchange, consisting of 63,278 acre-feet of IID conservation plus 79,965 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects. In 2012, 186,861 acre-feet were delivered by SDCWA for exchange, consisting of 106,722 acre-feet of IID conservation plus 80,139 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects. In 2013, 180,256 acre-feet were

delivered by SDCWA for exchange, consisting of 100,000 acre-feet of IID conservation plus 80,256 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects.

The QSA agreements provided for delivery of 80,000 acre-feet of water conserved by IID in 2011. The delivery of conserved water fell short by 16,722 acre-feet. In accordance with the terms of the exchange contract, Metropolitan served SDCWA with a Notice of Default. The exchange contract provides that SDCWA will pay the lower water rate based on deliveries of exchange water that match the volume of conserved water made available by IID in each calendar year. Metropolitan invoiced SDCWA for its higher water rate on the 16,722 acre-feet of additional non-exchange water delivered in 2011. SDCWA paid this invoice under protest. Metropolitan agreed to exchange with SDCWA up to an additional 16,722 acre-feet in 2012 if IID delivered that volume of conserved water after meeting its 2012 obligation of 90,000 acre-feet. IID was able to obtain and deliver the additional 16,722 acre-feet by reducing its use of Colorado River water and Metropolitan credited back to SDCWA the amount paid under protest.

*QSA Related Litigation - State Court.* On November 5, 2003, IID filed a validation action in Imperial County Superior Court, seeking a judicial determination that thirteen agreements associated with the IID/SDCWA water transfer and the QSA are valid, legal and binding. Other lawsuits also were filed contemporaneously challenging the execution, approval and implementation of the QSA on various grounds. All of the QSA cases were coordinated in Sacramento Superior Court. Between early 2004 and late 2009, a number of pre-trial challenges and dispositive motions were filed by the parties and ruled on by the court, which reduced the number of active cases and narrowed the issues for trial, the first phase of which began on November 9, 2009 and concluded on December 2, 2009. One of the key issues in this first phase was the constitutionality of the QSA Joint Powers Agreement, pursuant to which IID, CVWD and SDCWA agreed to commit \$163 million toward certain mitigation and restoration costs associated with implementation of the QSA and related agreements, and the State agreed to be responsible for any costs exceeding this amount. A final judgment was issued on February 11, 2010, in which the trial court held that the State's commitment was unconditional in nature and, as such, violated the appropriation requirement and debt limitation under the California Constitution. The trial court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA Joint Powers Agreement. Lastly, the trial court ruled that all other claims raised by the parties, including CEQA claims related to the QSA Programmatic EIR and the IID Transfer Project EIR, are moot.

In March 2010, Metropolitan, IID, CVWD, SDCWA, the State and others filed notices of appeal challenging various aspects of the trial court's ruling. On December 7, 2011, the court of appeal issued its ruling reversing, in part, the trial court's ruling. In particular, the court of appeal held that while the State's commitment to fund mitigation costs in excess of \$163 million was unconditional, actual payment of such costs was subject to a valid appropriation by the Legislature, as required under the California Constitution. Moreover, the State's commitment did not create a present debt in excess of the State Constitution's \$300,000 debt limit. Thus, the QSA Joint Powers Agreement was held to be constitutional. The court of appeal also rejected other challenges to this agreement, including that it was beyond the State's authority, there was no "meeting of the minds," and there was a conflict of interest. In light of its ruling, the court of appeal remanded the matter back to the trial court for further proceedings on the claims that had been previously dismissed as moot. A two-day bench trial was held on November 13, 2012. On June 4, 2013 the trial court issued its ruling, holding that IID had acted within its authority in executing these agreements and had complied with all substantive and procedural requirements imposed under State law. In addition, the court held that the environmental reviews conducted in support of the QSA and related agreements complied with CEQA and its implementing regulations in all respects. In short, the trial court rejected all of the claims asserted by opponents of the QSA. Parties challenging the QSA appealed and agencies supporting the QSA filed a cross-appeal.

Briefing by the parties to the appeals and cross-appeals was completed in August 2014. The court of appeal subsequently accepted a settlement agreement and issued an order dismissing three parties from further proceedings. As a result, the only remaining QSA opponents involved in the state appellate proceeding are the

County of Imperial and the Imperial County Air Pollution Control District. No date for oral argument has been set. The impact that this litigation might have on Metropolitan's water supplies cannot be adequately determined at this time.

*QSA Related Litigation - Federal Court.* On January 28, 2010, Metropolitan was served with a federal complaint filed by the County of Imperial and the Imperial County Air Pollution Control District alleging that execution and implementation of three QSA-related agreements violate NEPA and the federal Clean Air Act. The complaint named the Department of the Interior, Secretary of the Interior, Bureau of Reclamation and Commissioner of Reclamation as defendants, and Metropolitan, CVWD, IID and SDCWA as real parties in interest. With respect to NEPA, the complaint alleged that the environmental impact statement prepared by the Bureau of Reclamation: failed to adequately analyze potential impacts on the Salton Sea and on land use, growth and socioeconomics; improperly segmented various project components; failed to address cumulative impacts; and failed to address mitigation of potential impacts. With respect to the Clean Air Act, the complaint alleged that the Bureau of Reclamation failed to conduct a conformity analysis as required under the Act and Imperial County Air Pollution Control District's own rules. On April 6, 2012, the court ruled against the plaintiffs and in favor of the defendants on all claims. The court held that the plaintiffs lacked standing to pursue NEPA and Clean Air Act claims and that the NEPA claims lacked merit. On May 19, 2014, the Ninth Circuit ruled in favor of the defendants. The court held that the plaintiffs had standing to assert these claims, but that no violation of either NEPA or the Clean Air Act had occurred. On August 1, 2014, the court denied the plaintiffs' petition for rehearing and rejected their petition for rehearing en banc.

*Navajo Nation Litigation.* The Navajo Nation filed litigation against the Department of the Interior, specifically the Bureau of Reclamation and the Bureau of Indian Affairs, in 2003, alleging that the Bureau of Reclamation has failed to determine the extent and quantity of the water rights of the Navajo Nation in the Colorado River and that the Bureau of Indian Affairs has failed to otherwise protect the interests of the Navajo Nation. The complaint challenges the adequacy of the environmental review for the Interim Surplus Guidelines (as defined under "—Interim Surplus Guidelines" below) and seeks to prohibit the Department of the Interior from allocating any "surplus" water until such time as a determination of the rights of the Navajo Nation is completed. Metropolitan and other California water agencies filed motions to intervene in this action. In October 2004 the court granted the motions to intervene and stayed the litigation to allow negotiations among the Navajo Nation, federal defendants, CAWCD, State of Arizona and Arizona Department of Water Resources. After years of negotiations, a tentative settlement was proposed in 2012 that would provide the Navajo Nation with specified rights to water from the Little Colorado River and groundwater basins under the reservation, along with federal funding for development of water supply systems on the tribe's reservation. The proposed agreement was rejected by tribal councils for both the Navajo and the Hopi, who are now seeking to intervene. On May 16, 2013, the stay of proceedings was lifted. On June 3, 2013, the Navajo Nation moved for leave to file a first amended complaint, which the court granted on June 27, 2013. The amended complaint added a legal challenge to the Lower Basin Shortage Guidelines adopted by the Secretary of the Interior in 2007 that allow Metropolitan and other Colorado River water users to store water in Lake Mead. Metropolitan has used these new guidelines to store over 500,000 acre-feet of water in Lake Mead that may be delivered at Metropolitan's request in future years. See "—*Intentionally-Created Surplus Program*" below. On July 22, 2014, the district court dismissed the lawsuit in its entirety, ruling that the Navajo Nation lacked standing and that the claim was barred against the federal defendants. The district court denied a motion by the Navajo Nation for leave to amend the complaint further after the dismissal. The Navajo Nation filed notice of intent to appeal the decision on September 19, 2014 from the dismissal of its claims related to the Interim Surplus Guidelines, the Lower Basin Shortage Guidelines, and breach of the federal trust obligation to the tribe. Metropolitan is unable to assess at this time the likelihood of success of this appeal or any future claims, or their potential effect on Colorado River water supplies.

*Interim Surplus Guidelines.* In January 2001, the Secretary of the Interior adopted guidelines (the "Interim Surplus Guidelines") for use through 2016 in determining if there is surplus Colorado

River water available for use in California, Arizona and Nevada. The purpose of the Interim Surplus Guidelines is to provide a greater degree of predictability with respect to the availability and quantity of surplus water through 2016. The Interim Surplus Guidelines were amended in 2007 and now extend through 2026 (see “—*Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead*” below). The Interim Surplus Guidelines contain a series of benchmarks for reductions in agricultural use of Colorado River water within California by set dates.

Under the Interim Surplus Guidelines, Metropolitan initially expected to divert up to 1.25 million acre-feet of Colorado River water annually under foreseeable runoff and reservoir storage scenarios from 2004 through 2016. However, an extended drought in the Colorado River Basin reduced these initial expectations. On May 16, 2002 SNWA and Metropolitan entered into an Agreement Relating to Implementation of Interim Colorado River Surplus Guidelines, in which SNWA and Metropolitan agreed to the allocation of unused apportionment as provided in the Interim Surplus Guidelines and on the priority of SNWA for interstate banking of water in Arizona. SNWA and Metropolitan entered into a storage and interstate release agreement on October 21, 2004. Under this program, SNWA can request that Metropolitan store unused Nevada apportionment in California. The amount of water stored through 2013 under this agreement is approximately 160,000 acre-feet. In subsequent years, SNWA may request recovery of this stored water. As part of a 2012 executed amendment, it is expected that SNWA will not request return of this water before 2022. The stored water provides flexibility to Metropolitan for blending Colorado River water with State Water Project water and improves near-term water supply reliability.

*Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead.* In November 2007, the Bureau of Reclamation issued a Final Environmental Impact Statement (“EIS”) regarding new federal guidelines concerning the operation of the Colorado River system reservoirs. These new guidelines provide water release criteria from Lake Powell and water storage and water release criteria from Lake Mead during shortage and surplus conditions in the Lower Basin, provide a mechanism for the storage and delivery of conserved system and non-system water in Lake Mead and extend the Interim Surplus Guidelines through 2026. The Secretary of the Interior issued the final guidelines through a Record of Decision signed in December 2007. The Record of Decision and accompanying agreement among the Colorado River Basin States protect reservoir levels by reducing deliveries during drought periods, encourage agencies to develop conservation programs and allow the Colorado River Basin States to develop and store new water supplies. The Colorado River Basin Project Act of 1968 insulates California from shortages in all but the most extreme hydrologic conditions.

*Intentionally-Created Surplus Program.* Metropolitan and the Bureau of Reclamation executed an agreement on May 26, 2006 for a demonstration program that allowed Metropolitan to leave conserved water in Lake Mead that Metropolitan would otherwise have used in 2006 and 2007. Only “intentionally-created surplus” water (water that has been conserved through an extraordinary conservation measure, such as land fallowing) was eligible for storage in Lake Mead under this program. See the table “Metropolitan’s Water Storage Capacity and Water in Storage” under the heading “—Storage Capacity and Water in Storage” below. Metropolitan may store additional intentionally-created surplus water in Lake Mead under the federal guidelines for operation of the Colorado River system reservoirs described above under the heading “*Lower Basin Shortage Guidelines and Coordinated Management Strategies for Lake Powell and Lake Mead.*” The Secretary of the Interior will deliver intentionally-created surplus water to Metropolitan in accordance with the terms of a December 13, 2007 Delivery Agreement between the United States and Metropolitan. As of January 2013, Metropolitan had approximately 580,000 acre-feet in its intentionally-created surplus accounts. These surplus accounts are made up of water conserved by fallowing in the Palo Verde Valley, projects implemented with IID in its service area, and desalination, specifically the Warren H. Brock Reservoir Project and the Yuma Desalting Plant pilot run. Metropolitan stored nearly 161,000 acre-feet of intentionally-created surplus water in 2012 and took delivery of 93,857 acre-feet in 2013.



*Environmental Considerations.* Federal and state environmental laws protecting fish species and other wildlife species have the potential to affect Colorado River operations. A number of species that are on either “endangered” or “threatened” lists under the ESAs are present in the area of the Lower Colorado River, including among others, the bonytail chub, razorback sucker, southwestern willow flycatcher and Yuma clapper rail. To address this issue, a broad-based state/federal/tribal/private regional partnership that includes water, hydroelectric power and wildlife management agencies in Arizona, California and Nevada have developed a multi-species conservation program for the main stem of the Lower Colorado River (the Lower Colorado River Multi-Species Conservation Program or “MSCP”). The MSCP allows Metropolitan to obtain federal and state permits for any incidental take of protected species resulting from current and future water and power operations of its Colorado River facilities and to minimize any uncertainty from additional listings of endangered species. The MSCP also covers operations of federal dams and power plants on the river that deliver water and hydroelectric power for use by Metropolitan and other agencies. The MSCP covers 27 species and habitat in the Lower Colorado River from Lake Mead to the Mexican border for a term of 50 years. Over the 50 year term of the program, the total cost to Metropolitan will be about \$88.5 million (in 2003 dollars), and annual costs will range between \$0.8 million and \$4.7 million (in 2003 dollars).

*Quagga Mussel Control Program.* In January 2007 quagga mussels were discovered in Lake Mead. Quagga mussels can reproduce quickly and, if left unmanaged, can clog intakes and raw water conveyance systems, alter or destroy fish habitats and affect lakes and beaches. Quagga mussels were introduced in the Great Lakes in the late 1980s. These organisms infest much of the Great Lakes basin, the St. Lawrence Seaway, and much of the Mississippi River drainage system. The most likely source of the quagga mussel infestation in the Colorado River is recreational boats with exposure to water bodies around the Great Lakes. Metropolitan developed a program in 2007 to address the long term introduction of mussel larvae into the Colorado River Aqueduct from the Lower Colorado River, which is now heavily colonized from Lake Mead through Lake Havasu. The quagga mussel control program consists of surveillance activities and control measures. Surveillance activities are conducted annually in conjunction with regularly scheduled two- to three-week long Colorado River Aqueduct shutdowns, which have the added benefit of desiccating exposed quagga mussels. Control activities consist of continuous chlorination at Copper Basin, quarterly use of a mobile chlorinator at outlet towers and physical removal of mussels from the trash racks in Lake Havasu. Recent shutdown inspections have demonstrated that the combined use of chlorine and regularly scheduled shutdowns effectively control mussel infestation in the Colorado River Aqueduct. Metropolitan’s costs for controlling quagga mussels are between \$4 million and \$5 million per year.

### **Water Transfer, Storage and Exchange Programs**

*General.* California’s agricultural activities consume approximately 34 million acre-feet of water annually, which is approximately 80 percent of the total water used for agricultural and urban uses and 40 percent of the water used for all consumptive uses, including environmental demands. Voluntary water transfers and exchanges can make a portion of this agricultural water supply available to support the State’s urban areas. Such existing and potential water transfers and exchanges are an important element for improving the water supply reliability within Metropolitan’s service area and accomplishing the reliability goal set by Metropolitan’s Board. Metropolitan is currently pursuing voluntary water transfer and exchange programs with State, federal, public and private water districts and individuals. The following are summary descriptions of some of these programs.

*Arvin-Edison/Metropolitan Water Management Program.* In December 1997, Metropolitan entered into an agreement with the Arvin-Edison Water Storage District (“Arvin-Edison”), an irrigation agency located southeast of Bakersfield, California. Under the program, Arvin-Edison stores water on behalf of Metropolitan. In January 2008, Metropolitan and Arvin-Edison amended the agreement to enhance the program’s capabilities and to increase the delivery of water to the California Aqueduct. Up to 350,000 acre-feet of Metropolitan’s water may be stored and Arvin-Edison is obligated to return up to 75,000 acre-feet of stored water in any year to Metropolitan, upon request. The agreement will terminate in 2035 unless extended. To facilitate the program, new wells, spreading basins and a return conveyance facility connecting

Arvin-Edison's existing facilities to the California Aqueduct have been constructed. The agreement also provides Metropolitan priority use of Arvin-Edison's facilities to convey high quality water available on the east side of the San Joaquin Valley to the California Aqueduct. Metropolitan's current storage account under the Arvin-Edison/Metropolitan Water Management Program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

*Semitropic/Metropolitan Groundwater Storage and Exchange Program.* In 1994 Metropolitan entered into an agreement with the Semitropic Water Storage District ("Semitropic"), located adjacent to the California Aqueduct north of Bakersfield, to store water in the groundwater basin underlying land within Semitropic. The minimum annual yield available to Metropolitan from the program is 31,500 acre-feet of water and the maximum annual yield is 223,000 acre-feet of water depending on the available unused capacity and the State Water Project allocation. Metropolitan's current storage account under the Semitropic program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

*California Aqueduct Dry-Year Transfer Program.* Metropolitan has entered into agreements with the Kern Delta Water District, the Mojave Water Agency ("Demonstration Water Exchange Program") and the San Bernardino Valley Municipal Water District ("SBVMWD") to insure against regulatory and operational uncertainties in the State Water Project system that could impact the reliability of existing supplies. The total potential yield from the three agreements is approximately 80,000 acre-feet of water per year when sufficient water is available.

Metropolitan entered into an agreement with SBVMWD in April 2001 to coordinate the use of facilities and State Water Project water supplies. The agreement allows Metropolitan a minimum purchase of 20,000 acre-feet on an annual basis with the option to purchase additional water when available. Also, the program includes 50,000 acre-feet of carryover storage. In addition to water being supplied using the State Water Project, the previously stored water can be returned using an interconnection between the San Bernardino Central Feeder and Metropolitan's Inland Feeder. On October 14, 2014, the Board approved the extension of this agreement to December 31, 2035.

Metropolitan entered into an agreement with Kern Delta Water District on May 27, 2003, for a groundwater banking and exchange transfer program to allow Metropolitan to store up to 250,000 acre-feet of State Water Contract water in wet years and permit Metropolitan, at Metropolitan's option, a return of up to 50,000 acre-feet of water annually during hydrologic and regulatory droughts. Additionally, Metropolitan entered into a groundwater banking and exchange transfer agreement with Mojave Water Agency on October 29, 2003. This agreement was amended in 2011 to allow for the cumulative storage of up to 390,000 acre-feet. The agreement allows for Metropolitan to store water in an exchange account for later return. Through 2021, and when the State Water Project allocation is 60 percent or less, Metropolitan can annually withdraw the Mojave Water Agency's State Water Project contractual amounts in excess of a 10 percent reserve. When the State Water Project allocation is over 60 percent, the reserved amount for Mojave's local needs increases to 20 percent. Under a 100 percent allocation, the State Water Contract provides Mojave Water Agency 82,800 acre-feet of water. Metropolitan's current storage account under these programs is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

*Other Water Purchase, Storage and Exchange Programs in the San Joaquin and Sacramento Valleys.* Metropolitan has been negotiating, and will continue to pursue, water purchase, storage and exchange programs with other agencies in the Sacramento and San Joaquin Valleys. These programs involve the storage of both State Water Project supplies and water purchased from other sources to enhance Metropolitan's dry-year supplies and the exchange of normal year supplies to enhance Metropolitan's water reliability and water quality, in view of dry conditions and potential impacts from the ESA cases discussed above under the heading "—State Water Project—Endangered Species Act Considerations." In addition, in the fall of 2008 DWR convened the State Drought Water Bank (the "Drought Water Bank") as a one-year

program to help mitigate water shortages in 2009. During 2009, Metropolitan purchased 36,900 acre-feet of Central Valley Water supplies through the Drought Water Bank, resulting in approximately 29,000 acre-feet of water deliveries after accounting for carriage and conveyance losses. In calendar year 2010, Metropolitan participated with other State Water Contractors as a group to purchase 88,137 acre-feet of water, resulting in approximately 68,000 acre-feet of deliveries to Metropolitan after carriage and conveyance losses. Additionally during 2010, Metropolitan entered into two transactions with the Westlands Water District and the San Luis Water District, neither of which is subject to carriage losses. Under the first transaction, Metropolitan purchased 18,453 acre-feet of water. In the second, Metropolitan accepted delivery of 110,692 acre-feet of water stored in the San Luis Reservoir, a joint use facility of the State Water Project and federal Central Valley Project, and returned two-thirds of that amount from Metropolitan's State Water Project supply in 2011 for a net yield of approximately 37,000 acre-feet.

Metropolitan entered into an agreement with DWR in December 2007 to purchase a portion of the water released by the Yuba County Water Agency ("YCWA"). YCWA was involved in a SWRCB proceeding in which it was required to increase Yuba River fishery flows. Within the framework of agreements known as the Yuba River Accord, DWR entered into an agreement for the long-term purchase of water from YCWA. Metropolitan, other State Water Project Contractors, and San Luis Delta Mendota Water Authority entered into separate agreements with DWR for purchase of portions of the water made available. Metropolitan's agreement allows Metropolitan to purchase at least 13,750 acre-feet to 35,000 acre-feet per year of water supplies in dry years through 2025. The agreement permits YCWA to transfer additional supplies at its discretion. For calendar years 2008, 2009 and 2010, Metropolitan purchased 26,430 acre-feet, 42,915 acre-feet and 67,068 acre-feet of water, respectively, from YCWA under this program. No purchases were made in calendar years 2011 and 2012, due to favorable water supply conditions. In calendar year 2013, Metropolitan purchased 10,209 acre-feet.

In 2013, in response to dry conditions, DWR established a new Multi-Year Water Pool Demonstration Program to allow two-year sales of State Water Project supplies between State Water Project Contractors. In 2013, Metropolitan purchased 30,000 acre-feet of these supplies.

*Metropolitan/CVWD/Desert Water Agency Exchange and Advance Delivery Agreement.* Metropolitan has agreements with the CVWD and the Desert Water Agency ("Desert") that require Metropolitan to exchange its Colorado River water for those agencies' State Water Project contractual water on an annual basis. Because Desert and CVWD do not have a physical connection to the State Water Project, Metropolitan takes delivery of Desert's and CVWD's State Water Project supplies and delivers a like amount of Colorado River water to the agencies. In accordance with an advance delivery agreement executed by Metropolitan, CVWD and Desert, Metropolitan has delivered Colorado River water in advance to these agencies for storage in the Upper Coachella Valley groundwater basin. In years when it is necessary to augment available supplies to meet local demands, Metropolitan has the option to meet the exchange delivery obligation through drawdowns of the advance delivery account, rather than deliver its Colorado River supply. Metropolitan's current storage account under the CVWD/Desert program is shown in the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below. In addition to the CVWD/Desert exchange agreements, Metropolitan has entered into separate agreements with CVWD and Desert for delivery of non-State Water Project supplies acquired by CVWD or Desert. Similarly, Metropolitan takes delivery of these supplies from State Water Project facilities and incurs an exchange obligation to CVWD or Desert. From 2008 through 2013, Metropolitan has received a net additional supply of 52,189 acre-feet of water acquired by CVWD and Desert.

*Other Agreements.* Metropolitan is entitled to storage and access to stored water in connection with various storage programs and facilities. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct" and "REGIONAL WATER RESOURCES—Local Water Supplies—*Conjunctive Use*" in this Appendix A, as well as the table "Metropolitan's Water Storage Capacity and Water in Storage" under the heading "—Storage Capacity and Water in Storage" below.

### Storage Capacity and Water in Storage

Metropolitan's storage capacity, which includes reservoirs, conjunctive use and other groundwater storage programs within Metropolitan's service area and groundwater and surface storage accounts delivered through the State Water Project or Colorado River Aqueduct, is approximately 5.93 million acre-feet. In 2013, approximately 626,000 acre-feet of stored water was emergency storage that was reserved for use in the event of supply interruptions from earthquakes or similar emergencies (see "METROPOLITAN'S WATER DELIVERY SYSTEM—Seismic Considerations" in this Appendix A), as well as extended drought. Metropolitan's emergency storage requirement is established periodically to provide a six-month water supply at 75 percent of member agencies retail demand under normal hydrologic conditions. Metropolitan's ability to replenish water storage, both in the local groundwater basins and in surface storage and banking programs, has been limited by Bay-Delta pumping restrictions under the Interim Remedial Order in *NRDC v. Kempthorne* and the biological opinions issued for listed species. See "—State Water Project—*Endangered Species Act Considerations*" above. Metropolitan replenishes its storage accounts when imported supplies exceed demands. Effective storage management is dependent on having sufficient years of excess supplies to store water so that it can be used during times of shortage. Historically, excess supplies have been available in about seven of every ten years. Metropolitan forecasts that, with anticipated supply reductions from the State Water Project due to pumping restrictions, it will need to draw down on storage in about seven of ten years and will be able to replenish storage in about three years out of ten. This reduction in available supplies extends the time required for storage to recover from drawdowns and could require Metropolitan to implement its Water Supply Allocation Plan during extended dry periods.

As a result of increased State Water Project supplies and reduced demands from 2010 to 2012, Metropolitan rebuilt its storage after several years of withdrawals to approximately 3.375 million acre-feet, including emergency storage. This was the highest end-of-year total water reserves in Metropolitan's history. In 2013, Metropolitan drew 407,000 acre-feet from storage to meet demands, reducing overall storage to 2.968 million acre-feet. Metropolitan expects to draw between 1.0 million acre-feet and 1.3 million acre-feet from storage in 2014 and anticipates that its 2014 year-end overall storage will be between 1.7 million acre-feet and 2.0 million acre-feet. The following table shows three years of Metropolitan's water in storage as of January 1, 2014, including emergency storage.

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**METROPOLITAN'S WATER STORAGE CAPACITY AND WATER IN STORAGE<sup>(1)</sup>**  
(in Acre-Feet)

<u>Water Storage Resource</u>	<u>Storage Capacity</u>	<u>Water in Storage January 1, 2014</u>	<u>Water in Storage January 1, 2013</u>	<u>Water in Storage January 1, 2012</u>
<b><u>Colorado River Aqueduct</u></b>				
Desert / CVWD Advance Delivery Account	800,000	260,000	321,000	203,000
Lake Mead ICS	<u>1,500,000</u>	<u>474,000</u>	<u>580,000</u>	<u>419,000</u>
<b>Subtotal</b>	<b>2,300,000</b>	<b>734,000</b>	<b>901,000</b>	<b>622,000</b>
<b><u>State Water Project</u></b>				
Arvin-Edison Storage Program	350,000	180,000	220,000	164,000
Semitropic Storage Program	350,000	238,000	285,000	245,000
Kern Delta Storage Program	250,000	169,000	179,000	135,000
San Bernardino Valley MWD				
Coordinated Operating Agreement	50,000	-0-	-0-	-0-
Mojave Storage Program	390,000 <sup>(5)</sup>	39,000	60,000	45,000
Castaic Lake and Lake Perris <sup>(2)</sup>	219,000	219,000	219,000	219,000
Metropolitan Article 56 Carryover <sup>(3)</sup>	200,000 <sup>(6)</sup>	49,000	156,000	200,000
Other State Water Project Carryover <sup>(4)</sup>	n/a	174,000	124,000	43,000
Emergency Storage	<u>334,000</u>	<u>334,000</u>	<u>334,000</u>	<u>334,000</u>
<b>Subtotal</b>	<b>2,143,000</b>	<b>1,402,000</b>	<b>1,577,000</b>	<b>1,385,000</b>
<b><u>Within Metropolitan's Service Area</u></b>				
Diamond Valley Lake	810,000	584,000	690,000	786,000
Lake Mathews	182,000	139,000	102,000	142,000
Lake Skinner	<u>44,000</u>	<u>36,000</u>	<u>38,000</u>	<u>37,000</u>
<b>Subtotal<sup>(7)</sup></b>	<b>1,036,000</b>	<b>759,000</b>	<b>830,000</b>	<b>965,000</b>
<b><u>Member Agency Storage Programs</u></b>				
Cyclic Storage, Conjunctive Use, and Supplemental Storage	<u>455,000</u>	<u>73,000</u>	<u>67,000</u>	<u>30,000</u>
<b>Total</b>	<b><u>5,934,000</u></b>	<b><u>2,968,000</u></b>	<b><u>3,375,000</u></b>	<b><u>3,002,000</u></b>

Source: Metropolitan.

- (1) Water storage capacity and water in storage are measured based on engineering estimates and are subject to change.
- (2) Flexible storage allocated to Metropolitan under its State Water Contract.
- (3) Article 56 Carryover storage capacity is dependent on the annual State Water Project allocation, which varies from year to year. Article 56 supplies represent water that is allocated to a State Water Project contractor in a given year and carried over to the next year pursuant to the State Water Contract.
- (4) Includes Article 56 Carryover from prior years, non-project carryover, and carryover of curtailed deliveries pursuant to Article 14(b) of Metropolitan's State Water Contract.
- (5) The Mojave Storage Program agreement was amended in 2011 to allow for cumulative storage of up to 390,000 acre-feet.
- (6) Metropolitan's State Water Project carryover capacity ranges from 100,000 to 200,000 acre-feet, on a sliding scale that depends on the final State Water Project allocation. At allocations of 50 percent or less, Metropolitan may store 100,000 acre-feet, and at allocations of 75 percent or greater, Metropolitan may store up to 200,000 acre-feet. For the purposes of this table, the highest possible carryover capacity is displayed.
- (7) Includes 292,000 acre-feet of emergency storage in Metropolitan's reservoirs.

## Water Conservation

The central objective of Metropolitan's water conservation program is to help ensure adequate, reliable and affordable water supplies for Southern California by actively promoting efficient water use. The importance of conservation to the region has increased in recent years because of drought conditions in the State Water Project watershed and court-ordered restrictions on Bay-Delta pumping, as described under "—State Water Project" above. Water conservation is an integral component of Metropolitan's IRP Strategy, WSDM Plan and Water Supply Allocation Plan, each described in this Appendix A under "METROPOLITAN'S WATER SUPPLY."

Metropolitan's conservation program has largely been developed to assist its member agencies in meeting the "best management practices" ("BMP") of the California Urban Water Conservation Council's Memorandum of Understanding Regarding Urban Water Conservation in California ("CUWCC MOU") and to meet the conservation goals of the 2010 IRP Update. See "—Integrated Water Resources Plan" above. Under the terms of the CUWCC MOU and Metropolitan's Conservation Credits Program, Metropolitan assists and co-funds member agency conservation programs designed to achieve greater water use efficiency in residential, commercial, industrial, institutional and landscape uses. Metropolitan uses its Water Stewardship Rate, which is charged for every acre-foot of water conveyed by Metropolitan, together with available grant funds, to fund conservation incentives and other water management programs. All users of Metropolitan's system benefit from the system capacity made available by investments in demand management programs like the Conservation Credits Program. See "METROPOLITAN REVENUES—Rate Structure—*Water Stewardship Rate*" in this Appendix A. Direct spending by Metropolitan on active conservation incentives, including rebates for water-saving plumbing fixtures, appliances and equipment, from fiscal year 1989-90 through fiscal year 2013-14 was about \$352 million. In fiscal year 2013-2014, Metropolitan increased the annual conservation budget from \$20 million to \$40 million, which has been used to fund a \$5.5 million outreach campaign and to double the incentive for the turf replacement program. As of August 2014, \$15.8 million has been committed to the turf replacement program. The 2010 Integrated Water Resources Plan Update estimates that 1,037,000 acre-feet of water will be conserved annually in southern California by 2025. See "—Integrated Water Resources Plan" above.

The WSDM Plan, which was adopted by Metropolitan's Board in April 1999, evolved from Metropolitan's experiences during the droughts of 1976-77 and 1987-92. The WSDM Plan splits resource actions into two major categories: Surplus Actions and Shortage Actions. The Surplus Actions store surplus water, first inside then outside the region. The Shortage Actions of the WSDM Plan are split into three sub-categories: Shortage, Severe Shortage, and Extreme Shortage. Each category has associated actions that could be taken as a part of the response to prevailing shortage conditions. Conservation and water efficiency programs are part of Metropolitan's resource management strategy through all categories.

Metropolitan's plan for allocation of water supplies in the event of shortage (the "Water Supply Allocation Plan"; see "—Water Supply Allocation Plan" below) allocates Metropolitan's water supplies among its member agencies, based on the principles contained in the WSDM Plan, to reduce water use and drawdowns from water storage reserves. Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also have the ability to implement water conservation and allocation programs, and some of the retail suppliers in Metropolitan's service area have initiated conservation measures. The success of conservation measures in conjunction with the Water Supply Allocation Plan is evidenced as a contributing factor in the lower than budgeted water sales during fiscal years 2009-10, 2010-11 and 2011-12.

Legislation approved in November 2009 sets a statewide conservation target for urban per capita water use of 20 percent reductions by 2020 (with credits for existing conservation) at the retail level, providing an additional catalyst for conservation by member agencies and retail suppliers. (See "—State Water Project—*Bay-Delta Regulatory and Planning Activities*" above.) Metropolitan's water sales projections incorporate an estimate of conservation savings that will reduce retail demands. Current projections include an estimate of additional water use efficiency savings that would result from local

agencies reducing their per capita water use in response to the 20 percent by 2020 conservation savings goals required by recent legislation as well as an estimate of additional conservation that would have to occur to reach Metropolitan's IRP goal of reducing overall regional per capita water use by 20 percent by 2020.

### **Water Supply Allocation Plan**

The Water Supply Allocation Plan was approved by the Board in February 2008. The Water Supply Allocation Plan provides a formula for equitable distribution of available water supplies in case of extreme water shortages within Metropolitan's service area. On April 14, 2009, Metropolitan's Board adopted a resolution declaring a regional water shortage and implementing the Water Supply Allocation Plan, effective July 1, 2009. The Board set the "Regional Shortage Level" at Water Supply Allocation Plan Level 2, which required reduction of regional water use by approximately 10 percent and resulted in a total allocation of about 2.09 million acre-feet of Metropolitan water in fiscal year 2009-10. On April 13, 2010, the Board adopted a resolution recognizing the continuing regional water shortage and again setting the Regional Shortage Level at Water Supply Allocation Plan Level 2, which sustained the regional water use reduction of approximately 10 percent. Due to improved hydrologic and storage conditions, on April 12, 2011, the Board terminated implementation of the 2010-11 Water Supply Allocation Plan, restoring imported water deliveries to member agencies to pre-allocation levels. Following Board-directed review of the Water Supply Allocation Plan three years after its approval, on September 13, 2011, the Board approved adjustments to the formula for calculating member agency supply allocations for any future implementation of the Water Supply Allocation Plan. Although the Act gives each of Metropolitan's member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan (see "METROPOLITAN REVENUES—Preferential Rights"), historically, these rights have not been used in allocating Metropolitan's water.

Metropolitan's member agencies and retail water suppliers in Metropolitan's service area also may implement water conservation and allocation programs within their respective service territories in times of shortage.

### **REGIONAL WATER RESOURCES**

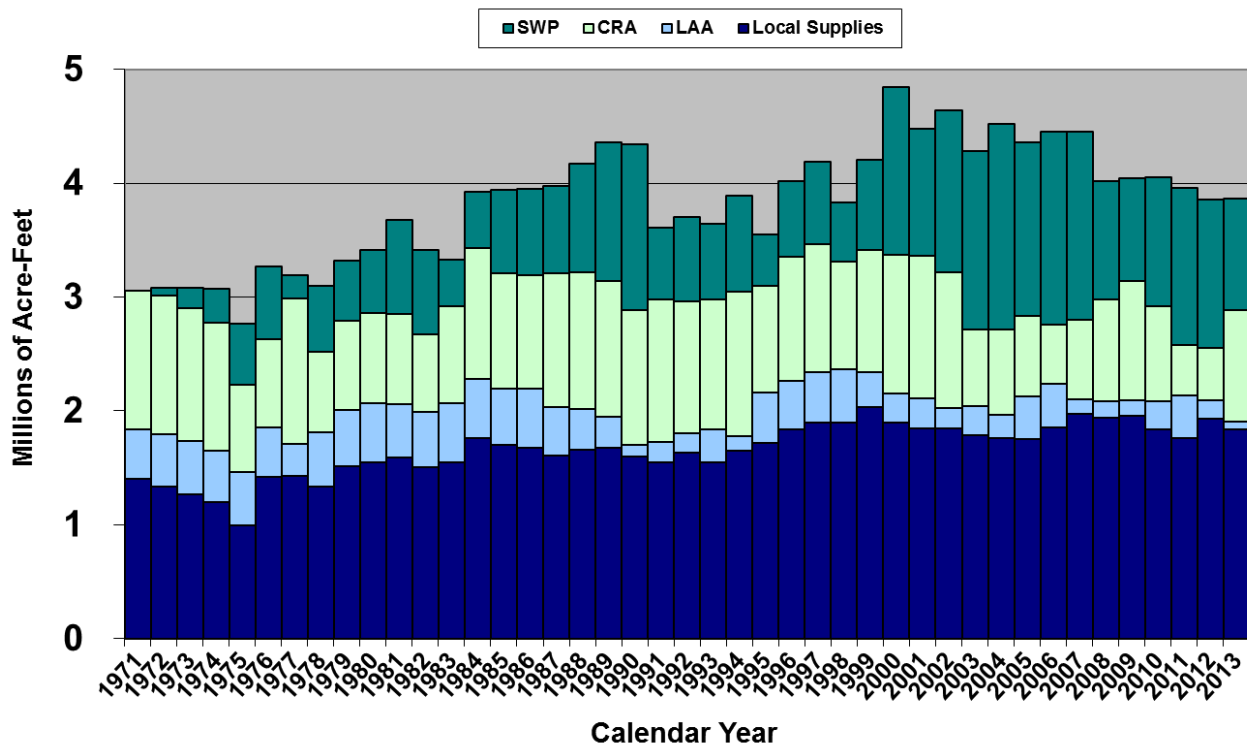
The water supply for Metropolitan's service area is provided in part by Metropolitan and in part by non-Metropolitan sources available to members. Approximately 60 percent of the water supply for Metropolitan's service area is imported water received by Metropolitan from its Colorado River Aqueduct and the State Water Project and by the City of Los Angeles (the "City") from the Los Angeles Aqueduct. While the City is one of the largest water customers of Metropolitan, it receives a substantial portion of its water from the Los Angeles Aqueduct and local groundwater supply. The balance of water within the region is produced locally, primarily from groundwater supplies and runoff.

Metropolitan's member agencies are not required to purchase or use any of the water available from Metropolitan. Some agencies depend on Metropolitan to supply nearly all of their water needs, regardless of the weather. Other agencies, with local surface reservoirs or aqueducts that capture rain or snowfall, rely on Metropolitan more in dry years than in years with heavy rainfall, while others, with ample groundwater supplies, purchase Metropolitan water only to supplement local supplies and to recharge groundwater basins. The demand for supplemental supplies provided by Metropolitan is dependent on water use at the retail consumer level and the amount of locally supplied and conserved water. See "METROPOLITAN'S WATER SUPPLY—Water Conservation" in this Appendix A and "—Local Water Supplies" below. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales. Future reliance on Metropolitan supplies will be dependent, among other things, on local projects and the amount of water, if any, that may be derived from sources other than Metropolitan. In recent years, supplies and demands have been affected by drought, water use restrictions, economic conditions, weather conditions and environmental laws, regulations and judicial decisions, as described in this Appendix A under "METROPOLITAN'S WATER SUPPLY." For information on Metropolitan's water sales revenues, see

“METROPOLITAN REVENUES” and “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

The following graph shows a summary of the regional sources of water supply for the years 1971 to 2013. Local supplies available within Metropolitan’s service area are augmented by water imported by the City through the Los Angeles Aqueduct (“LAA”) and Metropolitan supplies provided through the CRA and State Water Project.

### Source of Water Supply in the Metropolitan Service Area (1971-2013)



Source: Metropolitan.

The major sources of water for Metropolitan’s member agencies in addition to supplies provided by Metropolitan are described below.

#### Los Angeles Aqueduct

The City, through its Department of Water and Power (“LADWP”), operates its Los Angeles Aqueduct system to import water from the Owens Valley and the Mono Basin on the eastern slopes of the Sierra Nevada in eastern California. Prior to the 1990-1991 drought, the City had imported an average of 440,000 acre-feet of water annually from the combined Owens Valley/Mono Basin system, of which about 90,000 acre-feet came from the Mono Basin. Under the Mono Lake Basin Water Right Decision (Decision 1631) issued in September 1994, which revised LADWP’s water rights licenses in the Mono Basin, the City is limited to export 16,000 acre-feet annually from the Mono Basin until it reaches its target elevation of 6,391 feet above mean sea level.



Pursuant to the City's turnout agreement with DWR, Antelope Valley-East Kern Water Agency ("AVEK") and Metropolitan, LADWP commenced construction in 2010 of the turnout facilities along the California Aqueduct within AVEK's service area. Upon completion, expected by early 2015, the turnout will enable delivery of water from the California Aqueduct to the Los Angeles Aqueduct. Conditions precedent to such delivery of water include obtaining agreements for the transfer of non-State Water Project water directly from farmers, water districts or others in Northern and Central California, available capacity in the California Aqueduct and compliance with State Water Project water quality requirements. The agreement allows for use of the turnout for delivery of non-State Water Project water annually to the City in amounts not to exceed the supplies lost to the City as a result of its Eastern Sierra environmental obligations, including water for the Lower Owens River Project and the Owens Lake Dust Mitigation Project which could use up to 95,000 acre-feet of Los Angeles Aqueduct water.

Historically, the Los Angeles Aqueduct and local groundwater supplies have been nearly sufficient to meet the City's water requirements during normal water supply years. As a result, prior to the 1990-1991 drought only about 13 percent of the City's water needs (approximately 82,000 acre-feet) were supplied by Metropolitan. From fiscal year 2000-01 to fiscal year 2010-11, approximately 31 to 71 percent of the City's total water requirements were met by Metropolitan. For the five fiscal years ended June 30, 2014, the City's water deliveries from Metropolitan averaged approximately 293,000 acre-feet per year, which constituted approximately 53 percent of the City's total water supply. Deliveries from Metropolitan to the City during this period varied between approximately 166,000 acre-feet per year and approximately 435,000 acre-feet per year. See "METROPOLITAN REVENUES—Principal Customers" in this Appendix A. According to LADWP's Year 2010 Urban Water Management Plan, the City is planning to increase locally-developed supplies including recycled water, new conservation, stormwater capture and local groundwater from the average for the five-year period ending June 30, 2010 of 12 percent to 43 percent of its normal year supplies by fiscal year 2034-35. Accordingly, the City's reliance on Metropolitan supplies will decrease from the five year average ending June 30, 2010 of 52 percent to 24 percent of its normal year supplies by fiscal year 2034-35. However, the City may still purchase up to 511,000 acre-feet per year or 82 percent of its dry year supplies from Metropolitan until 2035. This corresponds to an increase from normal to dry years of approximately 257,000 acre-feet in potential demand for supplies from Metropolitan.

LADWP analyzed the additional impacts to the Los Angeles Aqueduct's water supply deliveries for various environmental projects aimed at improving air quality and fish and riparian habitat in the Owens Valley. LADWP reports that, in 2013, 62 percent of its Los Angeles Aqueduct water was devoted to dust and environmental mitigation projects in the Owens Valley and Eastern Sierra, resulting in the need to purchase an equivalent amount of Metropolitan supply. On June 27, 2013, LADWP and regulators reached a major agreement regarding future dust control on portions of Owens Lake and use of new water-saving dust control measures.

### **Local Water Supplies**

Local water resources include groundwater production, recycled water production and diversion of surface flows. While local water resources are non-Metropolitan sources of water supply, Metropolitan has executed agreements for storage of Metropolitan supplies in local groundwater basins and provided incentives for local supply development as described below. Member agencies and other local agencies have also independently funded and developed additional local supplies, including groundwater storage and clean-up, recycled water and desalination of brackish or high salt content water.

Metropolitan's water sales projections are based in part on projections of locally-supplied water. Projections of future local supplies are based on estimated yields from sources and projects that are currently producing water or are under construction at the time a water sales projection is made. Additional reductions in Metropolitan's water sales projections are made to account for future local supply augmentation projects, based on the 2010 IRP Update goals. See "MANAGEMENT'S DISCUSSION OF HISTORICAL AND

PROJECTED REVENUES AND EXPENSES—Water Sales Projections” and “METROPOLITAN’S WATER SUPPLY—Integrated Water Resources Plan” in this Appendix A.

*Groundwater.* Demands for about 1.5 million acre-feet per year, about one-third of the annual water demands for approximately 18.4 million residents of Metropolitan’s service area, are met from groundwater production. Local groundwater supplies are supported by recycled water, which is blended with imported water and recharged into groundwater basins, and also used for creating seawater barriers that protect coastal aquifers from seawater intrusion.

*Groundwater Storage Programs.* Metropolitan has executed agreements with a number of agencies to develop groundwater storage projects in its service area. These projects are designed to help meet the water delivery reliability goals of storing surplus imported supplies when available so that local agencies can withdraw stored groundwater during droughts or other periods of water supply shortage. In 2000, Metropolitan was allocated \$45 million in State Proposition 13 bond proceeds to develop groundwater storage projects in Metropolitan’s service area. The nine projects provide about 212,000 acre-feet of groundwater storage and have a combined extraction capacity of about 70,000 acre-feet per year. During fiscal year 2008-09, over 70,000 acre-feet of stored water was produced and sold from these storage accounts. Fiscal year 2009-10 sales from the nine accounts totaled nearly 41,000 acre-feet, leaving a balance of approximately 26,000 acre-feet in the storage accounts. Metropolitan began refilling the programs in fiscal year 2010-11. As of October 2014, the balance in the nine accounts was approximately 49,000 acre-feet. Metropolitan has called nearly 40,000 acre-feet to be produced from these storage accounts during the 15-month period from April 2014 through June 2015. See table “Metropolitan’s Water Storage Capacity and Water in Storage” under “METROPOLITAN’S WATER SUPPLY—Storage Capacity and Water in Storage” in this Appendix A.

*Recovered Groundwater.* Contamination of groundwater supplies is a growing threat to local groundwater production. Metropolitan has been supporting increased groundwater production and improved regional supply reliability by offering financial incentives to agencies for production and treatment of degraded groundwater since 1991. Metropolitan has executed agreements with local agencies to provide financial incentives to 24 projects that recover contaminated groundwater with total contract yields of about 112,500 acre-feet per year. During fiscal year 2013-14, Metropolitan provided incentives for approximately 68,400 acre-feet of recovered water under these agreements. Total groundwater recovery use under executed agreements is expected to grow to 76,000 acre-feet by 2015.

*Surface Runoff.* Local surface water resources consist of runoff captured in storage reservoirs and diversions from streams. Since 1980, agencies have used an average of 116,000 acre-feet per calendar year of local surface water. Local surface water supplies are heavily influenced by year to year local weather conditions, varying from a high of 188,000 acre-feet in calendar year 1998 to a low of 65,000 acre-feet in calendar year 2003.

*Conjunctive Use.* Conjunctive use is accomplished when groundwater basins are used to store imported supplies during water abundant periods. The stored water is used during shortages and emergencies with a corresponding reduction in surface deliveries to the participating agencies. Regional benefits include enhancing Metropolitan’s ability to capture excess surface flows during wet years from both the State Water Project and Colorado River. Groundwater storage is accomplished using spreading basins, injection wells, and in-lieu deliveries where imported water is substituted for groundwater, and the groundwater not pumped is considered stored water.

Metropolitan has promoted conjunctive use at the local agency level under its Replenishment Service Program by discounting rates for imported water placed into groundwater or reservoir storage during wet months. The discounted rate and program rules encouraged construction of additional groundwater production facilities allowing local agencies to be more self-sufficient during shortages. (See “*Groundwater Storage Programs*” above.) In calendar year 2006, Metropolitan delivered approximately 247,000 acre-feet

of water as replenishment water. In calendar year 2007, Metropolitan delivered approximately 46,000 acre-feet of water as replenishment water through May 1, 2007 then discontinued such deliveries until May 10, 2011 when Metropolitan's Board authorized sale of up to 225,000 acre-feet of discounted replenishment service deliveries to member agencies for the remainder of calendar year 2011. In calendar year 2011, Metropolitan delivered approximately 225,000 acre-feet of this discounted replenishment water. No replenishment sales were budgeted for fiscal year 2012-13 and thereafter. The Replenishment Service Program was discontinued effective December 31, 2012. See "METROPOLITAN REVENUES—Classes of Water Service—*Replenishment*" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Projections" in this Appendix A.

*Recycled Water.* Metropolitan has supported recycled water use to offset water demands and improve regional supply reliability by offering financial incentives to agencies for production and sales of recycled water since 1982. Metropolitan has executed agreements with local agencies to provide financial incentives to 75 recycled water projects with total contract yields of about 307,000 acre-feet per year. During fiscal year 2013-14, Metropolitan provided incentives for approximately 180,000 acre-feet of reclaimed water under these agreements. Total recycled water use under executed agreements is expected to grow to about 187,000 acre-feet by 2015.

*Seawater Desalination.* Metropolitan's IRP includes seawater desalination as a core local supply and supports foundational actions to lay the groundwork for accelerating seawater desalination development as needed in the future. To encourage local development, Metropolitan has signed Seawater Desalination Program ("SDP") incentive agreements with three of its member agencies: Long Beach, Municipal Water District of Orange County ("MWDOC") and West Basin Municipal Water District. The SDP agreements provide incentives to the member agencies of up to \$340 per acre-foot when the desalinated supplies are produced. Agreement terms are for the earlier of 25 years or through 2040 and are designed to phase out if Metropolitan's rates surpass the unit cost of producing desalinated seawater. SDP agreements are subject to final approval by Metropolitan's Board after review of the complete project description and environmental documentation. These projects are currently in the development phase and collectively are anticipated to produce up to 46,000 acre-feet annually.

In November 2012, SDCWA approved a water purchase agreement with Poseidon Resources LLC ("Poseidon Resources") for a seawater desalination project in Carlsbad (the "Carlsbad Project") to provide a minimum of 48,000 acre-feet and a maximum of 56,000 acre-feet of desalinated supplies to SDCWA per year. The Carlsbad Project is under construction and is anticipated to be completed in 2016.

Other seawater desalination projects that could provide supplies to Metropolitan's service area are under development or consideration. Poseidon Resources is developing a 56,000 acre-feet per year plant in Huntington Beach which is currently in the permitting phase. MWDOC and the Cities of Anaheim, Fullerton, and Santa Ana applied for incentive funding under Metropolitan's Local Resources Program ("LRP") on behalf of the project in October 2013 and Metropolitan is currently reviewing the application. SDCWA is studying the potential for a seawater desalination plant in Camp Pendleton which would initially produce up to 56,000 acre-feet per year and potentially up to 168,000 acre-feet per year with a phased build out. SDCWA, in collaboration with Mexican government agencies, also is considering a 56,000 acre-feet per year facility in Rosarito Beach, Mexico. If developed, SDCWA could receive a portion of the desalinated supplies through a delivery pipeline across the international border to SDCWA. Otay Water District, located in San Diego County along the Mexico border, is separately considering the feasibility of purchasing water from an alternative seawater desalination project at the same site in Rosarito Beach. Approvals from a number of U.S. and Mexican federal agencies, along with State and local approvals, would be needed for either cross-border project to proceed.

## METROPOLITAN'S WATER DELIVERY SYSTEM

### Method of Delivery

Metropolitan's water delivery system is made up of three basic components: the Colorado River Aqueduct, the California Aqueduct of the State Water Project and Metropolitan's internal water distribution system. Metropolitan's delivery system is integrated and designed to meet the differing needs of its member agencies. Metropolitan seeks redundancy in its delivery system to assure reliability in the event of an outage. Current system expansion and other improvements will be designed to increase the flexibility of the system. Since local sources of water are generally used to their maximum each year, growth in the demand for water is partially met by Metropolitan. Accordingly, the operation of Metropolitan's water system is being made more reliable through the rehabilitation of key facilities as needed, improved preventive maintenance programs and the upgrading of Metropolitan's operational control systems. See "CAPITAL INVESTMENT PLAN" in this Appendix A.

*Colorado River Aqueduct.* Work on the Colorado River Aqueduct commenced in 1933 and water deliveries started in 1941. Additional facilities were completed by 1961 to meet additional requirements of Metropolitan's member agencies. The Colorado River Aqueduct is 242 miles long, starting at the Lake Havasu intake and ending at the Lake Mathews terminal reservoir. Metropolitan owns all of the components of the Colorado River Aqueduct, which include five pump plants, 64 miles of canal, 92 miles of tunnels, 55 miles of concrete conduits and 144 underground siphons totaling 29 miles in length. The pumping plants lift the water approximately 1,617 feet over several mountain ranges to Metropolitan's service area. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct" in this Appendix A.

*State Water Project.* The initial portions of the State Water Project serving Metropolitan were completed in 1973. State Water Project facilities are owned and operated by DWR. Twenty-nine agencies have entered into contracts with DWR to receive water from the State Water Project. See "METROPOLITAN'S WATER SUPPLY—State Water Project" in this Appendix A.

*Internal Distribution System.* Metropolitan's internal water distribution system includes components that were built beginning in the 1930s and through the present. Metropolitan owns all of these components, including 14 dams and reservoirs, five regional treatment plants, over 800 miles of transmission pipelines, feeders and canals, and 16 hydroelectric plants with an aggregate capacity of 131 megawatts.

*Diamond Valley Lake.* Diamond Valley Lake, a man-made reservoir located southwest of the city of Hemet, California, covers approximately 4,410 acres and has capacity to hold approximately 810,000 acre-feet or 265 billion gallons of water. Diamond Valley Lake was constructed to serve approximately 90 percent of Metropolitan's service area by gravity flow. Associated hydraulic structures consist of an inlet-outlet tower, pumps and generating facilities, a pressure control facility, connecting tunnels and a forebay. Imported water is delivered to Diamond Valley Lake during surplus periods. The reservoir provides more reliable delivery of imported water from the State Water Project and the Colorado River Aqueduct during summer months, droughts and emergencies. In addition, Diamond Valley Lake is capable of providing more than one-third of Southern California's water needs from storage for approximately six months after a major earthquake (assuming that there has been no impairment of Metropolitan's internal distribution network). See the table "Metropolitan's Water Storage Capacity and Water in Storage" under "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A for the amount of water in storage at Diamond Valley Lake. Excavation at the project site began in May 1995. Diamond Valley Lake was completed in March 2000, at a total cost of \$2 billion, and was in full operation in December 2001.

*Inland Feeder.* The Inland Feeder is a 44-mile-long conveyance system that connects the State Water Project to Diamond Valley Lake and the Colorado River Aqueduct. The Inland Feeder provides greater flexibility in managing Metropolitan's major water supplies and allows greater amounts of State Water Project water to be accepted during wet seasons for storage in Diamond Valley Lake. In addition, the Inland

Feeder increases the conveyance capacity from the East Branch of the State Water Project by 1,000 cfs, allowing the East Branch to operate up to its full capacity. Construction of the Inland Feeder was completed in September 2009 at a total cost of \$1.14 billion.

*Operations Control Center.* Metropolitan's water conveyance and distribution system operations are coordinated from the Operations Control Center ("OCC") located in the Eagle Rock area of Los Angeles. The OCC plans, balances and schedules daily water and power operations to meet member agencies' demands, taking into consideration the operational limits of the entire system.

## **Water Treatment**

Metropolitan filters and disinfects water at five water treatment plants: the F.E. Weymouth Treatment Plant, the Joseph Jensen Treatment Plant, the Henry J. Mills Treatment Plant, the Robert B. Diemer Treatment Plant and the Robert A. Skinner Treatment Plant. The plants treat an average of between 1.7 billion and 2.0 billion gallons of water per day, and have a maximum capacity of approximately 2.6 billion gallons per day. Approximately 60 percent of Metropolitan's water deliveries are treated water.

Federal and state regulatory agencies continually monitor and establish new water quality standards. New water quality standards could affect availability of water and impose significant compliance costs on Metropolitan. The Safe Drinking Water Act ("SDWA") was amended in 1986 and again in 1996. The SDWA establishes drinking water quality standards, monitoring, public notification and enforcement requirements for public water systems. To achieve these objectives, the U.S. Environmental Protection Agency ("USEPA"), as the lead regulatory authority, promulgates national drinking water regulations and develops the mechanism for individual states to assume primary enforcement responsibilities. The California Department of Public Health ("CDPH"), formerly known as the Department of Health Services, has lead authority over California water agencies. Metropolitan continually monitors new water quality laws and regulations and frequently comments on new legislative proposals and regulatory rules.

In October 2007, Metropolitan began adding fluoride to treated water at all five of its treatment plants for regional compliance with Assembly Bill 733, enacted in 1995, which requires fluoridation of any public water supply with over 10,000 service connections in order to prevent tooth decay, subject to availability of sufficient funding. Design and construction of the fluoridation facilities at Metropolitan's five treatment plants were funded primarily by a \$5.5 million grant from the California Dental Association Foundation, in conjunction with the California Fluoridation 2010 Work Group. On August 9, 2011, four individuals filed litigation (*Foli, et al. v. Metropolitan Water District of Southern California, et al.*) in federal district court alleging deprivation of civil rights, impairment of civil rights and unfair competition based on fluoridation of Metropolitan's treated water deliveries. On April 10, 2012 the court granted Metropolitan's motion to dismiss the case without prejudice. Plaintiffs filed a first amended complaint on April 24, 2012. Metropolitan's motion to dismiss the first amended complaint was granted on January 25, 2013, dismissing the case with prejudice. On February 20, 2013, plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit. Plaintiffs are appealing the January 2013 order which granted Metropolitan's motion to dismiss plaintiffs' first amended complaint, as well as the April 2012 order which granted Metropolitan's motion to dismiss plaintiffs' original complaint. Plaintiffs filed their opening brief with the Ninth Circuit on June 27, 2013, and Metropolitan filed its answering brief and motion for judicial notice on August 28, 2013. Plaintiffs filed their reply brief and a request for judicial notice with the Ninth Circuit on October 10, 2013. No trial date has been set.

*Disinfection By-products.* As part of the requirements of the SDWA, the USEPA is required to establish regulations to strengthen protection against microbial contaminants and reduce potential health risks from disinfection by-products. Disinfectants and disinfection by-products ("DBPs" and, together with disinfectants, "D/DBPs") were addressed by the USEPA in two stages. In the Stage 1 Disinfectants and Disinfection Byproducts Rule ("Stage 1 DBPR"), the maximum contaminant level ("MCL") for one of the classes of DBPs, total trihalomethanes ("TTHM"), was lowered from 100 parts per billion ("ppb") to 80 ppb.

MCLs were also set for haloacetic acids (“HAA”) and bromate (an ozone DBP). In addition, the Stage 1 DBPR includes a treatment requirement to remove disinfection by-product precursors. Compliance with these requirements started in January 2002. Metropolitan already satisfied these requirements for its Colorado River Water, which has lower levels of disinfection by-product precursors than State Water Project water. State Water Project water has a greater amount of disinfection by-product precursors and modifications to the treatment process have been made to meet the requirements of the Stage 1 DBPR. Longer-term D/DBP control has been achieved by switching to ozone as the primary disinfectant at the Mills, Jensen and Skinner treatment plants. Mills and Jensen treatment plants only receive water from the State Water Project. Ozone facilities at the Mills and Jensen plants began operating in October 2003 and July 2005, respectively. Skinner, Diemer and Weymouth water treatment plants receive a blend of water from the State Water Project and the Colorado River. Ozone facilities at the Skinner plant became operational in October 2010. The Diemer plant is nearing the end of construction of its ozone facilities with an online date anticipated in 2014. Construction of Weymouth ozone facilities is underway and anticipated to be complete in fiscal year 2016-17. See “CAPITAL INVESTMENT PLAN—Major Projects of Metropolitan’s Capital Investment Plan” in this Appendix A. Ozone will enable these plants to reliably treat water containing higher blends of State Project water and still meet the new microbial and D/DBP standards, while also improving the aesthetics, such as taste and odor, of water delivered to consumers.

The second stage of the D/DBP Rule (“Stage 2 DBPR”) was finalized in January 2006. The Stage 2 DBPR requires water systems to meet the TTHM and HAA standards at individual monitoring locations in the distribution system as opposed to a distribution system-wide average under the Stage 1 DBPR. Metropolitan does not anticipate any further capital improvements in order to meet the Stage 2 DBPR requirements.

The Interim Enhanced Surface Water Treatment Rule and the Long Term 2 Enhanced Surface Water Treatment Rule (“LT2ESWTR”) have been implemented to simultaneously provide protection against microbial pathogens while the D/DBP rules provide reduced risk from disinfection by-products. Metropolitan does not anticipate any further capital improvements in order to meet the LT2ESWTR requirements.

*Perchlorate.* Perchlorate, used in solid rocket propellants, munitions and fireworks, has contaminated some drinking water wells and surface water sources throughout California. Perchlorate also has been detected in Metropolitan’s Colorado River water supplies. A chemical manufacturing facility near Lake Mead in Nevada is a primary source of the contamination. Remediation efforts began in 1998 and have been successful at meeting the cleanup objectives, significantly reducing the levels of perchlorate entering into the Colorado River. CDPH has established a primary drinking water standard (i.e., an MCL) of 6 ppb for perchlorate. Current perchlorate levels in Metropolitan’s Colorado River supplies are below 2 ppb.

*Chromium 6.* Hexavalent chromium or chromium 6 is one of several forms of chromium that occur in natural waters in the environment. Chromium 6 is the relatively more harmful form of chromium that is regulated under the public health standard MCL of 50 ppb for “total” chromium. The California Department of Public Health filed the final regulation for chromium 6 on April 15, 2014, setting a new MCL of 10 ppb. The new MCL became effective July 1, 2014, and water utilities will be required to comply with such MCL by the end of 2015. Since monitoring began in 1998, chromium 6 in Metropolitan’s treated water has ranged from non-detect (less than 0.03 ppb) to less than 1 ppb. Metropolitan expects that the recently adopted chromium 6 regulation will not materially affect the water supply to Metropolitan or result in significant compliance costs.

*Arsenic.* The federal and state MCL for arsenic in drinking water is 10 ppb. Arsenic levels in Metropolitan’s treated water supplies ranged from not detected (less than 2 ppb) to 2.7 ppb in 2012, which is within the historically expected range.

## Seismic Considerations

*General.* Although the magnitude of damages resulting from a significant seismic event are impossible to predict, Metropolitan's water conveyance and distribution facilities are designed to either withstand a maximum probable seismic event or to minimize the potential repair time in the event of damage. The five pumping plants on the Colorado River Aqueduct have been buttressed to better withstand seismic events. Other components of the Colorado River Aqueduct are monitored for any necessary rehabilitation and repair. Metropolitan personnel and independent consultants periodically reevaluate the internal water distribution system's vulnerability to earthquakes. As facilities are evaluated and identified for seismic retrofitting, they are prioritized, with those facilities necessary for delivering or treating water scheduled for upgrade before non-critical facilities. However, major portions of the California Aqueduct and the Colorado River Aqueduct are located near major earthquake faults, including the San Andreas Fault. A significant earthquake could damage structures and interrupt the supply of water, adversely affecting Metropolitan's revenues and its ability to pay its obligations. Therefore, emergency supplies are stored for use throughout Metropolitan's service area, and a six-month reserve supply of water normally held in local storage (including emergency storage in Diamond Valley Lake) provides reasonable assurance of continuing water supplies during and after such events.

Metropolitan has an ongoing surveillance program that monitors the safety and structural performance of its 14 dams and reservoirs. Operating personnel perform regular inspections that include monitoring and analyzing seepage flows and pressures. Engineers responsible for dam safety review the inspection data and monitor the horizontal and vertical movements for each dam. Major on-site inspections are performed at least twice each year. Instruments that transmit seismic acceleration time histories for analysis any time a dam is subjected to strong motion during an earthquake are located at a number of selected sites.

In addition, Metropolitan has developed an emergency plan that calls for specific levels of response appropriate to an earthquake's magnitude and location. Included in this plan are various communication tools as well as a structured plan of management that varies with the severity of the event. Pre-designated personnel follow detailed steps for field facility inspection and distribution system patrol. Approximately 40 employees are designated to respond immediately under certain identifiable seismic events. An emergency operations center is maintained at the OCC. The OCC, which is specifically designed to be earthquake resistant, contains communication equipment, including a radio transmitter, microwave capability and a response line linking Metropolitan with its member agencies, DWR, other utilities and the State's Office of Emergency Services.

Metropolitan also maintains machine, fabrication and coating shops at its facility in La Verne, California. Several construction contracts have been completed over the last few years to upgrade and expand these shops. A total of nearly \$37 million has been invested to enhance Metropolitan's capacity to not only provide fabrication and coating services for planned rehabilitation work, maintenance activities, and capital projects, but to also perform emergency fabrication support to Metropolitan and its member agencies. Metropolitan has also maintained reimbursable agreements with DWR to perform machining, fabrication, and coating services for critical repair and rehabilitation of State Water Project facilities. These agreements have enhanced timely and cost-effective emergency response capabilities. Materials to fabricate pipe and other appurtenant fittings are kept in inventory at the La Verne site. In the event of earthquake damage, Metropolitan has taken measures to provide the design and fabrication capacity to fabricate pipe and related fittings. Metropolitan is also staffed to perform emergency repairs and has pre-qualified contractors for emergency repair needs at various locations throughout Metropolitan's service area.

*State Water Project Facilities.* The California Aqueduct crosses all major faults either by canal at ground level or by pipeline at very shallow depths to ease repair in case of damage from movement along a fault. State Water Project facilities are designed to withstand major earthquakes along a local fault or magnitude 8.1 earthquakes along the San Andreas Fault without major damage. Dams, for example, are

designed to accommodate movement along their foundations and to resist earthquake forces on their embankments. Earthquake loads have been taken into consideration in the design of project structures such as pumping and power plants. The location of check structures on the canal allows for hydraulic isolation of the fault-crossing repair.

While the dams, canals, pump stations and other constructed State Water Project facilities have been designed to withstand earthquake forces, the critical supply of water from Northern California must traverse the Bay-Delta through hundreds of miles of varying levels of engineered levees that are susceptible to major failures due to flood and seismic risk. In the event of a failure of the Bay-Delta levees, the quality of the Bay-Delta's water could be severely compromised as salt water comes in from the San Francisco Bay. Metropolitan's supply of State Water Project water would be adversely impacted if pumps that move Bay-Delta water southward to the Central Valley and Southern California are shut down to contain the salt water intrusion. Metropolitan estimates that stored water supplies, Colorado River Aqueduct supplies and local water resources that would be available in case of a levee breach or other interruption in State Water Project supplies would meet demands in Metropolitan's service area for approximately twelve months. See "METROPOLITAN'S WATER SUPPLY—Storage Capacity and Water in Storage" in this Appendix A. Since the State and Federal governments control the Bay-Delta levees, repair of any levee failures would be the responsibility of and controlled by the State and Federal governments.

Metropolitan, in cooperation with the State Water Contractors, developed recommendations to DWR for emergency preparedness measures to maintain continuity in export water supplies and water quality during emergency events. These measures include improvements to emergency construction materials stockpiles in the Bay-Delta, improved emergency contracting capabilities, strategic levee improvements and other structural measures of importance to Bay-Delta water export interests, including development of an emergency freshwater pathway to export facilities in a severe earthquake. DWR utilized \$12 million in fiscal year 2007-08 for initial stockpiling of rock for emergency levee repairs and development of Bay-Delta land and marine loading facilities and has identified future funding for expanded stockpiles.

*Perris Dam.* Perris Dam forms Lake Perris, the terminal reservoir for the State Water Project in Riverside County, with maximum capacity of approximately 130,000 acre-feet of water. DWR reported in July 2005 that seismic studies indicate that DWR's Perris Dam facility could sustain damage from moderate earthquakes along the San Jacinto or San Andreas faults due to potential weaknesses in the dam's foundation. In late 2005, DWR lowered the water level in the reservoir by about 25 feet and reduced the amount of water stored in the reservoir to about 75,000 acre-feet as DWR evaluated alternatives for repair of the dam. In December 2006, DWR completed a study identifying various repair options, began additional geologic exploration along the base of Perris Dam and started preliminary design. DWR's preferred alternative is to repair the dam to restore the reservoir to its historical level. On November 11, 2011, DWR certified the final EIR and filed a Notice of Determination stating its intent to proceed with the preferred alternative. DWR estimates that repairs will cost approximately \$141 million with commencement of construction anticipated in 2014 and completion in mid-2017. Under the original allocation of joint costs for this facility, the State would have paid approximately six percent of the repair costs. However, because of the recreational benefit this facility provides to the public, the Legislature has approved a recommendation from DWR that the State assume 32.2 percent of these repair costs. The remaining 67.8 percent of repairs costs will be paid for by the three agencies that use the water stored in Lake Perris: Metropolitan (42.9 percent), Desert Water Agency (3.0 percent) and Coachella Valley Water District (21.9 percent). See "METROPOLITAN EXPENDITURES—State Water Contract Obligations" in this Appendix A.

### **Security Measures**

Metropolitan conducts ground and air patrols of the Colorado River Aqueduct and monitoring and testing at all treatment plants and along the Colorado River Aqueduct. Similarly, DWR has in place security measures to protect critical facilities of the State Water Project, including both ground and air patrols of the State Water Project.



Although Metropolitan has constructed redundant systems and other safeguards to ensure its ability to continually deliver water to its customers, and DWR has made similar efforts, a terrorist attack or other security breach against water facilities could materially impair Metropolitan's ability to deliver water to its customers, its operations and revenues and its ability to pay its obligations.

## CAPITAL INVESTMENT PLAN

### General Description

Metropolitan's current Capital Investment Plan (the "Capital Investment Plan" or "CIP") involves expansion and rehabilitation of existing facilities and construction of new facilities to meet future water demands, ensure system reliability as well as enhance operational efficiency and flexibility, and comply with water quality regulations. Metropolitan's CIP is regularly reviewed and updated. Implementation and construction of specific elements of the program are subject to Board approval, and the amount and timing of borrowings will depend upon, among other factors, status of construction activity and water demands within Metropolitan's service area. From time to time projects that have been undertaken are delayed, redesigned or deferred by Metropolitan for various reasons and no assurance can be given that a project in the CIP will be completed in accordance with its original schedule or that any project will be completed as currently planned.

### Projection of Capital Investment Plan Expenditures

The table below sets forth the projected CIP expenditures in the adopted biennial budget for fiscal years 2014-15 and 2015-16, including replacement and refurbishment expenditures, by project type for the fiscal years ending June 30, 2015 through 2019. This estimate is updated bi-annually as a result of the periodic review and adoption of the capital budget by Metropolitan's Board of Directors. See "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" in this Appendix A.

### CAPITAL INVESTMENT PLAN PROJECTION OF EXPENDITURES<sup>(1) (2)</sup> (Fiscal Years Ended June 30 - Dollars in Thousands)

<u>Cost of Service</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Conveyance & Aqueduct	\$27,193	\$22,311	\$27,168	\$46,281	\$46,119	\$169,072
Storage	12,244	12,562	1,999	-	-	26,805
Distribution	43,508	51,642	69,826	112,699	135,673	413,348
Treatment	126,149	148,652	121,390	95,124	79,270	570,585
Administrative and General	28,109	30,393	50,357	26,484	23,214	158,557
Hydroelectric	<u>8,212</u>	<u>2,308</u>	<u>4,067</u>	<u>467</u>	<u>120</u>	<u>15,174</u>
<b>Total<sup>(2)</sup></b>	\$245,415	\$267,868	\$274,807	\$281,055	\$284,396	\$1,353,541

Source: Metropolitan.

- (1) Fiscal year 2014-15 through 2018-19 based on the adopted biennial budget for fiscal years 2014-15 and 2015-16. Totals are rounded.
- (2) Annual totals include replacement and refurbishment expenditures for fiscal years 2014-15 through 2018-19 of \$139 million, \$162 million, \$159 million, \$223 million, and \$250 million, respectively, for a total of \$932 million for fiscal years 2014-15 through 2018-19.

The above projections do not include amounts for contingencies, but include escalation at 2.77 percent per year for projects for which formal construction contracts have not been awarded. Additional

capital costs may arise in the future as a result of, among other things, federal and State water quality regulations, project changes and mitigation measures necessary to satisfy environmental and regulatory requirements, and for additional facilities. See “METROPOLITAN’S WATER DELIVERY SYSTEM—Water Treatment” in this Appendix A.

### **Capital Investment Plan Financing**

The CIP will require funding from debt financing (see “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A) as well as from pay-as-you-go funding. The Board has adopted an internal funding objective to fund all capital program expenditures required for replacements and refurbishments of Metropolitan facilities from current revenues. However, in order to reduce drawdowns of reserve balances and to mitigate financial risks that could occur in upcoming years, actual pay-as-you-go funding has been less than projected amounts during fiscal years 2007-08 through 2012-13. During this period, pay-as-you-go funding was reduced to \$256 million, rather than the \$521 million originally projected. For fiscal year 2013-14, the pay-as-you-go funding for the capital program was \$117 million. On April 8, 2014, Metropolitan’s Board approved a total of \$466 million for pay-as-you-go expenditures as part of the biennial budget for fiscal year 2014-15 and fiscal year 2015-16. These pay-as-you-go funds, together with funds available in the Replacement and Refurbishment Fund, are expected to fund \$513 million in CIP expenditures for fiscal year 2014-15 and fiscal year 2015-16. As in prior years, pay-as-you-go funding may be reduced or increased by the Board during the fiscal year. To limit the accumulation of cash and investments in the Replacement and Refurbishment Fund, the maximum balance in this fund at the end of each fiscal year will be \$160 million. Amounts above the \$160 million limit will be transferred to the Revenue Remainder Fund and may be used for any lawful purpose. See “METROPOLITAN REVENUES—Financial Reserve Policy” in this Appendix A. The remainder of capital program expenditures will be funded through the issuance from time to time of water revenue bonds, which are payable from Net Operating Revenues. Metropolitan’s budget assumptions for the adopted biennial budget for fiscal years 2014-15 and 2015-16 provide for the issuance of no additional water revenue bonds to fund the CIP in fiscal years 2014-15 through 2016-17, \$40 million of water revenue bonds in fiscal year 2017-18, and \$100 million of water revenue bonds in fiscal year 2018-19.

### **Major Projects of Metropolitan’s Capital Investment Plan**

*Oxidation Retrofit Facilities.* The oxidation retrofit facilities program includes the design and construction of oxidation facilities and appurtenances at all of Metropolitan’s treatment plants. This program is intended to allow Metropolitan to meet drinking water standards for disinfection by-products and reduce taste and odor incidents. The first phase of the oxidation retrofit program, at Metropolitan’s Henry J. Mills Treatment Plant in Riverside County, was completed in 2003. Oxidation retrofit at the Joseph Jensen Treatment Plant was completed July 1, 2005. The cost for these two projects was approximately \$236.4 million. Oxidation retrofit at the Robert A. Skinner plant was substantially completed in December 2009 and operational in 2010, with follow-up work completed in June 2014. Expenditures at the Skinner plant through June 2014 were \$243.3 million. Total oxidation program costs at the Skinner plant are estimated to be \$245.5 million. Construction of the oxidation retrofit facilities at the Robert B. Diemer Treatment Plant was completed in June 2013. All testing and start-up work is planned to be complete in 2015. Program expenditures at the Diemer plant through June 2014 were \$357.4 million and the total program cost is projected to be \$370.0 million. The construction contract for the Weymouth oxidation facilities, the last Metropolitan treatment plant to be retrofitted, was awarded in June 2012. Oxidation program costs at the F.E. Weymouth plant, based upon the adopted budget, were estimated to be \$338.5 million. Due to the ongoing highly competitive bidding environment, the awarded construction contract was more than \$100 million below the budgeted amount. Expenditures at the Weymouth plant through June 2014 were \$141.9 million and completion is expected in fiscal year 2016-17. Total oxidation program costs at the F.E. Weymouth plant are estimated to be \$270.0 million.

*F.E. Weymouth Treatment Plant Improvements.* The F.E. Weymouth Treatment Plant was built in 1938 and subsequently expanded several times over the following 25 years. It is Metropolitan’s oldest water

treatment facility. Metropolitan has completed several upgrades and refurbishment/replacement projects to maintain the plant's reliability and improve its efficiency. These include power systems upgrades, a residual solids dewatering facility, refurbishment/replacement of the mechanical equipment in two of the eight flocculation and settling basins, a new plant maintenance facility, new chemical feed systems and storage tanks, replacement of the plant domestic/fire water system, seismic upgrades to the plant inlet structure, and a new chlorine handling and containment facility. Planned projects over the next several years include refurbishment of the plant's filters and settling basins, seismic retrofits to the filter buildings and administration building, and replacement of the valves used to control filter operation. The cost estimate for all prior and projected improvements at the Weymouth plant, not including the ozone facilities, is approximately \$422.1 million, with \$197.7 million spent through June 2014. Budgeted aggregate capital expenditures for improvements at the Weymouth plant for fiscal years 2014-15 and 2015-16 are \$42.8 million.

*Robert B. Diemer Treatment Plant Improvements.* The Robert B. Diemer Treatment Plant was built in 1963 and subsequently expanded in 1968. It is Metropolitan's second oldest water treatment facility and has a capacity to treat 520 million gallons of water a day. Several upgrades and refurbishment/replacement projects have been completed at the Diemer plant, including power system upgrades, a new residual solids dewatering facility, new vehicle and plant maintenance facilities, new chemical feed systems and storage tanks, a new chlorine handling and containment facility, construction of a roller-compacted concrete slope stabilization system and a new secondary access road. Planned projects over the next several years include refurbishment of the plant's settling basins, seismic retrofits to the filter buildings and administration building, and replacement of the valves used to control filter operation. The current cost estimate for all prior and projected improvements at the Diemer Treatment Plant, not including the ozone facilities, is approximately \$384.6 million, with \$189.4 million spent through June 2014. Budgeted aggregate capital expenditures for improvements at the Diemer plant for fiscal years 2014-15 and 2015-16 are \$59.4 million.

*Colorado River Aqueduct Facilities.* Deliveries through the Colorado River Aqueduct began in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the Colorado River Aqueduct are regularly evaluated. A major overhaul of the pump units at the five pumping plants was completed in 1988. Refurbishment or replacement of many of the electrical system components, including the transformers, circuit breakers and motor control centers, is currently under way. Projects completed over the past 10 years include replacement of high voltage circuit breakers and transformers at the five pumping plant switchyards, refurbishment of operators and power centers on the head gates downstream of the pumping plants, refurbishment/replacement of 15 isolation/control gates, replacement of cast iron pipe and other components at over 200 outlet structures with stainless steel components, replacement of pumping plant inlet trash racks, replacement of several miles of deteriorated concrete canal liner, and replacement of the outlet gates and appurtenant electrical, mechanical, and control systems at the Copper Basin Reservoir. Additionally, many of the mechanical components at all five pumping plants will be evaluated and replaced or refurbished over the next several years. The currently projected cost estimate for all prior and planned refurbishment or replacement projects is \$468.2 million. Costs through June 2014 were \$167.3 million. Budgeted aggregate capital expenditures for improvements on the Colorado River Aqueduct for fiscal years 2014-15 and 2015-16 are \$53.3 million.

*Distribution System – Prestressed Concrete Cylinder Pipe.* Metropolitan's distribution system (see "METROPOLITAN'S WATER DELIVERY SYSTEM" in this Appendix A) is comprised of approximately 830 miles of pipelines ranging in diameter from 30 inches to over 200 inches. 163 miles of the distribution system is made up of prestressed concrete cylinder pipe ("PCCP"). In response to PCCP failures experienced by several water agencies, Metropolitan initiated the PCCP Assessment Program in December 1996 to evaluate the condition of Metropolitan's PCCP lines and investigate inspection and refurbishment methods. As a result, Metropolitan has identified and made repairs to several sections of PCCP. The costs for these repairs to date have totaled nearly \$60 million. Rather than continue to make spot repairs to pipe segments, Metropolitan has initiated a long-term capital program to rehabilitate approximately 100 miles of PCCP in five pipelines. This rehabilitation, which is currently planned to consist of relining the pipelines with a steel

liner, will be performed in stages to minimize delivery impacts to customers. The first PCCP line planned for relining is the Second Lower Feeder. Approximately 30 miles of this line are constructed of PCCP, with diameters ranging from 78 to 84 inches. This effort is anticipated to take 8 to 10 years to complete at a cost of approximately \$500 million. Preliminary design is currently underway. Design for rehabilitation of the remaining four pipelines will be initiated over the next several years. The estimated cost to reline all 100 miles of PCCP is approximately \$2.6 billion.

*Distribution System – Refurbishments and Improvements.* In addition to the long-term program to rehabilitate Metropolitan’s PCCP lines, several other components of the distribution system are being refurbished and/or improved. Past and ongoing projects to ensure the reliability of the distribution system, primarily due to age, include multiple replacements or refurbishments of isolation and control valves and gates, refurbishment to pressure control and hydroelectric power facilities, and various other upgrades totaling over \$140 million since fiscal year 2000-01. The currently projected cost estimate for the prior and planned refurbishment or replacement projects is \$600 million. Budgeted aggregate capital expenditures for improvements on the distribution system other than PCCP rehabilitation for fiscal years 2014-15 and 2015-16 are \$53.4 million.

Also, as a result of the current statewide drought, Metropolitan initiated a project to enable reverse-flow through a series of existing pipelines to deliver water stored in Diamond Valley Lake to Metropolitan’s Henry J. Mills Water Treatment Plant, which has historically received only raw water from DWR’s State Water Project. Construction contracts were awarded in June and August 2014 to complete this effort. The total estimated cost for this project is approximately \$37 million. It is planned to be completed by May 2015.

## **GOVERNANCE AND MANAGEMENT**

### **Board of Directors**

Metropolitan is governed by a 37-member Board of Directors. Each member public agency is entitled to have at least one representative on the Board, plus an additional representative for each full five percent of the total assessed valuation of property in Metropolitan’s service area that is within the member public agency. Changes in relative assessed valuation do not terminate any director’s term. Accordingly, the Board may, from time to time, have more than 37 directors.

The Board includes business, professional and civic leaders. Directors serve on the Board without compensation from Metropolitan. Voting is based on assessed valuation, with each member agency being entitled to cast one vote for each \$10 million or major fractional part of \$10 million of assessed valuation of property within the member agency, as shown by the assessment records of the county in which the member agency is located. The Board administers its policies through the Metropolitan Water District Administrative Code (the “Administrative Code”), which was adopted by the Board in 1977. The Administrative Code is periodically amended to reflect new policies or changes in existing policies that occur from time to time.

### **Management**

Metropolitan’s day-to-day management is under the direction of its General Manager, who serves at the pleasure of the Board, as do Metropolitan’s General Counsel, General Auditor and Ethics Officer. Following is a biographical summary of Metropolitan’s principal executive officers.

*Jeffrey Kightlinger, General Manager* – Mr. Kightlinger was appointed as General Manager in February 2006, leaving the position of General Counsel, which he had held since February 2002. Before becoming General Counsel, Mr. Kightlinger was a Deputy General Counsel and then Assistant General Counsel, representing Metropolitan primarily on Colorado River matters, environmental issues, water rights and a number of Metropolitan’s water transfer and storage programs. Prior to joining Metropolitan in 1995,

Mr. Kightlinger worked in private practice representing numerous public agencies including municipalities, redevelopment agencies and special districts. Mr. Kightlinger earned his bachelor's degree in history from the University of California, Berkeley, and his law degree from Santa Clara University.

*Marcia Scully, General Counsel* – Ms. Scully assumed the position of General Counsel in March 2012. She previously served as Metropolitan's Interim General Counsel from March 2011 to March 2012. Ms. Scully joined Metropolitan in 1995, after a decade of private law practice, providing legal representation to Metropolitan on construction, employment, Colorado River and significant litigation matters. From 1981 to 1985 she was assistant city attorney for the City of Inglewood. Ms. Scully served as president of University of Michigan's Alumnae Club of Los Angeles and is a recipient of the 1996 State Bar of California, District 7 President's Pro Bono Service Award and the Southern California Association of Non-Profit Housing Advocate of the Year Award. She is also a member of the League of Women Voters for Whittier and was appointed for two terms on the City of Whittier's Planning Commission, three years of which were served as chair. Ms. Scully earned a bachelor's degree in liberal arts from the University of Michigan, a master's degree in urban planning from Wayne State University and law degree from Loyola Law School.

*Gerald C. Riss, General Auditor* – Mr. Riss was appointed as Metropolitan's General Auditor in July 2002 and is responsible for the independent evaluation of the policies, procedures and systems of control throughout Metropolitan. Mr. Riss is a certified fraud examiner, certified financial services auditor and certified risk professional with more than 25 years of experience in accounting, audit and risk management. Prior to joining Metropolitan, Mr. Riss was Vice President and Assistant Division Head of Risk Management Administration at United California Bank/Bank of the West. He also served as Senior Vice President, director of Risk Management and General Auditor of Tokai Bank of California from 1988 until its reorganization as United California Bank in 2001. He earned a bachelor's degree in accounting and master's degree in business administration from Wayne State University in Detroit, Michigan.

*Deena Ghaly, Ethics Officer* – Ms. Ghaly was appointed Ethics Officer in November 2012. Ms. Ghaly joined Metropolitan with over 20 years of legal and ethics-related experience. Prior to joining Metropolitan, she served as an administrative law judge for the California Office of Administrative Hearings. She previously was head of enforcement and general counsel for the Los Angeles City Ethics Commission, which administers and enforces the laws regarding campaign contributions, lobbying, and government ethics for the city of Los Angeles. Before moving to Southern California in 2001, Ms. Ghaly lived and worked in New York City, where she headed the labor department in the general counsel's office of a large city agency. Licensed to practice law in California, New York and New Jersey, Ms. Ghaly is knowledgeable in workplace investigations, government ethics, regulatory affairs, and labor and employment matters. She has lectured throughout the nation on various topics, including parallel criminal and administrative prosecution, due process in administrative procedures, and effective internal investigations. Ms. Ghaly earned a bachelor's degree in philosophy from Wellesley College in Massachusetts and a law degree from Cornell Law School.

*Gary Breaux, Assistant General Manager/Chief Financial Officer* – Mr. Breaux has had extensive experience working for local governments since 1983. From 1994 until joining Metropolitan in October 2011, he served as Director of Finance for East Bay Municipal Utility District ("EBMUD"). At EBMUD, he was responsible for all financial areas, including treasury operations, debt management, rates, internal audit, accounting and reporting, risk management and customer and community services. Prior to joining EBMUD, he was Director of Finance for the City of Oakland, California. A native of Colorado, Mr. Breaux received a Bachelor of Science degree in Business from the University of Colorado in 1977 and a master's degree in Public Administration in 1987 from Virginia Commonwealth University.

*Debra Man, Assistant General Manager/Chief Operating Officer* – Ms. Man was appointed to this position in December 2003. Ms. Man has worked at Metropolitan since 1986, beginning as an engineer and advancing to Chief of the Planning and Resources Division. As Chief of Planning and Resources she was responsible for major initiatives adopted by Metropolitan's Board, such as the Integrated Water Resources Plan, rate structure, and facility plans for expansion of Metropolitan's distribution system. In 1999, she was

appointed as Vice President of Water Transfers and Exchanges, responsible for securing water supplies through agreements and partnerships with other water and agricultural interests in San Joaquin Valley and Southern California and demonstrating Metropolitan's water supply reliability in compliance with current laws. Ms. Man is a registered professional civil engineer in California and Hawaii. She has a master's degree in civil/environmental engineering from Stanford University and a bachelor's degree in civil engineering from the University of Hawaii.

*Roger Patterson, Assistant General Manager/Strategic Initiatives* – Mr. Patterson was appointed Assistant General Manager in March 2006. He is responsible for overseeing water supply and planning issues, including the Colorado River and State Water Project. He previously served as a consultant to Metropolitan on Colorado River issues. Mr. Patterson was the director of the Nebraska Department of Natural Resources from 1999 to 2005, where he was responsible for water administration, water planning, flood-plain delineation, dam safety and the state databank. Prior to his work in Nebraska, Mr. Patterson spent 25 years with the Bureau of Reclamation, retiring from the Bureau as the Regional Director for the Mid-Pacific Region. He is a registered professional engineer in Nebraska and Colorado, and earned bachelor's and master's degrees in engineering from the University of Nebraska.

*Gilbert F. Ivey, Assistant General Manager/Chief Administrative Officer* – Mr. Ivey is the Chief Administrative Officer and is responsible for human resources, real property management, strategic land development and Metropolitan's small business program. Mr. Ivey has been with Metropolitan for 40 years, starting as a summer trainee in the Engineering Division. He has held various positions in Finance, Right-of-Way and Land, Operation, Human Resources and Executive Offices. He earned a bachelor's degree in business administration from California State University, Dominguez Hills and holds various professional designations and certifications in management from Pepperdine University and the University of Southern California.

*Dee Zinke, Deputy General Manager/External Affairs* – Ms. Zinke is responsible for Metropolitan's communications, outreach, education and legislative matters. She joined Metropolitan in 2009 as Manager of the Legislative Services Section. Before coming to Metropolitan, Ms. Zinke was the Manager of Governmental and Legislative Affairs at the Calleguas Municipal Water District for nearly 10 years, where she received recognition for her significant contributions to the Association of California Water Agencies, the Ventura County Special Districts Association and the Association of Water Agencies of Ventura County. During her tenure at Calleguas, she was named Chair of the Ventura County Watersheds Coalition and appointed by then-Secretary of Resources Mike Chrisman to the State Watershed Advisory Committee, a post she still holds today. Prior to her public service, she worked in the private sector as the Executive Officer and Senior Legislative Advocate for Building Industry Association of Greater Los Angeles and Ventura Counties and as Director of Communications for E-Systems, a defense contractor specializing in communication, surveillance and navigation systems in Washington, D.C. Ms. Zinke holds a Bachelor of Arts degree in Communication and Psychology from Virginia Polytechnic Institute and State University.

## **Employee Relations**

The total number of regular full-time Metropolitan employees on October 15, 2014 was 1,768, of whom 1,238 were represented by AFSCME Local 1902, 91 by the Supervisors Association, 288 by the Management and Professional Employees Association and 135 by the Association of Confidential Employees. The remaining 16 employees are unrepresented. The four bargaining units represent 99 percent of Metropolitan's employees. The Memorandum of Understanding ("MOU") with the Association of Confidential Employees covers the period January 1, 2011 through December 31, 2015. The MOUs with the Management and Professional Employees Association and with AFSCME Local 1902 cover the period January 1, 2011 to December 31, 2016. The MOU with the Supervisors Association covers the period September 13, 2011 to December 31, 2016.

## Risk Management

Metropolitan is exposed to various risks of loss related to the design, construction, treatment and delivery of water. With the assistance of third party claims administrators, Metropolitan is self-insured for liability, property and workers' compensation. Metropolitan self-insures the first \$25 million per liability occurrence, with commercial liability coverage of \$75 million in excess of the self-insured retention. The \$25 million self-insured retention is maintained as a separate restricted reserve. Metropolitan is also self-insured for loss or damage to its property, with the \$25 million self-insured retention also being accessible for emergency repairs and Metropolitan property losses. In addition, Metropolitan obtains other excess and specialty insurance coverage such as directors' and officers' liability, fiduciary liability and aircraft hull and liability coverage.

Metropolitan self-insures the first \$5 million for workers' compensation with excess coverage of \$50 million. Metropolitan separately funds remaining workers' compensation and general liability claims arising from the Diamond Valley Lake and early portions of the Inland Feeder construction projects, which were insured through Owner Controlled Insurance Programs ("OCIPs"). The OCIPs for those projects have been concluded. The costs to settle and close the remaining claims for the Diamond Valley Lake and Inland Feeder construction projects are estimated to be \$1 million and \$300,000, respectively.

The self-insurance retentions and reserve levels currently maintained by Metropolitan may be modified by Metropolitan's Board at its sole discretion.

## METROPOLITAN REVENUES

### General

Until water deliveries began in 1941, Metropolitan's activities were, by necessity, supported entirely through the collection of *ad valorem* property taxes. Since the mid-1980s, water sales revenues have provided approximately 75 to 85 percent of total revenues and *ad valorem* property taxes have accounted for about 10 percent of revenues, declining to five percent of revenues in fiscal year 2012-13. The remaining revenues have been derived principally from the sale of hydroelectric power, interest on investments and additional revenue sources (water standby charges and availability of service charges) beginning in 1993. *Ad valorem* taxes do not constitute a part of Operating Revenues and are not available to make payments with respect to the water revenue bonds issued by Metropolitan.

Generally, Metropolitan has constitutional and statutory authority, as well as voter authorization, to levy *ad valorem* property taxes to pay its outstanding general obligation bonds and to satisfy its State Water Contract obligations. Beginning in fiscal year 1990-91, *ad valorem* taxes were applied solely to pay annual debt service on Metropolitan's general obligation bonds and a small portion of State Water Contract obligations, pursuant to requirements in the Act that limit property tax collections to the amount necessary to pay annual debt service on Metropolitan's general obligation bonds plus the portion of its State Water Contract payment obligation attributable to the debt service on State general obligation bonds for facilities benefitting Metropolitan. Under this requirement, Metropolitan's *ad valorem* property tax revenue would gradually decrease, as the bonds are retired. However, the Act permits Metropolitan to set aside the prescribed reductions in the tax rate if the Board, following a public hearing with 10 days' prior written notice to the Speaker of the California Assembly and the President pro Tempore of the Senate, finds that revenue in excess of the restriction is "essential to the fiscal integrity of the district." On June 11, 2013, following such public hearing, the Board adopted a resolution finding that maintaining the *ad valorem* tax rate for fiscal year 2013-14 was essential to the fiscal integrity of Metropolitan and suspending the tax limit clause in the Act. On August 19, 2014, following the required hearing and notice, the Board adopted a resolution finding that continuing the *ad valorem* tax rate at the rate levied for fiscal year 2013-14 was essential to the fiscal integrity of Metropolitan and suspending the tax limit clause in the Act. Factors considered by the Board included

current and future State Water Contract payment obligations and a balancing of proper mechanisms for funding them, the appropriate mix of property taxes and water rates and charges to enhance Metropolitan's fiscal stability and a fair distribution of costs across Metropolitan's service area. On August 20, 2013 and August 19, 2014, the Board adopted resolutions levying taxes for fiscal years 2013-14 and 2014-15, respectively, at the tax rate levied for fiscal year 2012-13 (0.0035 percent of assessed valuation, excluding annexation levies).

The basic rate for untreated water for domestic and municipal uses is \$593 per acre-foot for Tier 1 water, effective January 1, 2014. This rate will decrease to \$582 effective January 1, 2015 and increase to \$594 effective January 1, 2016. See “—Rate Structure” and “—Water Rates by Water Category” below. The *ad valorem* tax rate for Metropolitan purposes has gradually been reduced from a peak equivalent rate of 0.1250 percent of full assessed valuation in fiscal year 1945-46 to 0.0035 percent of full assessed valuation for fiscal year 2014-15. The rates charged by Metropolitan represent the wholesale cost of Metropolitan water to its member agencies, and not the cost of water to the ultimate consumer. Metropolitan does not exercise control over the rates charged by its member agencies or their subagencies to their customers.

### Summary of Receipts by Source

The following table sets forth Metropolitan's sources of receipts for the five fiscal years ended June 30, 2014. The table provides cash basis information, which is unaudited. Audited financial statements for the fiscal years ended June 30, 2014 and June 30, 2013 are provided in Appendix B - “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013.”

#### SUMMARY OF RECEIPTS BY SOURCE<sup>(1)</sup> Fiscal Years Ended June 30 (Dollars in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water Sales <sup>(2)</sup>	\$1,011.1	\$995.6	\$1,062.5	\$1,250.9	\$1,455.3
Net Tax Collections <sup>(3)</sup>	97.3	88.0	90.1	96.5	98.4
Additional Revenue Sources <sup>(4)</sup>	135.3	153.5	167.1	174.2	179.8
Interest on Investments	26.7	18.9	17.8	11.7	14.8
Hydroelectric Power Sales	18.8	22.1	31.0	26.3	15.2
Other Collections & Trust Funds <sup>(5)</sup>	<u>9.1</u>	<u>61.0</u>	<u>53.6</u>	<u>19.9</u>	<u>20.7</u>
Total Receipts	<u>\$1,298.3</u>	<u>\$1,339.1</u>	<u>\$1,422.1</u>	<u>\$1,579.5</u>	<u>\$1,784.2</u>

Source: Metropolitan.

- (1) Does not include any proceeds from the sale of bonded indebtedness.
- (2) Gross receipts in each year are for sales in the twelve months ended April 30 of such year. Water sales revenues include revenues from water wheeling and exchanges. See “METROPOLITAN REVENUES—Wheeling and Exchange Charges” in this Appendix A. Includes \$25.7 million in fiscal year 2010-11, from the Calleguas Municipal Water District related to termination of the Las Posas water storage program.
- (3) *Ad valorem* taxes levied by Metropolitan are applied solely to the payment of outstanding general obligation bonds of Metropolitan and to State Water Contract obligations.
- (4) Includes receipts derived from water standby charges, readiness-to-serve, and capacity charges. See “—Rate Structure” and “—Additional Revenue Components” below.
- (5) In fiscal year 2010-11 includes \$10.8 million reimbursement from State Proposition 13 bond funds and \$28.2 million from the termination of the Las Posas water storage program. In fiscal year 2011-12, includes \$27.5 million from CVWD for delivery of 105,000 acre-feet under an exchange agreement between Metropolitan and CVWD.



## Revenue Allocation Policy and Tax Revenues

The Board determines the water revenue requirement for each fiscal year after first projecting the *ad valorem* tax levy for that year. The tax levy for any year is subject to limits imposed by the State Constitution, the Act and Board policy and to the requirement under the State Water Contract that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. See “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A. From fiscal year 1990-91 through 2012-13, and pursuant to statute, the tax levy was set to not exceed the amount needed to pay debt service on Metropolitan’s general obligation bonds and to satisfy a portion of Metropolitan’s State Water Contract obligation. However, Metropolitan has authority to impose a greater tax levy to pay debt service on Metropolitan’s general obligation bonds and to satisfy Metropolitan’s State Water Contract obligations in full if, following a public hearing, the Board finds that such revenue is essential to its fiscal integrity. On June 11, 2013 and August 19, 2014, the Board suspended the tax limit clause in the Act and, for fiscal years 2013-14 and 2014-15, maintained the fiscal year 2012-13 *ad valorem* tax rate. See “METROPOLITAN REVENUES—General” above. Any deficiency between tax levy receipts and Metropolitan’s share of debt service obligations on general obligation bonded debt issued by the State is expected to be paid from Operating Revenues, as defined in the Master Resolution.

## Water Sales Revenues

*Authority.* Water rates are established by the Board and are not subject to regulation or approval by the Public Utilities Commission of California or by any other local, State or federal agency. In accordance with the Act, water rates must be uniform for like classes of service. Metropolitan has provided three classes of water service: (1) full service; (2) replenishment (discontinued effective December 31, 2012); and (3) interim agricultural (discontinued effective December 31, 2012). See “—Classes of Water Service” below.

No member agency of Metropolitan is obligated to purchase water from Metropolitan. However, 24 of Metropolitan’s 26 member agencies entered into voluntary water supply purchase orders for water purchases, which had initial 10-year terms ending December 31, 2012. Twenty-two of such purchase orders have been extended to December 31, 2014, as described under “—Member Agency Purchase Orders” below. Consumer demand and locally supplied water vary from year to year, resulting in variability in water sales revenues. Metropolitan uses its financial reserves and budgetary tools to manage the financial impact of the variability in revenues due to fluctuations in annual water sales. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

*Payment Procedure.* Water is delivered to the member agencies on demand and is metered at the point of delivery. Member agencies are billed monthly and a late charge of one percent of the delinquent payment is assessed for a payment that is delinquent for no more than five business days. A late charge of two percent of the amount of the delinquent payment is charged for a payment that is delinquent for more than five business days for each month or portion of a month that the payment remains delinquent. Metropolitan has the authority to suspend service to any member agency delinquent for more than 30 days. Delinquencies have been rare; in such instances late charges have been collected. No service has been suspended because of delinquencies.

*Water Sales.* The following table sets forth the acre-feet of water sold and water sales (including sales from water wheeling and exchanges) for the five fiscal years ended June 30, 2014. Water sales revenues of Metropolitan for the two fiscal years ended June 30, 2014 and June 30, 2013, respectively, on an accrual basis, are shown in Appendix B - “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013.”

**SUMMARY OF WATER SOLD AND WATER SALES**  
**Fiscal Years Ended June 30**

<u>Year</u>	<u>Acre-Feet<sup>(1)</sup></u> <u>Sold</u>	<u>Water Sales<sup>(4)</sup></u> <u>(in millions)</u>	<u>Dollars</u> <u>Per Acre Foot<sup>(5)</sup></u>	<u>Average Dollars</u> <u>Per 1,000</u> <u>Gallons</u>
2010	1,857,564	\$1,011.1	\$544	\$1.67
2011 <sup>(2)</sup>	1,632,277	995.6	610	1.87
2012 <sup>(3)</sup>	1,676,855	1,062.5	634	1.94
2013	1,856,685	1,282.5	691	2.12
2014	2,043,720	1,484.6	726	2.23

Source: Metropolitan.

- (1) Year ended April 30 for fiscal years 2010-2012, water sales recorded on a cash-basis. Beginning fiscal year 2012-13 water sales recorded on an accrual basis, with water sales for the fiscal year ended June 30.
- (2) Includes the sale of 34,519 acre-feet and the receipt of \$25.7 million from the Calleguas Municipal Water District related to termination of the Las Posas water storage program.
- (3) Includes 225,000 acre-feet of replenishment sales.
- (4) Water Sales in fiscal years 2009-10 through 2011-12 are recorded on a cash basis for sales in the twelve months ended April 30 of such year, with rates and charges invoiced in May and payable by the last business day of June of each year. Water sales for fiscal years 2012-13 and 2013-14 are recorded on a modified accrual basis for sales in the twelve months ended June 30 of such year, with rates and charges recorded as revenues in the same months as invoiced. Includes revenues from water wheeling and exchanges. See "METROPOLITAN REVENUES—Wheeling and Exchange Charges" in this Appendix A.
- (5) Gross water sales divided by acre-feet sold. An acre-foot is approximately 326,000 gallons. See table entitled "SUMMARY OF WATER RATES" under "Water Rates by Water Category" below for a description of water rates and classes of service.

### Rate Structure

The following rates and charges are elements of Metropolitan's rate structure for full service water deliveries:

*Tier 1 and Tier 2 Water Supply Rates.* The Tier 1 and Tier 2 Water Supply Rates are designed to recover Metropolitan's water supply costs. The Tier 2 Supply Rate is designed to reflect Metropolitan's costs of acquiring new supplies. Member agencies are charged the Tier 1 or Tier 2 Water Supply Rate for water purchases, as described under "Member Agency Purchase Orders" below.

*System Access Rate.* The System Access Rate is intended to recover a portion of the costs associated with the conveyance and distribution system, including capital, operating and maintenance costs. All users (including member agencies and third-party entities wheeling or exchanging water; see "Wheeling and Exchange Charges" below) of the Metropolitan system pay the System Access Rate.

*Water Stewardship Rate.* The Water Stewardship Rate is charged on a dollar per acre-foot basis to collect revenues to support Metropolitan's financial commitment to conservation, water recycling, groundwater recovery and other demand management programs approved by the Board. The Water Stewardship Rate is charged for every acre-foot of water conveyed by Metropolitan because all users of Metropolitan's system benefit from the system capacity made available by investments in demand management programs.

*System Power Rate.* The System Power Rate is charged on a dollar per acre-foot basis to recover the cost of power necessary to pump water from the State Water Project and Colorado River through the conveyance and distribution system for Metropolitan's member agencies. The System Power Rate is charged for all Metropolitan supplies. Entities wheeling non-Metropolitan water supplies will pay the actual cost of power to convey water on the State Water Project, the Colorado River Aqueduct or the Metropolitan distribution system, whichever is applicable.

*Treatment Surcharge.* Metropolitan charges a treatment surcharge on a dollar per acre-foot basis for treated deliveries. The treatment surcharge is set to recover the cost of providing treated water service, including capital and operating cost.

*Delta Supply Surcharge.* On April 13, 2010, Metropolitan's Board adopted a Delta Supply Surcharge of \$51 and \$58 per acre-foot, effective January 1, 2011 and January 1, 2012, respectively, and applicable to all Tier 1, Interim Agricultural Water Program and Replenishment water rates. The Delta Supply Surcharge was designed to recover the additional supply costs Metropolitan faces as a result of pumping restrictions associated with the USFWS biological opinion on Delta smelt and other actions to protect endangered fish species. The Delta Surcharge was intended to remain in effect until a long-term solution for the Bay-Delta is achieved. Metropolitan anticipated that the Delta Supply Surcharge would be reduced or suspended as interim Delta improvements ease pumping restrictions, resulting in lower costs for additional supplies. On April 10, 2012, the Board suspended the Delta Supply Surcharge, effective January 1, 2013.

The amount of each of these rates since September 1, 2009, is shown in the table entitled "SUMMARY OF WATER RATES" under "—Water Rates by Water Category" below.

### **Litigation Challenging Rate Structure**

SDCWA filed *San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate State Water Contract costs to the System Access Rate and the System Power Rate, and thus to charges for transportation of water, and that this results in an overcharge to SDCWA by at least \$24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another \$5.4 million per year by including the Water Stewardship Rate in transportation charges. Eight of Metropolitan's member agencies (the Cities of Glendale, Los Angeles and Torrance, Municipal Water District of Orange County and Foothill, Las Virgenes, Three Valleys and West Basin Municipal Water Districts) answered the complaint in support of Metropolitan. IID joined the litigation in support of SDCWA's challenge to Metropolitan's charges for transportation of water, but withdrew and dismissed all claims against Metropolitan with prejudice on October 30, 2013.

The complaint requested a court order invalidating the rates and charges adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with State Water Project supplies and the Water Stewardship Rate to water supply charges and not to transportation charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful, and were adopted under a valid rate structure and cost of service approach developed in a multi-year collaborative process with its member agencies that has been in place since 2002. Nevertheless, to the extent that a court invalidates Metropolitan's adopted rates and charges, Metropolitan will be obligated to reconsider and modify rates and charges to comply with any court rulings related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such rulings, Metropolitan expects that aggregate rates and charges would still recover Metropolitan's cost of service. As such, revenues would not be affected. If Metropolitan's rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the water exchange agreement between Metropolitan and SDCWA (described herein under "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*") based on allegedly illegal calculation of rates; improper exclusion of SDCWA's payments under this exchange agreement from

calculation of SDCWA's preferential rights to purchase Metropolitan supplies (see "—Preferential Rights" below); and illegality of "rate structure integrity" provisions in conservation and local resources incentive agreements between Metropolitan and SDCWA. Such "rate structure integrity" provisions permit the Board to terminate incentives payable under conservation and local resources incentive agreements between Metropolitan and a member agency due to certain actions by the member agency to challenge the rates that are the source of incentive payments. In June 2011, Metropolitan's Board authorized termination of two incentive agreements with SDCWA under the "rate structure integrity" provisions in such agreements after SDCWA filed its initial complaint challenging Metropolitan's rates. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. See "—Rate Structure" above and "—Water Rates by Water Category" below for a description of Metropolitan's water rate structure and the rates and charges adopted on April 10, 2012. The complaint contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting that Metropolitan's rates, adopted in April 2012, violate Proposition 26. See "—California Ballot Initiatives" below for a description of Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach. Ten of Metropolitan's member agencies (the eight member agency parties to SDCWA's first lawsuit, Eastern Municipal Water District and Western Municipal Water District of Riverside County) answered the complaint in support of Metropolitan and IID joined the litigation in support of SDCWA.

SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26, approved by California voters in November 2010. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations.

Trial of the first phase of both lawsuits before the Superior Court of California, County of San Francisco (Case Nos. CPF-10-510830 and CPF-12-512466) concluded January 23, 2014. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. Specifically, the court found that there was not sufficient evidence to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of either (1) payments it makes to the California Department of Water Resources for the State Water Project, or (2) all of the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The trial court decision stated that the System Access Rate, System Power Rate, Water Stewardship Rate and wheeling rate violate specified statutes and the common law and such rates effective in 2013 and 2014 violate Proposition 26. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases. SDCWA's claims asserting breach of the Exchange Agreement and miscalculation of preferential rights will be tried in a second phase of the case. The court has scheduled a case management conference for December 2, 2014. The final judgment in the cases will be subject to appeal. Metropolitan is unable to assess at this time the likelihood of success of this litigation, any possible appeal or any future claims.

Due to SDCWA's litigation challenging Metropolitan's rates, as of September 30, 2014, Metropolitan held \$148 million in its financial reserves pursuant to the exchange contract between Metropolitan and SDCWA. See "—Financial Reserve Policy" below. Amounts held pursuant to the Exchange Agreement will continue to accumulate based on the quantities of exchange water that Metropolitan provides to SDCWA and the amount of charges disputed by SDCWA. Amounts held pursuant to the Exchange Agreement are

transferable to SDCWA to pay any amounts awarded by the court in the event SDCWA prevails in its claim for breach of the Exchange Agreement.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

### **Member Agency Purchase Orders**

The current rate structure provides for a member agency's agreement to purchase water from Metropolitan by means of a voluntary purchase order. In consideration of executing its purchase order, each member agency that executed a purchase order and whose purchase order is in effect is allowed to purchase up to 90 percent of its base amount at the Tier 1 Water Supply Rate in any fiscal year during the term of the purchase order, and its base amount will be the greater of (1) its highest firm demand for Metropolitan water in any fiscal year from 1989-90 through 2001-02 or (2) its ten-year rolling average of firm demand for Metropolitan water. Amounts purchased by such agencies over the applicable base amount will be priced at the Tier 2 Water Supply Rate. See "*—Rate Structure—Tier 1 and Tier 2 Water Supply Rates*" above. Member agencies that do not have purchase orders in effect are subject to Tier 2 Water Supply Rates for amounts exceeding 60 percent of their base amount (equal to the member agency's highest fiscal year demand between 1989-90 and 2001-02).

Under each purchase order, a member agency agrees to purchase, over the term of the contract, an amount of water equal to at least 60 percent of its highest firm demand for Metropolitan water in any fiscal year from 1989-90 through 2001-02 multiplied by the number of years in the contract. Member agencies are allowed to vary their purchases from year to year, but a member agency will be obligated to pay for the full amount committed under the purchase order, even if it does not take its full purchase order commitment by the end of the contract period.

Twenty-four of Metropolitan's 26 member agencies executed purchase orders for an aggregate of 12.5 million acre-feet of water over the ten years ending December 31, 2012. On November 8, 2011, Metropolitan's Board authorized the General Manager to execute a withdrawal of the City of Compton's Purchase Order committing to purchase 33,720.6 acre-feet over the original ten-year period. The withdrawal was effective January 1, 2003. This lowered Compton's Tier 1 limit as if its Purchase Order had not been executed and Compton will pay the Tier 2 Supply Rate on any future water purchases over the lower limit.

On October 10, 2012, Metropolitan's Board authorized the General Manager to execute an amended and restated purchase order to provide a two-year extension of existing member agency purchase orders, previously set to expire on December 31, 2012. Twenty-two of the 23 remaining purchase orders were extended to December 31, 2014. As of February 1, 2014, all purchase order commitments were met. Extension or replacement of member agency purchase orders is scheduled to be addressed in late 2014.

### **Classes of Water Service**

*Full Service Water.* Full service water service, formerly known as non-interruptible water service, includes water sold for domestic and municipal uses. Full service treated water rates are the sum of the applicable supply rate, system access rate, water stewardship rate, system power rate and treatment surcharge. Full service untreated water rates are the sum of the applicable supply rate, system access rate, water stewardship rate and system power rate. Full service water sales are the major component of Metropolitan water sales.

*Interim Agricultural Water Program.* This program provided a discounted rate for agricultural water users that, pursuant to the Act, were permitted to receive only surplus water not needed for domestic or municipal purposes. Metropolitan delivered approximately 40,000 acre-feet of agricultural water under this

program in fiscal year 2009-10, approximately 21,000 acre-feet in fiscal year 2010-11 and approximately 29,000 acre-feet in fiscal year 2011-12. On October 14, 2008, the Board approved annual reductions of the Interim Agricultural Water Program discount beginning January 1, 2010 and discontinuance of the program when the discount reached zero on January 1, 2013.

*Replenishment.* Under the Replenishment Service Program, water was sold at a discounted rate to member agencies, subject to interruption upon notice by Metropolitan. The program allowed Metropolitan to deliver surplus imported water to local groundwater basins and surface storage facilities when supplies were available, with the intent that member agencies could reduce imported water deliveries from Metropolitan during periods of high demand, emergencies or times of shortage. See table entitled “SUMMARY OF WATER RATES” below.

On December 11, 2012, Metropolitan’s Board eliminated the Replenishment Service Program and approved adjustments to increase member agency Tier 1 limits to reflect the historical demand for water used for long-term groundwater and surface storage replenishment. See “—Rate Structure—*Tier 1 and Tier 2 Water Supply Rates*” above. Water for groundwater replenishment now is priced at applicable full service rates. This adjustment provides additional Tier 1 limits for member agencies that historically purchased water for long-term replenishment purposes and limits their exposure to the higher Tier 2 rates.

### **Water Rates by Water Category**

The following table sets forth Metropolitan’s water rates by category beginning January 1, 2010. See also “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Revenues” in this Appendix A. In addition to the base rates for untreated water sold in the different classes of service, the columns labeled “Treated” include the surcharge that Metropolitan charges for water treated at its water treatment plants. See “—Rate Structure” and “—Classes of Water Service” above for a description of current rates. See “—Litigation Challenging Rate Structure” above for a description of litigation challenging Metropolitan’s water rates.

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**SUMMARY OF WATER RATES  
(Dollars per Acre-Foot)**

	<u>SUPPLY RATE</u>		<u>SYSTEM ACCESS RATE</u>	<u>WATER STEWARDSHIP RATE</u>	<u>SYSTEM POWER RATE</u>	<u>TREATMENT SURCHARGE</u>
	<u>Tier 1</u>	<u>Tier 2</u>				
January 1, 2010	\$170 <sup>(1)</sup>	\$280	\$154	\$41	\$119	\$217
January 1, 2011	\$155 <sup>(2)</sup>	\$280	\$204	\$41	\$127	\$217
January 1, 2012	\$164 <sup>(2)</sup>	\$290	\$217	\$43	\$136	\$234
January 1, 2013	\$140	\$290	\$223	\$41	\$189	\$254
January 1, 2014	\$148	\$290	\$243	\$41	\$161	\$297
January 1, 2015*	\$158	\$290	\$257	\$41	\$126	\$341
January 1, 2016*	\$156	\$290	\$259	\$41	\$138	\$348

	<u>FULL SERVICE TREATED<sup>(3)</sup></u>		<u>FULL SERVICE UNTREATED<sup>(4)</sup></u>		<u>INTERIM AGRICULTURAL PROGRAM</u>		<u>REPLENISHMENT RATE</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>Treated</u>	<u>Untreated</u>	<u>Treated</u>	<u>Untreated</u>
January 1, 2010	\$701	\$811	\$484	\$594	\$615	\$416	\$558	\$366
January 1, 2011	\$744	\$869	\$527	\$652	\$687	\$482	\$601	\$409
January 1, 2012	\$794	\$920	\$560	\$686	\$765	\$537	\$651	\$442
January 1, 2013	\$847	\$997	\$593	\$743	**	**	**	**
January 1, 2014	\$890	\$1,032	\$593	\$735	**	**	**	**
January 1, 2015*	\$923	\$1,055	\$582	\$714	**	**	**	**
January 1, 2016*	\$942	\$1,076	\$594	\$728	**	**	**	**

Source: Metropolitan.

\* Rates to be effective January 1, 2015 and January 1, 2016 were adopted by Metropolitan's Board on April 8, 2014.

\*\* The Interim Agricultural Water Program and Replenishment Service Program were discontinued after 2012.

(1) Includes \$69 per acre-foot Delta Supply Surcharge, which replaced Water Supply Surcharge.

(2) Includes \$51 and \$58 per acre-foot Delta Supply Surcharge for January 1, 2011 and January 1, 2012, respectively.

(3) Full service treated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate, System Power Rate and Treatment Surcharge.

(4) Full service untreated water rates are the sum of the applicable Supply Rate, System Access Rate, Water Stewardship Rate and System Power Rate.

### Additional Revenue Components

Additional charges for the availability of Metropolitan's water are:

*Readiness-to-Serve Charge.* This charge is designed to recover a portion of capital expenditures for infrastructure projects needed to provide standby service, and peak conveyance needs. The Readiness-to-Serve Charge ("RTS") is allocated to each member agency in proportion to the rolling ten-year share of firm deliveries through Metropolitan's system. The RTS generated \$133.9 million in fiscal year 2011-12, \$144.0 million in fiscal year 2012-13, and \$154.0 million in 2013-14. Based on the adopted rates and charges, the RTS is projected to generate \$162 million in fiscal year 2014-15, and \$155.5 million in fiscal year 2015-16.

*Water Standby Charges.* The Board is authorized to impose water standby or availability of service charges. In May 1993, the Board imposed a water standby charge for fiscal year 1993-94 ranging from \$6.94 to \$15 for each acre or parcel less than an acre within Metropolitan's service area, subject to specified exempt categories. Water standby charges have been imposed at the same rate in each year since 1993-94. Standby charges are assessments under the terms of Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996. See "—California Ballot Initiatives" below.

Member agencies have the option to utilize Metropolitan's existing standby charge authority as a means to collect all or a portion of their RTS charge. Standby charge collections are credited against the member agencies' RTS charges. See "—Readiness-to-Serve Charge" above. Twenty-two member agencies collect their RTS charges through standby charges. For fiscal years 2011-12, 2012-13, and 2013-14, RTS charges collected by means of such standby charges were \$41.7 million, \$41.6 million, and \$41.7 million, respectively.

*Capacity Charge.* The Capacity Charge is a fixed charge intended to recover the cost of providing peak capacity within the distribution system. It is levied on the maximum summer day demand placed on Metropolitan's system between May 1 and September 30 for the three-calendar-year period ended December 31 two years prior to the date of the capacity charge. Effective January 1, 2014, the Capacity Charge was \$8,600 per cfs. The adopted Capacity Charge will be \$11,100 per cfs on January 1, 2015, and \$10,900 per cfs on January 1, 2016.

### **Financial Reserve Policy**

Metropolitan's reserve policy currently provides for a minimum unrestricted reserve balance at June 30 of each year that is based on probability studies of the wet periods that affect Metropolitan's water sales. The policy establishes a minimum targeted unrestricted reserve level based on an 18-month revenue shortfall estimate and a target level based on an additional two years revenue shortfall estimate. Funds representing the minimum reserve level are held in the Revenue Remainder Fund, and any funds in excess of the minimum reserve level are held in the Water Rate Stabilization Fund. Metropolitan established the Water Rate Stabilization Fund for the principal purpose of maintaining stable and predictable water rates and charges. Funds above the target reserve level may be utilized for pay-as-you-go funding of capital expenditures, for the redemption, defeasance or purchase of outstanding bonds or for any lawful purpose of Metropolitan, as determined by the Board, provided that Metropolitan's fixed charge coverage ratio, which measures the total coverage of all fixed obligations (which includes all revenue bond debt service obligations, State Water Contract capital payments paid from current year operations and subordinate obligations) after payment of operating expenditures, is at or above 1.2. See "CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing" in this Appendix A.

As of June 30, 2014, the minimum reserve requirement was \$202 million. The target reserve level at June 30, 2014 was \$487 million. At June 30, 2014, unrestricted reserves, which consist of the Water Rate Stabilization Fund and the Revenue Remainder Fund, totaled \$487 million on a modified accrual basis, including \$137 million held in Metropolitan's financial reserves pursuant to the exchange contract between Metropolitan and SDCWA due to SDCWA's litigation challenging Metropolitan's rate structure. The amount held due to SDCWA's litigation challenging Metropolitan's rate structure as of September 30, 2014 was \$148 million. See "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—*Sale of Water by the Imperial Irrigation District to San Diego County Water Authority*" and "METROPOLITAN REVENUES—Litigation Challenging Rate Structure" in this Appendix A. Unrestricted reserves in excess of the target reserve level may be used for any lawful purpose of Metropolitan as directed by the Board, provided that Metropolitan's fixed charge coverage ratio is at or above 1.2. Consistent with State legislation, Metropolitan will ensure that any funds in excess of target reserve levels that are distributed to member agencies will be distributed in proportion to water sales revenues received from each member agency. In addition, Metropolitan maintains various restricted reserves, including reserves for risk retention, operations and maintenance expenses, State Water Contract payments, and other obligations and purposes.



On April 8, 2014, Metropolitan's Board approved the use of unrestricted reserves, over the target reserve level, as follows: \$100 million deposit to the Replacement and Refurbishment Fund, for pay-as-you-go funding of the CIP; \$100 million deposited to the Other Post-Employment Benefits (OPEB) Trust; and the remaining amount over target, \$252 million, was placed in a Water Management Fund, \$232 million of which will cover costs associated with replenishing storage, purchasing transfers and funding drought response programs, and \$20 million for conservation related programs.

### **Wheeling and Exchange Charges**

The process for the delivery of water not owned or controlled by Metropolitan is referred to as "wheeling." Under the current rate structure, wheeling parties pay the System Access Rate and Water Stewardship Rate, Treatment Surcharge (if applicable) and power costs for wheeling transactions. See "—Rate Structure" above. These payments are included in Net Operating Revenues. Wheeling and exchange revenues totaled \$89.6 million during fiscal year 2011-12, \$74.6 million in fiscal year 2012-13, and \$81.3 million during fiscal year 2013-14. See "—Litigation Challenging Rate Structure" above for a description of litigation by the SDCWA and IID challenging Metropolitan's System Access Rate and Water Stewardship Rate.

### **Hydroelectric Power Recovery Revenues**

Metropolitan has constructed 16 small hydroelectric plants on its distribution system. The plants are located in Los Angeles, Orange, Riverside and San Diego Counties at existing pressure control structures and other locations. The combined generating capacity of these plants is approximately 131 megawatts. The total capital cost of these 16 facilities is approximately \$176.1 million. Since 2000, annual energy generation sales revenues have ranged between \$14.6 million and nearly \$29.6 million. Energy generation sales revenues were \$24.5 million in fiscal year 2012-13 and \$14.6 million in fiscal year 2013-14.

### **Principal Customers**

All of Metropolitan's regular customers are member agencies. Total water sales to the member agencies accrued for the fiscal year ended June 30, 2014 were 2.04 million acre-feet, generating \$1.48 billion in water sales revenues for such period. Metropolitan's ten largest water customers in the year ended June 30, 2014 are shown in the following table, on an accrual basis. On June 11, 2010, the SDCWA filed litigation challenging Metropolitan's rates. See "—Litigation Challenging Rate Structure" above.

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**TEN LARGEST WATER CUSTOMERS**  
**Year Ended June 30, 2014**  
**Accrual Basis (Dollars In Millions)**

<u>Agency</u>	<u>Water Sales Revenues<sup>(1)</sup></u>	<u>Percent of Total</u>	<u>Water Sales in Acre-Feet<sup>(1)</sup></u>	<u>Percent of Total</u>
San Diego County Water Authority	\$ 328,719,613	22.1%	545,659	26.7%
City of Los Angeles	307,294,389	20.7	441,871	21.6
MWD of Orange County	185,454,744	12.5	231,941	11.3
West Basin MWD	104,897,611	7.1	120,915	5.9
Calleguas MWD	101,576,451	6.8	116,685	5.7
Eastern MWD	80,499,907	5.4	101,622	5.0
Western MWD	60,675,556	4.1	76,194	3.7
Three Valleys MWD	55,639,136	3.7	71,072	3.5
Inland Empire Utilities Agency	40,225,028	2.7	67,833	3.3
Central Basin MWD	29,387,772	<u>2.0</u>	<u>33,951</u>	<u>1.7</u>
<b>Total</b>	<b>\$ 1,294,370,207</b>	<b>87.2%</b>	<b>1,807,743</b>	<b>88.5%</b>
<b>Total Water Sales Revenues</b>	<b>\$ 1,484,616,187</b>	<b>Total Acre-Feet</b>	<b>2,043,720</b>	

*Source: Metropolitan.*

- (1) Includes wheeling and exchange water sales, revenues and deliveries. See “METROPOLITAN REVENUES—Wheeling and Exchange Charges” in this Appendix A.

### Preferential Rights

Section 135 of the Act gives each of Metropolitan’s member agencies a preferential entitlement to purchase a portion of the water served by Metropolitan, based upon a ratio of all payments on tax assessments and otherwise, except purchases of water, made to Metropolitan by the member agency compared to total payments made by all member agencies on tax assessments and otherwise since Metropolitan was formed, except purchases of water. Historically, these rights have not been used in allocating Metropolitan’s water. The California Court of Appeal has upheld Metropolitan’s methodology for calculation of the respective member agencies’ preferential rights under Section 135 of the Act. SDCWA’s litigation challenging Metropolitan’s water rates also challenges Metropolitan’s exclusion of payments for exchange water from the calculation of SDCWA’s preferential right. See “—Litigation Challenging Rate Structure” above.

### California Ballot Initiatives

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996 adding Articles XIII C and XIII D to the California Constitution. Article XIII D provides substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” levied by a local government upon a parcel of real property or upon a person as an incident of property ownership. As a wholesaler, Metropolitan serves water to its member agencies, not to persons or properties as an incident of property ownership. Thus, water rates charged by Metropolitan to its member agencies are not property related fees and charges and therefore are exempt from the requirements of Article XIII D. Fees for water service by Metropolitan’s member agencies or their agencies providing retail water service are subject to the requirements of Article XIII D.

Article XIII D also imposes certain procedures with respect to assessments. Under Article XIII D, “standby charges” are considered “assessments” and must follow the procedures required for “assessments.” Metropolitan has imposed water standby charges since 1992. Any change to Metropolitan’s current standby charges could require notice to property owners and approval by a majority of such owners returning mail-in

ballots approving or rejecting any imposition or increase of such standby charge. Twenty-two member agencies have elected to collect all or a portion of their readiness-to-serve charges through standby charges. See “—Additional Revenue Components—*Readiness-to-Serve Charge*” and “—*Water Standby Charges*” above. Even if Article XIIC is construed to limit the ability of Metropolitan and its member agencies to impose or collect standby charges, the member agencies will continue to be obligated to pay the readiness-to-serve charges.

Article XIIC extends the people’s initiative power to reduce or repeal previously authorized local taxes, assessments fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996 or to property-related fees and charges and absent other authority could result in retroactive reduction in existing taxes, assessments or fees and charges.

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of “tax” in Article XIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIIC of the California Constitution. Taxes imposed by a special district such as Metropolitan are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. Metropolitan believes its water rates and charges are not taxes under Proposition 26. Nevertheless, Metropolitan is assessing whether Proposition 26 may affect future water rates and charges. SDCWA’s lawsuit challenging the rates adopted by Metropolitan in April 2012, part of which became effective January 1, 2013 and part of which became effective January 1, 2014, alleged that such rates violate Proposition 26. (See “—Litigation Challenging Rate Structure” above.)

Propositions 218 and 26 were adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of Metropolitan or its member agencies to increase revenues or to increase appropriations. Such measures may further affect Metropolitan’s ability to collect taxes, assessments or fees and charges, which could have an effect on Metropolitan’s revenues.

### **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts established pursuant to Metropolitan’s water revenue or general obligation bond resolutions are invested by the Treasurer in accordance with Metropolitan’s Statement of Investment Policy. All Metropolitan funds available for investment are currently invested in United States Treasury and agency securities, commercial paper, negotiable certificates of deposit, banker’s acceptances, corporate notes, municipal bonds, asset-backed, mortgage-backed securities and the California Local Agency Investment Fund (“LAIF”). The LAIF is a voluntary program created by statute as an investment alternative for California’s local governments and special districts. LAIF permits such local agencies to participate in an investment portfolio, which invests billions of dollars, using the investment expertise of the State Treasurer’s Office.

The Statement of Investment Policy provides that in managing Metropolitan’s investments, the primary objective shall be to safeguard the principal of the invested funds. The secondary objective shall be to meet all liquidity requirements and the third objective shall be to achieve a return on the invested funds. Although the Statement of Investment Policy permits investments in some asset-backed securities, the portfolio does not include any of the special investment vehicles related to sub-prime mortgages. The

Statement of Investment Policy allows Metropolitan to exceed the portfolio and single issuer limits for purchases of California local agency securities when purchasing Metropolitan tendered bonds in conjunction with its self-liquidity program. See “METROPOLITAN EXPENDITURES—Variable Rate and Swap Obligations” in this Appendix A. Metropolitan’s current investments comply with the Statement of Investment Policy.

As of September 30, 2014, the total market value (cash-basis) of all Metropolitan funds was \$1.37 billion, including bond reserves of \$83.8 million. The market value of Metropolitan’s investment portfolio is subject to market fluctuation and volatility and general economic conditions. In fiscal year 2013-14, Metropolitan’s earnings on investments, including adjustments for gains and losses and premiums and discounts, including construction account and trust fund earnings, on a cash basis (unaudited) were \$15.7 million. In fiscal year 2012-13, Metropolitan’s earnings on investments, on a cash basis (unaudited) were \$9.4 million. In fiscal year 2011-12, Metropolitan’s earnings on investments, on a cash basis (unaudited) were \$13.9 million. Over the three years ended September 30, 2014, the market value of the month-end balance of Metropolitan’s investment portfolio (excluding bond reserve funds) averaged approximately \$1.1 billion. The minimum month-end balance of Metropolitan’s investment portfolio (excluding bond reserve funds) during such period was approximately \$829.5 million on July 31, 2012. See Footnote 3 to Metropolitan’s audited financial statements in Appendix B for additional information on the investment portfolio.

Metropolitan’s regulations require that (1) the Treasurer provide an annual Statement of Investment Policy for approval by Metropolitan’s Board, (2) the Treasurer provide a monthly investment report to the Board and the General Manager showing by fund the description, maturity date, yield, par, cost and current market value of each security, and (3) the General Counsel review as to eligibility the securities invested in by the Treasurer for that month and report his or her determinations to the Board. The Board approved the Statement of Investment Policy for fiscal year 2014-15 on June 10, 2014.

Subject to the provisions of Metropolitan’s water revenue or general obligation bond resolutions, obligations purchased by the investment of bond proceeds in the various funds and accounts established pursuant to a bond resolution are deemed at all times to be a part of such funds and accounts and any income realized from investment of amounts on deposit in any fund or account therein will be credited to such fund or account. The Treasurer is required to sell or present for redemption any investments whenever it may be necessary to do so in order to provide moneys to meet required payments or transfers from such funds and accounts. For the purpose of determining at any given time the balance in any such funds, any such investments constituting a part of such funds and accounts will be valued at the then estimated or appraised market value of such investments.

All investments, including those authorized by law from time to time for investments by public agencies, contain certain risks. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under Metropolitan’s water revenue or general obligation revenue bond resolutions, or other amounts held by Metropolitan, could have a material adverse effect on Metropolitan’s finances. These risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by Metropolitan’s Statement of Investment Policy.

The Statement of Investment Policy requires that investments have a minimum credit rating of “A1/P1/F1” for short-term securities and “A” for longer-term securities at the time of purchase. If immediate liquidation of a security downgraded below these levels is not in the best interests of Metropolitan, the Treasurer or investment manager, in consultation with an ad hoc committee made up of the Chairman of the Board, the Chairman of the Finance and Insurance Committee and the General Manager, and with the concurrence of the General Counsel, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by a majority of the members of such ad

hoc committee. The Treasurer is required to include a description of any securities that have been downgraded below investment grade and the status of their disposition in the Treasurer's monthly report.

The Statement of Investment Policy also limits the amount of securities that can be purchased by category, as well as by issuer, and prohibits investments that can result in zero interest income. Metropolitan's securities are settled on a delivery versus payment basis and are held by an independent third-party custodian. See Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013" for a description of Metropolitan's investments at June 30, 2014.

Metropolitan retains two outside investment firms to manage the long-term portion of Metropolitan's portfolio. The outside managers are required to adhere to Metropolitan's Statement of Investment Policy. As of September 30, 2014, such managers were managing approximately \$331.2 million in investments on behalf of Metropolitan. Metropolitan's Statement of Investment Policy may be changed at any time by the Board (subject to State law provisions relating to authorized investments). There can be no assurance that the State law and/or the Statement of Investment Policy will not be amended in the future to allow for investments that are currently not permitted under State law or the Statement of Investment Policy, or that the objectives of Metropolitan with respect to investments or its investment holdings at any point in time will not change.

## METROPOLITAN EXPENDITURES

### General

The following table sets forth a summary of Metropolitan's expenditures, by major function, for the five years ended June 30, 2014. The table provides cash basis information, which is unaudited. Expenses of Metropolitan for the fiscal years ended June 30, 2014 and June 30, 2013, on an accrual basis, are shown in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013."

### SUMMARY OF EXPENDITURES

#### Fiscal Years Ended June 30

(Dollars in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operation and Maintenance Costs <sup>(1)</sup>	\$ 441.6	\$ 430.8	\$ 425.3	\$ 413.6	\$ 561.3
Total State Water Project and Water Transfers <sup>(2)</sup>	560.1	593.4	535.4	531.1	472.5
Total Debt Service	287.0	306.7	323.0	326.9	372.0
Construction Disbursements from Revenues <sup>(3)</sup>	35.1	45.0	44.2	54.7	89.3
Other <sup>(4)</sup>	<u>5.3</u>	<u>2.4</u>	<u>2.8</u>	<u>6.2</u>	<u>6.3</u>
Total Disbursements (net of reimbursements) <sup>(5)</sup>	<u>\$1,329.1</u>	<u>\$1,378.3</u>	<u>\$1,330.7</u>	<u>\$1,332.5</u>	<u>\$1,501.4</u>

Source: Metropolitan.

(1) Includes inventories, undistributed payroll, local resource programs, conservation programs and Colorado River Aqueduct power. See the table headed "Summary of Receipts by Source" under "METROPOLITAN REVENUES" in this Appendix A.

(2) Includes both operating and capital expense portions. See "METROPOLITAN'S WATER SUPPLY—Water Transfer, Storage and Exchange Programs" and "POWER SOURCES AND COSTS" in this Appendix A.

(3) At the discretion of the Board, in any given year, Metropolitan may increase or decrease funding available for construction disbursements to be paid from revenues. Does not include expenditures of bond proceeds.

(4) Includes operating equipment and arbitrage rebate.

(5) Disbursements exceeded revenues in the fiscal years ended June 30, 2010 and 2011. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A.

### Revenue Bond Indebtedness

Metropolitan has issued the following water revenue bonds, which as of November 1, 2014, were outstanding in the amounts set forth below:

<u>Name of Issue</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>
Water Revenue Bonds, Issue of 1991	\$ 300,000,000	\$ -0-
Water Revenue Bonds, Issue of 1992	550,000,000	-0-
Water Revenue Refunding Bonds, 1993 Series A	168,759,889	101,840,000
Water Revenue Refunding Bonds, 1993 Series B	89,595,000	-0-
Water Revenue Bonds, 1995 Series A	175,000,000	-0-
Water Revenue Refunding Bonds, 1996 Series A	108,375,000	-0-
Water Revenue Refunding Bonds, 1996 Series B	258,875,000	-0-
Water Revenue Bonds, 1996 Series C	377,500,000	-0-
Water Revenue Bonds, 1997 Authorization, Series A	650,000,000	-0-
Water Revenue Bonds, 1997 Authorization, Series B and Series C	100,000,000	-0-
Water Revenue Refunding Bonds, 1998 Series A	148,705,000	-0-
Water Revenue Bonds, 1999 Authorization, Series A	100,000,000	-0-
Water Revenue Bonds, 1999 Authorization, Series B and Series C	100,000,000	-0-
Water Revenue Bonds, 2000 Authorization, Series B-1	88,800,000	-0-
Water Revenue Bonds, 2000 Authorization, Series B-2	88,800,000	-0-
Water Revenue Bonds, 2000 Authorization, Series B-3 and B-4 <sup>(1)</sup>	177,600,000	177,600,000
Water Revenue Refunding Bonds, 2001 Series A	195,670,000	-0-
Water Revenue Refunding Bonds, 2001 Series B1 and B-2	224,800,000	-0-
Water Revenue Bonds, 2001 Series C-1 and C-2	200,000,000	-0-
Water Revenue Refunding Bonds, 2002 Series A	96,640,000	-0-
Water Revenue Refunding Bonds, 2002 Series B	35,600,000	-0-
Water Revenue Refunding Bonds, 2003 Series A	36,215,000	-0-
Water Revenue Bonds, 2003 Authorization, Series B-1	105,580,000	-0-
Water Revenue Bonds, 2003 Authorization, Series B-2	94,420,000	-0-
Water Revenue Refunding Bonds, 2003 Series C-1, C-2 and C-3	338,230,000	-0-
Water Revenue Refunding Bonds, 2004 Series A-1 and A-2	162,455,000	-0-
Water Revenue Refunding Bonds, 2004 Series B	274,415,000	-0-
Water Revenue Bonds, 2003 Authorization, Series B-3	262,295,000	-0-
Water Revenue Bonds, 2003 Authorization, Series B-4	37,705,000	-0-
Water Revenue Refunding Bonds, 2004 Series C	136,090,000	-0-
Water Revenue Bonds, 2005 Authorization, Series A	100,000,000	75,620,000
Water Revenue Bonds, 2005 Authorization, Series B-1 and B-2	100,000,000	-0-
Water Revenue Refunding Bonds, 2006 Series A-1 and A-2	74,140,000	-0-
Water Revenue Bonds, 2005 Authorization, Series C	200,000,000	175,000,000
Water Revenue Bonds, 2005 Authorization, Series D-1 and D-2	100,000,000	-0-
Water Revenue Refunding Bonds, 2006 Series B	45,875,000	24,055,000
Water Revenue Bonds, 2006 Authorization, Series A	400,000,000	391,355,000
Water Revenue Bonds, 2006 Authorization, Series B	100,000,000	-0-
Water Revenue Refunding Bonds, 2007 Series A-1 and A-2	218,425,000	-0-
Water Revenue Refunding Bonds, 2007 Series B	81,900,000	-0-
Water Revenue Refunding Bonds, 2008 Series A-1	250,940,000	-0-
Water Revenue Refunding Bonds, 2008 Series A-2 <sup>(1)</sup>	250,635,000	62,465,000
Water Revenue Refunding Bonds, 2008 Series B	133,430,000	127,200,000
Water Revenue Refunding Bonds, 2008 Series C	79,045,000	41,800,000
Water Revenue Bonds, 2008 Authorization, Series A	200,000,000	187,830,000
Water Revenue Refunding Bonds, 2009 Series A-1	104,185,000	-0-
Water Revenue Refunding Bonds, 2009 Series A-2 <sup>(1)</sup>	104,180,000	104,180,000
Water Revenue Refunding Bonds, 2009 Series B	106,690,000	106,690,000
Water Revenue Refunding Bonds, 2009 Series C	91,165,000	91,165,000
Water Revenue Bonds, 2008 Authorization, Series B	21,615,000	15,035,000
Water Revenue Bonds, 2008 Authorization, Series C <sup>(2)</sup>	78,385,000	78,385,000
Water Revenue Bonds, 2008 Authorization, Series D <sup>(2)</sup>	250,000,000	250,000,000
Water Revenue Refunding Bonds, 2009 Series D	81,065,000	64,740,000
Water Revenue Refunding Bonds, 2009 Series E	26,050,000	18,355,000
Water Revenue Refunding Bonds, Special Variable Rate, 2010 Series A	128,005,000	-0-
Water Revenue Refunding Bonds, 2010 Series B	88,845,000	84,175,000

(Continued on next page)

<u>Name of Issue</u>	<u>Original Amount Issued</u>	<u>Principal Outstanding</u>
<i>(Continued from previous page)</i>		
Water Revenue Bonds, 2010 Authorization, Series A <sup>(2)</sup>	\$ 250,000,000	\$ 250,000,000
Water Revenue Refunding Bonds, 2011 Series A1-A4 <sup>(1)</sup>	228,875,000	228,875,000
Water Revenue Refunding Bonds, 2011 Series B	167,885,000	73,230,000
Water Revenue Refunding Bonds, 2011 Series C	157,100,000	156,100,000
Water Revenue Refunding Bonds, 2012 Series A	181,180,000	181,180,000
Water Revenue Refunding Bonds, 2012 Series B-1 and B-2 <sup>(1)</sup>	98,585,000	98,585,000
Water Revenue Refunding Bonds, 2012 Series C	190,600,000	190,600,000
Water Revenue Refunding Bonds, 2012 Series D	39,520,000	19,605,000
Water Revenue Refunding Bonds, 2012 Series E1	28,420,000	-0-
Water Revenue Refunding Bonds, 2012 Series E2	29,820,000	29,820,000
Water Revenue Refunding Bonds, 2012 Series E3	31,220,000	31,220,000
Water Revenue Refunding Bonds, 2012 Series F	60,035,000	60,035,000
Water Revenue Refunding Bonds, 2012 Series G	111,890,000	111,890,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D <sup>(1)</sup>	87,445,000	87,445,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E <sup>(1)</sup>	104,820,000	104,820,000
Water Revenue Refunding Bonds, 2014 Series A	95,935,000	95,935,000
Water Revenue Refunding Bonds, 2014 Series B	10,575,000	10,575,000
Water Revenue Refunding Bonds, 2014 Series C1-C3	30,335,000	30,335,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D <sup>(1)</sup>	79,770,000	79,770,000
Water Revenue Refunding Bonds, 2014 Series E	86,060,000	86,060,000
Water Revenue Refunding Bonds, 2014 Series F	7,860,000	7,860,000
Water Revenue Refunding Bonds, 2014 Series G1-G5	<u>57,840,000</u>	<u>57,840,000</u>
<b>Total</b>	<b>\$11,232,469,889</b>	<b>\$4,169,270,000</b>

Source: Metropolitan.

- (1) Outstanding variable rate obligation.  
(2) Designated as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009.

### Limitations on Additional Revenue Bonds

Resolution 8329, adopted by Metropolitan's Board on July 9, 1991, as amended and supplemented (collectively with all such supplemental resolutions, the "Revenue Bond Resolutions"), provides for the issuance of Metropolitan's water revenue bonds. The Revenue Bond Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues. Under the Revenue Bond Resolutions, no additional bonds, notes or other evidences of indebtedness payable out of Operating Revenues may be issued having any priority in payment of principal, redemption premium, if any, or interest over any water revenue bonds authorized by the Revenue Bond Resolutions ("Parity Bonds") or other obligations of Metropolitan having a lien and charge upon, or being payable from, the Net Operating Revenues on parity with such water revenue bonds ("Parity Obligations"). No additional Parity Bonds or Parity Obligations may be issued or incurred unless the conditions of the Revenue Bond Resolutions have been satisfied.

The laws governing Metropolitan's ability to issue water revenue bonds currently provide two additional limitations on indebtedness that may be incurred by Metropolitan. The Act provides for a limit on general obligation bonds, water revenue bonds and other evidences of indebtedness at 15 percent of the assessed value of all taxable property within Metropolitan's service area. As of November 1, 2014, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of \$4.31 billion represented approximately 0.19 percent of the fiscal year 2014-15 taxable assessed valuation of \$2,315 billion. The second limitation under the Act specifies that no revenue bonds may be issued, except for the purpose of refunding, unless the amount of net assets of Metropolitan as shown on its balance sheet as of the end of the last fiscal year prior to the issuance of such bonds, equals at least 100 percent of the aggregate amount of revenue bonds outstanding following the issuance of such bonds. The net assets of

Metropolitan at June 30, 2014 were \$7.20 billion. The aggregate amount of revenue bonds outstanding as of November 1, 2014 was \$4.17 billion. The limitation does not apply to other forms of financing available to Metropolitan. Audited financial statements including the net assets of Metropolitan as of June 30, 2014 and June 30, 2013, respectively, are shown in Appendix B – “THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR’S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013.”

Metropolitan provides no assurance that the Act’s limitations on indebtedness will not be revised or removed by future legislation. Limitations under the Revenue Bond Resolutions respecting the issuance of additional obligations payable from Net Operating Revenues on a parity with water revenue bonds of Metropolitan will remain in effect so long as any water revenue bonds authorized pursuant to the Revenue Bond Resolutions are outstanding, provided however, that the Revenue Bond Resolutions are subject to amendment and supplement in accordance with their terms.

### Variable Rate and Swap Obligations

As of November 1, 2014, Metropolitan had outstanding \$943.7 million of variable rate obligations, including bonds bearing interest in the Index Mode or Flexible Index Mode (the “Index Tender Bonds”), special variable rate bonds initially designated as self-liquidity bonds (the “Self-Liquidity Bonds”), and variable rate demand obligations supported by standby bond purchase agreements between Metropolitan and various liquidity providers (“Liquidity Supported Bonds”).

*Index Tender Bonds.* The Index Tender Bonds have substantially similar terms and conditions; however, the unscheduled mandatory tender dates and related tender periods for the Index Tender Bonds may differ. The Index Tender Bonds bear interest at a rate that fluctuates weekly based on the SIFMA Municipal Swap Index published weekly by Municipal Market Data. The Index Tender Bonds outstanding as of November 1, 2014, are summarized in the following table:

<b>Series</b>	<b>Date of Issuance</b>	<b>Original Principal Amount Issued</b>	<b>Next Scheduled Mandatory Tender Date</b>	<b>Maturity Date</b>
2009 A-2	May 20, 2009	\$104,180,000	February 9, 2015	July 1, 2030
2011 A-1	June 2, 2011	64,440,000	January 16, 2015	July 1, 2036
2011 A-2	June 2, 2011	50,000,000	May 1, 2015	July 1, 2036
2011 A-3	June 2, 2011	64,435,000	January 16, 2015	July 1, 2036
2011 A-4	June 2, 2011	50,000,000	May 1, 2015	July 1, 2036
2012 B-1	April 27, 2012	49,295,000	May 1, 2015	July 1, 2027
2012 B-2	April 27, 2012	49,290,000	May 1, 2015	July 1, 2027
2013 E <sup>(1)</sup>	July 2, 2013	104,820,000	June 5, 2015	July 1, 2030
<b>Total</b>		<b>\$536,460,000</b>		

Source: Metropolitan.

- (1) Flexible Index Mode Bonds. The terms and conditions of Flexible Index Mode Bonds are substantially similar to Index Mode Bonds except that each tender period may not exceed 270 days.

The Index Tender Bonds are subject to mandatory tender under certain circumstances. Metropolitan anticipates that it will pay the purchase price of tendered Index Tender Bonds from the proceeds of remarketing such Index Tender Bonds or from other available funds. Metropolitan’s obligation to pay the purchase price of such Index Tender Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues,



the Parity Bonds, Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Index Tender Bonds in connection with a scheduled mandatory tender. If the purchase price of the Index Tender Bonds of any Series is not paid from the proceeds of remarketing or other funds following a scheduled mandatory tender, such Index Tender Bonds then will bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. Failure to pay the purchase price of a series of Index Tender Bonds on a scheduled mandatory tender date is a default under the related paying agent agreement, upon the occurrence and continuance of which a majority in aggregate principal amount of the owners of such series of Index Tender Bonds may elect a bondholders' committee to exercise rights and powers of such owners under such paying agent agreement. Failure to pay the purchase price of a series of Index Tender Bonds on a scheduled mandatory tender date is not a default under the Master Resolution. If the purchase price of the Index Tender Bonds of any series is not paid on a scheduled mandatory tender date, such Index Tender Bonds will also be subject to special mandatory redemption, in part, 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on parity with the Parity Bonds and the Parity Obligations.

*Self-Liquidity Bonds.* As of November 1, 2014, Metropolitan had \$167.2 million of outstanding self-liquidity bonds, comprised of \$87.4 million Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D, and \$79.8 million Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D. The Self-Liquidity Bonds are subject to optional tender upon seven days' notice by the owners thereof and mandatory tender upon specified events. Metropolitan is irrevocably committed to purchase all Self-Liquidity Bonds tendered pursuant to any optional or mandatory tender to the extent that remarketing proceeds are insufficient therefor and no standby bond purchase agreement or other liquidity facility is in effect. Metropolitan's obligation to pay the purchase price of any tendered Self-Liquidity Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. In addition, Metropolitan's investment policy permits it to purchase tendered Self-Liquidity Bonds as an investment for its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds). Thus, while Metropolitan is only obligated to purchase tendered Self-Liquidity Bonds from Net Operating Revenues, it may use the cash and investments in its investment portfolio (other than amounts in its investment portfolio consisting of bond reserve funds and amounts posted as collateral with interest rate swap counterparties as described below) to purchase tendered Self-Liquidity Bonds. Metropolitan has not secured any liquidity facility or letter of credit to pay the purchase price of any tendered Self-Liquidity Bonds; however, Metropolitan has entered into a Revolving Credit Agreement (as described below) pursuant to which it may make borrowings for the purpose of paying the purchase price of Self-Liquidity Bonds. See "—Revolving Credit Agreement" below. Failure to pay the purchase price of Self-Liquidity Bonds upon optional or mandatory tender is not a default under the related paying agent agreement or a default under the Master Resolution.

*Liquidity Supported Bonds.* The interest rates for Metropolitan's other variable rate demand obligations, totaling \$240.1 million as of November 1, 2014, are reset on a daily or weekly basis. Such variable rate demand obligations are supported by Standby Bond Purchase Agreements between Metropolitan and various liquidity providers that provide for purchase of variable rate bonds by the applicable liquidity provider upon tender of such variable rate bonds and a failed remarketing. A decline in the creditworthiness of a liquidity provider will likely result in an increase in the interest rate of the applicable variable rate bonds, as well as an increase in the risk of a failed remarketing of such tendered variable rate bonds. Variable rate bonds purchased by a liquidity provider bear interest at a significantly higher interest rate and Metropolitan's obligation to reimburse the liquidity provider may convert the term of the variable rate bonds purchased by the liquidity provider into a term loan amortizable over a period of up to three years, depending on the applicable liquidity facility.

The following table lists the liquidity providers, the expiration date of each facility and the principal amount of outstanding variable rate demand obligations covered under each facility as of November 1, 2014.

<u>Liquidity Provider</u>	<u>Bond Issue</u>	<u>Principal Outstanding</u>	<u>Facility Expiration</u>
Wells Fargo Bank, N.A.	2000 Authorization Series B-3	\$ 88,800,000	February 2017
	2000 Authorization Series B-4	<u>88,800,000</u>	February 2017
	Total	\$177,600,000	
Barclays Bank PLC	2008 Series A-2	<u>\$62,465,000</u>	September 2016
<b>Total</b>		\$240,065,000	

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Source: Metropolitan.

*Variable Rate Exposure Policy.* Included in Metropolitan's \$943.7 million of variable rate obligations are \$493.6 million of variable rate demand obligations which, by virtue of interest rate swap agreements, are treated by Metropolitan as fixed rate debt for the purpose of calculating debt service requirements, although the variable payments that Metropolitan receives from swap counterparties do not usually equal the payments that Metropolitan makes on associated variable rate debt. The remaining \$450 million of variable rate obligations represent approximately 10.8 percent of total outstanding water revenue bonds, as of November 1, 2014.

Metropolitan's variable rate exposure policy requires that variable rate debt be managed to limit net interest cost increases within a fiscal year as a result of interest rate changes to no more than \$5 million. In addition, the maximum amount of variable interest rate exposure (excluding variable rate bonds associated with interest rate swap agreements) is limited to 40 percent of total outstanding water revenue bond debt. Variable rate debt capacity will be reevaluated as interest rates change and managed within these parameters.

*Interest Rate Swap Transactions.* By resolution adopted on September 11, 2001, Metropolitan's Board authorized the execution of interest rate swap transactions and related agreements in accordance with a master swap policy, which was subsequently amended by resolutions adopted on July 14, 2009 and May 11, 2010. Metropolitan may execute interest rate swaps if the transaction can be expected to reduce exposure to changes in interest rates on a particular financial transaction or in the management of interest rate risk derived from Metropolitan's overall asset/liability balance, result in a lower net cost of borrowing or achieve a higher net rate of return on investments made in connection with or incidental to the issuance, incurring or carrying of Metropolitan's obligations or investments, or manage variable interest rate exposure consistent with prudent debt practices and Board-approved guidelines. The Chief Financial Officer reports to the Finance and Insurance Committee of Metropolitan's Board each quarter on outstanding swap transactions, including notional amounts outstanding, counterparty exposures and termination values based on then-existing market conditions.

Metropolitan currently has one type of interest rate swap, referred to in the table below as "Fixed Payor Swaps." Under this type of swap, Metropolitan receives payments that are calculated by reference to a floating interest rate and makes payments that are calculated by reference to a fixed interest rate.

Net payments under the terms of the interest rate swap agreements are payable on a parity with the Parity Obligations. Termination payments under the 2002 A and 2002 B interest rate swap agreements would be payable on a parity with the Parity Obligations. All other termination payments related to interest rate swap agreements would be subordinate to the Parity Obligations.

The following swap transactions were outstanding as of November 1, 2014:

**FIXED PAYOR SWAPS:**

<b><u>Designation</u></b>	<b><u>Notional Amount Outstanding</u></b>	<b><u>Swap Counterparty</u></b>	<b><u>Fixed Payor Rate</u></b>	<b><u>MWD Receives</u></b>	<b><u>Maturity Date</u></b>
2002 A	\$75,838,400	Morgan Stanley Capital Services, Inc.	3.300	57.74% of one-month LIBOR	7/1/2025
2002 B	28,371,600	JPMorgan Chase Bank	3.300	57.74% of one-month LIBOR	7/1/2025
2003 <sup>(1)</sup>	158,597,500	Deutsche Bank AG	3.257	61.20% of one-month LIBOR	7/1/2030
2003	158,597,500	JPMorgan Chase Bank	3.257	61.20% of one-month LIBOR	7/1/2030
2004 C	7,760,500	Morgan Stanley Capital Services, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2004 C	6,349,500	Citigroup Financial Products, Inc.	2.980	61.55% of one-month LIBOR	10/1/2029
2005	29,057,500	JPMorgan Chase Bank	3.360	70% of 3-month LIBOR	7/1/2030
2005	<u>29,057,500</u>	Citigroup Financial Products, Inc.	3.360	70% of 3-month LIBOR	7/1/2030
Total	\$493,630,000				

*Source: Metropolitan.*

(1) The obligations under this interest rate swap agreement were assigned by UBS AG to Deutsche Bank AG, New York Branch, pursuant to novation transactions dated July 22, 2010.

These interest rate swap agreements entail risk to Metropolitan. The counterparty may fail or be unable to perform, interest rates may vary from assumptions, Metropolitan may be required to post collateral in favor of its counterparties and Metropolitan may be required to make significant payments in the event of an early termination of an interest rate swap. Metropolitan believes that if such an event were to occur, it would not have a material adverse impact on its financial position. Metropolitan seeks to manage counterparty risk by diversifying its swap counterparties, limiting exposure to any one counterparty, requiring collateralization or other credit enhancement to secure swap payment obligations, and by requiring minimum credit rating levels. Initially swap counterparties must be rated at least "Aa3" or "AA-", or equivalent by any two of the nationally recognized credit rating agencies; or use a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. Should the credit rating of an existing swap counterparty drop below the required levels, Metropolitan may enter into additional swaps if those swaps are "offsetting" and risk-reducing swaps. Each counterparty is initially required to have minimum capitalization of at least \$150 million. See Note 5(f) in Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013."

Early termination of an interest rate swap agreement could occur due to a default by either party or the occurrence of a termination event. As of September 30, 2014, Metropolitan would have been required to pay to its counterparties termination payments if some of its swaps were terminated on that date and would have been entitled to receive termination payments from its counterparties if other swaps were terminated. Metropolitan's net exposure to its counterparties for all such termination payments on that date was approximately \$79 million. Metropolitan does not presently anticipate early termination of any of its interest rate swap agreements due to default by either party or the occurrence of a termination event. However, effective June 28, 2012, Metropolitan exercised optional early termination provisions to terminate all or a portion of certain interest rate swap agreements totaling a notional amount of \$322 million. Effective February 12, 2014, Metropolitan exercised optional early termination provisions to terminate a portion of certain interest rate swap agreements, totaling a notional amount of \$147 million. Effective July 29, 2014, Metropolitan optionally terminated portions of certain interest rate swap agreements totaling a notional amount of \$163 million.

Metropolitan is required to post collateral in favor of a counterparty to the extent that Metropolitan's total exposure for termination payments to that counterparty exceeds the threshold specified in the applicable swap agreement. Conversely, the counterparties are required to release collateral to Metropolitan or post collateral for the benefit of Metropolitan as market conditions become favorable to Metropolitan. As of September 30, 2014, Metropolitan had no collateral posted with any counterparty. The highest, month-end, amount of collateral posted was \$36.8 million, on June 30, 2012, which was based on an outstanding swap notional amount of \$1.4 billion. The amount of required collateral varies from time to time due primarily to interest rate movements and can change significantly over a short period of time. See "METROPOLITAN REVENUES—Financial Reserve Policy" in this Appendix A. In the future, Metropolitan may be required to post additional collateral, or may be entitled to a reduction or return of the required collateral amount. Collateral deposited by Metropolitan is held by the counterparties; a bankruptcy of any counterparty holding collateral posted by Metropolitan could adversely affect the return of the collateral to Metropolitan. Moreover, posting collateral limits Metropolitan's liquidity. If collateral requirements increase significantly, Metropolitan's liquidity may be materially adversely affected. See "METROPOLITAN REVENUES—Financial Reserve Policy."

### **Build America Bonds**

Metropolitan previously issued and designated three series of Bonds in the aggregate principal amount of \$578,385,000 as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Build America Bonds"). Except as they may be reduced by sequestration as described in the following paragraph, Metropolitan currently expects to receive cash subsidies from the United States Treasury equal to 35 percent of the interest payable on all such outstanding Build America Bonds (the "Interest Subsidy Payments"). The Interest Subsidy Payments in connection with the Build America Bonds do not constitute Operating Revenues under the Master Resolution. Such Interest Subsidy Payments will constitute Additional Revenues, which Metropolitan may take into consideration when establishing its rates and charges and will be available to Metropolitan to pay principal of and interest on Metropolitan's Bonds.

The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure to reduce the deficit would result in sequestration: automatic, generally across-the-board, spending reductions. These reductions began on March 1, 2013 pursuant to an executive order that reduced budgetary authority for expenditures subject to sequestration, including subsidies for Build America Bonds. Pursuant to this executive order, the approximately \$6.64 million interest subsidy payment that Metropolitan received on July 1, 2013 was reduced by 8.7 percent, or \$578,000, to \$6.06 million. Refund payments processed on or after October 1, 2014 and on or before September 30, 2015 are anticipated to be reduced by the fiscal year 2014-2015 sequestration rate of 7.3 percent, or approximately \$964,000 of the \$13.2 million originally projected to be received over this period. The sequestration reduction rate will be

applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Metropolitan can offer no assurances as to future subsidy payments and expects that once it receives less than any full 35 percent subsidy payment, the United States Treasury will not thereafter reimburse Metropolitan for payments not made.

### **Other Revenue Obligations**

As of November 1, 2014, Metropolitan had outstanding \$61.0 million of 2012 Series E Parity Bonds in two series, \$30.3 million of 2014 Series C Parity Bonds in three series, and \$57.8 million of 2014 Series G in five series, bearing interest in a term mode (the "Term Mode Bonds"). The Term Mode Bonds initially bear interest at a fixed rate for a specified period from their date of issuance, after which there shall be determined a new interest mode for each series (which may be another term mode, a daily mode, a weekly mode, a short-term mode or an index mode) or the Term Mode Bonds may be converted to bear fixed interest rates through the maturity date thereof. The owners of the Term Mode Bonds of a series must tender for purchase, and Metropolitan must purchase, all of the Term Mode Bonds of such series on the specified scheduled mandatory tender date of each term period for such series. The scheduled mandatory tender dates for the two series of the 2012 Series E Bonds are October 1, 2015 and October 1, 2016. For the three series of the 2014 Series C Bonds, the scheduled mandatory tender dates are October 1, 2019, October 1, 2020 and October 1, 2021. For the five series of the 2014 Series G Bonds, the scheduled mandatory tender dates are October 1, 2016, 2017, 2018, 2019, and 2020, respectively. Metropolitan may call the Term Mode Bonds on or after the Call Protection Date for each of the series of Term Mode Bonds.

Metropolitan will pay the principal of, and interest on, the Term Mode Bonds on parity with its other Parity Bonds. Metropolitan anticipates that it will pay the purchase price of tendered Term Mode Bonds from the proceeds of remarketing such Term Mode Bonds or from other available funds. Metropolitan's obligation to pay the purchase price of such Term Mode Bonds is an unsecured obligation of Metropolitan that it would pay from Net Operating Revenues only after it has made payments and deposits with respect to its Operating Revenues, the Bonds and Parity Obligations and other obligations secured by Net Operating Revenues. Metropolitan has not secured any liquidity facility or letter of credit to support the payment of the purchase price of Term Mode Bonds in connection with any scheduled mandatory tender. If the purchase price of the Term Mode Bonds of any series is not paid from the proceeds of remarketing or other funds following a scheduled mandatory tender, such Term Mode Bonds will then bear interest at a default rate of up to 12 percent per annum until purchased by Metropolitan or redeemed. If the purchase price of the Term Mode Bonds of any series is not paid on a scheduled mandatory tender date, such Term Mode Bonds will also be subject to special mandatory redemption, in part, 18, 36 and 54 months following the purchase default. Any such special mandatory redemption payment will constitute a Bond Obligation payable on parity with the Parity Bonds and the Parity Obligations.

### **Revolving Credit Agreement**

On March 21, 2013, Metropolitan entered into a revolving credit agreement ("Revolving Credit Agreement") with The Bank of New York Mellon ("BNY Mellon"). Under the terms and conditions of the Revolving Credit Agreement, Metropolitan may borrow up to \$96,545,900 for purposes of paying the purchase price of any Self-Liquidity Bonds. Under the Revolving Credit Agreement, a failure by Metropolitan to perform or observe certain covenants could result in a termination of BNY Mellon's commitment and entitle BNY Mellon to declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Revolving Credit Agreement as a Parity Obligation under the Master Resolution. The scheduled expiration date of the Revolving Credit Agreement is March 31, 2016. Metropolitan has no obligation to make borrowings under the Revolving Credit Agreement, maintain the Revolving Credit Agreement or renew the Revolving Credit Agreement. See "—Limitations on Additional Revenue Bonds" above.

When Metropolitan entered into the Revolving Credit Agreement, it designated the principal and interest payable under the Revolving Credit Agreement as Excluded Principal Payments under the Master

Resolution and thus, for purposes of calculating Maximum Annual Debt Service, included the amount of principal and interest due and payable under the Revolving Credit Agreement on a schedule of Assumed Debt Service. This schedule of Assumed Debt Service assumes that Metropolitan will pay the principal under the Revolving Credit Agreement over a period of 30 years at a fixed interest rate of 3.75 percent. Pursuant to the terms of the Master Resolution, while the Revolving Credit Agreement is in force and effect, when Metropolitan calculates its covenant relating to the creation or incurrence of additional indebtedness, it will add an amount to its Net Operating Revenues relating to an assumed annual debt service payment that Metropolitan would receive if it were to use the proceeds of the Revolving Credit Agreement to purchase Self-Liquidity Bonds.

### Subordinate Revenue Obligations

Metropolitan currently is authorized to issue subordinate debt of up to \$400,000,000 of Commercial Paper Notes payable from Net Operating Revenues on a basis subordinate to the Parity Bonds and the Parity Obligations. Although no Commercial Paper Notes are currently outstanding, the authorization remains in full force and effect and Metropolitan may issue Commercial Paper Notes from time to time. In addition, Metropolitan obtained a \$20 million California Safe Drinking Water Revolving Fund Loan in 2003 at an interest rate of 2.39 percent per annum to reimburse construction costs for oxidation retrofit facilities at the Henry J. Mills Treatment Plant in Riverside County. The loan payment obligation is subordinate to the Parity Bonds and Parity Obligations. As of November 1, 2014, the principal balance outstanding was \$11.2 million.

### General Obligation Bonds

As of November 1, 2014, \$132,275,000 aggregate principal amount of general obligation bonds payable from *ad valorem* property taxes were outstanding. See “METROPOLITAN REVENUES — General” and “— Revenue Allocation Policy and Tax Revenues” in this Appendix A. Metropolitan's revenue bonds are not payable from the levy of *ad valorem* property taxes.

<u>General Obligation Bonds</u>	<u>Amount Issued<sup>(1)</sup></u>	<u>Principal Outstanding</u>
Waterworks General Obligation Refunding Bonds, 2004 Series A	\$ 68,345,000	\$ 7,090,000
Waterworks General Obligation Refunding Bonds, 2005 Series A*	64,705,000	60,105,000
Waterworks General Obligation Refunding Bonds, 2009 Series A	45,515,000	33,650,000
Waterworks General Obligation Refunding Bonds, 2010 Series A	<u>39,485,000</u>	<u>31,430,000</u>
Total	<u>\$218,050,000</u>	<u>\$132,275,000</u>

Source: Metropolitan.

(1) Voters authorized Metropolitan to issue \$850,000,000 of Waterworks General Obligation Bonds, Election 1966, in multiple series, in a special election held on June 7, 1966. This authorization has been fully utilized. This table lists bonds that refunded such Waterworks General Obligation Bonds, Election 1966.

\* Metropolitan expects to issue its Waterworks General Obligation Refunding Bonds, 2014 Series A to refund all or a portion of these bonds.

### State Water Contract Obligations

*General.* On November 4, 1960, Metropolitan entered into its State Water Contract with DWR, under which Metropolitan receives an entitlement to water service from the State Water Project. Subsequently, other public agencies also entered into water supply contracts with DWR, all of which were patterned after Metropolitan's State Water Contract. Metropolitan's State Water Contract accounts for nearly one-half of the total entitlement for State Water Project water contracted for by all contractors.

The State Water Contract will remain in effect until 2035 or until all DWR bonds issued to finance construction of project facilities are repaid, whichever is longer. At the expiration of the State Water

Contract, Metropolitan has the option to continue service under substantially the same terms and conditions. In June 2014, DWR and State Water Project Contractors reached an AIP to extend the contract to 2085 and to make certain changes related to the financial management of the State Water Project in the future. See “METROPOLITAN’S WATER SUPPLY—State Water Project” in this Appendix A. As of November 1, 2014, the latest maturity of outstanding DWR bonds issued for such purpose was December 1, 2035.

Under the State Water Contract, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operating and maintenance costs through at least 2035, regardless of quantities of water available from the project. Other payments are based on deliveries requested and actual deliveries received, costs of power required for actual deliveries of water, and offsets for credits received. Metropolitan’s payment obligation for the State Water Project for the fiscal year ended June 30, 2014 was \$464.6 million, which amount reflects prior year’s credits of \$79.5 million. For the fiscal year ended June 30, 2014, Metropolitan’s payment obligations under the State Water Contract were approximately 31 percent of Metropolitan’s total annual expenditures. A portion of Metropolitan’s annual property tax levy is for payment of State Water Contract obligations, as described above under “METROPOLITAN REVENUES—General” in this Appendix A. See Note 9(a) to Metropolitan’s audited financial statements in Appendix B for an estimate of Metropolitan’s payment obligations under the State Water Contract. Also see “POWER SOURCES AND COSTS” in this Appendix A for a description of current and future costs for electric power required to operate State Water Project pumping systems and a description of litigation involving the federal relicensing of the Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville.

The State Water Contract requires that in the event that Metropolitan fails or is unable to raise sufficient funds by other means, Metropolitan must levy upon all property within its boundaries not exempt from taxation a tax or assessment sufficient to provide for all payments under the State Water Contract. Currently, a portion of the capital costs under the State Water Contract are paid from *ad valorem* taxes levied by Metropolitan. In the opinion of Metropolitan’s General Counsel, a tax increase to provide for additional payments under the State Water Contract would be within the exemption permitted under Article XIII A of the State Constitution as a tax to pay pre-1978 voter approved indebtedness.

Metropolitan capitalizes its share of system construction costs as participation rights in State Water Project facilities as such costs are billed by DWR. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State Water Project system. Metropolitan’s share of system operating and maintenance costs are annually expensed.

Metropolitan has entered into amendments to the State Water Contract that represent additional long-term obligations, as described below.

*Devil Canyon-Castaic Contract.* On June 23, 1972, Metropolitan and five other southern California public agencies entered into a contract (the “Devil Canyon-Castaic Contract”) with DWR for the financing and construction of the Devil Canyon and Castaic power recovery facilities, located on the aqueduct system of the State Water Project. Under this contract, DWR agreed to build the Devil Canyon and Castaic facilities, using the proceeds of revenue bonds issued by DWR under the State Central Valley Project Act. DWR also agreed to use and apply the power made available by the construction and operation of such facilities to deliver water to Metropolitan and the other contracting agencies. Metropolitan, in turn, agreed to pay to DWR 88 percent of the debt service on the revenue bonds issued by DWR. For calendar year 2013, this represented a payment of \$6.7 million. In addition, Metropolitan agreed to pay 78.5 percent of the operation and maintenance expenses of the Devil Canyon facilities and 96 percent of the operation and maintenance expenses of the Castaic facilities. Metropolitan’s obligations under the Devil Canyon-Castaic Contract continue until the bonds are fully retired in 2022 even if DWR is unable to operate the facilities or deliver power from these facilities.

*Off-Aqueduct Power Facilities.* In addition to system “on-aqueduct” power facilities costs, DWR has, either on its own or by joint venture, financed certain off-aqueduct power facilities. The power generated is

utilized by the system for water transportation and other State Water Project purposes. Power generated in excess of system needs is marketed to various utilities and the California power exchange market. Metropolitan is entitled to a proportionate share of the revenues resulting from sales of excess power. By virtue of a 1982 amendment to the State Water Contract and the other water supply contracts, Metropolitan and the other water contractors are responsible for paying the capital and operating costs of the off-aqueduct power facilities regardless of the amount of power generated. Other costs of Metropolitan in relation to the State Water Project and the State Water Contract may increase as a result of restructuring of California's electric utility industry and new Federal Energy Regulatory Commission ("FERC") regulations.

*East Branch Enlargement Amendment.* In 1986, Metropolitan's State Water Contract and the water supply contracts of certain other State Water Project Contractors were amended for the purpose, among others, of financing the enlargement of the East Branch of the California Aqueduct. Under the amendment, enlargement of the East Branch can be initiated either at Metropolitan's request or by DWR finding that enlargement is needed to meet demands. Metropolitan, the other State Water Contractors on the East Branch, and DWR are currently in discussions on the timetable and plan for future East Branch enlargement actions.

The amendment establishes a separate subcategory of the Transportation Charge under the State Water Contract for the East Branch Enlargement and provides for the payment of costs associated with financing and operating the East Branch Enlargement. Under the amendment, the annual financing costs for such facilities financed by bonds issued by DWR are allocated among the participating contractors based upon the delivery capacity increase allocable to each participating contractor. Such costs include, but are not limited to, debt service, including coverage requirements, deposits to reserves, and certain operation and maintenance expenses, less any credits, interest earnings or other moneys received by DWR in connection with this facility.

If any participating contractor defaults on payment of its allocable charges under the amendment, among other things, the non-defaulting participating contractors may assume responsibility for such charges and receive delivery capability that would otherwise be available to the defaulting participating contractor in proportion to the non-defaulting contractor's participation in the East Branch Enlargement. If participating contractors fail to cure the default, Metropolitan will, in exchange for the delivery capability that would otherwise be available to the defaulting participating contractor, assume responsibility for the capital charges of the defaulting participating contractor.

*Water System Revenue Bond Amendment.* In 1987, the State Water Contract and other water supply contracts were amended for the purpose of financing State Water Project facilities through revenue bonds. This amendment establishes a separate subcategory of the Delta Water Charge and the Transportation Charge for projects financed with DWR water system revenue bonds. This subcategory of charge provides the revenues required to pay the annual financing costs of the bonds and consists of two elements. The first element is an annual charge for repayment of capital costs of certain revenue bond financed water system facilities under the existing water supply contract procedures. The second element is a water system revenue bond surcharge to pay the difference between the total annual charges under the first element and the annual financing costs, including coverage and reserves, of DWR's water system revenue bonds.

If any contractor defaults on payment of its allocable charges under this amendment, DWR is required to allocate a portion of the default to each of the nondefaulting contractors, subject to certain limitations, including a provision that no nondefaulting contractor may be charged more than 125 percent of the amount of its annual payment in the absence of any such default. Under certain circumstances, the nondefaulting contractors would be entitled to receive an allocation of the water supply of the defaulting contractor.

The following table sets forth Metropolitan's projected costs of State Water Project water, based upon DWR's Annual Billing to Metropolitan for calendar year 2015 and projections based on Metropolitan's adopted biennial budget for fiscal years 2014-15 and 2015-16. If a Bay-Delta improvement alternative is



identified and funding is approved, construction may commence in 2016. See “METROPOLITAN’S WATER SUPPLY—State Water Project—Bay-Delta Regulatory and Planning Activities” in this Appendix A.

**PROJECTED COSTS OF METROPOLITAN  
FOR STATE WATER PROJECT WATER<sup>(1)</sup>  
(Dollars in Millions)**

<b>Year Ending June 30</b>	<b>Capital Costs</b>	<b>Minimum OMP&amp;R<sup>(2)</sup></b>	<b>Power Costs<sup>(3)</sup></b>	<b>Refunds &amp; Credits</b>	<b>Total<sup>(4)</sup></b>
2015	\$161.9	\$182.2	\$189.5	\$(38.0)	\$495.6
2016	170.0	184.6	196.8	(36.3)	515.1
2017	183.6	190.1	212.6	(36.6)	549.7
2018	193.3	191.0	221.9	(36.4)	569.8
2019	206.6	192.6	235.2	(35.9)	598.4

*Source: Metropolitan.*

- (1) Projections are based upon DWR’s Annual Billing to Metropolitan for 2015 and attachments (dated July 1, 2014) and Metropolitan’s adopted biennial budget for fiscal years 2014-15 and 2015-16. All costs are adjusted from calendar year to fiscal year periods ending June 30. The total charges shown above differ from those shown in Note 9 of Metropolitan’s audited financial statements (for the fiscal years ended June 30, 2014 and June 30, 2013) in Appendix B due to the inclusion above of allowances for inflation and anticipated construction of additional State Water Project facilities. The projections above also include State Water Project refunds and credits. See “POWER SOURCES AND COSTS—State Water Project” in this Appendix A.
- (2) Minimum Operations, Maintenance, Power and Replacement (“OMP&R”) represents costs which are fixed and do not vary with the amount of water delivered.
- (3) Assumptions for water deliveries through the California Aqueduct (not including SBVMWD and Desert Water/CVWD transfers and exchanges) into Metropolitan’s service area and to storage programs are as follows: 0.91 million acre-feet for fiscal year 2014-15, 0.91 million acre-feet for fiscal year 2015-16, 0.91 million acre-feet for fiscal year 2016-17, 0.93 million acre-feet for fiscal year 2017-18, and 0.93 million acre-feet for fiscal year 2018-19. Availability of State Water Project supplies vary and deliveries may include transfers and storage. All deliveries are within maximum contract amount and are based upon availability, as determined by hydrology, water quality and wildlife conditions. See “METROPOLITAN’S WATER SUPPLY—State Water Project—*Endangered Species Act Considerations*” in this Appendix A.
- (4) Annual totals include BDCP related costs for the fiscal years ended June 30, 2015 through June 30, 2019 of \$-0- in fiscal years 2014-15 and 2015-16, \$15 million in 2016-17, \$24 million in 2017-18, and \$46 million in 2018-19. Projected BDCP costs are reflected in the ten-year financial forecast provided in the biennial budget for fiscal years 2014-15 and 2015-16 that was approved by Metropolitan’s Board on April 8, 2014.

### Other Long-Term Commitments

Metropolitan also has various ongoing fixed annual obligations under its contract with the United States Department of Energy for power from the Hoover Power Plant. Under the terms of the Hoover Power Plant contract, Metropolitan purchases energy to pump water through the Colorado River Aqueduct. In fiscal year 2013-14 Metropolitan paid approximately \$29.6 million under this contract. Payments made under the Hoover Power Plant contract are treated as operation and maintenance expenses. On March 12, 2014, Metropolitan and the other Hoover Contractors funded the defeasance of \$124 million of bonds issued by the U.S. Treasury Department for facilities related to the Hoover Dam and Power Plant. Following this repayment, Metropolitan expects to reduce its annual payment for Hoover power by approximately \$2.3 million. See “POWER SOURCES AND COSTS—Colorado River Aqueduct” in this Appendix A.

### Defined Benefit Pension Plan and Other Post-Employment Benefits

Metropolitan is a member of the California Public Employees’ Retirement System (“PERS”), a multiple-employer pension system that provides a contributory defined-benefit pension for substantially all

Metropolitan employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. A menu of benefit provisions is established by State statutes within the Public Employees' Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with PERS.

Metropolitan makes contributions to PERS based on actuarially determined employer contribution rates. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. Employees are required to contribute seven percent of their earnings (excluding overtime pay) to PERS. Pursuant to the current memoranda of understanding, Metropolitan contributes the requisite seven percent contribution for all employees represented by the Management and Professional Employees Association, the Association of Confidential Employees, Supervisors and Professional Personnel Association and AFSCME Local 1902 and who were hired prior to January 1, 2012. Employees in all four bargaining units who were hired on or after January 1, 2012, pay the full seven percent employee contribution to PERS. Metropolitan contributes the entire seven percent on behalf of unrepresented employees. In addition, Metropolitan is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. The fiscal year 2013-14 contribution requirement was based on the June 30, 2011 valuation report, the fiscal year 2014-15 contribution requirement is based on the June 30, 2012 valuation report, and the fiscal year 2015-16 contribution is based on the June 30, 2013 valuation report. The PERS' projected investment return (the discount rate) for fiscal years 2013-14, 2014-15, and 2015-16 is 7.5 percent, respectively.

For fiscal year 2013-14, Metropolitan contributed 16.3 percent of annual covered payroll. The fiscal year 2013-14 annual pension cost was \$47.4 million, of which \$13.5 million was for Metropolitan's pick-up of the employees' seven percent share. For fiscal year 2014-15 and fiscal year 2015-16, Metropolitan is required to contribute 17.65 percent and 19.74 percent, respectively, of annual covered payroll, in addition to member contributions paid by Metropolitan.

On April 17, 2013, the PERS Board of Administration approved changes to the amortization and smoothing policies to spread all gains and losses over a fixed 30-year period from a rolling 30-year period, and to recognize increases or decreases in investment returns over a 5-year period versus a 15-year period. In addition, PERS will no longer use an actuarial valuation of assets. These changes will result in higher employer contribution rates in the near term but lower rates in the long term. The new policies will be effective for fiscal year 2015-16. The following table shows the funding progress of Metropolitan's pension plan.

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**Metropolitan Pension Plan Assets**  
(dollars in billions)

Valuation Date	Accrued Liability	Actuarial Value of Assets	Market Value of Assets	Funded (Unfunded)		Funded Ratios	
				Actuarial Value	Market Value	Actuarial Value	Market Value
6/30/13	\$1.805	N/A	\$1.356	N/A	\$.449	N/A	75.1%
6/30/12	\$1.731	\$1.471	\$1.227	(\$0.260)	(\$0.504)	85.0%	70.9%
6/30/11	\$1.674	\$1.416	\$1.257	(\$0.258)	(\$0.417)	84.5%	75.1%
6/30/10	\$1.563	\$1.351	\$1.059	(\$0.212)	(\$0.504)	86.4%	67.7%
6/30/09	\$1.478	\$1.287	\$0.940	(\$0.191)	(\$0.538)	87.1%	63.6%
6/30/08	\$1.334	\$1.232	\$1.256	(\$0.102)	(\$0.078)	92.3%	94.1%

*Source: California Public Employees' Retirement System.*

As of June 30, 2002, the actuarial and market values of assets in Metropolitan's pension plan were approximately \$896 million and \$815 million, respectively, resulting in excess actuarial and market assets of \$95 million and \$13 million, respectively. The increase in unfunded liability since 2002 is due to the draw-down of excess assets relating to the employer pick-up of the employees' seven percent share and prior asset losses in PERS investments, and the recognition of gains and losses on an actuarial basis over a "smoothing" period. The actuarial value of PERS assets since fiscal year 2003-04 is based on a policy to smooth the market value of investments over a fifteen-year period to reduce the volatility of employers' future contributions and stabilize pension costs. However, in June 2009, the PERS Board adopted temporary modifications to the asset smoothing method in order to phase in over a three year period the impact of the 24 percent investment loss experienced in fiscal year 2008-09. In its June 2010 and June 2011 valuation reports, PERS continued the effects of the temporary modification. The phase-in provides short-term relief to local government employers and is designed to strengthen the long-term financial health of the pension funds. As described above, in its June 2013 valuation report, PERS has changed its amortization and smoothing methods in setting the fiscal year 2015-16 employer contribution rates. The changes will result in higher employer contribution rates in the near term but lower rates in the long term. For more information on the plan, see Appendix B - "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2014 AND BASIC FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013."

Metropolitan currently provides post-employment medical insurance to retirees and pays the post-employment medical insurance premiums to PERS. On January 1, 2012, Metropolitan implemented a longer vesting schedule for retiree medical benefits, which applies to all new employees hired on or after January 1, 2012. Payments for this benefit were \$13.1 million in fiscal year 2013-14 and are estimated to be \$12.8 million in fiscal year 2014-15. Under Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, Metropolitan is required to account for and report the outstanding obligations and commitments related to such benefits, commonly referred to as other post-employment benefits ("OPEB"), on an accrual basis.

Metropolitan's annual required contribution ("ARC") for OPEB was \$39.9 million in fiscal year 2013-14. The ARC was based on a June 30, 2011 actuarial valuation using the entry-age normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a general inflation component of 3.0 percent and (c) increases to basic medical premiums of 8.5 percent for non-Medicare plans for 2014, grading down to 5.0 percent for 2021 and thereafter. As of June 30, 2011, the date of the OPEB actuarial report, the unfunded OPEB liability was estimated to be \$367.7 million. The unfunded actuarial accrued liability is amortized over a fixed 30-year period starting with fiscal year 2007-08 and ending in 2037. Assumption changes are amortized over a fixed 20-year period. Actuarial gains and losses are amortized over a rolling 15-year period. In its biennial budget for fiscal years 2012-13 and 2013-14, Metropolitan's Board approved contributions to an irrevocable OPEB trust fund of \$5.0 million and \$10.0 million, respectively. During fiscal year 2012-13 the Board approved funding of an additional \$25.0 million. During fiscal year 2013-14 the Board approved funding of an additional \$100.0 million. Accordingly, Metropolitan established an irrevocable OPEB trust fund in September 2013 with an initial deposit of \$40.0 million, and deposited an additional \$25.0 million per month from May through August 2014.

A June 30, 2013 actuarial valuation was released in February of 2014. This valuation indicates that the ARC in fiscal years 2014-15 and 2015-16 are \$29.5 million and \$30.3 million, respectively. As of June 30, 2013 the unfunded OPEB liability was estimated to be \$315 million. This actuarial valuation used the same assumptions as the June 30, 2011 valuation except that actuarial gains and losses are amortized over a fixed 15 year period. As part of its biennial budget process, the Board approved the full funding of the ARC for fiscal years 2014-15 and 2015-16.

### **HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

The "Historical and Projected Revenues and Expenses" table below, for fiscal years 2010-11 and 2012-13, provides a summary of revenues and expenditures of Metropolitan prepared on a cash basis, which conforms to the Revenue Bond Resolution provisions regarding rates and additional Bonds (as defined in the Master Resolution) and Parity Obligations (as defined in the Master Resolution). See "METROPOLITAN EXPENDITURES—Limitations on Additional Revenue Bonds" in this Appendix A. Under cash basis accounting, water sales revenues are recorded when received (two months after billed) and expenses when paid (approximately one month after invoiced). The actual financial reports beginning in fiscal year 2012-13 and the financial projections for fiscal years 2014-15 through 2018-19 are prepared on a modified accrual basis. This is consistent with the adopted biennial budget for fiscal years 2014-15 and 2015-16, which was prepared on a modified accrual basis instead of a cash basis. The table does not reflect the accrual basis of accounting, which is used to prepare Metropolitan's annual audited financial statements. The modified accrual basis of accounting varies from the accrual basis of accounting in the following respects: depreciation and amortization will not be recorded and payments of debt service will be recorded when due and payable. Under the modified accrual basis of accounting, revenues are recognized in the fiscal year in which they are earned and expenses are recognized when incurred. Thus water sales revenues are recognized in the month the water is sold and expenses are recognized when goods have been received and services have been rendered. The change to modified accrual accounting is for budgeting purposes and Metropolitan will continue to calculate compliance with its rate covenant, limitations on additional bonds and other financial covenants in the Resolutions in accordance with their terms.

The projections are based on assumptions concerning future events and circumstances that may impact revenues and expenses and represent management's best estimates of results at this time. See footnotes to the table below entitled "HISTORICAL AND PROJECTED REVENUES AND EXPENSES" and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" for relevant assumptions, including projected water sales and average annual increase in the effective water rate, and "MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES" for a discussion of potential impacts. Some assumptions inevitably will not

materialize and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material.

Estimated revenues and expenses in the table below reflect the ten-year financial forecast provided in the biennial budget for fiscal years 2014-15 and 2015-16 that was approved on April 8, 2014, and the projected issuance of additional bonds. Metropolitan anticipates issuing approximately \$140 million aggregate principal amount of debt through fiscal year 2018-19 to finance the CIP. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES—Water Sales Revenues” in this Appendix A.

The projections in the table below assume that water sales will be 1.75 million acre-feet in fiscal year 2014-15 through fiscal year 2018-19, respectively. Rates and charges will increase by 1.5 percent on January 1, 2015 and 1.5 percent on January 1, 2016. Rates and charges are projected to increase 3.0 percent to 5.0 percent annually thereafter. Actual rates and charges to be effective in 2017 and thereafter are subject to adoption by Metropolitan’s Board. The projections were prepared by Metropolitan and have not been reviewed by independent certified public accountants or any entity other than Metropolitan. Dollar amounts are rounded.

Metropolitan’s resource planning projections are developed using a comprehensive analytical process that incorporates demographic growth projections from recognized regional planning entities, historical and projected data acquired through coordination with local agencies, and the use of generally accepted empirical and analytical methodologies. See “METROPOLITAN’S WATER SUPPLY—Integrated Water Resources Plan” and “—The Integrated Resources Plan Strategy” in this Appendix A. Metropolitan has conservatively set the water sales projections in the following table which are below its projections for resource planning purposes. Metropolitan estimates that its water sales projections have a seventy percent statistical likelihood of being exceeded, compared to the fifty percent exceedance levels in the projections of water sales used to set prior years’ budgets and rates. Nevertheless, Metropolitan’s assumptions have been questioned by directors representing SDCWA on Metropolitan’s Board. Metropolitan has reviewed SDCWA’s concerns and, while recognizing that assumptions may vary, believes that the estimates and assumptions that support Metropolitan’s projections are reasonable based upon history, experience and other factors as described above.

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**HISTORICAL AND PROJECTED REVENUES AND EXPENSES<sup>(a)</sup>**  
**(Dollars in Millions)**

	-----Actual-----				-----Projected-----				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Water Sales <sup>(b)</sup>	\$996	\$1,062	\$1,283	\$1,485	\$1,296	\$1,314	\$1,338	\$1,378	\$1,422
Additional Revenue Sources <sup>(c)</sup>	<u>153</u>	<u>168</u>	<u>173</u>	<u>182</u>	<u>199</u>	<u>199</u>	<u>196</u>	<u>198</u>	<u>202</u>
Total Operating Revenues	<u>1,149</u>	<u>1,230</u>	<u>1,456</u>	<u>1,667</u>	<u>1,495</u>	<u>1,513</u>	<u>1,534</u>	<u>1,576</u>	<u>1,624</u>
O&M, CRA Power and Water Transfer Costs <sup>(d)</sup>	(531)	(476)	(456)	(512)	(567)	(577)	(587)	(613)	(640)
Total SWC OMP&R and Power Costs <sup>(e)</sup>	<u>(322)</u>	<u>(316)</u>	<u>(337)</u>	<u>(342)</u>	<u>(361)</u>	<u>(374)</u>	<u>(396)</u>	<u>(408)</u>	<u>(425)</u>
Total Operation and Maintenance	<u>(853)</u>	<u>(792)</u>	<u>(793)</u>	<u>(854)</u>	<u>(928)</u>	<u>(951)</u>	<u>(983)</u>	<u>(1,021)</u>	<u>(1,065)</u>
Net Operating Revenues	\$ 296	\$ 438	\$ 663	\$ 813	\$567	\$562	\$ 551	\$555	\$559
Miscellaneous Revenue <sup>(f)</sup>	74	56	23	19	17	18	18	18	<u>18</u>
Sales of Hydroelectric Power <sup>(g)</sup>	22	31	25	15	19	19	20	21	21
Interest on Investments <sup>(h)</sup>	<u>17</u>	<u>11</u>	<u>(2)</u>	<u>19</u>	<u>16</u>	<u>28</u>	<u>33</u>	<u>32</u>	<u>32</u>
Adjusted Net Operating Revenues <sup>(i)</sup>	409	536	709	866	619	627	622	626	630
Bonds and Additional Bonds Debt Service <sup>(j)</sup>	(277)	(297)	(298)	(343)	(276)	(309)	(310)	(313)	(307)
Subordinate Revenue Obligations <sup>(k)</sup>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Funds Available from Operations	\$ 131	\$ 238	\$ 410	\$ 522	\$ 342	\$ 317	\$ 311	\$312	\$322
Bonds and Additional Bonds Debt Service Coverage <sup>(l)</sup>	1.48	1.81	2.38	2.52	2.24	2.03	2.01	2.00	2.06
Debt Service Coverage on all Obligations <sup>(m)</sup>	1.47	1.80	2.37	2.51	2.23	2.02	2.00	1.99	2.05
Funds Available from Operations	\$ 131	\$ 238	\$410	\$ 522	\$ 342	\$317	\$ 311	\$312	\$322
Other Revenues (Expenses)	(2)	(3)	(5)	(6)	(8)	(8)	(8)	(9)	(9)
Pay-As-You Go Construction	(45)	(45)	(55)	(117)	(245)	(221)	(200)	(204)	(201)
Water Transfer Capital Costs	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total SWC Capital Costs Paid from Current Year Operations	<u>(119)</u>	<u>(112)</u>	<u>(88)</u>	<u>(68)</u>	<u>(68)</u>	<u>(72)</u>	<u>(83)</u>	<u>(84)</u>	<u>(89)</u>
Remaining Funds Available from Operations	(35)	77	262	331	21	16	20	15	23
Fixed Charge Coverage <sup>(n)</sup>	1.03	1.31	1.83	2.10	1.79	1.64	1.58	1.57	1.59
Property Taxes	88	90	95	95	90	92	94	96	<u>99</u>
General Obligation Bonds Debt Service	(39)	(39)	(40)	(40)	(23)	(23)	(23)	(19)	(14)
SWC Capital Costs Paid from Taxes	<u>(49)</u>	<u>(51)</u>	<u>(55)</u>	<u>(55)</u>	<u>(67)</u>	<u>(69)</u>	<u>(71)</u>	<u>(77)</u>	<u>(85)</u>
Net Funds Available from Current Year <sup>(o)</sup>	\$ (35)	\$ 77	\$262	\$331	\$21	\$16	\$20	\$14	\$22
PAYGO Funded from Prior Year Revenues						\$(47)	\$(75)	\$(32)	

Source: Metropolitan.

- (a) Unaudited. Prepared on a cash basis for fiscal years ended June 30, 2011 through fiscal year ending June 30, 2012, and on a modified accrual basis for fiscal years ending June 30, 2013 through June 30, 2019. Projected revenues and expenditures are based on assumptions and estimates used in the adopted 2014-15 and 2015-16 biennial budget and reflect the projected issuance of additional bonds. Projected revenues and expenditures for fiscal year 2013-14 include actual financial results for July 2013-March 2014 with revised projections for the balance of the fiscal year.

(Footnotes continued on next page)

- (b) During the fiscal years ended June 30, 2011 through June 30, 2014, annual water sales (in acre-feet) were 1.63 million, 1.68 million (including 225,000 acre-feet of replenishment sales), 1.86 million, and 2.04 million, respectively. See “METROPOLITAN REVENUES—Water Sales Revenues,” the table entitled “SUMMARY OF WATER SOLD AND WATER SALES” in this Appendix A. The water sales projections are 1.75 million in fiscal years 2014-15, 2015-16, 2016-17, 2017-18, and 2018-19. Projections reflect Board adopted rate and charge increases of 1.5 percent, which will become effective on January 1, 2015 and 1.5 percent, which will become effective on January 1, 2016. Rates and charges are projected to increase 3.0 percent to 5.0 percent per fiscal year thereafter, subject to adoption by Metropolitan’s Board. See “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” below.
- (c) Includes receipts from water standby, readiness-to-serve and capacity charges. The term Operating Revenues excludes *ad valorem* taxes. See “METROPOLITAN REVENUES — Additional Revenue Components” in this Appendix A.
- (d) Water Transfer Costs are included in operation and maintenance expenses for purposes of calculating the debt service coverage on all Obligations.
- (e) Includes on and off aqueduct power and operation, maintenance, power and replacement costs payable under the State Water Contract. See “METROPOLITAN EXPENDITURES—State Water Contract Obligations” in this Appendix A.
- (f) May include lease and rental net proceeds, net proceeds from sale of surplus property, reimbursements, and federal interest subsidy payments for Build America Bonds. Federal interest subsidy payments for Build America Bonds in fiscal years 2014-15 to 2018-19 are projected to be \$12.2 million and reflect a 7.3 percent reduction pursuant to federal budget sequestration. Includes in fiscal year 2010-11, \$8 million from surplus property sales and a \$28.2 million capital reimbursement received from the Calleguas Municipal Water District in fiscal year 2010-11 related to termination of the Las Posas water storage program. See “REGIONAL WATER RESOURCES—Local Water Supplies—Groundwater Storage Programs” in this Appendix A. Also includes in fiscal year 2011-12 \$27.5 million from CVWD for delivery of 105,000 acre-feet under an exchange agreement between Metropolitan and CVWD. See “METROPOLITAN’S WATER SUPPLY—Colorado River Aqueduct—Quantification Settlement Agreement” in this Appendix A.
- (g) Includes Colorado River Aqueduct power sales.
- (h) Does not include interest applicable to Bond Construction Funds, the Excess Earnings Funds, other trust funds and the Deferred Compensation Trust Fund. Fiscal year 2012-13 included Fair Value Adjustment of \$(13.8) million, as per modified accrual accounting
- (i) Adjusted Net Operating Revenues is the sum of all available revenues that the revenue bond resolutions specify may be considered by Metropolitan in setting rates and issuing additional Bonds and Parity Obligations.
- (j) Includes debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011 and additional Bonds (projected). Assumes issuance of additional Bonds as provided in budget assumptions for the adopted biennial budget for fiscal years 2014-15 and 2015-16 as follows: \$-0- in each fiscal year for fiscal year 2014-15 through fiscal year 2016-17 \$40 million in fiscal year 2017-18, and \$100 in fiscal year 2018-19. For fiscal years 2013-14 and 2014-15, reflects the defeasance of the 2004 Series B Water Revenue Refunding Bonds, payable on July 1, 2014, through a payment of Metropolitan funds to an escrow account on May 29, 2014. See “CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing” in this Appendix A.
- (k) Consisting of subordinate lien California Safe Drinking Water Revolving Fund Loan debt service.
- (l) Adjusted Net Operating Revenues divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011 and additional Bonds (projected). For fiscal years 2013-14 and 2014-15, reflects the defeasance of the 2004 Series B Water Revenue Refunding Bonds, payable on July 1, 2014, through a payment of Metropolitan funds to an escrow account on May 29, 2014.
- (m) Adjusted Net Operating Revenues, divided by the sum of debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011, the subordinate lien California Safe Drinking Water Revolving Fund Loan and additional Bonds (projected). See “METROPOLITAN EXPENDITURES—Subordinate Revenue Obligations” in this Appendix A. For fiscal years 2013-14 and 2014-15, reflects the defeasance of the 2004 Series B Water Revenue Refunding Bonds, payable on July 1, 2014, through a payment of Metropolitan funds to an escrow account on May 29, 2014.
- (n) Adjusted Net Operating Revenues, divided by the sum of State Water Contract capital costs paid from current year operations and debt service on outstanding Bonds, the parity lien State Revolving Fund Loan which was repaid on July 1, 2011, the subordinate lien California Safe Drinking Water Revolving Fund Loan, and additional Bonds (projected). For fiscal years 2013-14 and 2014-15, reflects the defeasance of the 2004 Series B Water Revenue Refunding Bonds, payable on July 1, 2014, through a payment of Metropolitan funds to an escrow account on May 29, 2014.
- (o) For Fiscal Year 2012-13, includes amounts that were transferred prior to June 30, 2013: \$25 million to the Water Transfer Fund, \$25 million to a trust to pre-fund Metropolitan’s unfunded liability for other post-employment benefits, and \$25 million for PAYGO Construction. For Fiscal Year 2013-14, includes amounts transferred prior to June 30, 2014: \$100 million to a trust to pre-fund Metropolitan’s unfunded liability for other post-employment benefits; \$100 million for PAYGO Construction; an amount currently estimated at \$232 million to the Water Management Fund for water purchases to replenish storage and funding drought response programs. See “METROPOLITAN REVENUES-Financial Reserve Policy” in this Appendix A.

## **MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

### **Water Sales Revenues**

Metropolitan relies on revenues from water sales for about 80 to 85 percent of its total revenues. In adopting the budget and rates and charges for each fiscal year, Metropolitan’s board reviews the anticipated revenue requirements and projected water sales to determine the rates necessary to produce substantially the revenues to be derived from water sales during the fiscal year. Metropolitan sets rates and charges estimated to provide operating revenues sufficient, with other sources of funds, to provide for payment of its expenses. See “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

Metropolitan's Board has adopted annual increases in water rates each year beginning with the rates effective January 1, 2004. See "METROPOLITAN REVENUES—Rate Structure" and "—Classes of Water Service" in this Appendix A. On April 10, 2012, Metropolitan's Board adopted water rate increases of 5.0 percent, effective January 1, 2013 and January 1, 2014. On April 8, 2014, Metropolitan's Board adopted a 1.5 percent water rate increase, to become effective January 1, 2015, and an additional 1.5 percent water rate increase to become effective January 1, 2016.

The financial projections in the table above reflect the ten-year financial forecast provided in the biennial budget for fiscal years 2014-15 and 2015-16 that was approved by the Board on April 8, 2014. The 2014-15 and 2015-16 biennial budget and rates set the stage for predictable and reasonable rate increases over the ten-year planning period, with rates projected to increase 3.0 percent to 5.0 percent per year. Actual rates and charges to be effective in 2017 and thereafter are subject to adoption by Metropolitan's Board as part of the biennial budget process, and the ten-year forecast will be updated as well.

Increases in rates and charges reflect increasing operations and maintenance costs due primarily to an increase in retirement-related benefit costs, higher pay-as-you-go funding levels for the next two fiscal years of approximately \$513 million for the CIP, and increasing State Water Project costs when compared to fiscal year 2013-14. However, higher levels of revenue funding for the CIP and the use of reserves over target reduce revenue requirements in the later years of the forecast.

Metropolitan's revenues exceeded expenses during fiscal year 2013-14, resulting in a substantial increase in its unrestricted reserves as of June 30, 2014. Metropolitan's unrestricted reserves were \$487 million on June 30, 2014, on a modified accrual basis. On April 8, 2014, Metropolitan's Board approved the use of unrestricted reserves over the target level at June 30, 2014 as follows: \$100 million deposit to the Replacement and Refurbishment Fund for pay-as-you-go funding of the CIP; \$100 million deposited to the Other Post-Employment Benefits (OPEB) Trust; and the remaining amount of over target reserve levels, \$252 million, to a Water Management Fund, \$232 million of which will cover costs associated with replenishing storage, purchasing transfers and funding drought response programs, and \$20 million for conservation related programs. These amounts include \$137 million held in Metropolitan's financial reserves pursuant to the exchange contract between Metropolitan and SDCWA due to SDCWA's litigation challenging Metropolitan's rate structure (see "METROPOLITAN'S WATER SUPPLY—Colorado River Aqueduct—Sale of Water by the Imperial Irrigation District to San Diego County Water Authority" and "METROPOLITAN REVENUES—Litigation Challenging Rate Structure" in this Appendix A).

### **Water Sales Projections**

Water sales forecasts in the table above are: 1.75 million acre-feet in fiscal years 2014-15 through 2018-19. For purposes of comparison, Metropolitan's highest water sales during the past six fiscal years was approximately 2.3 million acre-feet in fiscal year 2007-08 and lowest was 1.63 million acre-feet in fiscal year 2010-11. See "METROPOLITAN REVENUES—Water Sales Revenues" in this Appendix A.

Metropolitan's water sales projections are the result of a comprehensive retail demand, conservation, and local supply estimation process, including supply projections from member agencies and other water providers within Metropolitan's service area. Retail demands for water are estimated with a model driven by projections of relevant demographics provided by SCAG and SANDAG. Retail demands are adjusted downward for conservation savings and local supplies, with the remainder being the estimated demand for Metropolitan supplies. Conservation savings estimates include all conservation programs in place to date as well as estimates of future conservation program goals that will result from regional 20 percent reductions by 2020 conservation savings. See "METROPOLITAN'S WATER SUPPLY—Water Conservation" in this Appendix A. Local supplies include water produced by local agencies from various sources including but not limited to groundwater, surface water, locally-owned imported supplies, and recycled water (see "REGIONAL WATER RESOURCES"). For example, water sales projections for both years of the biennial budget for fiscal years 2014-15 and 2015-16 assume that local projects such as groundwater recovery and



desalination projects (see “REGIONAL WATER RESOURCES—Local Water Supplies”) will become operational and produce local supplies in 2016. For additional description of Metropolitan’s water sales projections, see “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in this Appendix A.

The water sales projections used to determine water rates and charges assume an average year hydrology. Actual water sales are likely to vary from projections. Over the ten-year period from fiscal year 2004-05 through fiscal year 2013-14, actual water sales exceeded budgeted sales for the fiscal year in five fiscal years, with the greatest positive variance in fiscal year 2013-14 when actual sales of 2.04 million acre-feet were 120 percent of budgeted sales (1.70 million acre-feet). Actual sales were less than budgeted sales in five fiscal years, with the greatest negative variance in fiscal year 2010-11 when actual sales of 1.63 million acre-feet were 84 percent of budgeted sales (1.93 million acre-feet). In years when actual sales exceed projections, the revenues from water sales during the fiscal year will exceed budget, potentially resulting in an increase in financial reserves. In years when actual sales are less than projections, Metropolitan uses various tools to manage reductions in revenues, such as reducing expenses below budgeted levels, reducing funding of capital from revenues, and drawing on reserves. See “METROPOLITAN REVENUES—Financial Reserve Policy” in this Appendix A. Metropolitan considers actual sales, revenues and expenses, and financial reserve balances in setting rates for future fiscal years.

### **Operation and Maintenance Expenses**

Operation and maintenance expenses in fiscal year 2013-14 were \$854 million, which represented approximately 57 percent of total costs. These expenses include the costs of labor, electrical power, materials and supplies of both Metropolitan and its contractual share of the State Water Project. The cost of power for pumping water through the aqueducts is a major component of this category of expenditures.

Metropolitan’s Board adopted a budget benchmark in September 2004 to limit the annual increase in departmental operations and maintenance budgets to no more than the five-year rolling average change in the Los Angeles/Orange/Riverside Counties consumer price index. The fiscal year 2013-14 departmental expenses of \$369 million were approximately 7.0 percent and 6.4 percent higher than expenses in fiscal years 2012-13 and 2011-12, respectively.

## **POWER SOURCES AND COSTS**

### **General**

Current and future costs for electric power required for operating the pumping systems of the Colorado River Aqueduct and the State Water Project are a substantial part of Metropolitan’s overall expenses. Expenditures for electric power for the Colorado River Aqueduct (not including credits from power sales and related revenues) for the fiscal years 2011-12, 2012-13 and 2013-14 were approximately \$30.0 million, \$18.4 million, and \$29.6 million, respectively. Expenditures for electric power and transmission service for the State Water Project for fiscal years 2011-12, 2012-13 and 2013-14 were approximately \$214.1 million, \$218.1 million and \$157.4 million, respectively. Given the continuing uncertainty surrounding the electricity markets in California and in the electric industry in general, Metropolitan is unable to give any assurance with respect to the magnitude of future power costs.

### **Colorado River Aqueduct**

Generally 55 to 70 percent of the annual power requirements for pumping at full capacity (1.25 million acre-feet of Colorado River water) in Metropolitan’s Colorado River Aqueduct are secured through long-term contracts with the United States Department of Energy for energy generated from facilities located on the Colorado River (Hoover Power Plant and Parker Power Plant) and Edison. These contracts provide Metropolitan with reliable and economical power resources to pump Colorado River water to Metropolitan’s service area.

On December 20, 2011, President Obama signed into law the Hoover Power Allocation Act of 2011 (H.R. 470). This new law requires the Western Area Power Administration to renew existing contracts for electric energy generated at the Hoover Power Plant for an additional 50 years through September 2067. The contractors will retain 95 percent of their existing power rights. The law will allow Metropolitan to continue to receive a significant amount of power from the Hoover power plant after the current contract expires in 2017.

The remaining approximately 30 to 45 percent of annual pumping power requirements for full capacity pumping on the Colorado River Aqueduct is obtained through energy purchases from municipal and investor-owned utilities or power marketers. Gross diversions of water from Lake Havasu for the fiscal years ended June 30, 2013 and June 30, 2014 were approximately 767,622 acre-feet and 1,117,578 acre-feet, respectively, including Metropolitan's basic apportionment of Colorado River water and supplies from water transfer and groundwater storage programs.

The Metropolitan-Edison 1987 Service and Interchange Agreement includes provisions for the sharing of the benefits realized by the integrated operation of Edison's and Metropolitan's electric systems. Under this agreement, with a prior year pumping operation of 1 million acre-feet, Edison provides Metropolitan additional energy (benefit energy) sufficient to pump approximately 140,000 acre-feet annually. As the amount of pumping is increased, the amount of benefit energy provided by Edison is reduced.

Under maximum pumping conditions, Metropolitan can require up to one million megawatt-hours per year in excess of the base resources available to Metropolitan from the Hoover Power Plant, the Parker Power Plant, and Edison benefit energy. Metropolitan is a member of the Western Systems Power Pool ("WSPP"), and utilizes its industry standard form contract to make wholesale power purchases at market cost. Metropolitan acquires the majority of its supplemental power from WSPP members. In calendar years 2010 and 2011, Metropolitan purchased 755,000 megawatt-hours and 100,000 megawatt-hours, respectively, of energy above its base power resources. In calendar year 2013, Metropolitan pumped approximately 1.013 million acre-feet of its Colorado River water and additional supplies from other Colorado River sources but did not purchase any additional energy supplies above its base power resources.

### **State Water Project**

The State Water Project's power requirements are met from a diverse mix of resources, including State-owned hydroelectric generating facilities. DWR has long-term contracts with Morgan Stanley (unspecified energy sources), Metropolitan (hydropower), Kern River Conservation District (hydropower) and the Northern California Power Agency (natural gas generation). The remainder of its power needs is met by short-term purchases. Metropolitan pays approximately 70 percent of State Water Project power costs.

DWR is seeking renewal of the license issued by FERC for the State Water Project's Hyatt-Thermalito hydroelectric generating facilities at Lake Oroville. A Settlement Agreement containing recommended conditions for the new license was submitted to FERC in March 2006. That agreement was signed by over 50 stakeholders, including Metropolitan and other State Water Project Contractors. With only a few minor modifications, FERC staff recommended that the Settlement Agreement be adopted as the condition for the new license. DWR issued a Final EIR for the relicensing project on July 22, 2008. On August 21, 2008, Butte County and Plumas County filed separate lawsuits against DWR challenging the adequacy of the Final EIR. This lawsuit also named all of the signatories to the Settlement Agreement as "real parties in interest," since they could be adversely affected by this litigation. A trial was conducted in January 2012. On May 16, 2012, the court found that the EIR prepared in conjunction with the relicensing was adequate and dismissed the lawsuit against DWR. On August 7, 2012, Butte and Plumas Counties filed a notice of appeal. Briefing on the appeal was completed in May 2013. No date has been set for oral argument. Regulatory permits and authorizations are required before the new license can take effect. Chief among these is a biological opinion from the National Marine Fisheries Service setting forth the terms and conditions under which the relicensing project must operate in order to avoid adverse impacts to threatened and

endangered species. DWR has filed an application requesting this biological opinion. FERC has issued one-year renewals of the existing license since its initial expiration date on January 31, 2007, and is expected to issue successive one-year renewals until a new license is obtained.

DWR receives transmission service from investor-owned utilities under existing contracts and from the California Independent System Operator, a nonprofit public benefit corporation formed in 1996 pursuant to legislation that restructured and deregulated the electric utility industry in California. The transmission service provider may seek increased transmission rates, subject to the approval of FERC. DWR has the right to contest any such proposed increase. DWR may be subject to increases in the cost of transmission service as new electric grid facilities are constructed.

### **Energy Management Program**

Metropolitan staff completed a comprehensive Energy Management and Reliability Study in late 2009 and Metropolitan's Board adopted energy management policies in August 2010 that provide objectives for future energy-related projects to contain costs and reduce Metropolitan's exposure to energy price volatility, increase operational reliability through renewable energy projects, provide a revenue stream to offset energy costs and move Metropolitan toward energy independence.

Metropolitan's Energy Management Program mandates that Metropolitan design and operate its facilities in the most energy-efficient and cost-effective manner. This program includes: setting design standards for energy-efficient facilities; taking advantage of available rebates for energy efficiency and energy-saving projects; operating Metropolitan's facilities in the most energy-efficient manner; and continuing to investigate alternative energy sources, such as solar and wind power. Metropolitan has completed energy efficiency assessments at all five of its water treatment plants and is evaluating recommendations for proposed changes. Metropolitan has completed construction of a one-megawatt solar generation facility at the Robert A. Skinner Treatment Plant and is investigating additional solar power generation at other treatment plants and facilities. Metropolitan has begun integrating fuel-efficient hybrid vehicles into its fleet and assessing the use of alternative fuels (biodiesel) for its off-road vehicles and construction equipment. Finally, Metropolitan is assessing the feasibility of expanding its hydroelectric generation capabilities.

In February 2007, the Board authorized Metropolitan's membership in the California Climate Action Registry, a nonprofit voluntary registry for greenhouse gas emissions that was established by the Legislature in 2000. Metropolitan began annual reporting of its certified baseline greenhouse gas inventory, or carbon footprint, in calendar year 2005 to the California Climate Action Registry. In calendar year 2010, Metropolitan's emissions reporting transitioned from the California Climate Action Registry to The Climate Registry, a nonprofit North American emission registry. Metropolitan also reports required emissions data to the California Air Resources Board ("CARB") under mandatory reporting regulations adopted pursuant to AB 32, California's Global Warming Solutions Act. On December 16, 2010, CARB adopted a regulation for a California cap on greenhouse gas emissions under AB 32, and after additional workshops, public comment and further consideration, approved the regulation on October 20, 2011, with compliance deferred to 2013. Under the regulation, Metropolitan is regulated as an importer of energy and is required to purchase allowances to cover any greenhouse gas emissions associated with its supplemental imported energy. Metropolitan did not incur cap and trade allowance obligations in 2013. However, Metropolitan will incur an obligation in 2014 and possibly in later years. As of October 2014, Metropolitan has spent approximately \$3.3 million on cap and trade compliance instruments, such as allowances and offsets.

**APPENDIX C**

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**SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS**

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## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of Resolution 8386 adopted by the Board of Directors of Metropolitan (the "Board") on January 12, 1993, as amended and supplemented, including by Resolution 8901 adopted on April 13, 2004 (collectively, the "Resolutions"). The 2014 Series A Bonds will be referred to in this summary as "Refunding Bonds." This summary does not purport to be complete and is qualified in its entirety by reference to the Resolutions for a complete statement of the provisions therein.

### DEFINITIONS

The following are definitions of certain terms used and not defined elsewhere in the Official Statement. Terms not defined herein have the meanings specified in the Resolutions.

**"Act"** means the Metropolitan Water District Act, California Statutes 1927, Chapter 429, as reenacted in Statutes 1969, Chapter 209, as amended, and as supplemented by Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with Sections 53550 and 53580, respectively) of the Government Code of the State of California.

**"Bonds"** means outstanding bonds issued by Metropolitan pursuant to the Act and Ordinance 105.

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

**"Costs of Issuance Fund"** means with respect to a Series of Refunding Bonds, the Waterworks General Obligation Refunding Bonds Costs of Issuance Fund established for such Series pursuant to the Resolutions.

**"Excess Earnings Fund"** means, with respect to a Series of the Refunding Bonds, the Waterworks General Obligation Refunding Bonds Excess Earnings Fund established for such Series of the Refunding Bonds.

**"Interest and Principal Fund"** means the fund of that name established by Resolution 6954 adopted by the Board on May 9, 1967, as amended from time to time.

**"Mandatory Term Bond Redemption Schedule"** means, with respect to a Series of Refunding Bonds, the schedule to be set forth in the applicable Purchase Contract if Term Bonds are issued depicting the dates at which designated principal amounts of Term Bonds must be redeemed by mandatory redemption.

**"Outstanding"** when used as of any particular time with reference to the Refunding Bonds shall mean all the Refunding Bonds theretofore issued and delivered by Metropolitan under the Resolutions except: (a) Refunding Bonds theretofore cancelled by the Treasurer or surrendered to the Treasurer for cancellation; (b) Refunding Bonds for the payment or redemption of which money or securities in the necessary amount (as provided in the Resolutions) shall have been theretofore deposited with the Treasurer (whether upon or prior to the maturity or the redemption date of such Refunding Bonds), provided that, if such Refunding Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolutions or provision satisfactory to the Treasurer shall have been made for the giving of such notice; and (c) Refunding Bonds which may have been lost, stolen, mutilated, destroyed or cancelled and for which other Refunding Bonds shall have been issued and delivered by Metropolitan in lieu thereof or in substitution therefor pursuant to the Resolutions.

“**Serial Bonds**” means Refunding Bonds not subject to mandatory redemption prior to maturity.

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

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

“**Term Bonds**” means Refunding Bonds which are subject to mandatory redemption prior to maturity.

“**Treasurer**” means the Treasurer of Metropolitan.

### **Tax Levy; Interest and Principal Fund**

Subject to the provisions of the Act, if, from any cause, the income and revenues of Metropolitan shall be inadequate to pay the interest on or principal of any Series of Refunding Bonds as the same become due by maturity, redemption or otherwise, then the Board, subject to the provisions of the Resolutions, shall, at the time of fixing the tax levy and in the same manner provided for such tax levy, levy and cause to be collected annually, until the Refunding Bonds of such Series are paid or until there shall be a sum in the Treasury of Metropolitan set apart for that purpose sufficient to meet all sums coming due for principal of and interest on the Refunding Bonds of such Series, a tax sufficient to pay the annual interest on the Refunding Bonds of such Series and such part of the principal of such Refunding Bonds as shall become due by maturity, redemption or otherwise before the time when money will be available from the next general tax levy, or such portion thereof as shall not be met from previous levies or other revenues of Metropolitan. The taxes that are required by the Act and the Resolutions to be levied and collected shall be in addition to all other taxes levied for Metropolitan purposes and shall, as required by the Act, be collected at the time and in the same manner as other Metropolitan taxes are collected, and shall be placed in the Interest and Principal Fund, subject to the applicable Tax and Nonarbitrage Certificate. Such moneys shall be used for no purpose other than the payment of the Refunding Bonds and interest thereon.

### **Payment of Serial Bonds**

Subject to the provisions of the Resolutions, the principal of Serial Bonds of a Series, if any, shall be paid from the Interest and Principal Fund in the following manner: a reasonable time prior to the time when any principal of such Serial Bonds becomes due, by maturity, redemption or otherwise, there shall be transferred from the Interest and Principal Fund and placed in the Retirement Fund such sums as shall be sufficient to meet all amounts coming due for principal of such Serial Bonds. Moneys so transferred from the Interest and Principal Fund to the Retirement Fund shall be used to pay the principal of the Serial Bonds for which the transfer was made and for no other purpose.

### **Payment of Term Bonds**

Subject to the provisions of the Resolutions, the Term Bonds of a Series, if any, shall be paid from the Interest and Principal Fund in the following manner: prior to each mandatory redemption date required by the applicable Mandatory Term Bond Redemption Schedule (unless such Term Bonds have previously been redeemed) there shall be transferred from the Interest and Principal Fund and placed in

the Mandatory Redemption Fund such sums as shall be sufficient to pay when due that portion of the Term Bonds which are to be paid on the next following mandatory redemption date in accordance with the applicable Mandatory Term Bond Redemption Schedule. The sums so transferred to the Mandatory Redemption Fund shall be used to pay the redemption price of the Term Bonds of such Series and for no other purpose, except that at any time after such transfer is made, and prior to the date the Term Bonds are selected by lot, Metropolitan, in lieu of (or partially in lieu of) selecting by lot such Term Bonds for redemption, may purchase with the transferred funds any of then outstanding Term Bonds of such Series at a purchase price for any Refunding Bond (including brokerage and other fees) not exceeding the principal amount thereof, plus accrued interest to the date of purchase (which shall be paid from the Interest and Principal Fund).

### **Establishment and Application of Costs of Issuance Funds**

Metropolitan shall establish, and the Treasurer shall maintain and hold in trust a separate fund with respect to each Series of the Refunding Bonds, which shall be designated as the "Waterworks General Obligation Refunding Bonds Costs of Issuance Fund" and shall bear such additional designation as shall be ascribed thereto 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 applicable Series of 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.

### **Establishment and Application of Excess Earnings Fund**

To ensure proper compliance with the tax covenants contained in the Resolutions, Metropolitan shall establish and the Treasurer shall maintain an Excess Earnings Fund for each Series of the Refunding Bonds, which fund shall be separate from any other fund or account established and maintained under the Resolutions. All money at any time deposited in the applicable Excess Earnings Fund in accordance with the provisions of the applicable Tax and Nonarbitrage Certificate shall be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any bond of any such Series of Refunding Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in any Excess Earnings Fund shall be governed by the Resolutions and by the applicable Tax and Nonarbitrage Certificate. The Treasurer shall invest all amounts held in any Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money shall not be transferred from any Excess Earnings Fund except in accordance with the applicable Tax and Nonarbitrage Certificate relating to such appropriate Series of Refunding Bonds.

### **Tax Covenant**

In order to maintain the exclusion from gross income for Federal income tax purposes of the interest on the Refunding Bonds, Metropolitan covenants to comply with each applicable requirement of Section 103 and Sections 140 through 150 of the Code. In furtherance of this covenant, Metropolitan agrees to comply with the applicable Tax and Nonarbitrage Certificate, to be executed by Metropolitan upon issuance of the Refunding Bonds, as such Tax and Nonarbitrage Certificate may be amended from time to time, as a source of guidance for compliance with such provisions.

### **Amendments Without Consent of Bond Owners**

Metropolitan may, from time to time and at any time, adopt resolutions (which resolutions shall thereafter form a part of the Resolutions): (a) to cure any ambiguity or formal defect or omission in the

Resolutions, (b) to grant to or confer upon the owners of Refunding Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon them, or (c) to amend or supplement the Resolutions in any other respect, provided such amendment or supplement is not adverse to the interests of the registered owners of the Refunding Bonds.

#### **Amendments With Consent of the Bond Owners**

The Resolutions, and the rights and obligations of Metropolitan and of the owners of the Refunding Bonds issued under the Resolutions, may be modified or amended at any time by resolution adopted by the Board with the consent of owners of at least sixty percent (60%) in aggregate principal amount of the outstanding Refunding Bonds, exclusive of Refunding Bonds, if any, owned by Metropolitan, and obtained as set forth in the Resolutions; provided, however, that no such modification or amendment shall, without the express written consent of the registered owner of the Refunding Bond affected, reduce the principal amount of any Refunding Bond, reduce the interest rate payable thereon, advance the earliest redemption date, reduce the premium payable upon redemption thereof, extend its maturity or the times for paying interest thereon or change the monetary medium in which principal and interest is payable, nor shall any such modification or amendment reduce the percentage of consent required for amendment or modification.

#### **Defeasance**

A Series of Refunding Bonds or portion thereof shall no longer be deemed to be Outstanding and unpaid if Metropolitan shall have made adequate provision for the payment, in accordance with such Series of Refunding Bonds and the Resolutions, of the principal, interest and premiums, if any, to become due thereon at maturity or upon call and redemption prior to maturity. Such provision shall be deemed to be adequate if Metropolitan shall have irrevocably set aside, in a special trust fund or account, moneys which when added to the interest earned or to be earned from the investment thereof shall be sufficient to make said payments as they become due. Moneys so set aside may be invested in any direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America, in which Metropolitan may lawfully invest its moneys.



**APPENDIX D**

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**BOOK-ENTRY ONLY SYSTEM**

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**APPENDIX D****BOOK-ENTRY ONLY SYSTEM****Introduction**

Unless otherwise noted, the information contained under the caption “– General” below has been provided by DTC. Metropolitan makes no representations as to the accuracy or completeness of such information. Further, Metropolitan undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites as described under the caption “– General,” including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites. The beneficial owners of the 2014 Series A Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

**NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2014 SERIES A BONDS UNDER THE RESOLUTIONS; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2014 SERIES A BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2014 SERIES A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2014 SERIES A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.**

**General**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2014 Series A Bonds. The 2014 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2014 Series A Bond certificate will be issued for each maturity of the 2014 Series A Bonds and will be deposited with DTC.

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

are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Standard & Poor's has rated DTC "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information set forth on such website is not incorporated herein by reference.

Purchases of the 2014 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2014 Series A Bonds, except in the event that use of the book-entry system for the 2014 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2014 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2014 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Series A Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2014 Series A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2014 Series A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2014 Series A Bonds documents. For example, Beneficial Owners of the 2014 Series A Bonds may wish to ascertain that the nominee holding the 2014 Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2014 Series A Bonds of the same maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Metropolitan as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2014 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2014 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Metropolitan or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or Metropolitan, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2014 Series A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Metropolitan or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

**NEITHER METROPOLITAN NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF THE 2014 SERIES A BONDS FOR REDEMPTION.**

Metropolitan, the Fiscal Agent and the Underwriters cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2014 Series A Bonds paid to DTC or its nominee as the registered owner, or will distribute any notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Metropolitan, the Fiscal Agent and the Underwriters are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2014 Series A Bonds or for an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the 2014 Series A Bonds at any time by giving reasonable notice to Metropolitan or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, 2014 Series A Bond certificates are required to be printed and delivered.

Metropolitan may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2014 Series A Bond certificates will be printed and delivered to DTC.

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

**BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF 2014 SERIES A BONDS AND WILL NOT BE RECOGNIZED BY THE FISCAL AGENT AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.**

If the book-entry only system is discontinued, payments of principal and purchase price of and interest on the 2014 Series A Bonds will be payable as described in this Official Statement under the caption "DESCRIPTION OF THE 2014 SERIES A BONDS – General."

**APPENDIX E**

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**SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION  
FOR METROPOLITAN'S SERVICE AREA**

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## APPENDIX E

### SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

*This Appendix E has been prepared by the Center for Continuing Study of the California Economy. Forward looking statements are those of the Center for Continuing Study of the California Economy. Neither the Center for Continuing Study of the California Economy nor Metropolitan is obligated to issue any updates or revisions to the data set forth in this Appendix E.*

#### General

The map contained in the body of the Official Statement or Remarketing Statement to which this Appendix E is attached shows the area served by Metropolitan. It includes parts of six of the ten counties that comprise Southern California. The area served by Metropolitan represents the most densely populated and heavily industrialized portions of Southern California.

In this Appendix E, the economy of the area served by Metropolitan is generally described in terms of data for the six-county area ("Six County Area") consisting of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties. Although these counties comprise Metropolitan's service area, Metropolitan's territory does not encompass all of the area within each of the six counties. In 2013, the economy of the Six County Area was larger than all but fifteen nations of the world. The Six County Area economy ranked between Mexico (\$1.26 trillion) and Indonesia (\$868 billion), with an estimated gross domestic product ("GDP") of just under \$1.2 trillion. The Six County Area's gross domestic product in 2013 was larger than all states except California, Texas and New York.

#### RANKING OF AREAS BY GROSS DOMESTIC PRODUCT

(Dollars in Billions)

2013

United States	\$16,768
China	9,240
Japan	4,902
Germany	3,635
France	2,735
United Kingdom	2,521
Brazil	2,246
California	2,203
Russian Federation	2,097
Italy	2,071
India	1,877
Canada	1,827
Australia	1,561
Texas	1,533
Spain	1,358
New York	1,310
South Korea	1,305
Mexico	1,261
Six County Area	1,198
Indonesia	868

*Source: Countries—World Bank; U.S.—Bureau of Economic Analysis; California and Six County Area—U.S. Department of Commerce*

## Summary of Recent Trends and Outlook for the Six County Area Economy

The national economy has expanded since 2009 although at growth rates below the historical average for economic recoveries. Private sector nonfarm wage and salary job levels in September 2014 were 1.5 million above the pre-recession peak level including a gain of over 640,000 manufacturing jobs and 570,000 construction jobs since the recession low. The unemployment rate in the nation has declined from near 9.8% in November 2010 to 5.9% in September 2014.

Housing starts and new permits have rebounded as the number of foreclosures has declined and housing prices have risen in most parts of the country although the pace of housing recovery has slowed in recent months. Consumer price increases remain below 2% and the Federal Reserve Bank has pledged to keep interest rate targets low until the economic outlook warrants a more accommodative monetary policy. Real GDP growth accelerated in the second and third quarters of 2014 (+4.6% and 3.5%) and the UCLA Anderson forecast that national GDP will increase by 3.1% in 2015 and 3.4% in 2016.

The Six County Area economy is growing again. The Six County Area outpaced the nation in job growth in 2013 and for the 12 months ending in September 2014 posted a job gain of 2.0% compared to the national job growth rate of 1.9%. Unemployment rates fell throughout the Six County Area while income, taxable sales, assessed valuation and housing prices rose. Total income surpassed pre-recession levels in 2012 and taxable sales surpassed pre-recession levels in 2013. Residential building permits increased by 33% in 2013 with small additional gains in 2014 to date. Nonresidential permit valuations rose by 14% in 2013 and are up an additional 45% in the first eight months of 2014.

Still, major indicators including job levels and unemployment rates show that the Six County Area economy underperformed the state and nation for the period from 2007 through 2013 because the economy performed worse than the nation during the recession years. The Six County Area has recovered approximately 92% of the jobs lost during the recession as of September 2014.

Population growth in the Six County Area since 2010 has exceeded the national average according to both the California Department of Finance (“DOF”) estimates and those published by the Census Bureau. However, population growth in California and the Six County Area has been slowing since 2000 compared with previous decades. The Six County Area added an average of 230,000 residents per year between 2000 and 2005 but only an additional 135,000 residents per year in the next eight years. Population growth slowed after 2005 as high housing prices and large job losses contributed to larger levels of out-migration to other areas of California and other states.

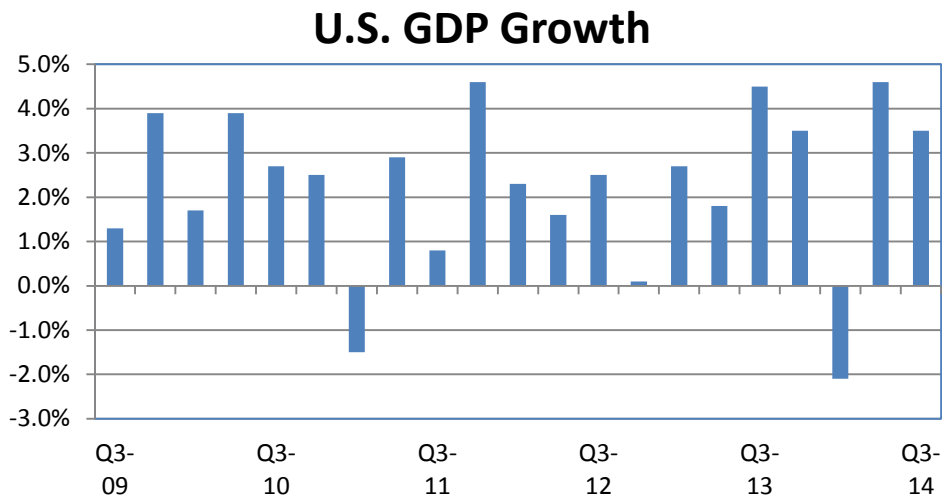
Long-term job growth is driven by the Six County Area’s economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by the Center for Continuing Study of the California Economy (“CCSCE”), the Southern California Association of Governments (“SCAG”) and the San Diego Association of Governments (“SANDAG”) report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade and Tourism and Entertainment.

Population projections for 2035 were adopted by SCAG in April 2012 and by SANDAG in October 2011 as part of their planning process to update regional transportation and land use plans. These projections show expected population growth of approximately 4.8 million for the Six County Area, an increase of 23% between 2010 and 2035. The long-term demand for housing based on job and population growth remains well above current levels according to projections from SCAG, SANDAG and CCSCE.

The recent growth in taxable sales, assessed valuation and hotel occupancy in the Six County Area has led to higher revenue growth for cities and counties and allowed them to rehire some of the local government and school employees who were laid off during the recession.

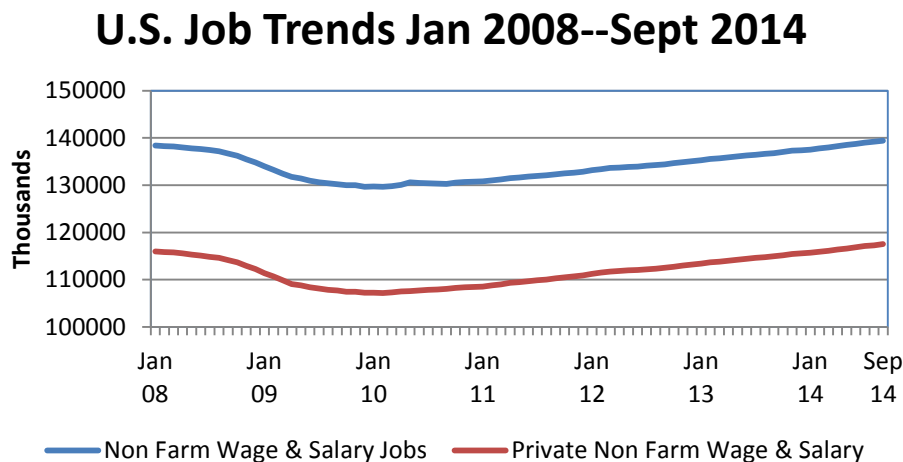
### An Update on the U.S. Economic Outlook

The national economy has expanded since 2009 although at growth rates below the historical average for economic recoveries. The nation’s GDP increased by 2.5% in 2010, 1.8% in 2011, 2.8% in 2012 and 1.9% in 2013. (See figure below.) GDP increased by 4.6% in the second quarter of 2014 and the preliminary GDP growth estimate for the third quarter was 3.5% primarily caused by strong gains in business investment, exports and federal government spending. Private sector job levels increased for 55 months between March 2010 and September 2014, which brought the unemployment rate down to 5.9%.



Source: Bureau of Economic Analysis, U.S. Department of Commerce

The nation lost 8.8 million private sector jobs between January 2008 and December 2009. Private sector nonfarm wage and salary job gains from December 2009 through September 2014 totaled 9.7 million including an increase of just over 640,000 manufacturing and 570,000 construction jobs. (See figure below.) In September 2014 nonfarm wage and salary job levels were 1.1 million above the pre-recession peak driven by average gains of over 225,000 jobs per month so far in 2014. Private sector nonfarm wage and salary jobs surpassed the prerecession peak by 1.5 million jobs in September 2014 but government sector jobs were still more than 400,000 below the pre-recession peak level.

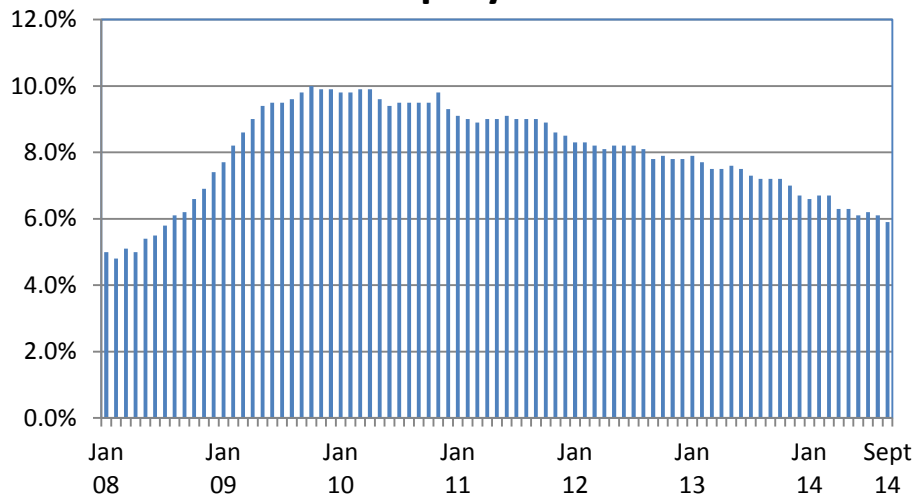


Source: Bureau of Labor Statistics, U.S. Department of Labor



The unemployment rate in the nation has declined from near 9.8% in November 2010 to 5.9% in September 2014. (See figure below.) The last time the unemployment rate was this low was in July 2008. Part of the decline is the result of recent job growth and part is the result of slow labor force growth related to retirements and people who have temporarily stopped looking for work. Further declines in the unemployment rate are likely to remain modest until job growth accelerates.

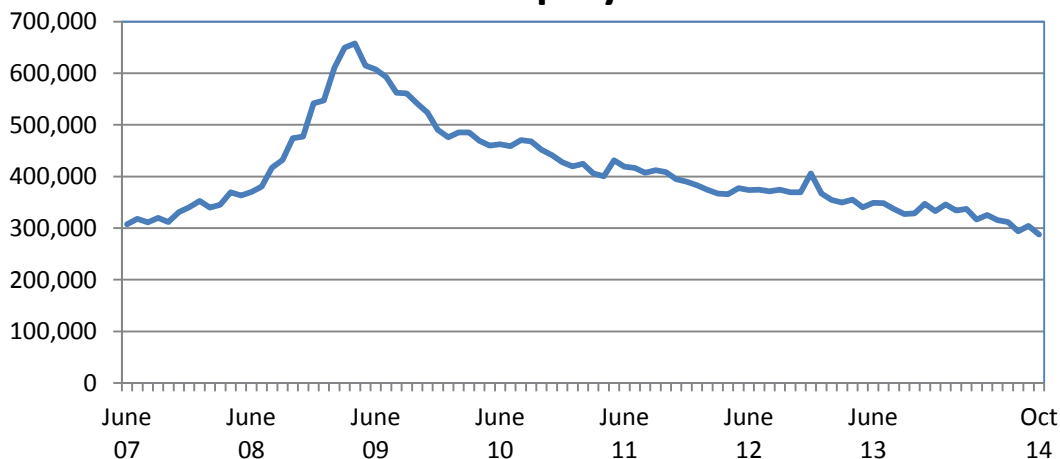
### U.S. Unemployment Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor

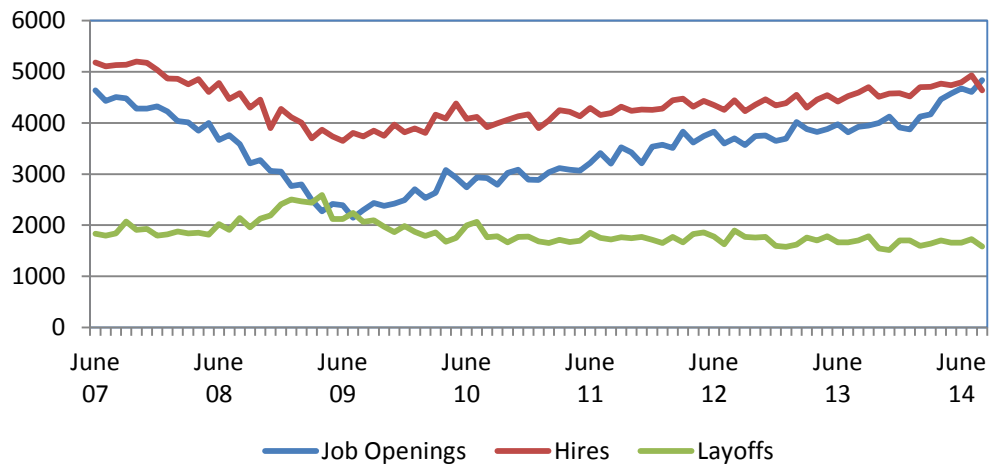
Two other labor market indicators are showing signs of recovery. First time claims for unemployment have declined to levels last seen before the recession. (See figure below). The four week average for the week ending October 4, 2014 was 287,800, a level last seen in February 2006. The number of job openings in August 2014 was over 4.8 million, exceeding the number in June 2007. (See figure below). The number of new hires has been rising steadily but was still slightly below the 5.2 million in June 2007. The number of layoffs has been fairly steady and in August 2014 at 1.6 million was below the level in June 2007 (1.8 million).

### First Time Unemployment Claims



Source: U.S. Department of Labor

## Job Openings, Hires and Layoffs (Thousands)



Source: U.S. Department of Labor

Most forecasts for 2015 expect stronger but moderate GDP growth compared to 2014 and continued moderate job growth increasing toward the later part of the year. For example the UCLA Anderson forecast released in September 2014 forecasts GDP growth of 3.1% in 2015, and 3.4% in 2016 with the national unemployment rate falling to 5.4% in 2016. The Congressional Budget Office forecast published in February 2014 forecast GDP growth of 3.4% in both 2015 and 2016 with the unemployment rate falling to 5.7% in 2016.

There are some positive trends for near term economic growth. The Federal Reserve Bank reaffirmed in October 2014 that the federal funds rate would remain near low current levels even as the unemployment rate falls below 6.5% as long as they see that there is still slack in the labor market. Treasury bond rates and 30-year mortgage rates remain low compared to historical averages. Exports, factory orders and the ISM indices for manufacturing and non-manufacturing activity in recent months are pointing to higher GDP and job growth in 2015. Consumer and producer prices are still increasing at a rate less than 2% per year and recent declines in oil prices are increasing consumers' disposable income.

The following pages describe current economic trends in the Six County Area and describe the long-term prospects for job and population growth based on the assumption that the current economic recovery will continue with moderate job growth.

### Recent Six County Area Job Growth Trends

The Six County Area recorded job gains in 2011, 2012 and 2013 and by September 2014 had recovered 735,700 of the 803,300 jobs lost during the recession. Year over year job gains (See the table below.) are continuing into 2014 and between September 2013 and September 2014 ranged from a high of 2.5% in San Diego County to a low of 1.8% in Los Angeles County. Job growth for the entire Six County Area was 170,800 jobs or a gain of 2.0% compared to a 1.9% increase in jobs for the nation.

Job growth was aided by gains in foreign trade, tourism and professional services as well as a rebound in construction and related sectors and continuing growth in health care and food services.

**RECENT EMPLOYMENT TRENDS**  
(Non-Farm Wage and Salary Jobs in Thousands)

	<u>2007</u>	<u>2010</u>	<u>2012</u>	<u>2013</u>	<u>Sept 13</u>	<u>Sept 14</u>	<u>Sept 13-14</u> <u>% Change</u>
Los Angeles	4,227.4	3,888.4	4,006.9	4,112.6	4,122.9	4,196.7	1.8%
Orange	1,521.0	1,366.0	1,418.1	1,454.2	1,454.2	1,482.4	1.9%
Riverside-San Bernardino	1,286.0	1,144.2	1,179.2	1,226.4	1,228.4	1,258.3	2.4%
San Diego	1,319.7	1,236.4	1,279.5	1,312.0	1,312.2	1,345.5	2.5%
Ventura	297.8	274.6	281.3	286.6	285.9	291.5	2.0%
Total Six County Area	8,651.9	7,909.6	8,165.0	8,391.8	8,403.6	8,574.4	2.0%

Source: EDD

The large job losses in 2008 and 2009 resulted in a sharp rise in unemployment rates throughout the Six County Area between 2006 and 2010. (See the table below.)

Unemployment rates in the Six County Area are now declining but except for Orange and San Diego counties remain above the national unemployment rate and in all metro areas remain far above the unemployment rates in 2006. In September 2014 unemployment rates ranged from a low of 5.1% in Orange County to a high of 8.6% in Riverside County. Between September 2013 and August 2014 unemployment rates in California and the Six County Area declined substantially. In September 2014 the state unemployment rate was 7.3% compared to the U.S. rate of 5.9%.

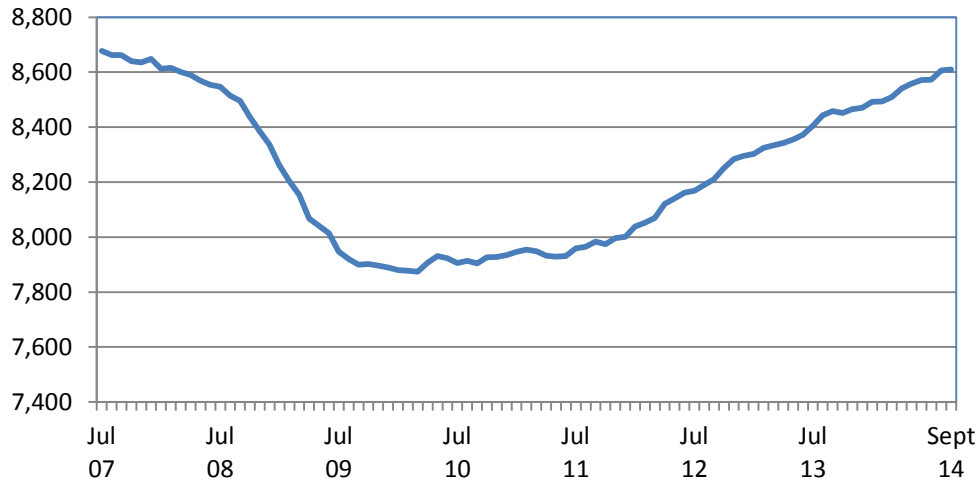
**UNEMPLOYMENT RATES**

	<u>1993</u>	<u>2000</u>	<u>2006</u>	<u>2010</u>	<u>2012</u>	<u>2013</u>	<u>Sept 13</u>	<u>Sept 14</u>
Los Angeles County	10.0%	5.4%	4.8%	12.6%	10.9%	9.9%	9.3%	7.8%
Orange County	6.9%	3.5%	3.4%	9.5%	7.6%	6.2%	5.8%	5.1%
Riverside County	12.2%	5.4%	5.0%	14.5%	12.1%	10.3%	10.1%	8.6%
San Bernardino County	10.0%	4.8%	4.8%	14.2%	11.9%	10.3%	9.4%	7.7%
San Diego County	7.9%	3.9%	4.0%	10.5%	8.9%	7.5%	7.0%	5.9%
Ventura County	9.1%	4.5%	4.3%	10.8%	9.1%	7.8%	7.4%	6.4%
United States	6.9%	4.0%	4.6%	9.6%	8.1%	7.4%	7.2%	5.9%
State of California	9.5%	4.9%	4.9%	12.4%	10.4%	8.9%	8.8%	7.3%

Source: U.S. Bureau of Labor Statistics and EDD; U.S. and California estimates for September are seasonally adjusted.

The Six County Area moved from substantial job losses on a monthly basis to a period of stability in job levels and finally accelerating job growth over the past 2 years. (See figure below). The Six County Area is outpacing the nation in job growth since the beginning of 2013 although job levels and unemployment rates have not fully recovered the pre-recession levels. By September 2014 job levels had returned to the level in March 2008 but remained 67,600 jobs below the pre-recession peak level in July 2007.

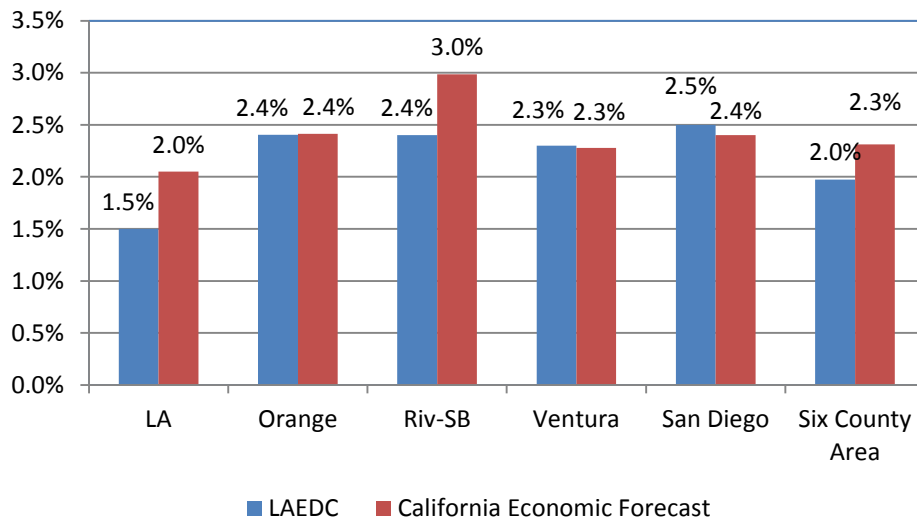
### Six County Area Jobs (Thousands)



Source: California Employment Development Department; data are seasonally adjusted

Continued job growth in the Six County Area is forecast by the Los Angeles Economic Development Corporation (LAEDC) and the California Economic Forecast project. In October 2014 LAEDC forecast a growth of approximately 170,000 non-farm wage and salary jobs (+2.9%) while the Economic Forecast project forecasts a growth of approximately 200,000 total wage and salary jobs (+2.3%).

### Job Growth Forecasts for 2015

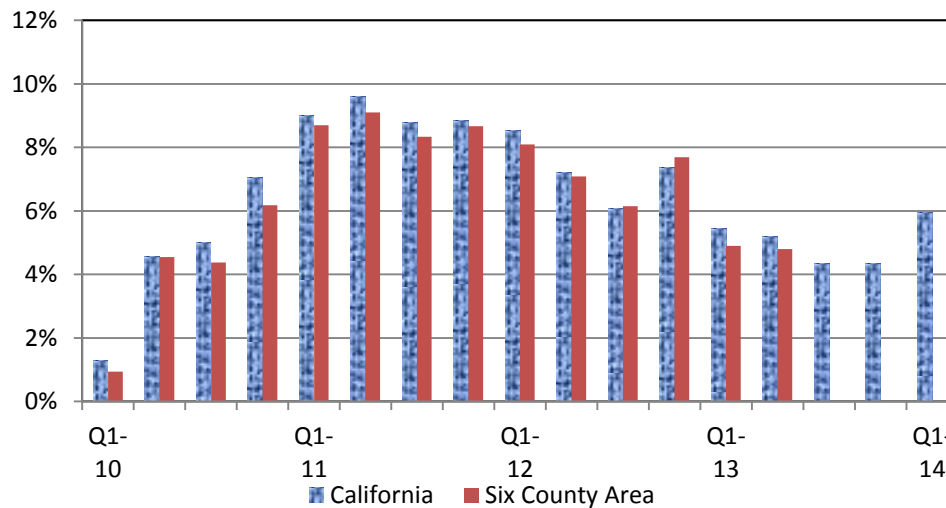


Source: California Economic Forecast project and LAEDC.

## Taxable Sales and Income

Taxable sales have increased each quarter since the first quarter of 2010 in California and the Six County Area after a sharp decline after 2006. (See figure and table below.) Taxable sales increased by 9.1% in California in 2011, 7.3% in 2012 and another 4.8% in 2013. Taxable sales rose by 7.2% in the Six County Area data in 2012 comparable to the state growth rate. The Six County Area accounts for 55% of statewide taxable sales and 2013 and 2014 results are forecast to reflect the pattern of statewide gains.

### Change in Taxable Sales From Year Earlier



Source: California Board of Equalization

Taxable sales in the Six County Area have rebounded and should recover all the recession losses in 2013 helping local government revenues. The slowdown in consumer price increases means that taxable sales have almost kept pace with inflation since 2000 although this is not true for the period after 2006. Taxable sales rose in all counties in 2010, 2011 and 2012 and based on data for the first half of 2013; taxable sales in the Six County Area increased in 2013 by between 4% and 5%.

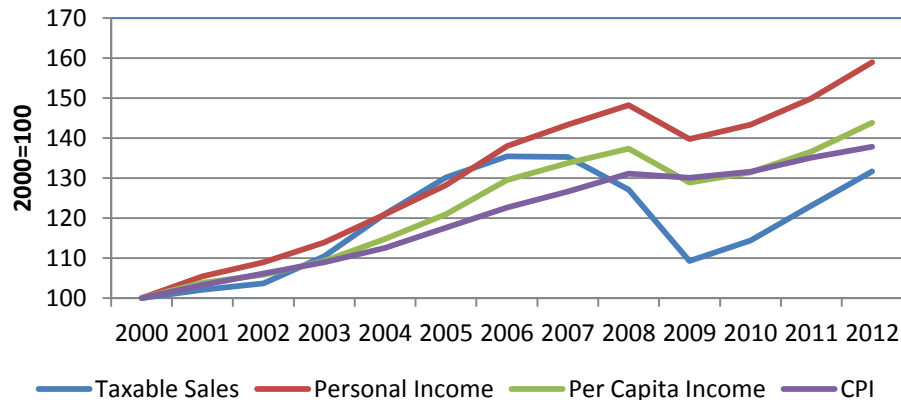
### TAXABLE SALES (Dollars in Billions)

	<u>2000</u>	<u>2006</u>	<u>2009</u>	<u>2010</u>	<u>2012</u>	<u>% Change 2000 - 2012</u>	<u>% Change 2006 - 2012</u>
Los Angeles County	\$106.7	\$136.2	\$112.7	\$116.9	\$135.3	27%	-1%
Orange County	44.5	57.2	45.7	47.7	55.2	24%	-3%
Riverside County	17.0	29.8	22.2	23.2	28.1	65%	-6%
San Bernardino County	18.9	31.3	23.7	24.7	29.5	56%	-6%
San Diego County	36.2	47.8	39.7	41.6	47.9	32%	0%
Ventura County	<u>9.1</u>	<u>12.3</u>	<u>9.9</u>	<u>10.2</u>	<u>12.0</u>	32%	-2%
Total Six County Area	<u>\$232.4</u>	<u>\$314.6</u>	<u>\$253.9</u>	<u>\$264.3</u>	<u>\$308.0</u>	33%	-2%
Los Angeles Area Consumer Price Index (1982-84 = 100.0)	171.6	210.4	223.2	225.9	236.6	38%	12%

Source: Taxable Sales—California Board of Equalization, Consumer Price Index—U.S. Bureau of Labor Statistics;

Total personal income is recovering from the recession decline and reached a record \$942 billion in 2012 in the Six County Area. Per capita income surpassed the pre-recession peak in 2012 but the gain in per capita income between 2000 and 2012 was nearly matched by the increase in consumer prices. Taxable sales growth kept pace with total income growth through 2005 but has lagged far behind income and behind consumer price increases for the period since 2000. The growth in income and taxable sales is expected to outpace the increase in consumer prices for 2013 and 2014 and most future years.

## Growth in Taxable Sales, Income and Consumer Prices in Six County Area



Sources: California Board of Equalization, U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

### Construction Activity

Residential building permit levels in the Six County Area declined sharply after 2004. Between 2004 and 2009, permit levels fell by 84% from 108,322 to 17,932 units. Permit levels have rebounded since 2009 reaching 45,341 in 2013. Permit levels increased by 4% for the first nine months of 2014 as shown below. Since 2011 more than half of all new permits have been for multi-family residential building with more than 60% in 2014 so far. Projected long-term job and population growth will support a much higher level of residential construction than is currently occurring.

#### RESIDENTIAL BUILDING PERMITS

	<u>2004</u>	<u>2009</u>	<u>2012</u>	<u>2013</u>	Jan-Sept <u>2013</u>	Jan-Sept <u>2014</u>	Jan-Sept <u>% Chg. 2013-14</u>
Los Angeles County	26,395	5,653	11,715	16,547	11,828	13,857	17%
Orange County	9,322	2,200	6,163	10,038	7,198	6,951	-3%
Riverside County	34,226	4,190	7,629	6,086	4,479	4,831	8%
San Bernardino County	18,470	2,495	1,810	3,269	2,780	2,158	-22%
San Diego County	17,306	2,990	6,419	8,448	5,566	5,103	-8%
Ventura County	<u>2603</u>	<u>404</u>	<u>322</u>	<u>953</u>	<u>674</u>	<u>822</u>	22%
Total Six County Area	<u>108,322</u>	<u>17,932</u>	<u>34,058</u>	<u>45,341</u>	<u>32,525</u>	<u>33,722</u>	4%

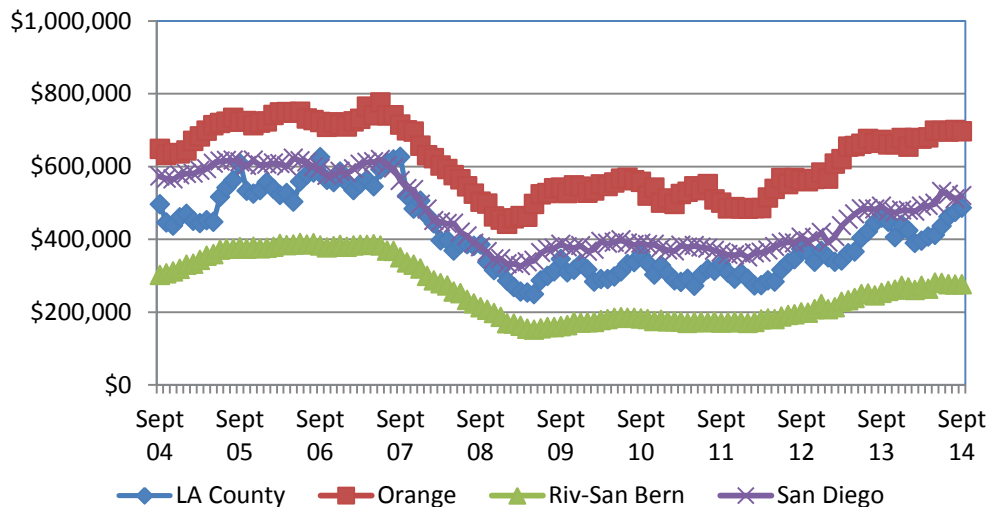
Source: Construction Industry Research Board and California Homebuilding Foundation

**Housing Trends in the Six County Area Economy**

The housing market recovery that began in 2012 continued and strengthened in 2013 and 2014 in the Six County Area. Housing prices increased, the number of new residential building permits rose and the number of new foreclosure filings declined. Mortgage rates remain near historic lows and the number of homes in the unsold inventory is low by historic standards according to the California Association of Realtors (CAR). These signs combined with expected job growth point to a continued strengthening in the housing market in 2015 and beyond.

Median resale housing prices in Six County Area markets were near 2003 levels at the lowest recent levels in March 2009. Median prices fluctuated in a narrow range until the summer of 2012 and then began a rebound that has continued into 2014. In September 2014 median prices throughout the Six County Area were near the top of the recent range with increases of between 39% and 62% since September 2011. CAR reported that the share of distressed properties declined from 37.3% of total sales in September 2012 to 9.1% in September 2014. The Case Shiller home price index, which eliminates the effect of changes in the mix of housing, increased for the Los Angeles and San Diego regional markets over the three years ending in August 2014 gaining 34.9% in the Los Angeles market area and 33.5% in the San Diego market area during this period.

**Median Resale Housing Prices**

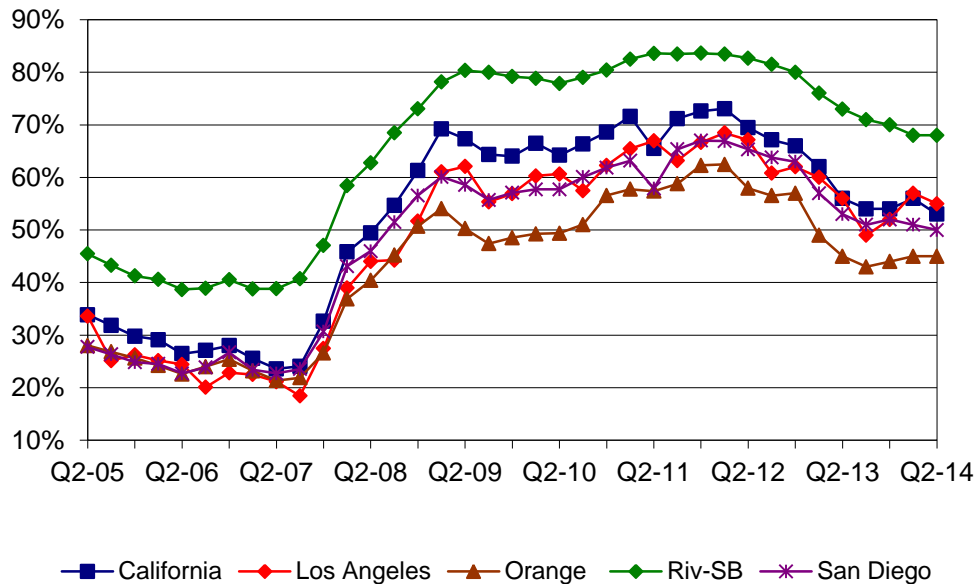


*Source: California Association of Realtors*

The decline in housing prices and the drop in mortgage rates initially had the effect of raising the level of housing affordability throughout the Six County Area. (See figure below.) Housing affordability for first time homebuyers as measured by the California Association of Realtors, increased throughout the Six County Area between 2008 and 2011. Affordability declined slightly in 2012 as and continued to decline in early 2013 as prices rose. Affordability in the Six County Area stabilized in the first two quarters of 2014 and remains well above low levels during the housing bubble.

The long-term demand for housing based on job and population growth remains well above current levels according to projections from SCAG, SANDAG and CCSCE.

### First-Time Buyer Affordability Index



Source: California Association of Realtors

### Nonresidential Construction

Nonresidential construction throughout the Six County Area peaked at \$11.3 billion in 2007. Between 2007 and 2009, nonresidential construction declined by more than 50% to a 2009 level of \$5.1 billion. The Six County Area is experiencing a rebound in nonresidential permit levels since 2009. Permit levels reached \$8.7 billion in 2013 and are up 44% in the first nine months of 2014 on pace to match or exceed 2007 levels.

#### TOTAL NONRESIDENTIAL CONSTRUCTION PERMIT VALUATION

(Dollars in Billions)

	<u>2000</u>	<u>2007</u>	<u>2009</u>	<u>2012</u>	<u>2013</u>	Jan-Sept <u>2013</u>	Jan-Sept <u>2014</u>	Jan-Sept <u>% Chg. 2013-14</u>
Los Angeles County	\$3.3	\$4.7	\$2.7	\$3.7	\$4.2	\$3.2	\$5.0	56%
Orange County	1.8	2.0	1.0	1.3	1.5	1.1	1.5	36%
Riverside County	0.8	1.5	0.4	0.7	0.8	0.6	0.5	-20%
San Bernardino County	0.8	1.4	0.3	0.6	0.7	0.5	0.6	20%
San Diego County	1.4	1.4	0.6	1.2	1.4	0.9	1.5	67%
Ventura County	<u>0.3</u>	<u>0.3</u>	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	11%
Total Six County Area	<u>\$8.4</u>	<u>\$11.3</u>	<u>\$5.1</u>	<u>\$7.6</u>	<u>\$8.7</u>	<u>\$6.4</u>	<u>\$9.2</u>	44%

Source: Construction Industry Research Board and California Homebuilding Foundation

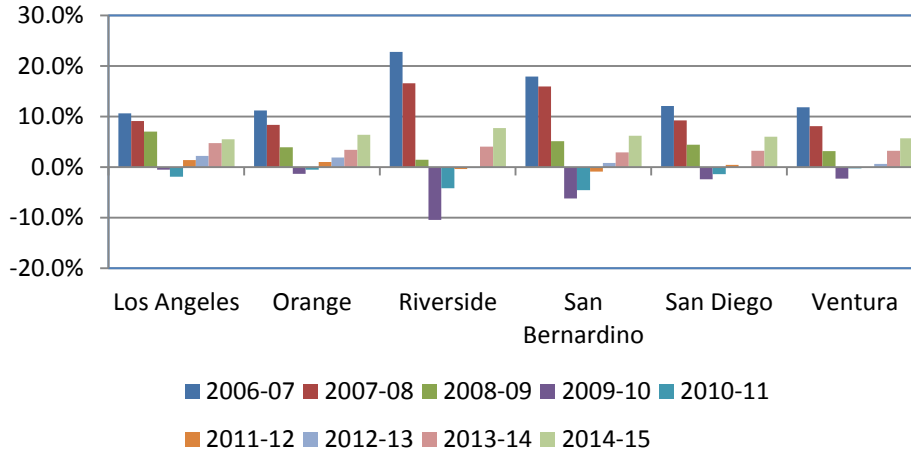
### Assessed Valuation

The downturn in residential and nonresidential construction led to a sharp decline in the rate of growth in assessed valuation throughout the Six County Area with some counties experiencing an actual decline in the assessed value of properties. These declines were another source of fiscal pressure on local



communities throughout the Six County Area in recent years. Assessed values rebounded for 2013-14 with gains ranging from 2.9% in San Bernardino County to 4.7% in Los Angeles County. Larger gains are reported for 2014-15 ranging from 5.5% in Los Angeles County to 7.7% in Riverside County.

### Change in Assessed Value

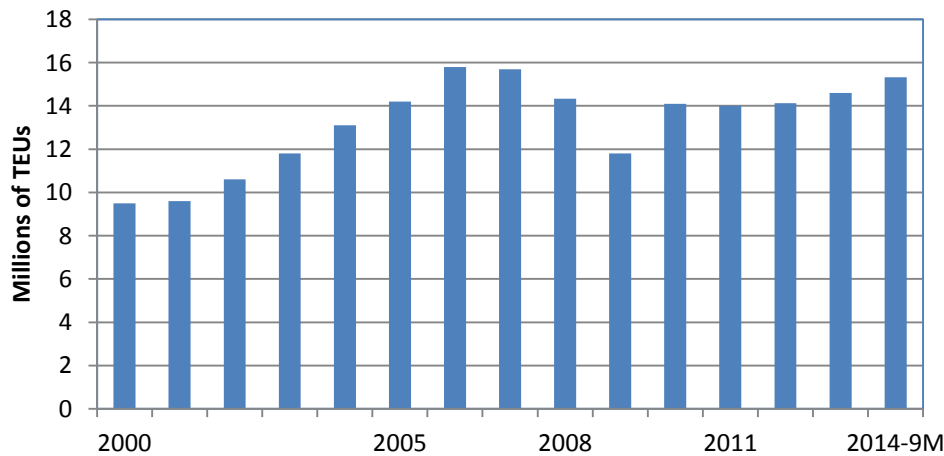


Source: California Board of Equalization

### International Trade

The recession led to a decline in the dollar volume and physical volume of international trade in the Six County Area in 2008 and 2009. Container volumes increased by 19% in 2010 led by record volumes of export shipments. Total container volumes were level in 2011 and 2012 as a result of slow U.S. economic growth and slowing growth around the world. Container volumes were up 3.4% in 2013 and are up 5.0% the first nine months of 2014 led by strong export growth.

### Container Shipments Los Angeles and Long Beach Ports



Source: Ports of Los Angeles and Long Beach

Over the longer term, international trade has been a leading growth sector in the Six County Area. Container volume rose 54% between 2000 and 2013 despite the large drop in 2008 and 2009. Two-way trade volume increased by 2.7% in 2013 to \$414.8 billion leading all U.S. ports. This growth supports jobs and economic activity in the transportation, wholesale trade and warehousing industries as the Six County Area is a gateway for U.S. trade with Pacific Rim countries.

The Los Angeles and Long Beach ports are the nation's leading port complex in terms of trade volume. The area's ports handle 50% of the nation's trade with China. China is by far the largest trading partner for these ports with \$173.1 billion in two-way trade in 2013, up 3.6% from 2012, with the dominant portion related to imports from China. The next largest trading partner is Japan (\$43.5 billion) followed by South Korea, Taiwan and Germany. Mexico is by far the largest trading partner in the San Diego Customs District.

Long-term growth in the United States and in our trading partners will boost international trade levels of activity in the coming years. California exports surpassed pre-recession levels in June 2011 and have continued to post record levels. A recent Brookings Institution report lists the Los Angeles-Orange County metro area as the nation's largest metro area export region with \$94 billion in exports in 2013. The Six County Area's largest trading partners include some of the world's fastest growing economies such as China. In 2012 a major free trade agreement was signed between the United States and South Korea. LAEDC forecasts that container volume will increase by 5.5% in 2014 and 5.8% in 2015.

The LAEDC International Trade report in May 2014 cited progress on a number of infrastructure projects to expand port capacity with more than \$6 billion being invested in current upgrades. The report also cited long-term challenges including competition from the Panama Canal expansion and from other west-coast ports. Another concern is with handling the increased volume of trade after it arrives at the port. Major initiatives to relieve congestion near the port are underway and additional projects are under discussion.

### **Income and Wages**

Counties in the Six County Area have income and wage levels that range from below the national average to above the national average. Orange and Ventura counties have the highest household income levels within the Six County Area. Los Angeles and Orange counties have the highest wage levels, well above the national average. San Diego County income and wage levels are also above the national average. Riverside and San Bernardino counties have per capita income and wage levels that are below the national average. Median household income is above the national average in each of the counties in the Six County Area.

Per capita income and median household income measures are affected by demographic trends. Per capita income measures in the region are pushed downward by the above average percent of children in the Six County Area population compared to the national average while median household income measures are pushed upward by the above average number of wage earners per household in the Six County Area. Income and wage trends in the Six County Area have been comparable to national trends since 2000.

The table below shows per capita income, median household income and wage levels for each of the counties in the Six County Area, as well as for California and the United States, in 2013.

## INCOME AND WAGES

	<b>Per Capita Income (2012)</b>	<b>Median Household Income (2013)</b>	<b>Average Wage (2013)</b>
Los Angeles County	\$44,474	\$54,529	\$54,960
Orange County	52,342	74,163	55,105
Riverside County	31,742	54,095	39,517
San Bernardino County	32,072	52,323	41,307
San Diego County	49,719	61,426	54,836
Ventura County	48,837	77,363	50,466
California	46,477	60,190	57,111
United States	43,735	52,250	49,808

*Source: Per Capita Income—U.S. Department of Commerce and CCSCE; Median Household Income—U.S. Census Bureau (American Community Survey); Average Wage—U.S. Bureau of Labor Statistics*

## Population

Population growth in California and the Six County Area has been slowing since 2000 compared with previous decades. In December 2010 the Census Bureau released 2010 Census estimates of population by state. The Census Bureau estimate for California was 37.3 million, which was 1.5 million lower than the DOF estimate for 2010. The 2010 population estimates for counties in the Six County Area was 960,000 below the DOF estimate for 2010. Population growth averaged 174,100 per year between 2000 and 2010 compared to 219,300 between 1990 and 2000.

The Six County Area added nearly 1.2 million residents between 2000 and 2005 but only an additional 588,000 residents in the next five years. Population growth slowed after 2005 as high housing prices and large job losses contributed to larger levels of out-migration to other areas of California and other states.

Population growth continued at a historically slow pace between 2010 and 2013 according to the DOF estimates, averaging 163,000 per year. The Six County Area had 21.5 million residents in 2013, approximately 56% of the State's population.

## SIX COUNTY AREA POPULATION (In Thousands)

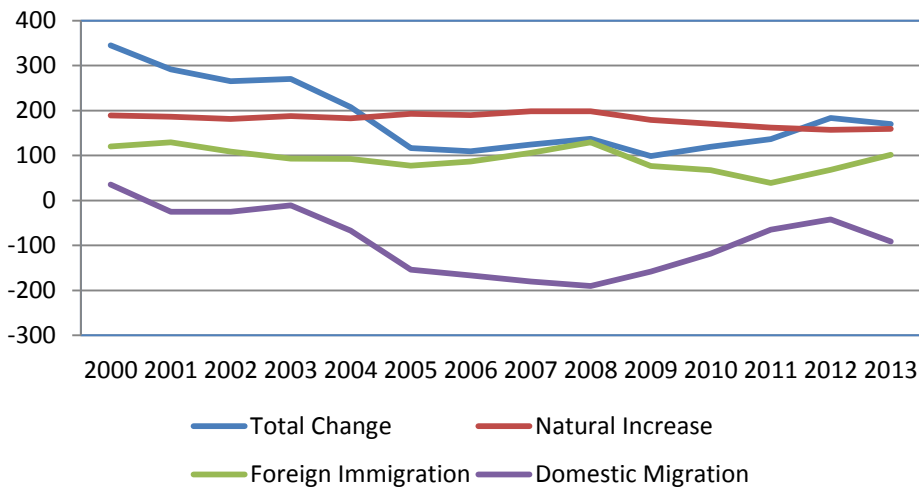
	<u>1990</u>	<u>2000</u>	<u>2005</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Los Angeles County	8,860	9,544	9,810	9,825	9,861	9,945	10,020
Orange County	2,412	2,854	2,957	3,017	3,047	3,075	3,105
Riverside County	1,188	1,557	1,935	2,192	2,221	2,250	2,268
San Bernardino County	1,432	1,719	1,943	2,039	2,053	2,064	2,076
San Diego County	2,505	2,828	2,970	3,103	3,125	3,154	3,182
Ventura County	<u>669</u>	<u>757</u>	<u>797</u>	<u>825</u>	<u>830</u>	<u>833</u>	840
Total Six County Area	<u>17,066</u>	<u>19,259</u>	<u>20,412</u>	<u>21,001</u>	<u>21,137</u>	<u>21,321</u>	<u>21,491</u>

*Source: California Department of Finance as of July 1*

Six County Area population growth is determined by three major components—natural increase, which is the number of births minus the number of deaths, net foreign immigration, which is the number of people moving to the region from abroad minus the number moving abroad and net domestic migration, which is the number of people moving from other regions of the state and nation minus the number moving out to these areas. Natural increase was the largest component of population growth from 2000 through 2013 averaging near 185,000 per year. Declining birth rates have reduced natural increase to near 163,000 per year since 2010.

Net foreign immigration has averaged 92,000 per year since 2000 while net domestic migration has been negative since 2000 averaging -91,000 per year. Foreign immigration declined during the recession but rebounded in 2012 and 2013. Net out migration is still negative but at lower levels than during the recession.

### Components of Change in Six County Area Population (Thousands)



Source: California Department of Finance as of July 1

Population growth in the Six County Area has increased in each of the past two years. (See the table below). Annual growth increased from 126,500 (0.6%) from 2011 to 2012 to 194,700 (0.9%) between 2013 and 2014.

#### SIX COUNTY AREA POPULATION (In Thousands)

	2012	2013	2014
Total	21,199.1	21,364.1	21,558.8
Gain from Prior Year	126.5	165.0	194.7
Gain from Prior Year	0.6%	0.8%	0.9%

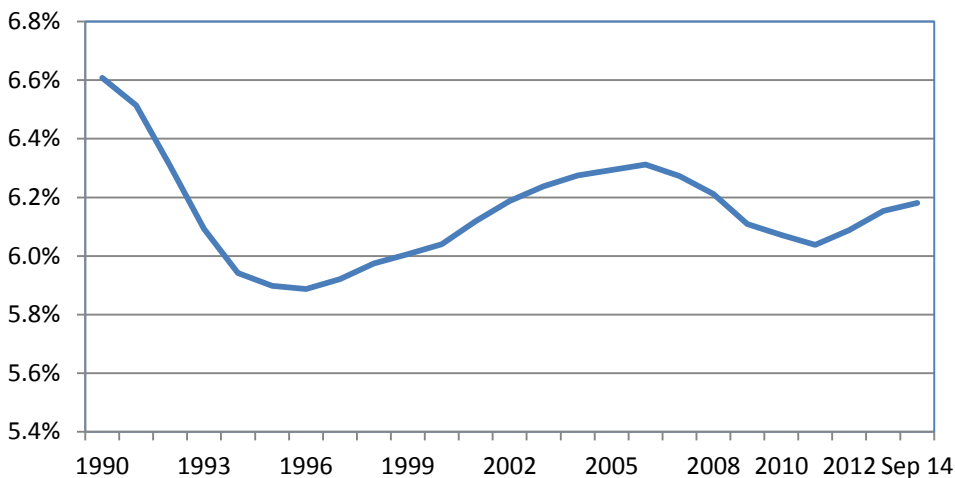
Source: California Department of Finance as of Jan 1

Population projections for 2035 were adopted by SCAG in April 2012 and by SANDAG in October 2011 as part of their planning process to update regional transportation and land use plans. These projections show expected population growth of approximately 4.8 million for the Six County Area, an increase of 23% between 2010 and 2035. The SANDAG regional growth forecast did not incorporate the 2010 Census Bureau population estimates.

### **Economic Structure of the Six County Area and Long-Term Prospects**

The Six County Area experienced a decline in the share of U.S. jobs between 2007 and 2011 driven by large losses in construction related jobs. Since 2011 the Six County Area share of national jobs has remained constant. The pattern of larger percentage job losses compared to the nation mirrors the experience of the early 1990s when aerospace jobs declined sharply and the Six County Area share of U.S. non-farm wage and salary jobs fell from 6.6% to a low of 5.9%. From 1994 to 2007, the Six County Area experienced job growth that slightly exceeded the national average and brought the Six County Area's job share back to 6.3%. The recent recession brought the Six County Area's job share down to 6.0% in 2011 but recent job growth brought the Six County Area share back to near 6.2% in September 2014.

### **Six County Area Share of U.S. Jobs**



*Sources: California Employment Development Department, Bureau of Labor Statistics, U.S. Dept. Of Labor, CCSCE*

In 2013 Education and Health Services was the largest major industry sector in the Six County Area measured by jobs, with approximately 1.3 million jobs or 15% of the Six County Area total. (See the table on the following page.)

The next largest sectors in October 2013 were Professional and Business Services and Government followed by Leisure and Hospitality, Retail Trade and Manufacturing. Two sectors accounted for most of the job growth since 2000: Educational and Health Services and Leisure and Hospitality. Six County Area job levels in 2013 remained below 2007 levels as a result of large losses in Construction, Manufacturing and related sectors and smaller losses in other sectors. Between 2010 and 2013 the Six County Area added nearly 500,000 jobs.

**SIX COUNTY AREA  
EMPLOYMENT BY MAJOR SECTOR  
(In Thousands)**

	<u>2000</u>	<u>2007</u>	<u>2010</u>	<u>2013</u>	<u>Change 2000-2013</u>	<u>Change 2007-2013</u>
Farm	67.7	63.8	59.8	60.6	-7.1	-3.2
Natural Resources and Mining	6.3	7.8	7.2	7.9	1.6	0.1
Construction	373.8	479.0	298.8	336.7	-37.1	-142.3
Manufacturing	1,113.3	888.6	733.1	735.6	-377.7	-153.0
Wholesale Trade	385.2	429.2	381.6	410.1	24.9	-19.1
Retail Trade	834.5	948.5	849.4	895.7	61.2	-52.8
Transp, Warehousing and Utilities	286.8	298.9	275.6	296.4	9.6	-2.5
Information	343.3	293.5	260.5	263.2	-80.1	-30.3
Financial Activities	448.3	524.3	441.5	456.6	8.3	-67.7
Professional and Business Services	1,171.9	1,285.5	1,136.9	1,246.2	74.3	-39.3
Educational and Health Services	828.1	1,060.2	1,150.9	1,295.6	467.5	235.4
Leisure and Hospitality	740.4	897.2	861.0	961.9	221.5	64.7
Other Services	271.0	293.9	272.4	290.6	19.6	-3.3
Government	1,170.9	1,245.8	1,240.8	1,195.6	24.7	-50.2
Total Wage and Salary Jobs	8,041.5	8,716.2	7,969.5	8,452.7	411.2	-263.5

*Source: California Employment Development Department (EDD)*

Long-term job growth is driven by the Six County Area's economic base—those sectors that sell most of their goods and services in national and world markets outside of the Six County Area. Recent projections by CCSCE, SCAG and SANDAG report that the Six County Area will see job growth that slightly exceeds the national average during the next 10 to 30 years, led by gains in Professional and Business Services, Wholesale Trade, Information and the tourism component of Leisure and Hospitality.

The Six County Area economy has an economic base that is diversified and well positioned to participate in U.S. and world economic growth over the next ten years. Job levels are expected to grow in the high-wage and fast-growing professional, scientific, technical and information services sectors, which include architecture, design, computer, research and development, advertising, legal, accounting, and Internet-related and management services. Other fast-growing sectors over the next ten years include entertainment and tourism industries and health care.

The Six County Area has an above-average share of four additional fast-growing sectors—Wholesale Trade and Transportation, tied to the area's projected growth in foreign trade; Information, which includes motion pictures; and the tourism component of Leisure and Hospitality, tied to growth in disposable income in the U.S. and worldwide.

The diversity of the Six County Area economy has led to GDP growth since 2001 that slightly outpaces the state and national growth rate despite the fact that the area had below average growth during the recession. Average GDP growth in nominal dollars (See the table on the following page) was 3.7% per year compared to 3.6% for the nation and 3.5% for the state between 2001 and 2013.

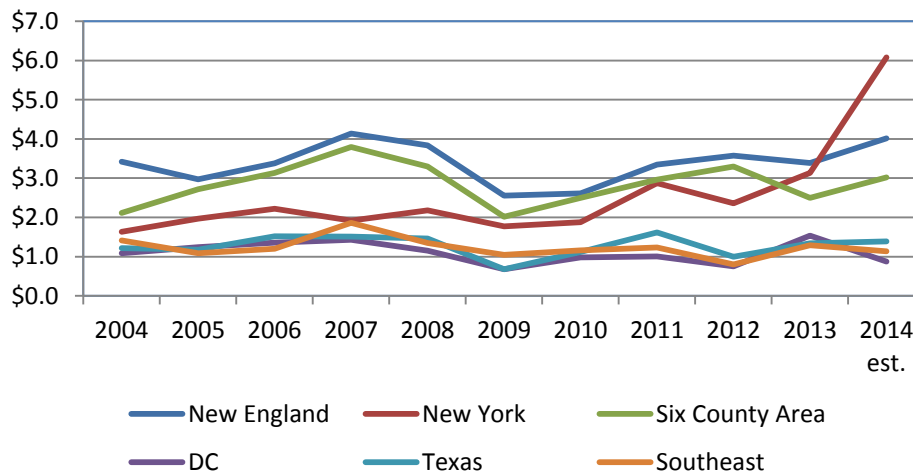
**SIX COUNTY AREA GDP**  
(Dollars in Billions)

Metro Area	2001	2007	2010	2013	Ave Annual Growth 2001-13
LA-Orange	\$545.7	\$759.4	\$757.0	\$826.8	3.5%
Ventura	\$26.0	\$38.6	\$39.8	\$46.1	4.9%
Riv.-San Bern	\$79.0	\$118.4	\$113.6	\$126.8	4.0%
San Diego	\$122.0	\$174.6	\$175.2	\$197.9	4.1%
Six County Area	\$772.7	\$1,091.0	\$1,085.7	\$1,197.5	3.7%

Source: U.S. Department of Commerce

The Bay Area is by far the largest recipient of new venture capital funding and is on pace to get more than \$20 billion in 2014 funding. The Six County Area has been one of the top three VC markets behind Silicon Valley for the past decade while outpacing Texas, the Southeast and DC areas in total funding (See the figure below).

**VC Funding (\$Billions)**



Source: Venture Capital Association Money Tree; Thomson Reuters; 2014 estimate based on data for three quarters of 2014

The motion picture and tourism sectors are two major components of the Six County Area economic base. Film LA reports two major trends for the industry in recent years. The number of production days increased in 2010, 2011, 2012 and 2013 offsetting most of the losses during the recession. Film LA reports an additional 10.4% increase in production days for the first three quarters of 2014 with most gains related to TV production aided by the recent increase in the state tax credit.

However, the mix of production days changed over time with long term losses in the production of major feature films and TV drama series offset by larger gains in commercials, other kinds of TV filming and web-based and reality shows, which according to Film LA have lower dollar values per production day of activity. In September 2014 California approved an increase in the state film tax credit to \$330 million per year from \$100 million starting in 2105.

California and the Six County Area are experiencing growth in both domestic and foreign visitors. Hotel rates and occupancy are increasing in the Six County and the same is true for employment in the hotel and amusement park sectors. In 2013 Los Angeles County set tourism records in visitors (42.2 million), hotel occupancy rates (76.8%) and average daily rate (\$136.52) according to data from the Los Angeles Tourism and Convention Board. Foreign travel to the region is outpacing domestic travel with large gains in visitors from China of +21.3% in 2013 to 570,000 visitors. For the first nine months of 2014 passenger travel at Los Angeles International Airport is up 6.3% in pace to set an all time record.

The positives for long-term economic growth include the strength of the region as a center for knowledge-based and creative activities and international trade, tourism and investment with the Pacific Rim. For example, the Six County Area does not have a large number of automotive industry production jobs but nearly all large worldwide auto companies have a major design studio in the Six County Area.



**APPENDIX F**

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**FORM OF APPROVING OPINION OF CO-BOND COUNSEL**

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**APPENDIX F****FORM OF APPROVING OPINION OF CO-BOND COUNSEL**

*Upon issuance of the 2014 Series A Bonds, Hawkins Delafield & Wood LLP, Los Angeles, California, and Alexis S. M. Chiu, Esq., San Francisco, California, Co-Bond Counsel to The Metropolitan Water District of Southern California, will render their respective approving opinions with respect to the 2014 Series A Bonds in substantially the following form:*

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

Re: *The Metropolitan Water District of Southern California  
Waterworks General Obligation Refunding Bonds, 2014 Series A*

Ladies and Gentlemen:

We have examined certified copies of proceedings of the issuance of \$\_\_\_\_\_ in aggregate principal amount of The Metropolitan Water District of Southern California (“Metropolitan”) Waterworks General Obligation Refunding Bonds, 2014 Series A (the “2014 Series A Bonds”).

The 2014 Series A Bonds are issued under and pursuant to the Metropolitan Water District Act, California Statutes 1927, Chapter 429, as reenacted in 1969 in Statutes 1969, Chapter 209, as amended, and as supplemented by Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with Section 53550 and 53580, respectively) of the California Government Code (the “Act”), the special election held in the service area of Metropolitan on June 7, 1966 (the “Election”), Resolution 6954 of the Board of Directors of Metropolitan (the “Board”) adopted on May 9, 1967 and Resolution 8386 of the Board adopted on January 12, 1993, as amended and supplemented, including by Resolution 8901 of the Board adopted on April 13, 2004 (collectively, the “Resolutions”). All terms used herein and not otherwise defined shall have the meanings given such terms in the Resolutions.

The 2014 Series A Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions.

Our services as Co-Bond Counsel to Metropolitan were limited to an examination of the transcript of legal proceedings referred to above, and to the rendering of the opinions set forth in the following paragraphs.

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

(i) The proceedings for the issuance of the 2014 Series A Bonds have been taken in accordance with the laws and Constitution of the State of California, and the 2014 Series A Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers, constitute the legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms.

(ii) The 2014 Series A Bonds constitute general obligation indebtedness of Metropolitan and shall be payable, as to both principal and interest, from *ad valorem* taxes which may be levied without limitation as to rate or amount upon all taxable real property within Metropolitan to pay

the principal of and interest on such indebtedness and which, under the laws now in force, may be levied without limitation as to rate or amount upon all taxable personal property, except certain classes thereof, within Metropolitan to pay the principal of and interest on such indebtedness.

(iii) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein; (a) interest on the 2014 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) interest on the 2014 Series A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by Metropolitan in connection with the 2014 Series A Bonds, and we have assumed compliance by Metropolitan with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2014 Series A Bonds in order that, for Federal income tax purposes, interest on the 2014 Series A Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of 2014 Series A Bond proceeds, restrictions on the investment of 2014 Series A Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2014 Series A Bonds to become subject to Federal income taxation retroactive to their date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2014 Series A Bonds, Metropolitan will execute a Tax Certificate (the "Tax Certificate") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, Metropolitan covenants that Metropolitan will comply with the provisions and procedures set forth therein and that Metropolitan will do and perform all acts and things necessary or desirable to assure that interest paid on the 2014 Series A Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph (iii), we have relied upon and assumed (a) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2014 Series A Bonds, and (b) compliance by Metropolitan with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

(iv) Under existing statutes, interest on the 2014 Series A Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs (iii) and (iv) above, we express no opinion regarding any Federal, state or local tax consequences arising with respect to the 2014 Series A Bonds or the ownership or disposition thereof. We render this opinion under existing statutes and court decisions as of the date of issuance of the 2014 Series A Bonds, and assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of the interest on the 2014 Series A Bonds, or under state and local tax law.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering material relating to the 2014 Series A Bonds and express herein no opinion relating thereto.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any fact or circumstance, or any change in law or in interpretation thereof, that may hereafter arise or occur, or for any other reason.

The foregoing opinions are qualified to the extent that the enforceability of the 2014 Series A Bonds, the Resolutions and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), and to the limitations on legal remedies against governmental entities in the State of California (including, but not limited to, rights of indemnification).

Very truly yours,

**APPENDIX G**

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**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

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## APPENDIX G

### FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) is dated December 11, 2014 by The Metropolitan Water District of Southern California (“Metropolitan”) in connection with the issuance of its \$ \_\_\_\_\_ aggregate principal amount of Waterworks General Obligation Refunding Bonds, 2014 Series A (the “2014 Bonds”). The 2014 Series A Bonds are being issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and as supplemented by Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with Section 53550 and 53580, respectively) of the California Government Code (the “Act”), the special election held in the service area of Metropolitan on June 7, 1966, Resolution 6954 adopted by the Board of Directors of Metropolitan (the “Board”) on May 9, 1967 and Resolution 8386 adopted by the Board on January 12, 1993, as amended and supplemented by Resolution 8728 adopted by the Board on January 16, 2001, Resolution 8824 adopted by the Board on August 20, 2002 and Resolution 8901 adopted by the Board on April 13, 2004 (collectively, the “Resolutions”). Capitalized terms used in this Undertaking which are not otherwise defined in the Resolutions shall have the respective meanings specified above or in Article I hereof. In accordance with the requirements of the Rule (as hereinafter defined), Metropolitan agrees as follows:

#### ARTICLE I Definitions

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

(1) “Annual Financial Information” means, collectively, (A) the financial information and operating data with respect to Metropolitan, for each fiscal year of Metropolitan, substantially in the form presented in the Official Statement as follows: (i) under the caption “METROPOLITAN TAX REVENUES” in the forepart of the Official Statement, the tables entitled “Summary of Property Tax Levies”, “Summary of Assessed Valuations and Tax Rates”, “Assessed Valuation Within Metropolitan’s Service Area (By Counties)” and “Debt Service Requirements for General Obligation Bonds”; (ii) under the caption “METROPOLITAN REVENUES” in Appendix A to the Official Statement, the tables entitled “Summary of Receipts by Source”, “Summary of Water Sold and Water Sales Receipts”, “Summary of Water Rates”, and “Ten Largest Water Customers”; the water standby charge for the fiscal year; revenues for the fiscal year resulting from wheeling and exchange transactions; the total power revenues for the fiscal year; and the unrestricted reserve balances available to Metropolitan for the fiscal year; (iii) under the caption “METROPOLITAN EXPENDITURES” in Appendix A to the Official Statement, the table entitled “Summary of Expenditures”; outstanding indebtedness (including revenue bonds, subordinate revenue obligations, variable rate and swap obligations, other revenue obligations and general obligation bonds), the payment obligation under the State Water Contract, a description of other long term commitments, and the information described under the sub-caption “Defined Benefit Pension Plan”; (iv) under the caption “HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Appendix A to the Official Statement, historical revenues and expenses for the then immediately past fiscal year, as presented in the table entitled “Historical and Projected Revenues and Expenses”; (v) under the caption “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENSES” in Appendix A to the Official Statement, the percentage of operation and maintenance expenditures to total costs; (vi) under the caption “POWER SOURCES AND COSTS” in Appendix A to the Official Statement, the expenditures for electric power, for so long

as such information shall be deemed to be material by Metropolitan; and (B) the information regarding amendments to this Undertaking required pursuant to Sections 4.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

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

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

(3) “Counsel” means Hawkins Delafield & Wood LLP, Los Angeles, California and/or Alexis S. M. Chiu, Esq., San Francisco, California or another nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to Metropolitan.

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

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

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

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

(8) “Notice Event” means any of the following events with respect to the 2014 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or

final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the 2014 Bonds, or other material events affecting the tax status of any 2014 Bonds;

- (vii) modifications to rights of security holders, if material;
- (viii) bond calls, if material;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);
- (xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(9) "Official Statement" means the Official Statement, dated November \_\_, 2014, of Metropolitan relating to the 2014 Bonds.

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

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "State" means State of California.



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

## ARTICLE II The Undertaking

Section 2.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the 2014 Bonds and is being executed and delivered solely to assist the underwriters in complying with subsection (b)(5) of the Rule.

### Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 2014-15, by no later than 180 days after the end of the respective fiscal year, to the EMMA System.

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

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

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

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

## ARTICLE III Operating Rules

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

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

Section 3.3. Event Notices. Each Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the 2014 Bonds.

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

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

#### ARTICLE IV

##### Termination, Amendment and Enforcement

###### Section 4.1. Effective Date; Termination.

(a) This Undertaking and the provisions hereof shall be effective upon the issuance of the 2014 Bonds.

(b) Metropolitan's obligations under this Undertaking shall terminate upon a legal defeasance pursuant to Section 7.06 of the Resolutions or the prior redemption or payment in full of all of the 2014 Bonds.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that Metropolitan (1) receives an opinion of Counsel, addressed to Metropolitan, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the 2014 Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the EMMA System.

###### Section 4.2. Amendment.

(a) This Undertaking may be amended by Metropolitan, without the consent of the holders of the 2014 Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of Metropolitan or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the same effect as set forth in clause (2) above, (4) either (i) Metropolitan shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with Metropolitan (such as bond counsel) and acceptable to Metropolitan, addressed to Metropolitan, to the effect that the amendment does not materially impair the interests of the holders of the 2014 Bonds or (ii) the holders of the 2014 Bonds consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Resolutions

with consent of holders of 2014 Bonds, pursuant to the Resolutions as in effect on the date of this Undertaking, and (5) Metropolitan shall have delivered copies of such opinion(s) and amendment to the EMMA System.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived by Metropolitan, without the consent of the holders of the 2014 Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) Metropolitan shall have received an opinion of Counsel, addressed to Metropolitan, to the effect that performance by Metropolitan under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) Metropolitan shall have delivered copies of such opinion and amendment to the EMMA System.

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

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

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

(a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the 2014 Bonds, except that beneficial owners of 2014 Bonds shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of Metropolitan to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding 2014 Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the holders of 25 percent in aggregate amount of Outstanding 2014 Bonds. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of Metropolitan's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of 2014 Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of 2014 Bonds for purposes of this subsection (b).

(c) Any failure by Metropolitan to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Resolutions and shall not result in any acceleration of payment of the 2014 Bonds, and the rights and remedies provided by the Resolutions upon the occurrence of a default or an Event of Default shall not apply to any such failure.

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

THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

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

Gary Breaux  
Assistant General Manager/  
Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

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

General Counsel