THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

- **Board of Directors**
  Finance and Insurance Committee

6/9/2015 Board Meeting

8-2

Subject

Approve and authorize execution and distribution of the Official Statement in connection with the issuance of the Special Variable Rate, Water Revenue Refunding Bonds 2015 Series A-1 and 2015 Series A-2, and authorize the payment of costs of issuance from bond proceeds

Executive Summary

Metropolitan expects to issue Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and 2015 Series A-2 (collectively, the "2015 Series A Bonds"), as variable rate self-liquidity bonds to refund $75,620,000 of its Water Revenue Bonds, 2005 Authorization, Series A; $29,820,000 of its Water Revenue Refunding Bonds, 2012 Series E-2 (Term Mode); and $88,800,000 of its Water Revenue Bonds, 2000 Authorization, Series B-4. The refunding is expected to result in lower interest costs and a reduction in costs with the elimination for the need to use and pay for standby bond purchase agreements (SBPAs) issued by banks.

Details

Metropolitan expects to issue the 2015 Series A Bonds (self-liquidity bonds) to refund $75,620,000 of its Water Revenue Bonds, 2005 Authorization, Series A (the "2005 Authorization Series A Bonds"); $29,820,000 of its Water Revenue Refunding Bonds, 2012 Series E-2 (Term Mode) (the "2012 Series E-2 Bonds"); and $88,800,000 of its Water Revenue Bonds, 2000 Authorization, Series B-4 (the "2000 Authorization Series B-4 Bonds"). The 2015 Series A Bonds would be the fourth issuance of variable rate bonds supported solely from Metropolitan's available liquidity, rather than liquidity provided by a SBPA. Metropolitan's two series of outstanding self-liquidity bonds, the Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D and 2014 Series D, have among the lowest interest rate cost of any of Metropolitan's $944 million of currently outstanding variable rate water revenue bonds. The low interest cost of the self-liquidity bonds reflects the bond market's favorable opinion of Metropolitan's ample liquidity position and overall strong financial operations. The self-liquidity bonds have the highest short-term bond ratings from Moody's, Standard and Poor's and Fitch Ratings.

The 2005 Authorization Series A Bonds are fixed rate bonds, with a call date of July 1, 2015. Therefore, Metropolitan plans to undertake a "current refunding" of the 2005 Authorization Series A Bonds, which will enable Metropolitan to refund the fixed rate bonds with variable rate debt. By using self-liquidity, variable rate refunding bonds, Metropolitan will realize significant interest cost savings. The average coupon for the 2005 Authorization Series A Bonds is 5.00% while the current interest rate and remarketing fees for Metropolitan's self-liquidity bonds are currently under 0.18%. The 2005 Authorization Series A Bonds have a final maturity of July 1, 2035.

The 2012 Series E-2 Bonds are in a Term Mode, and have a fixed rate of 3.00%, through the Scheduled Mandatory Tender Date of October 1, 2015. The 2012 Series E-2 Bonds may also be called, at Metropolitan's option, on or after July 1, 2015 (the Call Protection Date). Metropolitan issued the 2012 Series E-2 Bonds in June 2012, in conjunction with the $319.6 million, Water Revenue Refunding Bonds, 2012 Series C, D and E issue which funded the termination of $318.2 million of interest rate swaps and refunded a like amount of bonds, for savings of over $1.0 million. As reported to the Board at that time, Metropolitan would covert, or refund, all series of the 2012 E Bonds to variable rate bonds, on or after their respective Call Protection Dates. The first such

refunding was done in July 2014 with the refunding of the 2012 Series E-1 Bonds to variable rate debt. Therefore, Metropolitan now plans to refund the 2012 Series E-2 Bonds with variable rate bonds, through the issuance of the proposed 2015 Series A Bonds.

In addition, Metropolitan also plans to refund the $88,800,000, 2000 Authorization, Series B-4 Bonds. The 2000 Series B-4 Bonds are variable rate bonds that are supported by a SBPA with Wells Fargo Bank, N.A. The SBPA has an expiration date in February 2017. Staff expects to realize savings by terminating the SBPA and refunding the 2000 Series B-4 Bonds as self-liquidity variable rate debt. However, the 2000 Series B-4 Bonds will only be refunded if Metropolitan successfully executes a proposed $180 million, Revolving Credit Agreement with Wells Fargo Bank, N.A. The cost to Metropolitan for the Revolving Credit Agreement will be less than the cost of the existing SBPA for the 2000 Series B-4 Bonds. Staff expects to execute the proposed Revolving Credit Agreement with Wells Fargo, no later than June 12, 2015. The terms and conditions of the proposed Revolving Credit Agreement are expected to be substantially similar to an existing, $96.5 million, Revolving Credit Agreement that Metropolitan executed with The Bank of New York-Mellon, N.A. in June 2013.

These Bond refundings reflect a continuation of Metropolitan's overall variable rate debt strategy to strategically reduce its exposure to bank SBPAs. Variable rate bonds, supported by a SBPA, carry certain additional risks. For example, when the rating of a bank is downgraded, there is often a corresponding increase in the interest rates on that series of variable rate bonds that are supported by a downgraded bank's SBPA. With the lower bank rating, bondholders will usually demand a higher interest rate as compensation for holding lower rated securities. This could also result in bondholders to "put" or tender the bonds to the remarketing agent who may not be able to find new buyers for the bonds. In this case, there would be a draw on the SBPA, with the bank purchasing the bonds. The resulting "bank bonds," would carry higher interest costs to Metropolitan that would have to be funded until the bonds could be remarketed to bondholders, or refunded by Metropolitan. To reduce SBPA-related bank exposure, Metropolitan has refunded SBPA-supported variable rate bonds with fixed rate bonds, SIFMA Index Bonds, and self-liquidity bonds, such as the proposed 2015 Series A Bonds.

Draft Official Statement

The attached draft Official Statement for the 2015 Series A Bonds (**Attachment 1**) is provided to the Board for review and authorization for the General Manager, or other designee of the Ad Hoc Committee, to finalize and execute. The body of the draft Official Statement describes the 2015 Series A Bonds. Following board review and approval, staff will finalize the Official Statement, working with bond counsel, the underwriting firm and underwriting counsel. Staff will then electronically distribute the Official Statement to potential investors to provide them with material information concerning the issuance of the 2015 Series A Bonds, including information concerning the financial and operating condition of Metropolitan, to assist potential investors in their investment decisions concerning such Bonds. The Official Statement will be updated for material developments occurring up to the time of posting. The final Official Statement will be posted on the Finance page of Metropolitan's external website and on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system.

Appendix A to the draft Official Statement (**Attachment 2**) 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 and unaudited quarterly financial statements which are available at http://www.mwdh2o.com/mwdh2o/pages/finance/finance01.html, "Annual Financial Report 2013-2014: Basic Financial Statements" and "Quarterly Financial Statements – Unaudited." Other appendices summarize the authorizing resolutions, describe the book-entry system for registration of the bonds, provide demographic and economic information about Metropolitan's service area and provide copies of the bond counsel opinion and continuing disclosure undertaking. (Appendices C, D, E, F and G are in **Attachment 3**.) Appendix A will be updated to describe material events that occur after distribution of this letter and before the Official Statement is published. Appendix E will be updated for material economic information that is released before the Official Statement is published.

This Board's review and authorization for the Official Statement for the 2015 Series A Bonds may be extended to offering statements for other water revenue bond issues and remarketings pursuant to Resolution 8329, as amended and supplemented, that are issued within a reasonable time frame after such authorization.

Payment of Bond Issuance Costs from Bond Proceeds

Authorization is required to pay costs of issuance of the proposed 2015 Series A Bonds and bonds that are reimbursed from bond proceeds. Bond issuance costs include fees and expenses of bond counsel, Metropolitan's financial advisor and rating agencies; underwriters' discount; printing costs; and other costs recognized as costs of issuance under federal tax rules. Previously these costs were paid through a capital appropriation and amortized over the life of the related bonds, but under GASB Statement No. 65, issued in June 2012, debt issuance costs (except prepaid insurance costs) must be recognized as an expense in the period incurred. Costs of issuance are now paid as operations and maintenance expenses. Board authorization is requested to pay bond issuance costs through the Operations and Maintenance Fund.

Policy

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)

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

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.

Board Options

Option #1

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

a. Approve the draft Official Statement (Attachment 1) 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;
c. Authorize distribution of the Official Statement in connection with marketing of the bonds; and
d. Authorize payment of costs of issuance of bonds as operations and maintenance expenses in the manner set forth in this board letter.

Fiscal Impact: Approval will result in a reduction in debt service expense, due to the refunding of higher costing fixed-rate debt with lower costing variable rate, self-liquidity debt. The amount of annual savings will depend on future variable rates. Based on average variable rates for the last ten years, average annual savings could be approximately $3 million.

Business Analysis: Approval will reduce Metropolitan's debt service expense and increase the percentage of low-cost variable rate debt in Metropolitan's debt portfolio. More variable rate debt will provide a more efficient ratio of short-term debt to short-term investments, improving Metropolitan's asset-liability mix. In addition, self-liquidity bonds do not require the use of SBPAs, so Metropolitan will also have lower debt administration expense.

Option #2

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

a. Approve the draft Official Statement (Attachment 1) 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;
c. Authorize distribution of the Official Statement in connection with marketing of the bonds; and
d. Authorize payment of costs of issuance of bonds as operations and maintenance expenses in the manner set forth in this board letter.

Fiscal Impact: Same as Option #1
Business Analysis: Same as Option #1

Staff Recommendation

Option #1

5/28/2015
Gary Breaux *Date*
Chief Financial Officer

5/28/2015
Marcia Scully *Date*
General Counsel

Attachment 1 – Draft Official Statement
Attachment 2 – Draft Appendix A
Attachment 3 – Draft Appendices C, D, E, F and G

Ref# cfo12637533

HDW – 5/28/15 Draft

NEW ISSUE
(FULL BOOK-ENTRY) **See "RATINGS" herein**

In the opinion of Hawkins Delafield & Wood LLP, and Curls Bartling P.C., Co-Bond Counsel to Metropolitan, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the 2015A 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 2015A 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 2015A Bonds is exempt from personal income taxes of the State of California and its political subdivisions. See "Tax Matters" herein.

$[Principal Amount]
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A

[MWD Logo]

[A-1 Principal Amount]	**[A-2 Principal Amount]**
2015 Series A-1	**2015 Series A-2**
CUSIP No. 59266 ___	**CUSIP No. 59266 ___**
Price: 100%	**Price: 100%**

Dated: Date of Delivery **Due: July 1, 2035**

The Metropolitan Water District of Southern California ("Metropolitan") is issuing its Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A (the "2015A Bonds"), consisting of $[A-1 Principal Amount] principal amount of 2015 Series A-1 Bonds (the "2015A-1 Bonds") and $[A-2 Principal Amount] principal amount of 2015 Series A-2 Bonds (the "2015A-2 Bonds" and each of the 2015A-1 Bonds and the 2015A-2 Bonds being a "Subseries") to refund a portion of its outstanding Water Revenue Bonds and to pay the costs of issuing the 2015A Bonds. **Principal of and interest on the 2015A Bonds are secured solely by and payable from Net Operating Revenues on a parity with Metropolitan's outstanding Parity Bonds and other Parity Obligations as described herein. Net Operating Revenues are revenues that Metropolitan receives from charges for the sale or availability of water after payment of Operation and Maintenance Expenditures. Capitalized terms are defined in APPENDIX C to this Official Statement.**

Each Subseries of 2015A Bonds will initially bear interest in the Weekly Mode and Metropolitan will designate each Subseries of 2015A Bonds as Self-Liquidity Bonds. Interest on each Subseries of 2015A Bonds will be payable on the first Business Day of each month, commencing on August 3, 2015. Metropolitan may change the Interest Mode of each Subseries of 2015A Bonds. **This Official Statement describes the terms of the 2015A Bonds only while they bear interest in the Weekly Mode and while they are Self-Liquidity Bonds. Prospective investors must not rely on this Official Statement while either Subseries of 2015A Bonds bears interest in any other Interest Mode or if they become Liquidity Supported Bonds.**

While the 2015A Bonds are Self-Liquidity Bonds, no Liquidity Facility will be in effect and Metropolitan will be irrevocably committed and obligated to purchase all 2015A Bonds of a Subseries tendered pursuant to the optional tender and mandatory tender provisions of the Paying Agent Agreements to the extent that remarketing proceeds are insufficient therefor. **Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. Although Metropolitan is only obligated to purchase tendered 2015A Bonds of a Subseries from Net Operating Revenues, Metropolitan may use other funds, including funds from its investment portfolio and proceeds of borrowings under any available Revolving Credit Agreement, as described herein, to purchase those 2015A Bonds. The 2015A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor taxing power of Metropolitan is pledged for the payment of the 2015A Bonds, the interest thereon or the Redemption Price thereof. The obligation to pay the principal of, redemption premium, if any, and interest on the 2015A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.**

The 2015A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Hawkins Delafield & Wood LLP, and Curls Bartling P.C., Co-Bond Counsel to Metropolitan. Certain legal matters will be passed upon for Metropolitan by its General Counsel and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. Public Resources Advisory Group, Los Angeles, California is serving as Financial Advisor to Metropolitan in connection with the issuance of the 2015A Bonds. Metropolitan anticipates that the 2015A Bonds will be available for delivery through the facilities of The Depository Trust Company on or about July 1, 2015.

Wells Fargo Bank, National Association

June 24, 2015

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 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
MARSHA RAMOS

Compton
YVONNE ARCENEAUX

Fullerton
PETER BEARD

Glendale
LAURA FRIEDMAN

Long Beach
SUJA LOWENTHAL

Los Angeles
GLEN C. DAKE
PAUL KORETZ
JOHN W. MURRAY JR.
JESÚS E. QUIÑONEZ

Pasadena
CYNTHIA KURTZ

San Fernando
SYLVIA BALLIN

San Marino
JOHN T. MORRIS

Santa Ana
MICHELE MARTINEZ

Santa Monica
JUDY ABDO

Torrance
RUSSELL LEFEVRE

Calleguas Municipal Water District
STEVE BLOIS

Central Basin Municipal Water District
ROBERT APODACA
LETICIA VASQUEZ

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
DONALD GALLEANO

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Management

JEFFREY KIGHTLINGER
General Manager

MARCIA SCULLY
General Counsel

GERALD C. RISS
General Auditor

DEENA GHALY
Ethics Officer

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

Hawkins Delafield & Wood LLP
Los Angeles, California

Curls Bartling P.C.
San Francisco, California

Financial Advisor
Public Resources Advisory Group
Los Angeles, California

Fiscal Agent
Roger N. Marumoto
Metropolitan Treasurer

Paying Agent
Wells Fargo Bank, National Association
Los Angeles, California

This Official Statement does not constitute an offer to sell the 2015A 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 2015A Bonds. Metropolitan has not authorized any dealer, broker, salesperson or any other person to give any information or to make any representations other than those contained herein in connection with the offering of the 2015A Bonds, and if given or made, investors must not rely on such information or representations.

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

The Underwriter has provided the following two paragraphs for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2015A Bonds at a level above that which might otherwise prevail on the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2015A Bonds to certain dealers and others at a price lower or yield higher than the public offering price or yield stated on the cover page hereof and such public offering price or yield may be changed from time to time by the Underwriter.

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 the Underwriter, the Financial Advisor or Metropolitan is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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

Metropolitan maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2015A Bonds.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(Continued)

Page

THIS PAGE INTENTIONALLY LEFT BLANK

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered to be a complete statement of the facts material to making an investment decision. All terms used in this Summary Statement and not otherwise defined have the meanings given such terms elsewhere in this Official Statement, in APPENDIX C, the Resolutions or the Paying Agent Agreements. Investors must read the entire Official Statement, including the Appendices hereto, to obtain information essential to making an informed investment decision.

The Metropolitan Water District of Southern California

The Metropolitan Water District of Southern California ("Metropolitan") is a metropolitan water district created in 1928 by a vote of the electorates of several southern California cities. Metropolitan's primary purpose was and is to provide a supplemental supply of water for domestic and municipal uses and purposes at wholesale rates to its member public agencies. There are 26 member public agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan is governed by a 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – Member Agency Purchase Orders."

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."

Authorization for the 2015A Bonds

Metropolitan is issuing its Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A (the "2015A Bonds"), consisting of $[A-1 Principal Amount] principal amount of 2015 Series A-1 Bonds (the "2015A-1 Bonds") and $[A-2 Principal Amount] principal amount of 2015 Series A-2 Bonds (the "2015A-2 Bonds" and each of the 2015A-1 Bonds and the 2015A-2 Bonds being a "Subseries"), pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by Article 11 of Chapter 3 (Section 53580 et seq.) and Chapter 6 (Section 54300 et seq.) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act") and a Resolution adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), and the Nineteenth Supplemental Resolution adopted on December 8, 2009 (the "Nineteenth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The 2015A-1 Bonds are further described in the Paying Agent Agreement for the 2015A-1 Bonds, dated as of July 1, 2015 (the "2015A-1

Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"). The 2015A-2 Bonds are further described in the Paying Agent Agreement for the 2015A-2 Bonds, dated as of July 1, 2015 (the "2015A-2 Paying Agent Agreement", together with the 2015A-1 Paying Agent Agreement, the "Paying Agent Agreements" and each a "Paying Agent Agreement"), by and between Metropolitan and the Paying Agent. 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. Revenue bonds issued by Metropolitan pursuant to the Resolutions are referred to in this Official Statement as the "Bonds." The 2015A Bonds when issued will be payable as to principal thereof and interest thereon on a parity with Metropolitan's outstanding Bonds and any additional Bonds hereafter issued by Metropolitan payable on a parity therewith ("Parity Bonds") and with other outstanding and future obligations of Metropolitan payable on a parity with the Bonds ("Parity Obligations").

Purpose of the 2015A Bonds

Metropolitan is issuing the 2015A Bonds to refund a portion of its outstanding Water Revenue Bonds and to pay the costs of issuance of the 2015A Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

General Terms of the 2015A Bonds

The 2015A Bonds will be dated the date of their delivery and will mature on July 1, 2035. Each Subseries of 2015A Bonds will initially bear interest in the Weekly Mode until such time as Metropolitan changes the Interest Mode of either or both of the Subseries. While a Subseries of 2015A Bonds are in the Weekly Mode, interest on such Subseries of 2015A Bonds will be payable on the first Business Day of each month, commencing August 3, 2015. Metropolitan will initially designate each Subseries of 2015A Bonds as Self-Liquidity Bonds. Metropolitan will issue each Subseries of 2015A Bonds as fully registered bonds in denominations of $100,000 and any integral multiples of $5,000 in excess thereof (the "Authorized Denominations"). See "DESCRIPTION OF THE 2015A BONDS."

This Official Statement describes the terms of each Subseries of 2015A Bonds only while they bear interest in the Weekly Mode and while they are Self-Liquidity Bonds. Prospective investors must not rely on this Official Statement while either Subseries of 2015A Bonds bears interest in any other Interest Mode or if they become Liquidity Supported Bonds.

Redemption of the 2015A Bonds

Optional Redemption. The 2015A Bonds of each Subseries in the Weekly Mode are subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, on any date at a Redemption Price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption. The 2015A-1 Bonds are subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2028 and on each July 1 thereafter through and including July 1, 2035, 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 have been deposited in the Bond Service Fund, in the principal amounts described in this Official Statement.

The 2015A-2 Bonds are subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2028 and on each July 1 thereafter through and including July 1, 2035, 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 have been deposited in the Bond Service Fund, in the principal amounts described in this Official Statement.

See "DESCRIPTION OF THE 2015A BONDS – Redemption of the 2015A Bonds."

Tender and Purchase of the 2015A Bonds

Optional Tender. While a Subseries of 2015A Bonds bears interest in the Weekly Mode, subject to the exceptions, limitations and conditions described in this Official Statement, any Owner of a 2015A Bond of such Subseries will have the right to tender its 2015A Bond (or a portion thereof in an amount equal to an Authorized Denomination) to Metropolitan for purchase on any Business Day at the Purchase Price, upon delivery of to the Paying Agent at least seven (7) days prior to the applicable purchase date of an irrevocable tender notice in the form described herein. See "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds – Optional Tender."

Mandatory Tender. Subject to the exceptions, limitations and conditions described in this Official Statement, each Paying Agent Agreement requires the Owners of the respective Subseries of 2015A Bonds to tender all of the 2015A Bonds of the Subseries and requires Metropolitan to purchase all of the 2015A Bonds of the Subseries at the Purchase Price, upon specified events. See "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds – Mandatory Tender for Purchase."

While a Series of 2015A Bonds are Self-Liquidity Bonds, no Liquidity Facility will be in effect and Metropolitan will be irrevocably committed and obligated to purchase all 2015A Bonds of a Subseries tendered pursuant to the optional tender and mandatory tender provisions of the Paying Agent Agreements to the extent that remarketing proceeds are insufficient therefor. Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. See "RISK FACTORS – Risks Related to Self-Liquidity Bonds."

Metropolitan's investment policy permits it to purchase tendered 2015A Bonds, among other Self Liquidity Bonds, as an investment for its investment portfolio. Although Metropolitan is only obligated to purchase tendered 2015A Bonds from Net Operating Revenues, Metropolitan may use other funds from its investment portfolio to purchase those 2015A Bonds. Metropolitan may, but is not obligated to, use funds, to the extent available, borrowed under the Revolving Credit Agreement (the "BNY Revolving Credit Agreement" and, together with any other revolving credit agreement entered into by Metropolitan to provide for the purchase price of any Self-Liquidity Bonds, a "Revolving Credit Agreement") with The Bank of New York Mellon ("BNY Mellon") for purposes of paying the purchase price of any Self-Liquidity Bonds, including the 2015A Bonds. Metropolitan has no obligation under the Paying Agent Agreements, any Revolving Credit Agreement or otherwise to enter into or to maintain, or to draw upon, any Revolving Credit Agreement and Metropolitan is not obligated to borrow funds under any Revolving Credit Agreement to pay the purchase of any Self-Liquidity Bonds, including the 2015A Bonds. No owner of any Self-Liquidity Bond may compel Metropolitan or BNY Mellon to use funds available under the BNY Revolving Credit Agreement to pay the purchase price of any Self-Liquidity Bonds, including the 2015A Bonds. See "Security and Sources of Payment for the 2015A Bonds – Revolving Credit Agreement". Metropolitan will not use amounts in its bond reserve funds to purchase tendered 2015A Bonds. For a description of Metropolitan's investment portfolio, see "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Metropolitan's Investment Portfolio."

Self-Liquidity Bonds and Liquidity Supported Bonds

Designation of 2015A Bonds as Self-Liquidity Bonds. While a Subseries of 2015A Bonds bears interest in any Interest Mode, the related Paying Agent Agreement requires Metropolitan to designate the Subseries of 2015A Bonds either as Self-Liquidity Bonds or Liquidity Supported Bonds. Metropolitan will initially designate each Subseries of 2015A Bonds as Self-Liquidity Bonds.

Whether Metropolitan designates a Subseries of 2015A Bonds as Self-Liquidity Bonds or Liquidity Supported Bonds will determine whether Metropolitan or a Liquidity Provider is responsible for the payment of the Purchase Price of tendered 2015A Bonds of a Subseries to the extent that remarketing proceeds are insufficient. While a Subseries of 2015A Bonds are Self-Liquidity Bonds, Metropolitan will be obligated to pay the Purchase Price of tendered 2015A Bonds of a Subseries to the extent that remarketing proceeds are insufficient. While a Subseries of 2015A Bonds are Liquidity Supported Bonds, a Liquidity Provider will bear that obligation in accordance with the terms of a Liquidity Facility.

Change in Designation of the 2015A Bonds. Metropolitan may elect to change either or both Subseries of 2015A Bonds from Self-Liquidity Bonds to Liquidity Supported Bonds pursuant to the provisions of the applicable Paying Agent Agreement.

See "DESCRIPTION OF THE 2015A BONDS – Self-Liquidity Bonds and Liquidity Supported Bonds."

Remarketing Agent

Metropolitan has initially appointed Wells Fargo Bank, National Association, as the remarketing agent (the "Remarketing Agent") for the 2015A Bonds under the terms of the Remarketing Agreement. The Remarketing Agent may resign as remarketing agent or Metropolitan may remove the Remarketing Agent as remarketing agent in accordance with the terms of the Remarketing Agreement. See "DESCRIPTION OF THE 2015A BONDS – Remarketing Agent."

Book-Entry Only

Metropolitan will issue the 2015A Bonds as fully registered bonds and will register the 2015A Bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2015A Bonds. Upon receipt of payments of principal, interest or purchase price, DTC is obligated to remit those payments to DTC's Direct Participants (as defined in Appendix D) for subsequent disbursement to the ownership interest of each actual purchaser of each 2015A Bond ("Beneficial Owner"). See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

Security for the 2015A Bonds

The 2015A Bonds are special limited obligations of Metropolitan and will be payable as to principal, redemption premium, if any, and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. While each Subseries of 2015A Bonds are Self-Liquidity Bonds, Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries is an unsecured, special limited obligation of Metropolitan payable from 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 in this Official Statement. The 2015A Bonds when issued will be payable on a parity with Metropolitan's other Parity Bonds. As of June 1, 2015, $4.16 billion of Parity Bonds were outstanding (including the Bonds to

be refunded from proceeds of the 2015A Bonds). Metropolitan will also pay the principal of and redemption premium, if any, and interest on the 2015A Bonds on a parity with its Parity Obligations at any time outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS."

The 2015A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor taxing power of Metropolitan is pledged for the payment of the 2015A Bonds, the interest thereon or the Redemption Price thereof. The obligation to pay the principal of, redemption premium, if any, and interest on the 2015A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.

Metropolitan has established reserve funds for some of the Series of outstanding Bonds. Metropolitan will not fund a reserve fund for the 2015A Bonds. 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 will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2015A Bonds or the Purchase Price thereof.

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 the 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) 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 (but excluding Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries). "Water System" means the properties, works and facilities of Metropolitan necessary for the supply, availability, development, storage, transportation, treatment or sale of water. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A 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 2015A 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 a parity with the 2015A Bonds, the Parity Bonds and existing Parity Obligations to finance, or in connection with the financing of, 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 2015A Bonds or any Parity Bonds or Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Additional Indebtedness" and "– Subordinate Obligations."

Metropolitan has obligations under interest rate swap agreements, which obligations (other than with respect to termination payments under some of such swap agreements) are payable on a parity with Metropolitan's obligation to pay principal of and interest on the 2015A Bonds, Parity Bonds and other

Parity Obligations. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

Continuing Disclosure

Metropolitan has agreed to provide with respect to the 2015A Bonds, or to cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), certain annual financial information and operating data relating to Metropolitan and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriter named on the cover page hereof in complying with Rule 15c2-12 (the "Rule") adopted by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE" and APPENDIX 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 has implemented additional procedures to file complete annual reports in the future.

Miscellaneous

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

[Remainder of page intentionally left blank.]

OFFICIAL STATEMENT

$[Principal Amount]
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Special Variable Rate Water Revenue Refunding Bonds,
2015 Series A

INTRODUCTION

This Official Statement (which includes the cover page hereof, the Summary Statement and all Appendices hereto) provides information concerning The Metropolitan Water District of Southern California ("Metropolitan") in connection with the sale by Metropolitan of its $[Principal Amount] principal amount Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A (the "2015A Bonds"), consisting of $[A-1 Principal Amount] principal amount of 2015 Series A-1 Bonds (the "2015A-1 Bonds") and $[A-2 Principal Amount] principal amount of 2015 Series A-2 Bonds (the "2015A-2 Bonds" and each of the 2015A-1 Bonds and the 2015A-2 Bonds being a "Subseries"). Metropolitan is issuing the 2015A Bonds pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented, including by Article 11 of Chapter 3 (Section 53580 et seq.) and Chapter 6 (Section 54300 et seq.) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), and a Resolution adopted on July 9, 1991, as amended and supplemented (the "Master Resolution"), and the Nineteenth Supplemental Resolution adopted on December 8, 2009 (the "Nineteenth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The 2015A-1 Bonds are further described in the Paying Agent Agreement for the 2015A-1 Bonds, dated as of July 1, 2015 (the "2015A-1 Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"). The 2015A-2 Bonds are further described in the Paying Agent Agreement for the 2015A-2 Bonds, dated as of July 1, 2015 (the "2015A-2 Paying Agent Agreement", together with the 2015A-1 Paying Agent Agreement, the "Paying Agent Agreements" and each a "Paying Agent Agreement"), by and between Metropolitan and the Paying Agent. 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 in this Official Statement as the "Bonds."

Metropolitan is issuing the 2015A Bonds to refund a portion of its outstanding Water Revenue Bonds and to pay the costs of issuance of the 2015A Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

Each Subseries of 2015A Bonds will initially bear interest in the Weekly Mode until such time as Metropolitan changes the Interest Mode of either or both Subseries. Metropolitan will initially designate each Subseries of 2015A Bonds as Self-Liquidity Bonds. **This Official Statement describes the terms of the 2015A Bonds only while they bear interest in the Weekly Mode and while they are Self-Liquidity Bonds. Prospective investors must not rely on this Official Statement while either Subseries of 2015A Bonds bears interest in any other Interest Mode or if they become Liquidity Supported Bonds.**

The 2015A Bonds are special limited obligations of Metropolitan and will be payable as to principal, redemption premium, if any, and interest thereon solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. While the 2015A Bonds of a Subseries are Self-Liquidity Bonds, Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries is an unsecured, special limited obligation of Metropolitan payable from 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 in this

Official Statement. The 2015A Bonds when issued will be payable on a parity with Metropolitan's outstanding Bonds previously issued and any additional Bonds payable on a parity that Metropolitan may hereafter issue ("Parity Bonds") pursuant to the Resolutions. Metropolitan will also pay the principal of and redemption premium, if any, and interest on the 2015A Bonds on a parity with its other outstanding and future obligations payable on a parity with the Bonds ("Parity Obligations"). See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS."

The 2015A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor taxing power of Metropolitan is pledged for the payment of the 2015A Bonds, the interest thereon or the Redemption Price thereof. The obligation to pay the principal of, redemption premium, if any, and interest on the 2015A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.

Metropolitan has established reserve funds for some of the Series of outstanding Bonds. Metropolitan will not fund a reserve fund for the 2015A Bonds. 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 will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2015A Bonds or the Purchase Price thereof.

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and may incur other Parity Obligations payable and secured on a parity with the 2015A Bonds, the Parity Bonds and existing Parity Obligations to finance, or in connection with the financing of, 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 2015A Bonds and any Parity Bonds or Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Additional Indebtedness" and "– Subordinate Obligations." See also "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – 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 a parity with the 2015A Bonds, Parity Bonds and other Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Parity Bonds and Parity Obligations" and APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 2015A Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Additional Indebtedness."

This Introduction is not a summary of this Official Statement. This Introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the "State"), including the Act, and any resolutions 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 herein and not

otherwise defined will have the meanings ascribed thereto in the Resolutions. A summary of certain provisions of the Resolutions and a list of selected defined terms are set forth in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS."

DESCRIPTION OF THE 2015A BONDS

General

The 2015A Bonds will be dated the date of their delivery. The principal of, and premium, if any, on each 2015A Bond will be payable in lawful money of the United States of America upon presentment and surrender of such 2015A Bond at the Corporate Trust Office of the Paying Agent. Interest on each 2015A Bond will be payable on each Interest Payment Date by check mailed by first class United States mail, postage prepaid, on the date on which due to the Owner thereof at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of such Owner as appears on the Bond Register. In the case of any Owner of 2015A Bonds in an aggregate principal amount in excess of $1,000,000 as shown on the registration books kept by the Paying Agent who, prior to the Record Date next preceding any Interest Payment Date, shall have provided, or caused to be provided to, the Paying Agent wire transfer instructions, interest payable on such 2015A Bonds will be paid in accordance with the wire transfer instructions provided by the Owner of such 2015A Bonds (or by the Remarketing Agent on behalf of such Owner). "Record Date" means, with respect to 2015A Bonds bearing interest in a Weekly Mode, the Business Day immediately preceding each Interest Payment Date. Notwithstanding the foregoing, so long as records of ownership of the 2015A Bonds are maintained through DTC's book-entry system described under "– Book-Entry Only System" below, all payment to the Beneficial Owners of the 2015A Bonds will be made in accordance with the procedures described in Appendix D.

Interest Rate Provisions

General. Each Subseries of 2015A Bonds will initially bear interest in the Weekly Mode until such time as Metropolitan changes the Interest Mode of either or both Subseries. While a Subseries of 2015A Bonds bears interest in the Weekly Mode, interest on the 2015A Bonds of such Subseries will be payable on the first Business Day of each month, commencing on August 3, 2015. Each Subseries of 2015A Bonds will initially be designated by Metropolitan to be Self-Liquidity Bonds.

While a Subseries of 2015A Bonds bears interest in the Weekly Mode, interest on the 2015A Bonds of such Subseries will be computed on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed. While a Subseries of 2015A Bonds bears interest in the Weekly Mode, the authorized denominations will be $100,000 and any integral multiple of $5,000 in excess thereof (the "Authorized Denominations").

In no event will any 2015A Bond of a Subseries bear interest in excess of the Maximum Interest Rate. "Maximum Interest Rate" means with respect to 2015A Bonds of a Subseries (other than District Bonds) the lesser of (i) twelve percent (12%) per annum or (ii) the maximum interest rate permitted by federal law and the laws of the State. "District Bonds" means Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the provisions of the applicable Paying Agent Agreement and the 2015A Bonds of a Subseries issued in exchange for and in replacement or substitution thereof; provided, however, that while a Subseries of 2015A Bonds bears interest in the Weekly Mode, "District Bonds" do not include any Liquidity Supported Bonds that Metropolitan owns or any Self-Liquidity Bonds that Metropolitan purchases for its own account outside of and other than the purchase of 2015A Bonds of a Subseries tendered pursuant to the provisions of the applicable Paying Agent Agreement.

This Official Statement describes the terms of each Subseries of 2015A Bonds only while they bear interest in the Weekly Mode and while they are Self-Liquidity Bonds. Prospective investors must not rely on this Official Statement while either Subseries 2015A Bonds bears interest in any other Interest Mode or if they become Liquidity Supported Bonds.

Determination of Weekly Rate. While a Subseries of 2015A Bonds is in the Weekly Mode, the 2015A Bonds of such Subseries will bear interest at a Weekly Rate. On or before the date of delivery of the 2015A Bonds of such Subseries, the Remarketing Agent will determine the Weekly Interest Rate for the initial Weekly Rate Period for such 2015A Bonds, which Weekly Rate shall apply to the period commencing on the date of delivery of such 2015A Bonds and ending on the next succeeding Wednesday. Thereafter, the interest rate payable with respect to such 2015A Bonds (other than District Bonds) in a Weekly Mode will be determined by the Remarketing Agent by no later than 5:00 p.m. (New York City time) on Wednesday of each week during such Weekly Rate Period, or if such day shall not be a Business Day, then on the next preceding Business Day. The Remarketing Agent will give notice of each Weekly Rate by no later than the close of business on the Business Day next succeeding its day of determination.

Each Weekly Rate shall apply to the period commencing on Thursday (except for the initial Weekly Rate which shall commence on the date of delivery of the 2015A Bonds) and ending on the next succeeding Wednesday, unless such Weekly Rate Period shall be in effect as of the stated maturity date, in which event the Weekly Rate for such Weekly Rate Period shall apply to the period commencing on the Thursday preceding the last day of such Weekly Rate Period and end on the day prior to the stated maturity date; and provided, that, the Weekly Rate determined for any Weekly Rate Period commencing on the effective date of a change in Interest Mode for a Subseries of 2015A Bonds from another Mode to the Weekly Mode shall be determined by the Remarketing Agent on or prior to the first day of such Weekly Rate Period and shall apply to the period commencing on the first day of such Weekly Rate Period and ending on the next succeeding Wednesday.

The Weekly Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on the examination of tax-exempt obligations comparable in the judgment of the Remarketing Agent to a Subseries of 2015A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Subseries of 2015A Bonds would enable the Remarketing Agent to sell the 2015A Bonds of such Subseries on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Rate for any week, then (i) the Weekly Rate for such week shall be the same as the Weekly Rate for the immediately preceding week if the Weekly Rate for such preceding week was determined by the Remarketing Agent, or (ii) if no Weekly Rate for the immediately preceding week was determined by the Remarketing Agent, or in the event that the Weekly Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week shall be equal to SIFMA. "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 Municipal Bond 7-Day High Grade Index, or if neither the SIFMA Municipal Swap Index nor the S&P Municipal Bond 7-Day High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

Changes to Interest Modes or Conversion to a Fixed Interest Rate

Changes to Interest Modes. Each Paying Agent Agreement permits Metropolitan to change the Interest Mode of the respective Subseries of 2015A Bonds from the Weekly Mode to the Flexible Index Mode, the Index Mode, the Daily Mode, the Short-Term Mode or the Long Mode. If Metropolitan elects

to change the Interest Mode, then Metropolitan will furnish written direction of such election to the Fiscal Agent, the Remarketing Agent and the Paying Agent by registered or certified mail or by Electronic Notice not less than (i) ten (10) days prior to the effective date of the change in Interest Mode of a Subseries of 2015A Bonds in the case of a change in Interest Mode to the Flexible Index Mode or Index Mode, and (ii) fifteen (15) days prior to the effective date of the change in Interest Mode of a Subseries of 2015A Bonds in the case of a change in Interest Mode to the Daily Mode, Short-Term Mode or Long Mode. Any such direction of Metropolitan shall specify the Interest Mode to which such 2015A Bonds are to be changed and shall be accompanied by the form of the notice required to be given by the Paying Agent as described under "– Tender and Purchase of the 2015A Bonds – Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Change in Interest Mode*."

Conversion to Fixed Interest Rate. Each Paying Agent Agreement also permits Metropolitan to convert the interest rate on the respective Subseries of 2015 A Bonds to a Fixed Interest Rate. Metropolitan may exercise its option to convert such 2015A Bonds to the Fixed Interest Rate, by giving, not less than fifteen (15) days prior to the Fixed Rate Date, notice to the Fiscal Agent, the Remarketing Agent and the Paying Agent of its election to convert the interest payable with respect to such 2015A Bonds to the Fixed Interest Rate. Such notice shall specify the Fixed Rate Date, which may be any Business Day for which Owners may be given timely notice of conversion as described under "–Tender and Purchase of the 2015A Bonds – Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Conversion to Fixed Interest Rate."* Such notice shall be accompanied by a Favorable Opinion of Bond Counsel.

Redemption of the 2015A Bonds

Optional Redemption of the 2015A Bonds. The 2015A Bonds of each Subseries in the Weekly Mode are subject to optional redemption by Metropolitan in whole or in part, in Authorized Denominations, on any date at a Redemption Price equal to 100% of the principal being redeemed plus accrued interest, if any, to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption of the 2015A Bonds. The 2015A-1 Bonds are subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2028 and on each July 1 thereafter through and including July 1, 2035, 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 have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	**Principal Amount**
2028	
2029	
2030	
2031	
2032	
2033	
2034	
2035*	

* Final Maturity.

The 2015 A-2 Bonds are subject to mandatory sinking fund redemption prior to maturity, commencing on July 1, 2028 and on each July 1 thereafter through and including July 1, 2035, 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 have been deposited in the Bond Service Fund, in the principal amounts set forth as follows:

Redemption Date (July 1)	**Principal Amount**
2028	$
2029	
2030	
2031	
2032	
2033	
2034	
2035*	

* Final Maturity.

If (a) Metropolitan has purchased any 2015A Bonds of a Subseries and surrendered such 2015A Bonds to the Fiscal Agent for cancellation or (b) 2015A Bonds of a Subseries have been optionally redeemed by Metropolitan, then Metropolitan may credit the amount of such 2015A Bonds to such future Mandatory Sinking Account Payments as Metropolitan may specify in writing to the Paying Agent on or before the date such Mandatory Sinking Account Payments are due. A reduction of Mandatory Sinking Account Payments in any twelve month period ending July 1 will reduce the principal amount of 2015A Bonds of a Subseries subject to mandatory sinking account redemption on that July 1.

Selection of 2015A Bonds for Redemption. The Paying Agent will select 2015 Series A-1 Bonds and 2015 Series A-2 Bonds for redemption under the applicable Paying Agent Agreement in the following order: first, the Paying Agent shall select for redemption by lot all such 2015 Series A-1 Bonds and 2015 Series A-2 Bonds remaining Outstanding other than District Bonds before selecting any District Bonds for redemption, and, second, the Paying Agent shall select District Bonds for redemption. See also APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS – THE MASTER RESOLUTION – Redemption of Bonds – *Selection of Bonds to be Redeemed*."

Notice of Redemption. Notice of redemption shall be given by the Paying Agent by Mail or by Electronic Notice not less than twenty (20) nor more than forty-five (45) days prior to the Redemption Date to the respective Owners of any 2015A Bonds of a Subseries designated for redemption at their addresses appearing on the register maintained pursuant to the applicable Paying Agent Agreement (or, if the 2015A Bonds are then Book-Entry Bonds, then to DTC), to the Remarketing Agent, the Fiscal Agent, the Securities Depository, and one or more Information Services. Each notice of redemption shall state the date of such notice, the distinguishing designation of the 2015A Bonds, the date of issue of the 2015A 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 2015A Bonds of such maturity to be redeemed and, in the case of 2015A Bonds to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable with respect to each of said 2015A Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a 2015A Bond to be redeemed in part only, and that from and after such Redemption Date, the related

interest due thereon shall cease to accrue, and shall require that such 2015A Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice.

Notice of any redemption shall 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 2015A Bonds of a Subseries (or portion thereof) to be redeemed, or (ii) be sent only if sufficient money to pay the full Redemption Price of the 2015A Bonds of a Subseries (or portion thereof) to be redeemed is on deposit in the applicable fund or account. All such amounts deposited for the redemption of 2015A Bonds of a Subseries shall be held uninvested or shall be invested in Federal Securities (as defined in the Resolutions) which mature on or prior to such Redemption Date.

The notice may further state, if so determined by Metropolitan, that such notice may be rescinded at any time prior to the Redemption Date. If applicable, any such redemption notice given under the applicable Paying Agent Agreement may be rescinded at any time prior to the Redemption Date by written notice given to the Paying Agent by Metropolitan and the Paying Agent shall provide notice of such rescission as soon thereafter as practicable in the same manner, and to the same recipients, as notice of such redemption was given.

Failure by the Paying Agent to give notice to any one or more of the Remarketing Agent, the Fiscal Agent, the Information Services (currently, the EMMA System) or the Securities Depository or the failure of any Owner of 2015A Bonds designated for redemption to receive notice of redemption or any defect in such notice shall not affect the sufficiency and validity of the proceedings for redemption.

Effect of Redemption. If notice of redemption has been duly given to the Owners and funds for the payment of the Redemption Price of the 2015A Bonds of a Subseries 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 2015A Bonds so called for redemption shall become due and payable as specified in such notice. From and after the date so designated interest due with respect to the 2015A Bonds or portions thereof so called for redemption shall cease to accrue, such 2015A Bonds shall cease to be entitled to any benefit, protection or security hereunder and the Owners of such 2015A Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price. The Paying Agent shall, upon surrender for payment of any of the 2015A Bonds to be redeemed on their respective Redemption Dates, pay such 2015A Bonds at the Redemption Price. If such moneys shall not be available on the Redemption Date, such 2015A Bonds shall continue to bear interest until paid at the same rate they would have borne had they not been called for redemption.

Tender and Purchase of the 2015A Bonds

Optional Tender During Weekly Mode

While a Subseries of 2015A Bonds bear sinterest in the Weekly Mode, any Owner of a 2015A Bond of the Subseries (other than a District Bond) shall have the right to tender its 2015A Bond (or a portion thereof in an amount equal to an Authorized Denomination) to Metropolitan for purchase on any Business Day at a purchase price equal to the principal amount of such 2015A Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course) (the "Purchase Price"), payable in immediately available funds, upon delivery to the Paying Agent at its Corporate Trust Office and the Remarketing Agent, by no later than 4:00 p.m. (New York City time), on a Business Day at least seven (7) days prior to the date such 2015A Bond is to be purchased, of a written notice which states (i) the principal amount of such 2015A Bond to be purchased, (ii) the date of purchase, which date shall be a Business Day not prior to the seventh (7th) day next succeeding the date

of the delivery of such notice to the Paying Agent, (iii) applicable payment instructions with respect to the 2015A Bond of a Subseries tendered for purchase, and (iv) an irrevocable demand for such purchase. Any notice delivered to the Paying Agent after 4:00 p.m. (New York City time), shall be deemed to have been received on the next succeeding Business Day.

Mandatory Tender for Purchase

Mandatory Tender of Self-Liquidity Bonds Upon Change in Designation to Liquidity Supported Bonds. Subject to the exception described under "– Exceptions for Rating Agency Confirmation" below, so long as a Subseries of 2015A Bonds is in the Weekly Mode and are designated by Metropolitan to be Self-Liquidity Bonds, the Subseries of 2015A Bonds shall be subject to mandatory tender for purchase on the effective date of the election by Metropolitan to change the 2015A Bonds of a Subseries from Self-Liquidity Bonds to Liquidity Supported Bonds, at the Purchase Price, payable in immediately available funds.

Mandatory Tender Upon Change of Interest Mode. Subject to the exception described under "– Exceptions for Rating Agency Confirmation" below, the 2015A Bonds of a Subseries shall be subject to mandatory tender for purchase on the effective date of a change in the Interest Mode of a Subseries of 2015A Bonds (or, in connection with a change of Interest Mode to a Long Mode, on the day which would have been the effective date of a new Interest Mode had there not been a failure to deliver a Favorable Opinion of Bond Counsel as described in the next succeeding paragraph which resulted in the Interest Mode of a Subseries of 2015A Bonds not being changed), at the Purchase Price, payable in immediately available funds.

In connection with any change in Interest Mode from the Weekly Mode to a Long Mode, Metropolitan is required to deliver to the Fiscal Agent, the Paying Agent and the Remarketing Agent, a Favorable Opinion of Bond Counsel on the effective date of such change. In the event Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the change in Interest Mode will not occur and the 2015A Bonds of a Subseries will continue to bear interest in the Weekly Mode as in effect immediately prior to such proposed change in Interest Mode. In such event, if notice of such change in Interest Mode has been given to the Owners of the 2015A Bonds as described under "– Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Change in Interest Mode*" and Metropolitan fails to deliver a Favorable Opinion of Bond Counsel on the effective date as herein described, the 2015A Bonds will continue to be subject to mandatory purchase on the date which would have been the effective date of such change to a Long Mode; provided, however, that, notwithstanding anything herein to the contrary, unless the 2015A Bonds are Self-Liquidity Bonds prior to such proposed change, Metropolitan will have no liability or obligation to pay the Purchase Price of 2015A Bonds of a Subseries so tendered.

Mandatory Tender Upon Conversion to Fixed Interest Rate. The 2015A Bonds of a Subseries will be subject to mandatory tender for purchase on the Fixed Rate Date, at the Purchase Price, payable in immediately available funds.

Mandatory Tender at Metropolitan's Election. While a Subseries of 2015A Bonds bears interest at a Weekly Interest Rate, the 2015A Bonds shall also be subject to mandatory tender for purchase (in whole) on any Business Day on which Metropolitan elects to provide for a mandatory tender for purchase of such 2015A Bonds and which Metropolitan specifies in writing to the Paying Agent no later than twenty (20) days before such Business Day, at the Purchase Price, payable in immediately available funds.

Exceptions for Rating Agency Confirmation

If, before a notice of mandatory tender is given to the Owners of the 2015A Bonds of a Subseries in connection with (a) the change from Self-Liquidity Bonds to Liquidity Supported Bonds or (b) the change from a Weekly Mode to a Daily Mode or from a Daily Mode to a Weekly Mode, Metropolitan delivers to the Fiscal Agent, the Paying Agent and the Remarketing Agent written evidence from each Rating Agency to the effect that such change, in and of itself, will not result in the withdrawal or reduction of the rating category of the short-term rating(s) then applicable to the 2015A Bonds (without taking into consideration a reduction of the sub-category of any short-term rating(s)), then the 2015A Bonds will not be subject to mandatory tender for purchase solely as a result of such change. If no mandatory tender for purchase of the Subseries of 2015A Bonds is required pursuant to this paragraph, then the Paying Agent will give notice by Mail to the Owners of the 2015A Bonds (or if the 2015A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not less than ten (10) days before (a) the change from Self-Liquidity Bonds to Liquidity Supported Bonds or (b) the change from a Weekly Mode to a Daily Mode or from a Daily Mode to a Weekly Mode. Such notice must be substantially similar to the form of the notice that the applicable Paying Agent Agreement would otherwise require the Paying Agent to deliver if the respective Subseries of 2015A Bonds were subject to a mandatory tender for purchase as a result of such change absent the application of this paragraph. See "– Notice of Mandatory Tender" below.

Rescission of Certain Mandatory Tender Events

With respect to any mandatory tender for purchase described under "– Mandatory Tender for Purchase" above, Metropolitan may rescind such mandatory tender for purchase by delivery of a written notice to that effect 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. If Metropolitan rescinds any such mandatory tender for purchase, then no purchase shall occur and the Owners shall continue to own the 2015A Bonds as if no notice of mandatory tender for purchase were delivered.

No Liquidity Facility; Metropolitan's Obligation to Pay Purchase Price; Availability of Metropolitan's Investment Portfolio

While a Subseries of 2015A Bonds are Self-Liquidity Bonds, no Liquidity Facility will be in effect and Metropolitan will be irrevocably committed and obligated to purchase all 2015A Bonds of a Subseries tendered pursuant to the optional tender and mandatory tender provisions of the applicable Paying Agent Agreement to the extent that remarketing proceeds are insufficient therefor. Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. See "RISK FACTORS – Risks Related to Self-Liquidity Bonds."

Metropolitan's investment policy permits it to purchase tendered 2015A Bonds, among other Self Liquidity Bonds, as an investment for its investment portfolio. Although Metropolitan is not required to advance any moneys from any source other than Net Operating Revenues to purchase tendered 2015A Bonds, Metropolitan may use other funds, including funds from its investment portfolio and proceeds of borrowings under any available Revolving Credit Agreement, as described herein, to purchase those 2015A Bonds. Metropolitan will not use amounts in its bond reserve funds to purchase tendered 2015A Bonds. For a description of Metropolitan's investment portfolio, see "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Metropolitan's Investment Portfolio."

Notice of Mandatory Tender

Notice of Mandatory Tender Upon Change in Designation to Liquidity Supported Bonds. If the 2015A Bonds of a Subseries are subject to mandatory tender for purchase in connection with a change in the designation of the Subseries of 2015A Bonds from Self-Liquidity Bonds to Liquidity Supported Bonds as described under "– Mandatory Tender for Purchase – *Mandatory Tender of Self-Liquidity Bonds Upon Change in Designation to Liquidity Supported Bonds"* above, then the related Paying Agent Agreement requires the Paying Agent to give notice by Mail to the Owners of the 2015A Bonds (or if the 2015A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than ten (10) days before the Mandatory Purchase Date.

The notice shall state (a) the effective date of the change to Liquidity Supported Bonds, (b) the name of the new Liquidity Provider, (c) specify the short-term and long-term ratings, if any, to be applicable to the Subseries of 2015A Bonds after the effective date of the Liquidity Facility, and (d) if applicable, that the Subseries of 2015A Bonds is subject to mandatory tender for purchase on such effective date and setting forth the applicable Purchase Price.

Notice of Mandatory Tender Upon Change in Interest Mode. If either Subseries of 2015 SeriesA Bonds are subject to mandatory tender for purchase in connection with a change in the Interest Mode of such 2015A Bonds as described under "– Mandatory Tender for Purchase – *Mandatory Tender Upon Change of Interest Mode"* above, then the related Paying Agent Agreement requires the Paying Agent to give notice by Mail to the Owners of such 2015A Bonds (or if such 2015A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than (i) seven (7) days prior to the date on which the 2015A Bonds shall be purchased in the case of a change in Interest Mode to the Flexible Index Mode or Index Mode, and (ii) ten (10) days prior to the date on which the 2015A Bonds shall be purchased in the case of a change in Interest Mode to the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode.

The notice will state, among other things (a) that Metropolitan has elected to change the Interest Mode of the Subseries of 2015A Bonds, (b) the effective date of the change, (c) in connection with a change to the Daily Mode, the Short-Term Mode or a Long Mode, whether, upon the change to such Interest Mode, the Subseries of 2015A Bonds will be Liquidity Supported Bonds or Self-Liquidity Bonds, (d) if the Subseries of 2015A Bonds will be Liquidity Supported Bonds following the change to the Interest Mode, the name of the Liquidity Provider, and (e) if applicable, that the Subseries of 2015A Bonds is subject to mandatory tender for purchase on such effective date and setting forth the applicable Purchase Price.

Notice of Mandatory Tender Upon Conversion to Fixed Interest Rate. If a Subseries of 2015A Bonds is subject to mandatory tender for purchase in connection with a conversion of the Subseries of 2015A Bonds to a Fixed Interest Rate as described under "– Mandatory Tender for Purchase – *Mandatory Tender Upon Conversion to Fixed Interest Rate"* above, then the related Paying Agent Agreement requires the Paying Agent to give notice by Mail to the Owners of the 2015A Bonds of such Subseries (or if the 2015A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than ten (10) days before the purchase date.

The notice will state (a) that the interest rate with respect to a Subseries of 2015A Bonds will be converted to the Fixed Interest Rate; (b) the Fixed Rate Date; (c) the date the Fixed Interest Rate is to be established; (d) that interest on such 2015A 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 of such 2015A Bonds will no longer have the right to deliver their 2015A Bonds to the Paying Agent for purchase; (f) that all such Outstanding 2015A Bonds will be purchased on the Fixed Rate Date, setting forth the applicable Purchase

Price; and (g) that on and after the Fixed Rate Date, the Owners of such 2015A Bonds immediately preceding the Fixed Rate Date will be deemed to have tendered their 2015A Bonds as of the Fixed Rate Date to the Paying Agent. From and after the Fixed Rate Date, such 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 2015A 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.

Notice of Mandatory Tender at Metropolitan's Election. If a Subseries of 2015A Bonds is subject to mandatory tender for purchase upon Metropolitan's election as described under "– Mandatory Tender for Purchase – *Mandatory Tender at District's Election*" above, then the related Paying Agent Agreement requires the Paying Agent to give notice by Mail to the Owners of such 2015A Bonds (or if the 2015A Bonds are then Book-Entry Bonds, then to DTC by Mail or by Electronic Notice) not later than ten (10) days before the Mandatory Purchase Date.

The notice will state (a) that Metropolitan has elected to provide for a mandatory tender for purchase of such 2015A Bonds and (b) the Mandatory Purchase Date.

Purchase and Remarketing of 2015A Bonds

Sources of Funds for Purchase of Tendered Bonds. The Paying Agent Agreements require Metropolitan to purchase any 2015A Bonds of a Subseries tendered by the Owners thereof on the applicable purchase date and at the Purchase Price. The Paying Agent Agreements require Metropolitan to pay the Purchase Price of any tendered 2015A Bonds from the following sources in the order of priority indicated:

(1) proceeds of the sale of such 2015A Bonds remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the Remarketing Proceeds Account of the Purchase Fund; and

(2) moneys furnished by or at the direction of Metropolitan to the Paying Agent for deposit into the District Account of the Purchase Fund.

While a Subseries of 2015A Bonds are Self-Liquidity Bonds, no Liquidity Facility will be in effect and Metropolitan will be irrevocably committed and obligated to purchase all 2015A Bonds of a Subseries tendered pursuant to the optional tender and mandatory tender provisions of the applicable Paying Agent Agreement to the extent that remarketing proceeds are insufficient therefor. Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds of a Subseries is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues. See "RISK FACTORS – Risks Related to Self-Liquidity Bonds."

Metropolitan's investment policy permits it to purchase tendered 2015A Bonds as an investment of its investment portfolio. Although Metropolitan is not required to advance any moneys from any source other than Net Operating Revenues to purchase tendered 2015A Bonds, Metropolitan may use other funds, including funds from its investment portfolio and proceeds of borrowings under any available Revolving Credit Agreement purchase those 2015A Bonds. Metropolitan will not use amounts in its bond reserve funds to purchase tendered 2015A Bonds. For a description of Metropolitan's investment portfolio, see "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Metropolitan's Investment Portfolio."

If for any reason Metropolitan does not purchase all 2015A Bonds tendered or deemed tendered and required to be purchased on any Mandatory Purchase Date (such an event being referred to herein as

a "Failed Tender"), then the Paying Agent will return all tendered 2015A Bonds to their respective Owners and the 2015A Bonds will bear interest at the Maximum Interest Rate from the date of the Failed Tender until all 2015A Bonds tendered on the date of such Failed Tender are purchased. From and after a Failed Tender, the Paying Agent will continue to take all such action available to it, from the date of such Failed Tender to and until all such 2015A Bonds tendered are remarketed or otherwise purchased, to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from Metropolitan to purchase all 2015A Bonds tendered on the purchase date on which such Failed Tender occurs. Any demand made upon Metropolitan for the purchase of Self-Liquidity Bonds pursuant to the applicable Paying Agent Agreement which shall not be satisfied and which shall result in a Failed Tender shall continue in effect without further action of the Paying Agent until paid or otherwise satisfied through the subsequent remarketing of the 2015A Bonds. Notwithstanding the foregoing, no Failed Tender will constitute an Event of Default under the Paying Agent Agreements or under the Resolutions.

Remarketing of Bonds. Upon notice of any optional tender for purchase of 2015A Bonds or upon the receipt of a notice of mandatory tender for purchase of 2015A Bonds, the Paying Agent Agreements require the Remarketing Agent to offer for sale and use its best efforts to sell all 2015A Bonds to be tendered at the minimum interest rate which, if borne by the 2015A Bonds, would enable the Remarketing Agent to sell the 2015A Bonds on the purchase date at a price (without regard to accrued interest) equal to the principal amount thereof (except as otherwise provided in connection with a conversion of the 2015A Bonds to a Fixed Interest Rate).

The Remarketing Agent will give notice to the Fiscal Agent and the Paying Agent by Electronic Notice no later than 4:00 p.m. (New York City time) on the Business Day preceding any purchase date, specifying the aggregate principal amount of 2015A Bonds, if any, sold by it, along with a list of such purchasers showing the names and denominations in which the Paying Agent will register such 2015A Bonds in the Bond Register.

Demand of Metropolitan to Purchase Self-Liquidity Bonds. By 11:30 a.m. (New York City time) on the purchase date, the Paying Agent shall notify Metropolitan by Electronic Notice as to the aggregate Purchase Price of tendered Self-Liquidity Bonds that Metropolitan is required to purchase and to make a demand for the purchase of such Self-Liquidity Bonds such that the Paying Agent will receive amounts sufficient to pay the Purchase Price of all tendered Self-Liquidity Bonds no later than 12:30 p.m. (New York City time) on the purchase date. If Metropolitan receives from the Paying Agent by Electronic Notice a demand for the purchase of Self-Liquidity Bonds no later than 11:30 a.m. (New York City time) on a purchase date, then Metropolitan covenants that it will deliver to the Paying Agent amounts sufficient for the Paying Agent to pay the Purchase Price of all tendered Self-Liquidity Bonds no later than 12:30 p.m. (New York City time) on the purchase date. Upon the receipt of amounts from Metropolitan, the Paying Agent shall deposit an amount equal to the Purchase Price of all tendered Self-Liquidity Bonds in the District Account of the Purchase Fund. In determining the amount of any such Purchase Price then due, the Paying Agent shall not take into consideration any Purchase Price due on any District Bonds to the extent identified to the Paying Agent and the Paying Agent will make no demand to Metropolitan to pay the Purchase Price of any District Bonds to the extent identified to the Paying Agent. By 3:00 p.m. (New York City time) the Paying Agent will purchase the tendered Self-Liquidity Bonds, and remit to District such funds in Metropolitan Account which the Paying Agent did not use to purchase the tendered 2015A Bonds.

Determination of Delivery of Tendered 2015A Bonds. The Paying Agent will determine timely and proper delivery of 2015A Bonds pursuant to the applicable Paying Agent Agreement and the proper endorsement of such 2015A Bonds. Such determination will be binding on the Owners of such 2015A Bonds, Metropolitan, the Remarketing Agent and the Fiscal Agent, absent manifest error.

Self-Liquidity Bonds and Liquidity Supported Bonds

Designation of 2015A Bonds as Self-Liquidity Bonds. While a Subseries of 2015A Bonds bears interest in the Weekly Mode, the related Paying Agent Agreement requires Metropolitan to designate the Subseries of 2015A Bonds either as Liquidity Supported Bonds or as Self-Liquidity Bonds. Initially, Metropolitan will designate each Subseries of 2015A Bonds as Self-Liquidity Bonds and the Subseries of 2015A Bonds will be Self-Liquidity Bonds unless and until (i) Metropolitan changes either or both of Subseries of 2015A Bonds to be Liquidity Supported Bonds, (ii) Metropolitan changes the Interest Mode of either or both of the Subseries of 2015A Bonds to the Flexible Index Mode or the Index Mode, or (iii) Metropolitan converts the interest rate on either or both of the Subseries of 2015A Bonds to a Fixed Interest Rate.

Whether Metropolitan designates a Subseries of 2015A Bonds as Self-Liquidity Bonds or Liquidity Supported Bonds will determine whether Metropolitan or a Liquidity Provider is responsible for the payment of the Purchase Price of tendered 2015A Bonds of a Subseries to the extent that remarketing proceeds are insufficient. While a Subseries of 2015A Bonds are Self-Liquidity Bonds, Metropolitan will be obligated to pay the Purchase Price of tendered 2015A Bonds of such Subseries to the extent that remarketing proceeds are insufficient. While a Subseries of 2015A Bonds are Liquidity Supported Bonds, a Liquidity Provider will bear that obligation in accordance with the terms of a Liquidity Facility.

Change in the Designation of the 2015A Bonds. Metropolitan may elect to change either or both Subseries of 2015A Bonds from Self-Liquidity Bonds to Liquidity Supported Bonds by delivering a written direction to the Fiscal Agent, the Remarketing Agent, the Paying Agent and the Liquidity Provider not later than fifteen (15) days before the effective date of the change to Liquidity Supported Bonds. The effective date of the change to Liquidity Supported Bonds must be a Business Day. The written direction of Metropolitan will specify (i) the effective date of the change to Liquidity Supported Bonds, and (ii) if applicable, the date of delivery for such 2015A Bonds to be purchased (if other than the effective date) as described under "– Mandatory Tender for Purchase – *Mandatory Tender of Self-Liquidity Bonds Upon Change in Designation to Liquidity Supported Bonds"* above. In addition, together with any such written direction, Metropolitan will include a form of notice that the Paying Agent is required to give to the Owners of such 2015A Bonds as described under "– Notice of Mandatory Tender – *Notice of Mandatory Tender Upon Change in Designation to Liquidity Supported Bonds*."

Remarketing Agent

Metropolitan has initially appointed Wells Fargo Bank, National Association, as the remarketing agent (the "Remarketing Agent") for the 2015A Bonds under the terms of a remarketing agreement between Metropolitan and the Remarketing Agent (the "Remarketing Agreement"). The Remarketing Agent may resign as remarketing agent or Metropolitan may remove the Remarketing Agent as remarketing agent for either or both Subseries of 2015A Bonds in accordance with the terms of the Remarketing Agreement. If, while a Subseries of 2015A Bonds bears interest in the Weekly Mode, the Remarketing Agent for the 2015A Bonds of such Subseries resigns and no successor has been appointed as of the effective date of such resignation, then such Subseries of 2015A Bonds (other than District Bonds) shall bear interest at the Maximum Interest Rate until Metropolitan appoints a successor Remarketing Agent.

Book-Entry Only System

The 2015A Bonds are being issued as fully registered bonds, registered in the name of Cede & Co., as nominee of DTC, and will be available to Beneficial Owners only under the book-entry system maintained by DTC. Beneficial Owners of 2015A Bonds will not receive physical certificates

representing their interests in the 2015A Bonds. So long as the 2015A Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners mean Cede & Co., and do not mean the ultimate purchasers of the 2015A Bonds. Payments of the principal, redemption premium, if any, purchase price and interest on the 2015A Bonds will be made directly to DTC or Cede & Co. so long as DTC or Cede & Co. is the registered owner of the 2015A Bonds. Disbursements of such payments to DTC's Direct Participants is the responsibility of DTC and disbursement of such payments to Beneficial Owners is the responsibility of DTC's Direct Participants and Indirect Participants ("Participants"), as more fully described in APPENDIX D.

Metropolitan and the Paying Agent will have no responsibility or obligation with respect to: (a) the accuracy of the records of DTC, its nominee or any Participant with respect to any beneficial ownership interest in the 2015A Bonds; (b) the delivery to any Participant, Beneficial Owner or other Person, other than DTC, of any notice with respect to the 2015A Bonds; (c) 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 2015A Bonds; (d) any consent given by DTC or its nominee as Owner; or (e) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the 2015A Bonds are redeemed in part. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS

Security for the 2015A Bonds

The 2015A Bonds are special limited obligations of Metropolitan and will be payable as to principal, redemption premium, if any, and interest thereon 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 C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS."

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 APPENDIX A under the caption "METROPOLITAN 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 2015A Bonds, Parity Bonds and Parity Obligations. Accordingly, the debt service coverage on the 2015A Bonds, Parity Bonds and Parity Obligations does not take into account such expenses. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."

The 2015A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor taxing power of Metropolitan is pledged for the payment of the 2015A Bonds, the interest thereon or the Redemption Price thereof. The obligation to pay the

principal of, redemption premium, if any, and interest on the 2015A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues.

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 2015A Bonds, the Parity Bonds and the Parity Obligations), at least sufficient to pay the following amounts in the order set forth:

1. Operation and Maintenance Expenditures;

2. Interest on and any Bond Obligation (including Mandatory Sinking Account 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 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 2015A Bonds. Metropolitan is not required to take into account the amount of any Purchase Price of any tendered Series 2015A Bonds in setting its rates and charges.

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"). See "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – 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 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.

Water rates are established by a majority of the voting power of the Board. Metropolitan's water rates are not subject to regulation by the Public Utilities Commission of California or by any other state, local or federal agency. Proposition 218, a State constitutional ballot initiative approved by the voters on November 5, 1996, imposes additional limitations on the manner in which local agencies may impose certain taxes, fees, charges and assessments. Some of Metropolitan's Operating Revenues are derived from standby and water availability charges. These revenues may be affected by the application of Proposition 218. Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIIIC 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – California Ballot Initiatives."

No Reserve Fund

The Nineteenth Supplemental Resolution provides for the establishment of a Reserve Fund for Bonds issued thereunder to be funded in an amount equal to the Bond Reserve Requirement, if any, for such Bonds as set forth in the applicable bond purchase contract. Metropolitan has determined that the Bond Reserve Requirement for the 2015A Bonds will be established at $0 pursuant to the Bond Purchase Contract (herein defined) and no Reserve Fund for the 2015A Bonds will be established or 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 will not be used or drawn upon to pay principal of, redemption premium, if any, or interest on the 2015A Bonds or the Purchase Price thereof.

Parity Bonds and Parity Obligations

As of June 1, 2015, Metropolitan had $4.16 billion aggregate principal amount of Bonds (including the Bonds to be refunded with proceeds of the 2015A Bonds) outstanding. See "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings" and APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES." Metropolitan's outstanding Bonds include, among other things, Index Tender Bonds, Term Mode Bonds and Self-Liquidity Bonds, as more fully described in 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. See "– Revolving Credit Agreement" below. 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 also APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations" and "– Revolving Credit Agreement." 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 2015A 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, APPENDIX A under "METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

As provided in the Resolutions, Metropolitan may issue additional Parity Bonds and Parity Obligations payable and secured on a parity with the 2015A 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 C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS – THE MASTER RESOLUTION – Covenants – *Limits on Additional Debt*."

See "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Anticipated Financings." See also APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – CAPITAL INVESTMENT PLAN – Capital Investment Plan Financing" for a discussion of certain additional financings projected to be undertaken by Metropolitan as of the date of this Official Statement.

Revolving Credit Agreement

Under the terms and conditions of the BNY Revolving Credit Agreement with BNY Mellon, Metropolitan may borrow up to $96,545,900 for purposes of paying the purchase price of any Self-Liquidity Bonds, including the 2015A Bonds. As of June 1, 2015, Metropolitan had outstanding $167,215,000 of Self-Liquidity Bonds prior to the issuance of the 2015A Bonds. BNY Mellon may terminate its commitment under the BNY Revolving Credit Agreement upon a failure by Metropolitan to perform or observe certain covenants, which could 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 BNY Revolving Credit Agreement as a Parity Obligation under the Master Resolution. The scheduled expiration date of the BNY Revolving Credit Agreement is March 31, 2016. Metropolitan has no obligation under the Paying Agent Agreements or otherwise to enter into or to maintain, or to draw upon, any Revolving Credit Agreement, including the BNY Revolving Credit Agreement, and Metropolitan is not obligated to borrow funds under any Revolving Credit Agreement to pay the purchase of any Self-Liquidity Bonds, including the 2015A Bonds. No owner of any Self-Liquidity Bond may compel Metropolitan or BNY Mellon to use funds available under the BNY Revolving Credit Agreement to pay the purchase price of any Self-Liquidity Bonds, including the 2015A Bonds. When Metropolitan entered into the BNY Revolving Credit Agreement, it designated the principal and interest payable under the BNY 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 BNY 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 BNY Revolving Credit Agreement over a period of 30 years at a fixed interest rate of 3.75%. Pursuant to the terms of the Master Resolution, while the BNY 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 BNY Revolving Credit Agreement to purchase Self-Liquidity Bonds.

Metropolitan has no obligation to make borrowings under any Revolving Credit Agreement, maintain any Revolving Credit Agreement or renew any Revolving Credit Agreement.

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, premium, if any, or interest over the 2015A Bonds, Parity Bonds or 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 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 is not pledged for the payment of debt service on the Build America Bonds or the 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 C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS – THE MASTER RESOLUTION – Covenants – *Limits on Additional Debt*."

While a Subseries of 2015A Bonds are Self-Liquidity Bonds, Metropolitan's obligation to pay the Purchase Price of tendered 2015A Bonds of a Subseries is an unsecured obligation and is not a Parity

Obligation. Since that obligation is not a Parity Obligation, Metropolitan is not required to take into consideration the amount of Purchase Price of any tendered 2015A Bonds of a Subseries when calculating Maximum Annual Debt Service. See "DESCRIPTION OF THE 2015A BONDS – Purchase and Remarketing of 2015A Bonds – *Sources of Funds for Purchase of Tendered Bonds*."

Under the Act, the amount of outstanding Bonds and other evidences of indebtedness may not exceed 15% of the assessed value of all taxable property within Metropolitan, as shown by county assessment records. As of June 1, 2015, Metropolitan's outstanding Bonds and other indebtedness, in the aggregate amount of $4.30 billion, constituted approximately 0.19% 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% 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 as of June 1, 2015 was $4.16 billion.

Subordinate Obligations

Under the Resolutions, Metropolitan may issue obligations junior and subordinate to the Bonds, including the 2015A 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 currently has an outstanding loan obtained under the California Safe Drinking Water Revolving Fund Loan program, the loan repayment obligations under which are subordinate to the Bonds, including the 2015A Bonds, and the Parity Obligations. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Other Revenue Obligations" and "– Subordinate Revenue Obligations."

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 2015A Bonds, and the Parity Obligations. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations," "– Other Revenue Obligations" and "– Subordinate Revenue Obligations."

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)(1) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date for all such 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, (2) 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 shall be increased under certain circumstances, as set forth in the Resolutions), and (3) 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)(1) 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 (2) 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 (a) one-sixth of the aggregate amount of each unreplenished prior withdrawal from such reserve fund or account and (b) 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 C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS – THE MASTER RESOLUTION – Water Revenue Fund."

PLAN OF REFUNDING

The proceeds of the 2015A Bonds will be applied, together with available funds of Metropolitan, to refund Metropolitan's outstanding 2000 Authorization Series B-4 Water Revenue Bonds, 2005 Authorization Series A Water Revenue Bonds and 2012 Refunding Series E-2 Water Revenue Bonds (the "Refunded Bonds") on July 1, 2015 at the redemption price of 100% of the principal amount thereof plus accrued interest thereon. See "ESTIMATED SOURCES AND USES OF FUNDS."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the 2015A Bonds, and other available moneys, are shown below:

Estimated Sources of Funds:	
Principal Amount of 2015A Bonds	$
Release from reserve funds for certain Refunded Bonds	
Contribution from Metropolitan[(1)]	
Total	$
Estimated Uses of Funds:	
Deposit to redeem the Refunded Bonds	$
Costs of Issuance[(2)]	
Total	$

(1) Includes amounts sufficient to pay accrued interest on the Refunded Bonds to the July 1, 2015 redemption date. See "PLAN OF REFUNDING."

(2) Includes underwriter's discount, rating agency fees, financial advisory fees, legal fees, paying agent fees, printing costs and other costs of issuance.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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

domestic and municipal uses at wholesale rates to its member agencies. The members of Metropolitan are not required to purchase water from Metropolitan. Metropolitan's service area comprises approximately 5,200 square miles and includes 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 and operations of Metropolitan, see APPENDIX A and APPENDIX B.

OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO

Operating Revenues

Water sales comprise Metropolitan's principal source of revenues. Water sales revenues include all revenues received by Metropolitan from charges for the sale and availability of water, including, without limitation, Metropolitan's water rates, readiness-to-serve charge, standby charge, and capacity charge. See APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 any portion of the interest subsidy payments, which are subject to legislative changes by the United States Congress and conditioned upon Metropolitan's compliance with certain covenants with respect to the Build America Bonds, including the use and investment of proceeds thereof and the use of property financed thereby. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Rate Covenant." *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 2015A 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 2015A Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS." See also APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS." For information on Metropolitan's revenues and expenses, including historical and projected revenues and expenditures, see APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES," "– METROPOLITAN EXPENDITURES" and "– HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES." See also Metropolitan's financial statements contained in 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 2015A Bonds, the Parity Bonds or the Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Additional Indebtedness."

Metropolitan has issued Parity Bonds pursuant to the applicable Resolutions, which are outstanding in the amounts listed in APPENDIX A under the caption "METROPOLITAN

EXPENDITURES." Principal of and interest on the 2015A Bonds will be payable from Net Operating Revenues on a 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 2015A Bonds and the outstanding Parity Bonds and 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 APPENDIX A under the caption "CAPITAL INVESTMENT PLAN."

The Master Resolution permits subsequent authorizations of additional Bonds as described herein. The Resolutions establish limitations on the issuance of additional obligations payable from Net Operating Revenues on a parity with the Outstanding Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Additional Indebtedness." Metropolitan may also issue obligations junior and subordinate to the 2015A 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

Debt Service Requirements

The following table shows the estimated annual debt service requirements for Metropolitan's outstanding Bonds and the 2015A 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 "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Rate Covenant."

The Metropolitan Water District of Southern California
Debt Service Requirements for Water Revenue Bonds[(1)]

Fiscal Year Ending June 30	Outstanding Bonds Debt Service [(1)(2)(3)(4)(5)(6)]	2015A-1 Bonds Principal	2015A-1 Bonds Interest	2015A-2 Bonds Principal	2015A-2 Bonds Interest[(7)]	Total[(8)]
2016	$310,412,105	$	$	$	$	$
2017	307,549,996					
2018	322,069,165					
2019	314,080,351					
2020	308,027,629					
2021	298,726,491					
2022	294,902,312					
2023	288,857,677					
2024	288,768,119					
2025	271,560,138					
2026	274,411,683					
2027	273,881,099					
2028	269,755,664					
2029	208,366,449					
2030	269,913,322					
2031	255,885,702					
2032	256,465,869					
2033	258,613,478					
2034	258,539,933					
2035	258,476,687					
2036	258,416,678					
2037	257,006,287					
2038	183,453,854					
2039	113,853,020					
2040	111,641,748					
2041	109,154,195					
Total[(7)]	$6,622,789,653	$	$	$	$	$

(1) Includes principal of and interest on the Refunded Bonds. See "PLAN OF REFUNDING."

(2) 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 $___ 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.

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

(footnotes continued on next page)

(footnotes continued from prior page)

(4) Assumes each Series of the Outstanding 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.

(5) The numbers reflected in the debt service on Metropolitan's outstanding Bonds do not include any debt service for the BNY Revolving Credit Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2015A BONDS – Revolving Credit Agreement."

(6) Interest is calculated at an assumed interest rate of 1.80%.

(7) Totals are rounded.

Source: Metropolitan

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 2015A Bonds and additional Bonds that Metropolitan projects it will issue, see the table included under the caption "HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES" in APPENDIX A.

See also APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN EXPENDITURES – Variable Rate and Swap Obligations."

As of April 30, 2015, Metropolitan's investment portfolio had a market value of approximately $1.48 billion, including bond reserves of $84.1 million. The market value of Metropolitan's investment portfolio is subject to market fluctuation and volatility and general economic conditions. Over the three years ended April 30, 2015, the market value of the month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) has averaged approximately $1.16 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. As of April 30, 2015, outside investment managers are managing a portfolio totaling approximately $337 million. As of April 30, 2015, approximately 87% of Metropolitan's investment portfolio may be liquidated in seven days or less. See also APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN REVENUES – Investment of Moneys in Funds and Accounts" and "– Financial Reserve Policy" 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 THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)."

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. 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 THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)."

Change in Budgetary Accounting Method

Metropolitan's budgeting and financial reporting is presented using 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 EXPENDITURES" and "– MANAGEMENT'S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES."

Financial Statements

Metropolitan's financial statements for the fiscal years ended June 30, 2014, are included 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 THE NINE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)." 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. Macias Gini & O'Connell LLP has not consented to the inclusion of the financial statements of Metropolitan or 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, an procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP 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 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.

RISK FACTORS

The ability of Metropolitan to pay principal of and interest on the 2015A Bonds depends primarily upon Metropolitan's receipt of Net Operating Revenues. Some of the events which could prevent Metropolitan from receiving a sufficient amount of Net Operating Revenues to enable it to pay the principal of and interest on the 2015A Bonds are summarized below. The following description of risks is not an exhaustive list of the risks associated with the purchase of the 2015A Bonds and the order of the risks does not necessarily reflect the relative importance of the various risks. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Risks Related to Self-Liquidity Bonds

While the 2015A Bonds are Self-Liquidity Bonds, Metropolitan is irrevocably committed and obligated to pay the Purchase Price of any tendered 2015A Bonds to the extent that remarketing proceeds are insufficient therefor. Metropolitan's ability to pay the Purchase Price of any tendered Self-Liquidity Bonds, including the 2015A Bonds, depends on the sufficiency of its liquidity resources. Metropolitan's liquidity resources include its cash and investments and its borrowing capacity. Metropolitan's cash and investments are subject to market fluctuation and volatility and general economic conditions. For a description of Metropolitan's investment portfolio, see "OPERATING REVENUES, DEBT SERVICE AND INVESTMENT PORTFOLIO – Metropolitan's Investment Portfolio."

In addition, investors in Metropolitan's Self-Liquidity Bonds may be affected if Metropolitan's ability to issue or remarket its Water Revenue Bonds, especially other Self-Liquidity Bonds or Metropolitan's Index Tender Bonds, is adversely impacted. If investors in Metropolitan's Self-Liquidity Bonds perceive that Metropolitan's ability to access (particularly with respect to short-term variable rate products that depend on its liquidity) the municipal markets has deteriorated, investors may tender their Self-Liquidity Bonds which may make remarketing the Self-Liquidity Bonds to new investors more difficult and may result in Metropolitan being required to use its liquidity to purchase the Self-Liquidity Bonds.

Metropolitan has entered into the BNY Revolving Credit Agreement with BNY Mellon for the purposes of providing an alternative source of liquidity to pay the purchase price of any tendered Self-Liquidity Bonds but BNY Mellon may terminate its commitment under the BNY Revolving Credit Agreement upon a failure by Metropolitan to perform or observe certain covenants, which could entitle BNY Mellon to declare all amounts then outstanding to be immediately due and payable. Further, Metropolitan has no obligation under the Paying Agent Agreements or otherwise to enter into or to maintain, or to draw upon, any Revolving Credit Agreement, including the BNY Revolving Credit Agreement, and Metropolitan is not obligated to borrow funds under the BNY Revolving Credit Agreement to pay the purchase of any Self-Liquidity Bonds, including the 2015A Bonds, and no owner of

any Self-Liquidity Bond may compel Metropolitan or BNY Mellon to use funds available under the BNY Revolving Credit Agreement to pay the purchase price of any Self-Liquidity Bonds, including the 2015A Bonds.

If for any reason there is a Failed Tender, then the Paying Agent will return all tendered 2015A Bonds to their respective Owners and the 2015A Bonds will bear interest at the Maximum Interest Rate from the date of the Failed Tender until all 2015A Bonds tendered on the date of such Failed Tender are purchased. From and after a Failed Tender, the Paying Agent will continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from Metropolitan to purchase all 2015A Bonds tendered on the Tender Date on which such Failed Tender occurs. Notwithstanding the foregoing, no Failed Tender will constitute an Event of Default under the Paying Agent Agreements or under the Resolutions.

For a more detailed description of the optional tender and mandatory tender provisions of the Paying Agent Agreements, see "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds" and "– Purchase and Remarketing of 2015A Bonds."

Limited Obligations

The 2015A Bonds are limited obligations of Metropolitan payable as to principal and redemption premium, if any, and interest solely from and secured solely by a pledge of and a lien and charge upon the Net Operating Revenues. The 2015A Bonds do not constitute general obligation indebtedness of Metropolitan. Neither the general credit nor taxing power of Metropolitan is pledged for the payment of the 2015A Bonds, the interest thereon or the Redemption Price thereof. The obligation to pay the principal of, redemption premium, if any, and interest on the 2015A Bonds does not constitute a pledge, charge, lien or encumbrance upon any of Metropolitan's property or its income, receipts or revenues except Net Operating Revenues. Metropolitan's obligation to pay the Purchase Price of any tendered 2015A Bonds is an unsecured, special limited obligation of Metropolitan payable from Net Operating Revenues.

Net Operating Revenues may not be realized by Metropolitan in amounts sufficient to pay principal of, redemption premium, if any, and interest on the 2015A 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 APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA." 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.

Risks Relating to the 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 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 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 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 Metropolitans' water supply, see 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 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 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 APPENDIX E – "SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA."

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 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 material adverse impact on State Water Project or Colorado River operations and Metropolitan's available water supplies. See APPENDIX A – "THE

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 affect Metropolitan's water supplies and regional water demands. A reduction in water sales 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 2015A 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 2015A BONDS – Rate Covenant." See also APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – METROPOLITAN'S WATER SUPPLY" and "– CAPITAL INVESTMENT PLAN."

Earthquakes, Wildfires and Other Natural Disasters

Southern California is subject to geotechnical and extreme weather conditions which represent potential safety hazards, including expansive soils, wildfires 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 APPENDIX A – "THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA – 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 2015A Bonds have limited remedies and, except for limited circumstances, the Owners of the 2015A Bonds do not have the right to accelerate the payment of principal of or interest on the 2015A Bonds. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS – THE MASTER RESOLUTION – Defaults and Remedies under the Master Resolution."

In addition, the rights of the Owners of the 2015A Bonds are subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest.

Tax Law Proposals

Existing law may change so as to reduce or eliminate the benefit to Beneficial Owners of the 2015A Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. See "TAX MATTERS" below.

LITIGATION

No litigation is pending, or, to the best knowledge of Metropolitan, threatened, questioning (a) the existence of Metropolitan, or the title of the officers of Metropolitan to their respective offices, (b) the validity of the 2015A Bonds or the power and authority of Metropolitan to issue the 2015A Bonds, or

(c) 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 water rates, see APPENDIX A, including information under the caption "METROPOLITAN REVENUES – Litigation Challenging Rate Structure." For a discussion of litigation affecting the water supply of Metropolitan that could adversely affect Operating Revenues, see 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

Opinion of Co-Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, and Curls Bartling P.C., Co-Bond Counsel to Metropolitan, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the 2015A 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 2015A 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. The Tax and Nonarbitrage Certificate of Metropolitan (the "Tax Certificate"), which will be delivered concurrently with the delivery of the 2015A Bonds will contain provisions and procedures relating to compliance with applicable requirements of the Code. In rendering their opinions, Co-Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by Metropolitan in connection with the 2015A Bonds, and Co-Bond Counsel has assumed compliance by Metropolitan with certain ongoing provisions and procedures set forth in the Tax Certificate relating to compliance with applicable requirements of the Code to assure the exclusion of interest on the 2015A 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 2015A Bonds is exempt from personal income taxes of the State of California and its political subdivisions.

Co-Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2015A Bonds. Co-Bond Counsel render their opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement their opinions after the issue date 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 expresses 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 2015A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Certifications

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2015A Bonds in order that interest on the 2015A 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 2015A 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 2015A 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, in executing the Tax Certificate, will certify to the effect that Metropolitan will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure the exclusion of interest on the 2015A 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 2015A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of 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 2015A Bonds.

Prospective owners of the 2015A 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 2015A 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.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the 2015A 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 2015A 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 2015A 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 2015A Bonds under Federal or state law or otherwise prevent beneficial owners of the 2015A 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 2015A Bonds. For example, the Fiscal Year 2016 Budget proposed 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 obligation 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 obligation, regardless of issue date.

Prospective purchasers of the 2015A Bonds should consult their own tax advisors regarding the foregoing matters.

A copy of the form of opinion of Co-Bond Counsel relating to the 2015A Bonds is included in APPENDIX F.

UNDERWRITING

The 2015A Bonds are being purchased by Wells Fargo Bank, National Association (the "Underwriter"), pursuant to and subject to the conditions to be set forth in the Bond Purchase Contract between Metropolitan and the Underwriter relating to the 2015A Bonds (the "Bond Purchase Contract"). Subject to the terms of the Bond Purchase Contract, the Underwriter will purchase the 2015A Bonds at an aggregate purchase price of $_____, which represents the principal amount of the 2015A Bonds of $_____, less an underwriter's discount of $_____. The Underwriter is obligated to purchase all the 2015A Bonds if it purchases any 2015A Bonds.

The Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the 2015A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Metropolitan, for which they received or will receive customary fees and expenses.

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

FINANCIAL ADVISOR

Metropolitan has retained Public Resources Advisory Group as financial advisor (the "Financial Advisor") in connection with the issuance of the 2015A 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.

LEGAL MATTERS

Hawkins Delafield & Wood LLP, Los Angeles, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel to Metropolitan, will render their opinion with respect to the 2015A Bonds, substantially in the form set forth in APPENDIX F – "FORM OF CO-BOND COUNSEL OPINION." 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 and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

RATINGS

Metropolitan expects that Moody's Investors Service ("Moody's"), Standard & Poor's Financial Services LLC ("S&P"), and Fitch Ratings ("Fitch") will assign the 2015A Bonds long-term credit ratings of "___," "___" and "___," respectively, and the short-term 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, 33 Whitehall Street, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the 2015A 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 2015A Bonds remain Outstanding. Under the Continuing Disclosure Undertaking, Metropolitan will covenant for the benefit of Owners and Beneficial Owners of the 2015A 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 Underwriter of the 2015A Bonds in complying with the Rule. See APPENDIX G – "FORM 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 such timely filed annual report. 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 terms of the 2015A Bonds are set forth in the Resolutions, the Paying Agent Agreements and the Bond Purchase Contract. 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

APPENDIX A

The Metropolitan Water District of Southern California

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

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.

Municipal Water Districts		**Cities**		**County Water Authority**
Calleguas	Las Virgenes	Anaheim	Los Angeles	San Diego[(1)]
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 18.5 million people lived in Metropolitan's service area in 2014, 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.

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, Dominquez Hills and holds various professional

designations and certifications in management from Pepperdine University and the University of Southern California. Mr. Ivy has announced his retirement, which is planned for June 2015.

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 May 15, 2015 was 1,761, of whom 1,223 were represented by AFSCME Local 1902, 93 by the Supervisors Association, 294 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'S WATER SUPPLY

Metropolitan's principal sources of water supplies are the State Water Project and the Colorado River. Metropolitan receives water delivered from the State Water Project under State Water Contract provisions, including contracted supplies, use of carryover storage in San Luis Reservoir, and surplus supplies. See "—State Water Project" below. Metropolitan holds rights to a basic apportionment of Colorado River water and has priority rights to an additional amount depending on availability of surplus supplies. See "—Colorado River Aqueduct" below. Water management programs supplement these Colorado River supplies. Metropolitan stores State Water Project and Colorado River supplies in Metropolitan surface water reservoirs and through storage and water transfer agreements. See "—Water Transfer, Storage and Exchange Program" and "—Storage Capacity and Water in Storage" below.

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. In addition, Metropolitan manages water supplies in response to the prevailing hydrologic conditions by implementing its Water Surplus and Drought Management Plan, and in times of prolonged or severe shortages, the Water Supply Allocation Plan. See "—Water Surplus and Drought Management Plan" and "—Water Supply Allocation Plan" below.

Hydrologic conditions can have a significant impact on Metropolitan's water supply. California hydrology is highly variable from year to year, which impacts deliveries to Metropolitan from the State Water Project. In 2011, California's snowpack peaked at 163 percent of normal. However, drier conditions returned for 2012 and California statewide snowpack peaked 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 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. 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. The 2014 snowpack peaked at 35 percent of normal in April 2014 and associated runoff was 41 percent of normal, the fourth lowest in history. As a result of the persistent dry conditions, 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.

In 2015, statewide snowpack peaked in January at 17 percent of normal. This was the earliest peak and lowest snowpack in recorded history, suggesting the fourth year of drought in California. Storage levels in state reservoirs remain below normal, including storage levels in Lake Oroville, the principal State Water Project reservoir, and San Luis Reservoir, a critical reservoir south of the San Francisco Bay\Sacramento-San Joaquin River Delta ("Bay-Delta"). For calendar year 2015, DWR's initial allocation to State Water Contractors on December 1, 2014 was 10 percent. On March 2, 2015, DWR increased the State Water Project allocation to 20 percent of contracted amounts. This allocation represents supplies that DWR has already exported and either delivered or stored in San Luis Reservoir. It does not assume additional forecasted supplies. DWR's recent State Water Project analysis indicates that an additional increase in the 2015 State Water Project allocation is possible, but the final allocation is unlikely to be more than 25 percent or below 20 percent. See "—State Water Project—*General*" below.

Metropolitan's other principal source of water supply, the Colorado River, comes primarily 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.

As of May 1, 2015, precipitation in the upper Colorado River Basin was 79 percent of normal, with snowpack at 82 percent of normal for water year 2014-15 (October 1 – September 30), resulting in a forecasted unregulated inflow to Lake Powell of approximately 59 percent of normal. As of May18, 2015, total system storage in the Colorado River Basin was 48 percent of capacity. 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's 2014 year-end overall water storage was approximately 1.8 million acre-feet. In 2014, Metropolitan utilized supplies from the Colorado River and storage 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, and significantly expanded its water conservation and outreach programs and increased funding for conservation incentive programs by $60 million, for a total of $100 million for fiscal years 2014-15 and 2015-16. Metropolitan also increased incentives for large landscape customers to convert from potable water to recycled water for irrigation. See "—Water Conservation" below.

In May 2015, due to the strong response to the water conservation incentive programs, especially the turf replacement program, Metropolitan increased funding for these programs by $350 million, for total funding of $450 million over fiscal years 2014-15 and 2015-16. Funding for this increase will come from the remaining balance in the Water Management Fund ($140 million), the projected amounts over target financial reserve levels for fiscal year 2014-15 ($160 million) and the remaining balance in the Water Stewardship Fund ($50 million). This is a one-time only increase to the conservation incentive program, and it is expected to result in 172 million square feet of turf removed and water savings of 80 thousand acre feet annually. Funding of this program in future years will be determined as part of the next biennial budget and rates process in Spring 2016.

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 near capacity, assuming additional supplies are acquired, and operations to distribute Colorado River supplies into areas normally served by State Water Project supplies that began in 2014 are expected to continue in 2015. These measures will offset the initial State Water Project supply allocations in 2015. Metropolitan also relies upon its Water Surplus and Drought Management ("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. On April 14, 2015, the Board declared the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level, effective July 1, 2015 through June 30, 2016. Implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level is anticipated to reduce supplies delivered by Metropolitan to Metropolitan's member

agencies by 15 percent and water sales to approximately 1.8 million acre-feet. See "—Storage Capacity and Water in Storage," "—Water Conservation," "—Water Surplus and Drought Management Plan" and "—Water Supply Allocation Plan" below.

On April 1, 2015, Governor Brown issued an Executive Order ("Order") calling for a 25 percent reduction in consumer water use in response to the historically dry conditions throughout the State of California. As a wholesale water agency, Metropolitan is not subject to the requirements of the Governor's Order, which applies to retail water agencies. Furthermore, the Order to reduce statewide water use by 25 percent is not expected to result in an equivalent reduction in Metropolitan's sales. Metropolitan's member agencies will need to reduce their water sales in order to comply with the Order, but due to diminished local supplies the member agencies are expected to purchase all of the amount of water allocated to them under Metropolitan's Water Supply Allocation Plan. Therefore, Metropolitan's Water Supply Allocation Plan is expected to better reflect the extent to which Metropolitan's water deliveries may be reduced in fiscal year 2015-16 than is the Governor's Order to reduce water use statewide by 25 percent.

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 $232 million to a Water Management Fund, which will cover costs associated with replenishing storage, purchasing transfers and funding drought response and 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 as a long-term planning guideline for resources and capital investments. 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. The first IRP was adopted by the Board in January 1996 and was updated in 2004 and 2010.

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. Metropolitan is updating the IRP, which is scheduled to be completed at the end of 2015. The 2010 IRP Update approach serves as a foundation for the current IRP update process.

The 2010 IRP Update, and all of the materials associated with the current IRP update process, are 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 CRA 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 CRA 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. Metropolitan has offered outdoor water conservation programs in both the residential and commercial sectors since the 1990s, but since the end of California's last drought in 2010, Metropolitan has increased its conservation efforts targeting outdoor water use in these sectors. 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. See "REGIONAL WATER RESOURCES—Local Water Supplies" in this Appendix A.

Water Transfers and Exchanges. Under voluntary water transfer, acquisition or exchange agreements, agricultural communities using irrigation water may periodically sell or conserve some of their water allotments for use in urban areas. The water may be delivered through existing State Water Project or CRA 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 and Local Resource Program ("LRP"). 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 18.5 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 54 percent for 2014). 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. Late each year, DWR announces an initial allocation estimate for the upcoming year, but may revise the estimate throughout the year if warranted by developing precipitation and water supply conditions. From calendar years 2004 through 2014, 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 607,000 acre-feet in calendar year 2014 to a high of 1,800,000 acre-feet in 2004.

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. In calendar year 2014, DWR's allocation to State Water Project Contractors was five percent of contracted amounts, or 95,575 acre-feet. In addition, Metropolitan used all of its 223,000 acre-feet of carryover supplies from prior years, but was able to carry over 32,000 acre-feet of unused 2014 State Water Project supplies which will be available for use in 2015. See "—Water Transfer, Storage and Exchange Programs" and "—Storage Capacity and Water in Storage" below.

For calendar year 2015, DWR's initial allocation estimate to State Water Project Contractors was announced on December 1, 2014, as 10 percent of contracted amounts. Due to December 2014 and February 2015 storm runoff and storage in the State's major reservoirs, this allocation was increased on January 15, 2015 to 15 percent of contracted amounts, and again on March 2, 2015 to 20 percent, or 382,000 acre-feet. This allocation reflects a critically dry fourth consecutive year of drought, low storage levels in the State's major reservoirs, and federally mandated environmental restrictions which have been imposed upon water deliveries from the Bay Delta, including the biological opinions 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.

Delta Smelt and Salmon Federal ESA Biological Opinions. The United States Fish and Wildlife Service released a biological opinion on the impacts of the State Water Project and Central Valley Project on Delta smelt on December 15, 2008. Metropolitan and seven other entities filed separate lawsuits challenging the biological opinion. These lawsuits were consolidated under the caption *Delta Smelt Consolidated Cases*.

The 2008 biological opinion on delta smelt contains water supply restrictions that could have a range of impacts on Metropolitan's deliveries from the State Water Project depending on hydrologic conditions.

See "—State Water Project—*General,*" above and "—*State Water Project Operational Constraints,*" below. On March 13, 2014, the Ninth Circuit held that the 2008 biological opinion is valid and lawful.

On June 4, 2009, the National Marine Fisheries Service released a biological opinion for salmonid species. The 2009 salmonid species biological opinion contains additional restrictions on State Water Project and Central Valley Project operations. Six lawsuits were filed challenging the 2009 salmon biological opinion and were consolidated under the caption *Consolidated Salmon Cases.* On December 22, 2014, the Ninth Circuit held that the 2009 biological opinion is valid and lawful. 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. See "—State Water Project—*General,*" above and "—*State Water Project Operational Constraints,*" below.

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 "Delta Smelt and Salmon Federal ESA Litigation"* above.

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 2014 were reduced by a total of approximately 3.0 million acre-feet as a result of pumping restrictions. Pumping restrictions impacting the State Water Project allocation for calendar year 2014 reduced exports by approximately 100,000 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 Bay-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 Bay-Delta's ecosystem health.

The draft BDCP, draft BDCP Environmental Impact Report/Environmental Impact Statement (EIR/EIS) and draft Implementing Agreement were made available for public review and comment in December 2013. A revised draft EIR/EIS is currently being prepared and will be released for public review in summer 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. All briefs were 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 summer 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. The $7.12 billion 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 measure or the Water Quality, Supply, and Infrastructure Improvement Act of 2014 may have on Metropolitan.

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. On May 4, 2010, DWR completed the final EIR and concluded a remedial CEQA review for the Monterey Agreement, which reflects the settlement of certain disputes regarding the allocation of State Water Project water. Following DWR's completion of the EIR, three 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. However, the court's ruling 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 leaves in place the underlying project approvals while DWR prepares the remedial CEQA review.

The plaintiffs have appealed the decision. 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 CRA, 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 CRA 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 approximately 1,176,000 acre-feet in 2014. Average annual net deliveries for 2004 through 2014 were approximately 883,000 acre-feet, with annual volumes dependent primarily on programs to augment supplies, including transfers of conserved water from agriculture. See "—*Quantification Settlement Agreement*" and "—*Interim Surplus Guidelines*" below.

PRIORITIES UNDER THE 1931 CALIFORNIA SEVEN-PARTY AGREEMENT(1)

Priority	Description	Acre-Feet Annually
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(2) 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
	SUBTOTAL	4,400,000
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(3)	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	
	TOTAL	5,362,000
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 have conserved up to 109,460 acre-feet of water per year that has been provided to Metropolitan. In 2015, 107,820 acre-feet of conserved water is being made available by IID 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 2013 and 2014, CVWD's requests were for 6,693 and an estimated 19,795 acre-feet respectively, leaving 98,307 acre-feet in 2013 and an estimated 84,305 acre-feet 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

Calendar Year	Volume (acre-feet)
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
2014	43,010

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 and the Bureau of Reclamation refunded $2.64 million in unused contingency funds to Metropolitan. The Warren H. Brock Reservoir conserves about 70,000 acre-feet of water per year by capturing and storing otherwise non-storable water flow. In return for its funding, Metropolitan received 100,000 acre-feet of water that was stored in Lake Mead, and has the ability to deliver up to 25,000 acre-feet of water in any single year. Besides the additional water supply, the new reservoir adds to the flexibility of Colorado River operations. As of January 1, 2015, Metropolitan had received 35,000 acre-feet of this water, and had 65,000 acre-feet remaining.

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 2015 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 2004 through 2014 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. In 2014, 180,123 acre-feet were delivered by SDCWA for exchange, consisting of 100,000 acre-feet of IID conservation plus 80,123 acre-feet of conserved water from the Coachella Canal and All-American Canal lining projects.

QSA Related Litigation. 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.

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 2014 under this agreement is approximately 205,000 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 2015, Metropolitan had approximately 151,000 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, groundwater desalination, the Warren H. Brock Reservoir Project and the Yuma Desalting Plant pilot run.

Metropolitan's access to its intentionally created surplus reserves currently stored in Lake Mead could be limited in calendar years 2015 and 2016 because of projected low storage levels in Lake Mead. If the Bureau of Reclamation's August 2015 projection of Lake Mead's elevation on January 1, 2016 is at or below 1,075 feet, the Secretary of the Interior, at their discretion, could withhold delivery of a portion or all of Metropolitan's intentionally created surplus reserves in Lake Mead in calendar year 2015. If the Bureau of Reclamation's August 2016 projection of Lake Mead's elevation on January 1, 2017 is at or below 1,075 feet, the Secretary of the Interior could withhold delivery of a portion or all of Metropolitan's intentionally created surplus reserves in Lake Mead in calendar year 2016. In its May 2015 study, the Bureau of Reclamation projects that Lake Mead elevation would be above 1,075 feet on January 1, 2016, but below 1,075 feet on January 1, 2017.

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 CRA 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 CRA 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 CRA. 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. In December 2014, Metropolitan entered into an amendment that expands the annual yield by an additional 13,200 acre-feet per year. 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 and an exchange of up to 11,000 acre-feet.

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 the San Luis Delta Mendota Water Authority entered into separate agreements with DWR for the purchase of portions of water made available. Metropolitan's agreement allows Metropolitan to purchase, in dry years through 2025, available water supplies, which have ranged from approximately 10,000 acre-feet to 67,068 acre-feet per year . 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 years 2013 and 2014, Metropolitan purchased 10,209 acre-feet and approximately 11,000 acre-feet, respectively. Metropolitan's projected share of YCWA transfer supplies in 2015 is 8,192 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 and 2014, Metropolitan purchased 30,000 acre-feet and zero acre-feet of these supplies, respectively. DWR is administering a Multi-Year Water Pool during 2015 and 2016 because of continuing dry conditions. The amount of water available for purchase is not yet known.

Metropolitan/CVWD/Desert Water Agency Exchange and Advance Delivery Agreement. Metropolitan has agreements with the CVWD and the Desert Water Agency ("DWA") that require Metropolitan to exchange its Colorado River water for those agencies' State Water Project contractual water on an annual basis. Because DWA and CVWD do not have a physical connection to the State Water Project, Metropolitan takes delivery of DWA'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 DWA, 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/DWA 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/DWA exchange agreements, Metropolitan has entered into separate agreements with CVWD and DWA for delivery of non-State Water Project supplies acquired by CVWD or DWA. Similarly, Metropolitan takes delivery of these supplies from State Water Project facilities and incurs an exchange obligation to CVWD or DWA. From 2008 through 2014, Metropolitan has received a net additional supply of 61,965 acre-feet of water acquired by CVWD and DWA.

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 CRA, is approximately 5.93 million acre-feet. In 2014, 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 withdrew approximately 1.2 million acre-feet from storage in 2014 and 2014 year-end overall storage was approximately 1.8 million acre-feet. The following table shows three years of Metropolitan's water in storage as of January 1, including emergency storage. Metropolitan staff projects that approximately 128,000 acre-feet will be withdrawn from dry-year storage reserves in the first six months of 2015, leaving approximately 1.057 million acre-feet in dry-year storage reserves as of July 1, 2015. Dry-year storage is total storage, excluding emergency storage.

[Remainder of page intentionally left blank.]

METROPOLITAN'S WATER STORAGE CAPACITY AND WATER IN STORAGE[1]
(in Acre-Feet)

Water Storage Resource	Storage Capacity	Water in Storage January 1, 2015	Water in Storage January 1, 2014	Water in Storage January 1, 2013
Colorado River Aqueduct				
Desert / CVWD Advance Delivery Account	800,000	249,000	260,000	321,000
Lake Mead ICS	1,500,000	151,000	474,000	580,000
Subtotal	**2,300,000**	**400,000**	**734,000**	**901,000**
State Water Project				
Arvin-Edison Storage Program	350,000	165,000	180,000	220,000
Semitropic Storage Program	350,000	86,000	238,000	285,000
Kern Delta Storage Program	250,000	152,000	169,000	179,000
San Bernardino Valley MWD Coordinated Operating Agreement	50,000	-0-	-0-	-0-
Mojave Storage Program	390,000[5]	39,000	39,000	60,000
Castaic Lake and Lake Perris[2]	219,000	-0-	219,000	219,000
Metropolitan Article 56 Carryover[3]	200,000[6]	36,000	49,000	156,000
Other State Water Project Carryover[4]	n/a	-0-	174,000	124,000
Emergency Storage	334,000	326,000	334,000	334,000
Subtotal	**2,143,000**	**904,000**	**1,402,000**	**1, 577,000**
Within Metropolitan's Service Area				
Diamond Valley Lake	810,000	394,000	584,000	690,000
Lake Mathews	182,000	78,000	139,000	102,000
Lake Skinner	44,000	30,000	36,000	38,000
Subtotal[7]	**1,036,000**	**502,000**	**759,000**	**830,000**
Member Agency Storage Programs				
Cyclic Storage, Conjunctive Use, and Supplemental Storage	455,000	25,000	73,000	67,000
Total	**5,934,000**	**1,831,000**	**2,968,000**	**3,375,000**

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. Withdrawals must be returned within 5 years.
(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 February 2014, Metropolitan increased the conservation budget for fiscal years 2013-14 and 2014-15 by a total of $20 million. In December 2014, the Board increased the conservation budget for fiscal years 2013-14 and 2014-15 by an additional $40 million. Also, in May 2014, the Board doubled the incentive for the turf replacement program from $1 per square foot to $2 per square foot. On May 26, 2015, the Board approved an additional $350 million for Metropolitan's conservation budget, resulting in total funding of $450 million over fiscal years 2014-15 and 2015-16. As of May 2015, $88 million was rebated and an additional $124 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" and —Drought Response Actions" above.

In addition to ongoing conservation, Metropolitan has developed a WSDM plan, which splits resource actions into two major categories: Surplus Actions and Shortage Actions. See — "Water Surplus and Drought Management Plan" below. Conservation and water efficiency programs are part of Metropolitan's resource management strategy which make up these Surplus and Shortage actions.

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 Surplus and Drought Management Plan

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 is a planning document that Metropolitan uses to guide inter-year and intra-year storage operations, and splits resource actions into two major categories: surplus actions and shortage actions. The surplus actions emphasize storage of surplus water inside the region, followed by storage of surplus water outside the region. The shortage actions emphasize critical storage programs and facilities and conservation programs that make up part of Metropolitan's response to shortages. Implementation of the plan is directed by a WSDM team, made up of Metropolitan staff, that meets regularly throughout the year and more frequently between November and April as hydrologic conditions develop. The WSDM team develops and recommends storage actions to senior management on a regular basis and provides updates to the Board on hydrological conditions, storage levels and planned storage actions through detailed reports.

Water Supply Allocation Plan

The Water Supply Allocation Plan was approved by Metropolitan's Board in February 2008 and has since been implemented three times, including the most recent in April 2015. 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. 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.

On December 9, 2014, the Board approved adjustments to the formula for calculating member agency supply allocations for future implementation of the Water Supply Allocation Plan. On April 14, 2015, the Board declared a Water Supply Condition 3 and the implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level, effective July 1, 2015 through June 30, 2016. See "—Drought Response Actions" above. Implementation of the Water Supply Allocation Plan at a Level 3 Regional Shortage Level is anticipated to reduce supplies delivered by Metropolitan to Metropolitan's member agencies by 15 percent and water sales to approximately 1.8 million acre-feet.

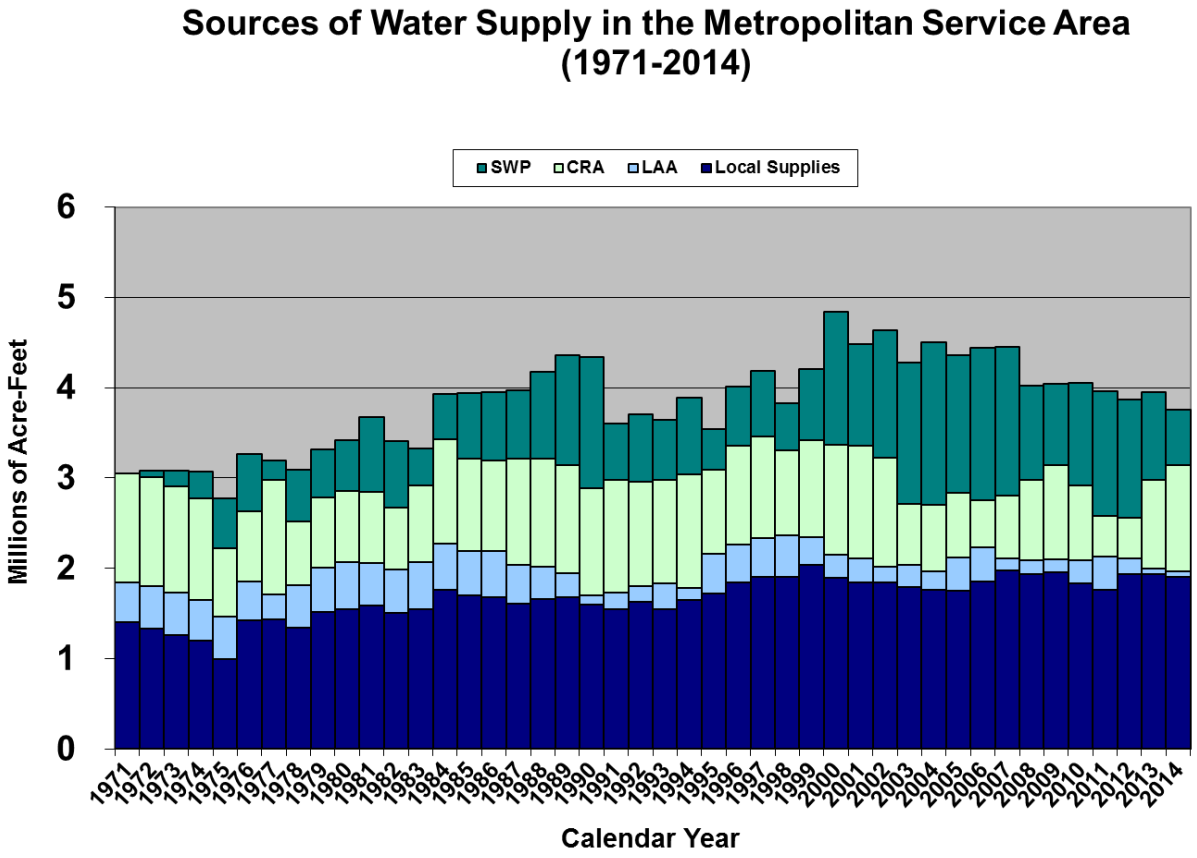
REGIONAL WATER RESOURCES

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 the CRA 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 2014. 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: 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 late 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.

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 442,000 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. In November 2014, LADWP reached an agreement over implementation of dust control measures on Owens Lake, which is expected to save nearly 8,600 acre-feet of water in 2015 and expand water savings in the future.

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 18.5 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 in 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 306,400 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 $250 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 addition, in October 2014, seawater desalination projects became eligible for funding under Metropolitan's Local Resources Program ("LRP").

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 the fall of 2015.

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. 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 CRA, 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 CRA 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 CRA 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 CRA, 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 CRA 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 CRA. 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. On February 19, 2015, the Ninth Circuit affirmed the district court's dismissal of the case. Plaintiffs had 90 days from the date of the decision to file a petition for writ of certiorari in the Supreme Court. [Court dockets are being checked to confirm that no filing has been made.]

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 by fall of 2015. 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 CRA have been buttressed to better withstand seismic events. Other components of the CRA 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 CRA 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, CRA 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 to be completed 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 CRA and monitoring and testing at all treatment plants and along the CRA. 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(1) (2)
(Fiscal Years Ended June 30 - Dollars in Thousands)

Cost of Service	2015	2016	2017	2018	2019	Total
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	8,212	2,308	4,067	467	120	15,174
Total(2)	$245,415(3)	$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.
(3) Revised projections as of March 31, 2015 for fiscal year 2014-15 Capital Investment Plan expenses are $215 million

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 December 2014 were $243.5 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 December 2014 were $358.9 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 December 2014 were $170.5 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 $422.5 million, with $202.7 million spent through December 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 $197.2 million spent through December 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 CRA began in 1941. Through annual inspections and maintenance activities, the performance and reliability of the various components of the CRA 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 December 2014 were $169.8 million. Budgeted aggregate capital expenditures for improvements on the CRA 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 through December 2014 were $65.3 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. Final 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 approximately $160 million through December 2014. The currently projected cost estimate for the prior and planned refurbishment or replacement projects is $600 million. For fiscal years 2014-15 and 2015-16, budgeted aggregate capital expenditures for improvements on the distribution system, other than PCCP rehabilitation, 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 was approximately $37 million. The majority of the work to allow reverse-flow deliveries from Diamond Valley Lake was completed in April 2015. Costs through April 2015 were approximately $30 million.

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 six percent of revenues in fiscal year 2013-14. See "— Revenue Allocation Policy and Tax Revenues" below. 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, and voter authorization, to levy *ad valorem* property taxes to pay its outstanding general obligation bonds and to satisfy its State Water Contract obligations. From fiscal year 1990-91 through 2012-13, *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 outstanding as of 1990-91 attributable to the debt service on State general obligation bonds for facilities benefitting Metropolitan. Under this requirement, Metropolitan's *ad valorem* property tax revenue gradually decreases, 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 at the fiscal year 2012-13 tax rate 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 the 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 decreased to $582 effective January 1, 2015 and will 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 THE NINE MONTHS ENDED MARCH 31, 2015 and 2014 (UNAUDITED)."

SUMMARY OF RECEIPTS BY SOURCE[1]
Fiscal Years Ended June 30
(Dollars in Millions)

	2010	2011	2012	2013	2014
Water Sales[2]	$1,011.1	$995.6	$1,062.5	$1,250.9	$1,455.3
Net Tax Collections[3]	97.3	88.0	90.1	96.5	98.4
Additional Revenue Sources[4]	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[5]	9.1	61.0	53.6	19.9	20.7
Total Receipts	$1,298.3	$1,339.1	$1,422.1	$1,579.5	$1,784.2

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. On November 18, 2014, the Board approved the terms of new 10 year voluntary water supply purchase orders effective January 1, 2015 through December 31, 2024. 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 THE NINE MONTHS ENDED MARCH 31, 2015 and 2014 (UNAUDITED)."

SUMMARY OF WATER SOLD AND WATER SALES
Fiscal Years Ended June 30

Year	Acre-Feet[1] Sold	Water Sales[4] (in millions)	Dollars Per Acre Foot[5]	Average Dollars Per 1,000 Gallons
2010	1,857,564	$1,011.1	$544	$1.67
2011[2]	1,632,277	995.6	610	1.87
2012[3]	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 CRA 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 United States Fish and Wildlife Service 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. 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 were tried in a second phase of the case which concluded April 30, 2015. Metropolitan is unable to assess at this time the likelihood of success of this litigation, any possible appeal by SDCWA or any future claims.

Due to SDCWA's litigation challenging Metropolitan's rates, as of March 31, 2015, Metropolitan held $170 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.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the court ordered that the case be stayed. The stay may be lifted upon motion by any party. 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

Purchase Orders are voluntary agreements that determine the amount of water that a member agency can purchase at the Tier 1 Supply Rate. In 2001, 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 acre-feet over the original ten-year period. The withdrawal was effective January 1, 2003. On October 10, 2012, the 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.

On November 18, 2014, the Board approved the terms for purchase orders with a ten year term to be effective from January 1, 2015 through December 31, 2024, and authorized the General Manger to execute those purchase orders. In consideration of executing its purchase order, each member agency that executes a purchase order and whose purchase order is in effect will be 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. Member agencies may choose a base amount of (1) the member agency's highest fiscal year purchases during the 13-year period of fiscal year 1990 through fiscal year 2002, or (2) the highest year purchases in the most recent 12-year period of fiscal year 2003 through fiscal year 2014. 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 accrue a cumulative Tier 2 obligation by virtue of exceeding their Tier 1 maximum at the end of year five of the purchase order will pay their Tier 2 obligation annually. Otherwise, any obligation to pay the Tier 2 Supply Rate will be calculated over the ten-year period, consistent with the calculation of any purchase order commitment obligation. 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) annually.

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 the chosen base period demand 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.

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.

[Remainder of page intentionally left blank.]

SUMMARY OF WATER RATES
(Dollars per Acre-Foot)

	SUPPLY RATE		SYSTEM ACCESS RATE	WATER STEWARDSHIP RATE	SYSTEM POWER RATE	TREATMENT SURCHARGE
	Tier 1	Tier 2				
January 1, 2010	$170[1]	$280	$154	$41	$119	$217
January 1, 2011	$155[2]	$280	$204	$41	$127	$217
January 1, 2012	$164[2]	$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

	FULL SERVICE TREATED[3]		FULL SERVICE UNTREATED[4]		INTERIM AGRICULTURAL PROGRAM		REPLENISHMENT RATE	
	Tier 1	Tier 2	Tier 1	Tier 2	Treated	Untreated	Treated	Untreated
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 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

The following paragraphs describe the additional charges for the availability of Metropolitan's water:

Readiness-to-Serve Charge. This charge is designed to recover the 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 continued 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 was $11,100 per cfs on January 1, 2015, and will be $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 March 31, 2015 was $170 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, $232 million, was placed in a Water Management Fund and will cover costs associated with replenishing storage, purchasing transfers and funding drought response and water conservation 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.

[Remainder of page intentionally left blank.]

TEN LARGEST WATER CUSTOMERS
Year Ended June 30, 2014
Accrual Basis (Dollars In Millions)

Agency	Water Sales Revenues[1]	Percent of Total	Water Sales in Acre-Feet[1]	Percent of Total
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	2.0	33,951	1.7
Total	$ 1,294,370,207	87.2%	1,807,743	88.5%
Total Water Sales Revenues	$ 1,484,616,187	**Total Acre-Feet**	2,043,720	

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 XIIIC and XIIID to the California Constitution. Article XIIID 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 XIIID. Fees for water service by Metropolitan's member agencies or their agencies providing retail water service are subject to the requirements of Article XIIID.

Article XIIID also imposes certain procedures with respect to assessments. Under Article XIIID, "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 XIIID 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 XIIIC 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 XIIIC 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 XIIIC 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 XIIID 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 April 30, 2015, the total market value (cash-basis) of all Metropolitan funds was $1.48 billion, including bond reserves of $84.1 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 April 30, 2015, the market value of the month-end balance of Metropolitan's investment portfolio (excluding bond reserve funds) averaged approximately $1.16 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 THE NINE MONTHS ENDED MARCH 31, 2015 and 2014 (UNAUDITED)" 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 April 30, 2015, such managers were managing approximately $337.0 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 THE NINE MONTHS ENDED MARCH 31, 2015 and 2014 (UNAUDITED)."

SUMMARY OF EXPENDITURES
Fiscal Years Ended June 30
(Dollars in Millions)

	2010	2011	2012	2013	2014
Operation and Maintenance Costs[1]	$ 441.6	$ 430.8	$ 425.3	$ 413.6	$ 561.3
Total State Water Project and Water Transfers[2]	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[3]	35.1	45.0	44.2	54.7	89.3
Other[4]	5.3	2.4	2.8	6.2	6.3
Total Disbursements (net of reimbursements) [5]	$1,329.1	$1,378.3	$1,330.7	$1,332.5	$1,501.4

Source: Metropolitan.

(1) Includes inventories, undistributed payroll, local resource programs, conservation programs and CRA 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

The water revenue bonds, outstanding as of June 1, 2015, are set forth below:

Name of Issue	Principal Outstanding
Water Revenue Refunding Bonds, 1993 Series A	$101,840,000
Water Revenue Bonds, 2000 Authorization, Series B-3	88,800,000
Water Revenue Bonds, 2000 Authorization, Series B-4(1)*	88,800,000
Water Revenue Bonds, 2005 Authorization, Series A*	75,620,000
Water Revenue Bonds, 2005 Authorization, Series C	175,000,000
Water Revenue Refunding Bonds, 2006 Series B	24,055,000
Water Revenue Bonds, 2006 Authorization, Series A	391,355,000
Water Revenue Refunding Bonds, 2008 Series A-2(1)	62,465,000
Water Revenue Refunding Bonds, 2008 Series B	127,200,000
Water Revenue Refunding Bonds, 2008 Series C	41,800,000
Water Revenue Bonds, 2008 Authorization, Series A	183,525,000
Water Revenue Refunding Bonds, 2009 Series A-2(1)	104,180,000
Water Revenue Refunding Bonds, 2009 Series B	106,690,000
Water Revenue Refunding Bonds, 2009 Series C	91,165,000
Water Revenue Bonds, 2008 Authorization, Series B	15,035,000
Water Revenue Bonds, 2008 Authorization, Series C(2)	78,385,000
Water Revenue Bonds, 2008 Authorization, Series D(2)	250,000,000
Water Revenue Refunding Bonds, 2009 Series D	64,740,000
Water Revenue Refunding Bonds, 2009 Series E	18,355,000
Water Revenue Bonds, 2010 Authorization, Series A(2)	250,000,000
Water Revenue Refunding Bonds, 2010 Series B	84,175,000
Water Revenue Refunding Bonds, 2011 Series A1-A4(1)	228,875,000
Water Revenue Refunding Bonds, 2011 Series B	73,230,000
Water Revenue Refunding Bonds, 2011 Series C	156,100,000
Water Revenue Refunding Bonds, 2012 Series A	181,180,000
Water Revenue Refunding Bonds, 2012 Series B-1 and B-2(1)	98,585,000
Water Revenue Refunding Bonds, 2012 Series C	190,600,000
Water Revenue Refunding Bonds, 2012 Series D	19,605,000
Water Revenue Refunding Bonds, 2012 Series E2*	29,820,000
Water Revenue Refunding Bonds, 2012 Series E3	31,220,000
Water Revenue Refunding Bonds, 2012 Series F	60,035,000
Water Revenue Refunding Bonds, 2012 Series G	111,890,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D(1)	87,445,000
Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E(1)	104,820,000
Water Revenue Refunding Bonds, 2014 Series A	95,935,000
Water Revenue Refunding Bonds, 2014 Series B	10,575,000
Water Revenue Refunding Bonds, 2014 Series C1-C3	30,335,000
Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D(1)	79,770,000
Water Revenue Refunding Bonds, 2014 Series E	86,060,000
Water Revenue Refunding Bonds, 2014 Series G1-G5	57,840,000
Total	**$4,157,105,000**

Source: Metropolitan.

(1) Outstanding variable rate obligation.
(2) Designated as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009.
* Expected to be refunded from the proceeds of the Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A

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 June 1, 2015, outstanding general obligation bonds, water revenue bonds and other evidences of indebtedness in the amount of $4.30 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 June 1, 2015 was $4.16 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 THE NINE MONTHS ENDED MARCH 31, 2015 and 2014 (UNAUDITED)."

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 June 1, 2015, 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 May 1, 2015, are summarized in the following table:

Series	Date of Issuance	Original Principal Amount Issued	Next Scheduled Mandatory Tender Date	Maturity Date
2009 A-2	May 20, 2009	$104,180,000	January 11, 2016	July 1, 2030
2011 A-1	June 2, 2011	64,440,000	January 4, 2016	July 1, 2036
2011 A-2	June 2, 2011	50,000,000	March 27, 2018	July 1, 2036
2011 A-3	June 2, 2011	64,435,000	January 4, 2016	July 1, 2036
2011 A-4	June 2, 2011	50,000,000	March 27, 2018	July 1, 2036
2012 B-1	April 27, 2012	49,295,000	March 27, 2018	July 1, 2027
2012 B-2	April 27, 2012	49,290,000	March 27, 2018	July 1, 2027
2013 E (1)	July 2, 2013	104,820,000	January 29, 2016	July 1, 2030
Total		**$536,460,000**		

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 June 1, 2015, 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. The 2015 Series A, Special Variable Rate Water Revenue Refunding Bonds, will be Self-Liquidity Bonds.

Liquidity Supported Bonds. The interest rates for Metropolitan's other variable rate demand obligations, totaling $240.1 million as of June 1, 2015, 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 June 1, 2015.

Liquidity Provider	Bond Issue	Principal Outstanding	Facility Expiration
Wells Fargo Bank, N.A.	2000 Authorization Series B-3	$ 88,800,000	February 2017
	2000 Authorization Series B-4	88,800,000	February 2017*
	Total	$177,600,000	
Barclays Bank PLC	2008 Series A-2	$62,465,000	September 2016
Total		$240,065,000	

Source: Metropolitan.
* The 2000 Authorization Series B-4 bonds are expected to be refunded from the proceeds of the Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A

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, the variable payments that Metropolitan receives from swap counterparties approximate 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 June 1, 2015.

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 June 1, 2015:

FIXED PAYOR SWAPS:

Designation	Notional Amount Outstanding	Swap Counterparty	Fixed Payor Rate	MWD Receives	Maturity Date
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(1)	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	29,057,500	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 THE NINE MONTHS ENDED MARCH 31, 2014 and 2013 (UNAUDITED)."

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 March 31, 2015, 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 $96 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 March 31, 2015, 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, which are 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 June 1, 2015, 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 plans to call the 2012 Series E-2 Bonds on their Call Protection Date, of July 1, 2015, and refund the Bonds with a portion of the proceeds of the 2015 Series A, Special Variable Rate Water Revenue Refunding 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 June 1, 2015, the principal balance outstanding was $10.7 million.

General Obligation Bonds

As of June 1, 2015, $110,420,000 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.

General Obligation Bonds	Amount Issued[1]	Principal Outstanding
Waterworks General Obligation Refunding Bonds, 2009 Series A	$45,515,000	$33,485,000
Waterworks General Obligation Refunding Bonds, 2010 Series A	39,485,000	27,290,000
Waterworks General Obligation Refunding Bonds, 2014 Series A	49,645,000	49,645,000
Total	$134,645,000	$110,420,000

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.

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 March 31, 2015, 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 XIIIA 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 2014, 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. For fiscal year 2014-15, projections are based on actual financial results through March 2015 and revised projections for the balance of the fiscal year. 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[(1)]
(Dollars in Millions)

Year Ending June 30	Capital Costs	Minimum OMP&R[(2)]	Power Costs[(3)]	Refunds & Credits	Total[(4)]
2015	$157.9	$214.1	$136.5	$(59.1)	$449.4
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. The 2014-15 fiscal year reflects actual financial results through March 2015 and revised projections for the balance of the fiscal year. 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 of allowances for inflation and anticipated construction of additional State Water Project facilities. 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 DWA/CVWD transfers and exchanges) into Metropolitan's service area and to storage programs are as follows: 0.56 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 CRA. 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.

[Remainder of page intentionally left blank.]

Metropolitan Pension Plan Assets
(dollars in billions)

				Funded (Unfunded)		Funded Ratios	
Valuation Date	**Accrued Liability**	**Actuarial Value of Assets**	**Market Value of Assets**	**Actuarial Value**	**Market Value**	**Actuarial Value**	**Market Value**
6/30/13	$1.805	N/A	$1.356	N/A	($0.449)	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.

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 THE NINE MONTHS ENDED MARCH 31, 2015 and 2014 (UNAUDITED)."

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. Changes to assumptions are amortized over a fixed 20-year period. Actuarial gains and losses are amortized over a rolling 15-year period. The most recent actuarial valuation dated June 30, 2013 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.

In September 2013, Metropolitan's Board established an irrevocable OPEB trust fund with an initial deposit of $40.0 million. During fiscal year 2013-14, the Board approved funding of an additional $100.0 million which was deposited into the irrevocable OPEB trust fund. 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 2011-12, 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, for fiscal year 2014-15, actual financial results for the nine-months ending March 31, 2015 and revised projections for the balance of the fiscal year, as reported to the Board in January 2015. Miscellaneous Revenues for fiscal year 2014-15 reflect the projected use of $114.4 million from the Water Management Fund and $20.0 million from the Water Rate Stabilization Fund, to fund a like amount of costs for replenishing storage, purchasing transfers and funding drought response and conservation related programs. Fiscal year 2015-16 reflects the adopted budget for this year. For fiscal years 2016-17 through 2018-19, the projections 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. This includes the projected issuance of $140 million of bonds 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 1.96 million acre-feet in fiscal year 2014-15. Water sales are projected to be 1.75 million acre-feet for each of fiscal years 2015-16 through 2018-19. Rates and charges increased by 1.5 percent on January 1, 2015 and will increase by 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.

[Remainder of page intentionally left blank.]

HISTORICAL AND PROJECTED REVENUES AND EXPENSES[a]
(Dollars in Millions)

	Actual				Projected				
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Water Sales[b]	$996	$1,062	$1,283	$1,485	$1,431	$1,314	$1,338	$1,378	$1,422
Additional Revenue Sources[c]	153	168	173	182	199	199	196	198	202
Total Operating Revenues	1,149	1,230	1,456	1,667	1,630	1,513	1,534	1,576	1,624
O&M, CRA Power and Water Transfer Costs[d]	(531)	(476)	(456)	(512)	(719)	(577)	(587)	(613)	(640)
Total SWC OMP&R and Power Costs[e]	(322)	(316)	(337)	(342)	(319)	(374)	(396)	(408)	(425)
Total Operation and Maintenance	(853)	(792)	(793)	(854)	(1,038)	(951)	(983)	(1,021)	(1.065)
Net Operating Revenues	$ 296	$ 438	$ 663	$ 813	$592	$562	$ 551	$555	$559
Miscellaneous Revenue[f]	74	56	23	19	21	18	18	18	18
Transfer from Reserve Funds[g]	-	-	-	-	134	-	-	-	-
Sales of Hydroelectric Power[h]	22	31	25	15	4	19	20	21	21
Interest on Investments[i]	17	11	(2)	19	18	28	33	32	32
Adjusted Net Operating Revenues[j]	409	536	709	866	769	627	622	626	630
Bonds and Additional Bonds Debt Service[k]	(277)	(297)	(298)	(343)	(280)	(309)	(310)	(313)	(307)
Subordinate Revenue Obligations[l]	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Funds Available from Operations	$ 131	$ 238	$ 410	$ 522	$ 488	$ 317	$ 311	$ 312	$ 322
Bonds and Additional Bonds Debt Service Coverage[m]	1.48	1.81	2.38	2.52	2.75	2.03	2.01	2.00	2.05
Debt Service Coverage on all Obligations[n]	1.47	1.80	2.37	2.51	2.74	2.02	2.00	1.99	2.05
Funds Available from Operations	$ 131	$ 238	$ 410	$ 522	$ 488	$ 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)	(215)	(221)	(200)	(204)	(201)
Total SWC Capital Costs Paid from Current Year Operations	(119)	(112)	(88)	(68)	(53)	(72)	(83)	(84)	(89)
Remaining Funds Available from Operations	(35)	77	262	331	212	16	20	15	23
Fixed Charge Coverage[o]	1.03	1.31	1.83	2.10	2.30	1.64	1.58	1.57	1.59
Property Taxes	88	90	95	95	100	92	94	96	99
General Obligation Bonds Debt Service	(39)	(39)	(40)	(40)	(22)	(23)	(23)	(19)	(14)
SWC Capital Costs Paid from Taxes	(49)	(51)	(55)	(55)	(78)	(69)	(71)	(77)	(85)
Net Funds Available from Current Year[p]	$(35)	$77	$262	$331	$212	$16	$20	$15	$23
PAYGO Funded from Prior Year Revenues						$47	$75	$32	
Use of Water Management Funds Designated in Prior Year Revenues[g]					$(114)				
Use of Water Rate Stabilization Funds Designated in Prior Year Revenues[g]					$ (20)				

Source: Metropolitan.

(Footnotes on next page)

(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 2014-15 include actual financial results for July 2014-March 2015 with revised projections for the balance of the fiscal year.

(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 (in acre-feet) are 1.96 million in fiscal years 2014-15, and 1.75 million for fiscal years 2015-16 through 2018-19. Projections reflect Board adopted rate and charge increases of 1.5 percent, which became 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) For Fiscal Year 2014-15, reflects transfer of $114.4 million from the Water Management Fund and $20.0 million from the Water Rate Stabilization Fund.

(h) Includes CRA power sales.

(i) 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

(j) 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.

(k) 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 million 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 $33.7 million to an escrow account on May 29, 2014. See "CAPITAL INVESTMENT PLAN—Capital Investment Plan Financing" in this Appendix A.

(l) Consisting of subordinate lien California Safe Drinking Water Revolving Fund Loan debt service.

(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 and additional Bonds (projected)

(n) 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.

(o) 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).

(p) 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, $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, which became 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, $232 million, to a Water Management Fund, which will cover costs associated with replenishing storage, purchasing transfers and funding drought response 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: 1.96 million acre-feet in fiscal year 2014-15, and 1.75 million acre-feet, for each of fiscal years 2015-16 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 CRA and the State Water Project are a substantial part of Metropolitan's overall expenses. Expenditures for electric power for the CRA (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 CRA 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 CRA 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. In calendar year 2014, Metropolitan purchased approximately 527,000 megawatt-hours of additional energy.

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 did incur an obligation in 2014. As of December 31, 2014, Metropolitan has spent approximately $3.3 million on cap and trade compliance instruments, such as allowances and offsets.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS AND THE PAYING AGENT AGREEMENTS

The following is a summary of certain provisions of the Master Resolution and the Nineteenth Supplemental Resolution, together with a summary of certain definitions and provisions of each Paying Agent Agreement. References to the Paying Agent Agreement and the 2015A Bonds in this Summary refer to each Payment Agent Agreement and the 2015A-1 Bonds and the 2015A-2 Bonds, respectively, unless the context is otherwise. 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 Official Statement to the extent such terms are not otherwise defined in the Official Statement. Terms used in this summary but not defined herein have the meanings specified in the Resolutions or the Paying Agent Agreement, as applicable.

"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 supplemented, including 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.

"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.

"Adjustable Interest Rate" means a rate of interest on any of the 2015A Bonds before the Fixed Rate Date, determined pursuant to the Paying Agent Agreement.

"Alternate Liquidity Facility" means a letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement providing for the purchase of the 2015A Bonds tendered pursuant to any optional or mandatory tender that Metropolitan delivers to the Paying Agent pursuant to the provisions of the Paying Agent Agreement in substitution of any Liquidity Facility then in effect, including any renewal or extension of the term thereof, as each such agreement may be amended, supplemented or otherwise modified from time to time, issued and delivered to the Paying Agent.

"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 2015A Bonds bearing interest in a Weekly Mode, $100,000 and any integral multiple of $5,000 in excess thereof.

"Beneficial Owner" means, wherever used with respect to a 2015A Bond, the person in whose name such 2015A Bond is recorded as the beneficial owner of such 2015A Bond by a Participant on the records of such Participant or such person's subrogee.

"Board" or **"Board of Directors"** means the Board of Directors of Metropolitan.

"Bond Counsel" means a firm of attorneys nationally recognized as experts in the area of municipal finance who are familiar with the transactions contemplated under the Paying Agent Agreement and acceptable to 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 Purchase Contract" means the Bond Purchase Contract between Metropolitan and the underwriter named therein providing for the purchase of the 2015A Bonds.

"Bond Register" means the bond register that the Paying Agent maintains pursuant to the Paying Agent Agreement.

"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 Master Resolution.

"Business Day" means a day (a) other than a day on which banks located in the City of New York, New York or the cities in which the respective principal offices of the Fiscal Agent, the Paying Agent or the Remarketing Agent are located, are required or authorized by law or executive order to close, and (b) on which the New York Stock Exchange is open.

"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, and the regulations applicable thereto or issued thereunder or any successor statute thereto.

"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 situated in Los Angeles, California; or, solely, for purposes of the presentation of 2015A Bonds for payment, transfer or exchange, the corporate trust operations or agency office designated by the Paying Agent. The Paying Agent may hereafter designate alternate Corporate Trust Offices and any successor Paying Agent shall designate its Corporate Trust Office by written notice delivered to the Notice Parties.

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

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

"Daily Mode" means an Interest Mode in which the interest rate payable with respect to the 2015A Bonds is determined on each Business Day by the Remarketing Agent pursuant to the Paying Agent Agreement.

"District Account" means the account of the Purchase Fund so designated and established under and pursuant to the Paying Agent Agreement.

"District Bond Payments" means all amounts that the Paying Agent receives from Metropolitan as a payment of principal of and interest on any District Bonds. For the avoidance of doubt, any amounts that Metropolitan delivers to the Paying Agent shall only constitute District Bond Payments if Metropolitan identifies such amounts either by Electronic Notice or otherwise as being payments of principal or interest on District Bonds.

"District Bond Rate" means, as to any District Bonds, the applicable Revolving Credit Facility Rate. If no Revolving Credit Facility is in effect, then the District Bond Rate shall be equal to SIFMA. If SIFMA is no longer available, then the District Bond Rate shall equal 2.00%.

"District Bond Received Amounts" means, collectively, all District Bond Payments and District Bond Remarketing Proceeds that the Paying Agent receives.

"District Bond Remarketing Proceeds" means any proceeds that the Paying Agent receives from the remarketing of District Bonds pursuant to the Paying Agent Agreement.

"District Bonds" means Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the Paying Agent Agreement and the 2015A Bonds issued in exchange for and in replacement or substitution thereof; provided, however, that "District Bonds" shall not include any Liquidity Supported Bonds that Metropolitan owns or any Self-Liquidity Bonds that Metropolitan purchases for its own account outside of and other than the purchase of 2015A Bonds tendered pursuant to any optional or mandatory tender as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds."

"DTC" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

"Electronic Notice" means notice through telecopy, facsimile transmission, e-mail or other electronic means of communication.

"EMMA" means the Electronic Municipal Market Access system, a centralized online database operated by the Municipal Securities Rulemaking Board.

"Event of Default" means an Event of Default under the Master Resolution. See "MASTER RESOLUTION – Defaults and Remedies under the Master Resolution" below.

"Excess Earnings Fund" means the Special Variable Rate Water Revenue Refunding Bonds Excess Earnings Fund established for a Series of Variable Rate Refunding Bonds pursuant to the Nineteenth 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 the occurrence of which requires such an opinion, 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 2015A Bonds from gross income for purposes of Federal income taxation or the exemption of interest on the 2015A 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 2015A 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 Nineteenth 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 of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other period as Metropolitan designates as its fiscal year.

"Fixed Interest Rate" means an annual rate of interest payable with respect to the 2015A Bonds from and after the Fixed Rate Date, established by the Remarketing Agent pursuant to the Paying Agent Agreement.

"Fixed Rate Date" means the date on which the annual rate of interest with respect to the 2015A Bonds becomes fixed and determined for the remainder of the term of the 2015A Bonds pursuant to the Paying Agent Agreement.

"Information Services" means, in accordance with then-current guidelines of the Securities and Exchange Commission, one or more bond redemption information services as Metropolitan may designate in a certificate of Metropolitan delivered to the Paying Agent. Unless hereafter otherwise designated by Metropolitan, the Information Services shall be EMMA, a facility of the Municipal Securities Rulemaking Board, at www.emma.msrb.org.

"Interest Accrual Date" means, with respect to any period during which the 2015A Bonds are in a Weekly Mode, the effective date of the change in Interest Mode to the Weekly Mode (or, initially, the date of delivery of the 2015A Bonds) and, thereafter, each Interest Payment Date while the 2015A Bonds are in the Weekly Mode.

"Interest Mode" means, at any time, the mode in which the 2015A Bonds bear interest at an Adjustable Interest Rate and includes the Flexible Index Mode, the Index Mode, the Daily Mode, the Weekly Mode, the Short-Term Mode and the Long Mode.

"Interest Payment Date" means, (i) during such time as the 2015A Bonds bear interest in the Weekly Mode, the first Business Day of each calendar month, commencing August 3, 2015, the effective date of a change in Interest Mode and the date of final maturity of the 2015A Bonds, and (ii) with respect to any District Bonds, the first Business Day of each calendar month.

"Liquidity Facility" means any letter of credit and related reimbursement agreement, line of credit, standby bond purchase agreement or similar agreement which provides for the payment of the Purchase Price of the 2015A Bonds tendered pursuant to any optional or mandatory tender as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds" that Metropolitan delivers to the Paying Agent pursuant to the provisions of the Paying Agent Agreement in connection with a change in the Interest Mode of the 2015A Bonds to a Daily Mode, a Weekly Mode, a Short-Term Mode or a Long Mode or a change in the designation of the 2015A Bonds in any such Interest Mode from Self-Liquidity Bonds to Liquidity Supported Bonds, including any renewal or extension of the term of each such agreement, as each such agreement may be amended, supplemented or otherwise modified from time to time, issued and delivered to the Paying Agent, and upon the issuance of any Alternate Liquidity Facility, such Alternate Liquidity Facility.

"Liquidity Provider" means any issuer or provider of any Liquidity Facility.

"Liquidity Supported Bonds" means with respect to 2015A Bonds bearing interest in the Weekly Mode, the 2015A Bonds bearing interest in such Interest Mode that Metropolitan designates as Liquidity Supported Bonds pursuant to the Paying Agent Agreement.

"Long Mode" means an Interest Mode in which the interest rate payable with respect to the 2015A Bonds is adjusted at the intervals determined by the Remarketing Agent pursuant to the Paying Agent Agreement.

"Mail" means by first-class United States mail, postage prepaid.

"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 (a) with respect to the 2015A Bonds (other than District Bonds) the lesser of 12% per annum or the maximum interest rate permitted by federal law and the laws of the State; *provided, however*, that in no event will the "Maximum Interest Rate" exceed 18%, and (b) with respect to District Bonds, the maximum interest rate permitted by federal law and the laws of the State.

"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.

"Nineteenth Supplemental Resolution" means Resolution 9104 adopted by Metropolitan on December 8, 2009.

"Notice Parties" means Metropolitan, the Fiscal Agent, the Remarketing Agent, the Paying Agent, and the Liquidity Provider, if any.

"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 Master Resolution except (A) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of Metropolitan shall have been discharged in accordance with the Master 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 Master Resolution; and (D) Bonds no longer deemed to be outstanding under

the Master Resolution 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.

"Participant" means the participants of DTC which include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

"Paying Agent" means Wells Fargo Bank, National Association, as appointed under the Paying Agent Agreement, and any successor appointed pursuant the Paying Agent Agreement.

"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.

"Purchase Account" means the account of the Purchase Fund so designated and established under and pursuant to the Paying Agent Agreement.

"Purchase Fund" means the fund so designated and established under and pursuant to the Paying Agent Agreement.

"Purchase Price" means, means, with respect to any 2015A Bonds tendered for purchase pursuant to any optional or mandatory tender as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds," an amount equal to the principal amount of such 2015A Bonds, plus accrued and unpaid interest to the purchase date (unless the purchase date is otherwise an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

"Rating Agencies" means each of Moody's Investors Service (if then rating the 2015A Bonds), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (if then rating the 2015A Bonds) or Fitch, Inc., doing business as Fitch Ratings (if then rating the 2015A 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" means, with respect to 2015A Bonds bearing interest at a Weekly Rate, the Business Day immediately preceding each Interest Payment Date.

"Redemption Date" means the date fixed for the redemption of any 2015A Bonds prior to maturity.

"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 2015A Bond or portion thereof to be redeemed, a price equal to the principal amount of a 2015A Bond or portion thereof, plus premium, if applicable.

"Remarketing Agent" means Wells Fargo Bank, National Association, or any successor appointed pursuant to the Paying Agent Agreement.

"Remarketing Agreement" means, initially, the Remarketing Agreement, dated as of July 1, 2015, between Metropolitan and the Remarketing Agent, relating to the 2015A Bonds as it may be amended, supplemented or otherwise modified from time to time, and, subsequently, any similar agreement between Metropolitan and any successor Remarketing Agent, as any such agreement may be amended, supplemented or otherwise modified from time to time.

"Remarketing Proceeds Account" means the account of the Purchase Fund so designated and established under and pursuant to the Paying Agent Agreement.

"Request" of Metropolitan means a written request signed by an authorized representative of Metropolitan.

"Resolutions" means, collectively, the Master Resolution and the Nineteenth Supplemental Resolution.

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

"Revolving Credit Agreement" means any revolving credit facility or agreement or any other credit facility or agreement with one or more banks or other financial institutions pursuant to which such banks or financial institutions commit to lend a maximum amount that Metropolitan may borrow from time to time for the purpose of providing Metropolitan funds to pay the Purchase Price of any tendered Self-Liquidity Bonds or to reimburse itself for the payment of the Purchase Price of any tendered Self-Liquidity Bonds.

"Revolving Credit Facility Bank" means any bank or financial institution that issues or provides a Revolving Credit Facility.

"Revolving Credit Facility Purchase Source" means, in connection with any purchase of District Bonds by Metropolitan pursuant to the Paying Agent Agreement, any Revolving Credit Facility that Metropolitan identifies in its notification given pursuant to the Paying Agent Agreement as a source of funds Metropolitan used to purchase such District Bonds or to reimburse itself for the purchase of such District Bonds.

"Revolving Credit Facility Purchase Source Bank" means, with respect to any Revolving Credit Facility Purchase Source, the applicable Revolving Credit Facility Bank.

"Revolving Credit Facility Rate" means, with respect to any District Bonds and for any period of determination, the weighted average effective rate of interest accruing during such period of determination on amounts Metropolitan has borrowed under the applicable Revolving Credit Facility Purchase Source. If, on any Business Day, Metropolitan borrows amounts under more than one Revolving Credit Facility Purchase Source to purchase District Bonds pursuant to the Paying Agent Agreement, then the Revolving Credit Facility Rate shall be equal to the weighted average of the effective rates of interest accruing on all such Revolving Credit Facility Purchase Sources with respect to such borrowed amounts.

"Securities Depository" means The Depository Trust Company, 55 Water Street, New York, New York 10041, Facsimile transmission: (212) 855-5004, or any successor agency.

"Self-Liquidity Bonds" means with respect to 2015A Bonds bearing interest in the Weekly Mode, the 2015A Bonds bearing interest in such Mode that Metropolitan designates as Self-Liquidity Bonds pursuant to the Paying Agent Agreement. The 2015A Bonds shall initially be Self-Liquidity Bonds.

"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 Master Resolution.

"Short-Term Mode" means an Interest Mode in which the interest rate payable with respect to the 2015A Bonds is adjusted at the intervals determined by the Remarketing Agent pursuant to the Paying Agent Agreement.

"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 Municipal Bond 7-Day High Grade Index, or if neither the SIFMA Municipal Swap Index nor the S&P Municipal Bond 7-Day High Grade Index is published, a per annum rate equal to 65% of the London InterBank Offered Rate for one-month deposits in U.S. Dollars.

"State" means the State of California.

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

"Supplemental Agreement" means any agreement supplemental to the Paying Agent Agreement that is duly authorized by Metropolitan and entered into by Metropolitan and the Paying Agent in accordance with the provisions of the Paying Agent Agreement.

"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 Variable Rate Refunding Bonds, the Tax and Nonarbitrage Certificate of Metropolitan delivered by Metropolitan in connection with the issuance of such Series of Variable Rate Refunding Bonds.

"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 or the Assistant Treasurer of Metropolitan. As provided in the Master Resolution, the Treasurer may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

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

"Variable Rate Refunding Bonds" means Bonds authorized by the Nineteenth 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 Special Variable Rate Water Revenue Refunding Bonds."

"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.

"Weekly Mode" means an Interest Mode in which the interest rate payable with respect to the 2015A Bonds is determined weekly by the Remarketing Agent pursuant to the Paying Agent Agreement.

"Weekly Rate" means a rate of interest payable with respect to 2015A Bonds in a Weekly Mode established by the Remarketing Agent in accordance with the Paying Agent Agreement.

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 Official 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. The 2015A Bonds are subject to redemption prior to maturity as described in the Official Statement.

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 fifteen (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.

Notice of redemption of 2015A Bonds is required to be given not less than twenty (20) nor more than forty-five (45) days prior to the Redemption Date as described in the Official Statement.

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 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 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.

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 shall issue or incur 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 shall rank and be made on a parity with the payments required to be placed in the Bond Service Fund.

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

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 2015A 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 Resolutions 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% 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, or in regard to matters or questions arising under 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 to add such other terms, conditions and provisions as may be permitted by said act or 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:

(a) by paying or causing to be paid the Bond Obligations of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;

(b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or

(c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

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 Owner 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:

(d) 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

(e) 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 ninety (90) days after written notice from the Owners of 25% 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 ninety (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 ninety (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% in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee shall be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it herein, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is declared to be trustee for the Owners of all Bonds then Outstanding, and is empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the 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% 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% 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 sixty (60) days, the Bondholders' Committee or, if there is none, the Owners of 25% 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.

NINETEENTH SUPPLEMENTAL RESOLUTION

The Nineteenth Supplemental Resolution authorizes the issuance of Variable Rate Refunding Bonds in one or more Series from time to time for the purpose of refunding Bonds issued pursuant to the Master Resolution. The provisions of the Nineteenth Supplemental Resolution include, but are not limited to, the following provisions.

General

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

The terms and conditions of the paying agent agreement relating to any Series of Variable Rate Refunding Bonds may provide (a) that Metropolitan is obligated to pay the purchase price in connection with any tender of Variable Rate Refunding Bonds of such Series, (b) the terms and conditions relating to the security and source of payment for any obligation of Metropolitan to pay such purchase price, and (c) that Metropolitan may change or convert the interest rate mode or determination of the Variable Rate Refunding Bonds of such Series to a different interest rate mode or determination, including, but not limited to, a weekly or daily variable interest rate mode, a commercial paper interest rate mode, a short-term interest rate mode, a long-term interest rate mode or a fixed interest rate mode.

Redemption

Optional Redemption. The Variable Rate 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 Variable Rate Refunding Bonds of any Series which are Term Bonds shall be called before maturity and redeemed at a redemption price equal to the par amount thereof 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.

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

Conditional Notice of Redemption. In addition to the notice requirements for redemption included in the Master Resolution, each such notice may also state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the Redemption Date sufficient money to pay the full Redemption Price of the Variable Rate Refunding Bonds to be redeemed. Upon deposit of sufficient money to pay the full Redemption Price and provision of irrevocable instructions to the Fiscal Agent or Paying Agent to apply such money to the payment of the Redemption Prince and interest with respect to the Variable Rate Refunding Bonds to be redeemed, all liability of Metropolitan in respect of such Variable Rate Refunding Bonds shall be discharged as provided in the Master Resolution.

Reserve Fund

In connection with the issuance of a Series of Variable Rate 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 "Special Variable Rate Water Revenue Refunding Bonds Reserve Fund" and shall bear such additional designation as shall be determined by Metropolitan. Each such reserve fund shall be funded as set forth in the Nineteenth Supplemental Resolution. All amounts held by the Treasurer in the reserve fund established with respect to such Series of Variable Rate Refunding Bonds shall be pledged to secure the payment of the principal of and interest on such Series of Variable Rate Refunding Bonds in accordance with their terms.

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 Variable Rate 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 Variable Rate Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. In the event of any deficiency in a

reserve fund established with respect to a Series of Variable Rate Refunding Bonds, 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 Variable Rate 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 Variable Rate Refunding Bonds in the event moneys in the Bond Service Fund established for such Series are insufficient, or (ii) for the payment of the final principal and interest payment on such Series of Variable Rate Refunding Bonds. Any amounts in the reserve fund established with respect to a Series of Variable Rate Refunding Bonds in excess of the Bond Reserve Requirement for such Series shall be transferred to the Bond Service Fund established for such Series unless otherwise specified in a certificate of Metropolitan.

Metropolitan has determined that the Bond Reserve Requirement for the 2015A Bonds will be established at $0 and no Reserve Fund for the 2015A Bonds will be established or maintained.

Excess Earnings Funds

To ensure proper compliance with the tax covenants contained in the Nineteenth Supplemental Resolution, if required by the related Tax and Nonarbitrage Certificate, Metropolitan shall establish and the Treasurer shall maintain a fund for each Series of Variable Rate Refunding Bonds issued under the Nineteenth 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 "Special Variable Rate 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 Variable Rate Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series shall be held by the Treasurer for the account of Metropolitan in trust for payment to the federal government of the United States of America, and neither Metropolitan nor the Owner of any Variable Rate Refunding Bonds of such Series shall have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund shall be governed by the Nineteenth 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 Variable Rate 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 Variable Rate 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 Nineteenth 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 Variable Rate Refunding Bonds of the related Series shall be entitled to exercise any right or remedy provided to the Owners under the Master Resolution or the Nineteenth Supplemental Resolution on the basis of Metropolitan's failure to observe, or refusal to comply with, such covenants.

Metropolitan's Sale of Variable Rate Refunding Bonds

Unless otherwise specified in the paying agent agreement for such Series of Variable Rate Refunding Bonds, if the paying agent agreement for any Series of Variable Rate Refunding Bonds obligates Metropolitan to purchase Variable Rate Refunding Bonds tendered for purchase by the Owner thereof, then, other than through a remarketing, Metropolitan shall not sell or otherwise dispose of any such Variable Rate Refunding Bonds it purchases from a tendering Owner. Except for any sale through a remarketing, any purported sale by Metropolitan of Variable Rate Refunding Bonds so purchased by Metropolitan from a tendering Owner shall be invalid and void *ab initio*.

PAYING AGENT AGREEMENT

The following is a summary of certain provisions of the Paying Agent Agreement. This summary is not to be considered a full statement of the terms of the Paying Agent Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof.

General

Interest Modes and Changes of Interest Modes. The 2015A Bonds shall initially be issued in the Weekly Mode and shall bear interest at a Weekly Rate until such time as Metropolitan changes the Interest Mode for the 2015A Bonds or converts the 2015A Bonds to a Fixed Interest Rate. Metropolitan may change the Interest Mode of the 2015A Bonds from time to time in accordance with the provisions of the Paying Agent Agreement. If Metropolitan elects to change the Interest Mode on the 2015A Bonds pursuant to the provisions of the Paying Agent Agreement, then Metropolitan shall deliver written direction to the other Notice Parties by registered or certified mail or by Electronic Notice in accordance with the Paying Agent Agreement.

Maximum Interest Rate to Apply in Certain Circumstances. If, while the 2015A Bonds bear interest in the Weekly Mode, the Remarketing Agent for the 2015A Bonds resigns and no successor has been appointed as of the effective date of such resignation, then the 2015A Bonds (other than District Bonds) shall bear interest at the Maximum Interest Rate until Metropolitan appoints a successor Remarketing Agent. "District Bonds" means Self-Liquidity Bonds or beneficial interests therein that Metropolitan purchases pursuant to the Paying Agent Agreement and the 2015A Bonds issued in exchange for and in replacement or substitution thereof, subject to certain exceptions.

District Bonds

Any District Bonds shall bear interest at District Bond Rate for the period from the date that Metropolitan shall have purchased such District Bond pursuant to the Paying Agent Agreement and continuing until District Bonds have been remarketed or Metropolitan has otherwise elected not to sell District Bonds. Notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan shall pay all principal and interest on District Bonds to the Paying Agent on the date on which such principal or interest is due and payable in accordance with the wire transfer instructions that the Paying Agent provides Metropolitan before such Interest Payment Date. The Paying Agent shall hold all District Bond Received Amounts in trust for Metropolitan and shall apply all District Bond Received Amounts as provided in the Paying Agent Agreement.

As provided in the Nineteenth Supplemental Resolution, Metropolitan shall not sell, assign or otherwise dispose of any District Bonds other than through a remarketing of District Bonds pursuant to the Paying Agent Agreement; provided, however, that Metropolitan shall be permitted to cancel any District Bonds at any time by surrendering such District Bonds to the Fiscal Agent for cancellation

pursuant to the terms of the Master Resolution. District Bonds and the Bond Register maintained by the Paying Agent shall be noted indicating the requirement of such prohibition.

Creation of Purchase Fund

The Paying Agent shall establish and maintain a separate segregated trust fund designated as the Purchase Fund containing a Remarketing Proceeds Account, a Purchase Account and a District Account. Metropolitan shall purchase 2015A Bonds from the Owners thereof tendered for purchase pursuant to any optional or mandatory tender as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds" on the applicable purchase date therefor and at the Purchase Price from the following sources in the order of priority indicated:

(i) proceeds of the sale of such 2015A Bonds remarketed to any person and furnished to the Paying Agent by the Remarketing Agent for deposit into the Remarketing Proceeds Account of the Purchase Fund;

(ii) solely with respect to Liquidity Supported Bonds, moneys furnished by or at the direction of the Paying Agent for deposit into the Purchase Account of the Purchase Fund representing moneys received from any Liquidity Provider pursuant to the Liquidity Facility then in effect; and

(iii) solely with respect to Self-Liquidity Bonds, moneys furnished by or at the direction of Metropolitan to the Paying Agent for deposit into the District Account of the Purchase Fund.

Liquidity Supported Bonds and Self-Liquidity Bonds

Designation and Consequences of 2015A Bonds as Liquidity Supported Bonds or Self-Liquidity Bonds. While the 2015A Bonds bear interest in the Weekly Mode, such 2015A Bonds are Variable Rate Demand Bonds under the Nineteenth Supplemental Indenture. Metropolitan shall designate all 2015A Bonds bearing interest in the Weekly Mode to be either Self-Liquidity Bonds or Liquidity Supported Bonds. Upon the date of delivery of the 2015A Bonds in the Weekly Mode, Metropolitan has initially designated the 2015A Bonds to be Self-Liquidity Bonds. The 2015A Bonds shall continue to be Self-Liquidity Bonds unless and until (i) Metropolitan changes the 2015A Bonds to Liquidity Supported Bonds either as provided in the Paying Agent Agreement for such change in designation or in connection with a change in the Interest Mode on the 2015A Bonds to the Daily Mode, Short-Term Mode or Long Mode, or (ii) Metropolitan changes the Interest Mode of the 2015A Bonds to the Flexible Index Mode or the Index Mode, or (iii) Metropolitan converts the interest rate on the 2015A Bonds to a Fixed Interest Rate. In connection with any change in the Interest Mode of the 2015A Bonds to the Daily Mode, Weekly Mode (from a subsequent different Interest Mode), Short-Term Mode or Long Mode, Metropolitan shall designate the 2015A Bonds either as Liquidity Supported Bonds or as Self-Liquidity Bonds in the written direction required to be delivered by Metropolitan in order to effect such change in Interest Mode.

Self-Liquidity Bonds. While 2015A Bonds bear interest in the Weekly Mode and are Self-Liquidity Bonds:

(i) Metropolitan shall be irrevocably committed and obligated to pay the Purchase Price of all 2015A Bonds tendered as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds;"

(ii) The 2015A Bonds shall not be subject to the provisions of the Paying Agent Agreement described under "Liquidity Facilities and Alternate Liquidity Facilities" below; and

(iii) The 2015A Bonds shall be subject to the provisions of the Paying Agent Agreement described under "Provisions Applicable to Self-Liquidity Bonds" below.

Liquidity Supported Bonds. With respect to any 2015A Bonds bearing interest in the Weekly Mode that are hereafter designated to be Liquidity Supported Bonds:

(i) Metropolitan shall have no liability to purchase Liquidity Supported Bonds tendered as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds" from any of its assets other than amounts from the sources described in clauses (i) and (ii) under "Creation of Purchase Fund" above; and

(ii) The 2015A Bonds shall be subject to the provisions of the Paying Agent Agreement described under "Liquidity Facilities and Alternate Liquidity Facilities" below.

Provisions Applicable to Self-Liquidity Bonds

Special Limited Obligation. The obligation of Metropolitan to pay the Purchase Price of Self-Liquidity Bonds tendered pursuant to any optional or mandatory tender as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds" is an unsecured, special limited obligation of Metropolitan and shall be payable solely from the Net Operating Revenues or, at the option of Metropolitan, from amounts borrowed under a Revolving Credit Facility as described below.

District Notification of Revolving Credit Facility. Upon the execution and delivery by Metropolitan of any Revolving Credit Facility, Metropolitan shall deliver to the Paying Agent written notification by Electronic Notice or by Mail that states (A) that Metropolitan has executed and delivered a Revolving Credit Facility, (B) the aggregate principal amount that Metropolitan may borrow under the Revolving Credit Facility, and (C) the identity of the related Revolving Credit Facility Bank.

Notification of Amounts Borrowed Under the Revolving Credit Facility. No later than one (1) Business Day following the purchase by Metropolitan of any District Bonds, Metropolitan shall deliver to the Paying Agent written notification by Electronic Notice or by Mail stating (A) whether Metropolitan borrowed any amounts under any Revolving Credit Facility to purchase the District Bonds or to reimburse itself for the purchase of any District Bonds, (B) the identity of each such Revolving Credit Facility, if there are currently more than one Revolving Credit Facility in effect, (C) the amounts Metropolitan so borrowed under each such Revolving Credit Facility, if any, (D) any indices, spreads or other methods by which the Revolving Credit Facility Rate is calculated under such Revolving Credit Facility, and (E) the current wire transfer instructions for payments of principal and interest under each such Revolving Credit Facility. If during any time that Metropolitan owns District Bonds the applicable Revolving Credit Facility Purchase Source Bank delivers notification to Metropolitan that the wire transfer instructions for payments of principal and interest under the Revolving Credit Facility Purchase Source have changed, Metropolitan shall promptly deliver to the Paying Agent by Electronic Notice or by Mail such changed wire transfer instructions.

Monthly Reports. On the first Business Day of each calendar month during such time as Metropolitan owns any District Bonds, Metropolitan shall deliver to the Paying Agent by Electronic Notice or by Mail a report ("Monthly Report") that specifies (A) the amount currently outstanding under

each Revolving Credit Facility, (B) with respect to each purchase of District Bonds, the applicable Revolving Credit Facility Rate in effect during the immediately preceding calendar month, and (C) the amount of interest that accrued on each Revolving Credit Facility during the immediately preceding calendar month.

Payments on and Receipt of Funds in respect of District Bonds. The Paying Agent shall segregate and hold in trust for the benefit of Metropolitan any and all District Bond Received Amounts. The Paying Agent shall apply all District Bond Received Amounts as described below.

Payments on the District Bonds. On the Business Day that the Paying Agent receives any District Bond Received Amounts with respect to any District Bond, the Paying Agent shall disburse such amounts as follows:

first, for the payment of principal and interest under the applicable Revolving Credit Facility Purchase Source and, in the case of multiple applicable Revolving Credit Facility Purchase Sources, for the payment of principal and interest under such applicable Revolving Credit Facility Purchase Sources in the amounts specified by Metropolitan to the Paying Agent by Electronic Notice or, if Metropolitan does not so specify, *pro rata*, based on the amount Metropolitan borrowed under the applicable Revolving Credit Facility Purchase Sources to purchase such District Bond, in each case, until no amounts of principal or interest remain outstanding under all applicable Revolving Credit Facility Purchase Sources;

second, for the payment of principal and interest under any Revolving Credit Facilities other than the Revolving Credit Facility Purchase Sources and, in the case of multiple such Revolving Credit Facilities, for the payment of principal and interest under such Revolving Credit Facilities in the amounts specified by Metropolitan to the Paying Agent by Electronic Notice or, if Metropolitan does not so specify, *pro rata*, based on the principal amount outstanding under such Revolving Credit Facilities, until no amounts of principal or interest remain outstanding under all such Revolving Credit Facilities; and

third, to Metropolitan.

No Requirement to Secure or Maintain Revolving Credit Facility. Notwithstanding anything contained in the Paying Agent Agreement, the terms and provisions of the Paying Agent Agreement impose no requirement on Metropolitan to secure or maintain any Revolving Credit Facility.

Change of 2015A Bonds from Self-Liquidity Bonds to Liquidity Supported Bonds

With respect to any 2015A Bonds bearing interest in the Weekly Mode that are at that time designated as Self Liquidity Bonds, Metropolitan may elect to change the 2015A Bonds from Self-Liquidity Bonds to Liquidity Supported Bonds by delivering a written direction to the other Notice Parties not later than fifteen (15) days before the effective date of the change to Liquidity Supported Bonds. The effective date of the change to Liquidity Supported Bonds shall be a Business Day. The written direction of Metropolitan shall specify (1) the effective date of the change to Liquidity Supported Bonds, and (2) if applicable, the date of delivery for the 2015A Bonds to be purchased (if other than the effective date). In addition, together with any such written direction, Metropolitan shall include a form of notice that the Paying Agent is required to give to the Owners of the 2015A Bonds as provided in the Paying Agent Agreement. From and after the effective date of the change to Liquidity Supported Bonds, the 2015A Bonds shall be Liquidity Supported Bonds unless and until (a) Metropolitan changes the 2015A Bonds to Self-Liquidity Bonds, (b) Metropolitan changes the Interest Mode for the 2015A Bonds to the Flexible Index Mode or the Index Mode or (c) the Fixed Rate Date.

The Paying Agent shall give notice by Mail to the Owners of the 2015A Bonds (or, if the 2015A Bonds are then book-entry bonds, then to DTC by Mail or by Electronic Notice), together with such additional notice required to be given as provided in the Paying Agent Agreement, of a change to Liquidity Supported Bonds not less than ten (10) days before the effective date of the change. The notice shall state (i) the effective date of the change to Liquidity Supported Bonds, (ii) the name of the new Liquidity Provider, (iii) specify the short-term and long-term ratings, if any, to be applicable to the 2015A Bonds after the effective date of the Liquidity Facility, and (iv) if applicable, that the 2015A Bonds are subject to mandatory tender for purchase on such effective date, setting forth the applicable Purchase Price.

Change of 2015A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds

With respect to any 2015A Bonds bearing interest in the Weekly Mode that are at that time designated as Liquidity Supported Bonds, Metropolitan may elect to change the 2015A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds by delivering a written direction to the other Notice Parties not later than fifteen (15) days before the effective date of the change to Self-Liquidity Bonds. The effective date of the change to Self-Liquidity Bonds shall be a Business Day. The written direction of Metropolitan shall specify (1) the effective date of the change to Self-Liquidity Bonds, and (2) if applicable, the date of delivery for the 2015A Bonds to be purchased (if other than the effective date). In addition, together with any such written direction, Metropolitan shall include a form of notice that the Paying Agent is required to give to the Owners of the 2015A Bonds as provided in the Paying Agent Agreement. From and after the effective date of the change to Self-Liquidity Bonds, the 2015A Bonds shall be Self-Liquidity Bonds unless and until (a) Metropolitan changes the 2015A Bonds to Liquidity Supported Bonds, (b) Metropolitan changes the Interest Mode for the 2015A Bonds to the Flexible Index Mode or the Index Mode or (c) the Fixed Rate Date.

If Metropolitan elects to change 2015A Bonds in the Weekly Mode from Liquidity Supported Bonds to Self-Liquidity Bonds, then on or before the effective date of the change Metropolitan shall cause to be provided to the other Notice Parties written confirmation from each of the Rating Agencies that after giving effect to such change each Rating Agency will assign a short-term rating to the 2015A Bonds in the highest short-term ratings category (without regard to subcategories). If Metropolitan fails to deliver such written confirmation from each of the Rating Agencies, then the 2015A Bonds shall not change from Liquidity Supported Bonds to Self-Liquidity Bonds. If notice of such change has been given to the Owners of the 2015A Bonds as provided in the Paying Agent Agreement and Metropolitan shall fail to deliver such written confirmation, then the 2015A Bonds shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of such change; provided, however, that, notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan shall have no liability or obligation to pay the Purchase Price of 2015A Bonds so tendered.

The Paying Agent shall give notice by Mail to the Owners of the 2015A Bonds (or, if the 2015A Bonds are then book-entry bonds, then to DTC by Mail or by Electronic Notice), together with such additional notice required to be given as provided in the Paying Agent Agreement, of a change to Self-Liquidity Bonds not less than ten (10) days before the effective date of the change. The notice shall state (i) the effective date of the change from Liquidity Supported Bonds to Self-Liquidity Bonds, and (ii) if applicable, that the 2015A Bonds are subject to mandatory tender for purchase on such effective date, setting forth the applicable Purchase Price.

Liquidity Facilities and Alternate Liquidity Facilities

On the effective date of the change in the designation of the 2015A Bonds from Self-Liquidity Bonds to Liquidity Supported Bonds (either in accordance with Metropolitan's election or in connection

with a change in the Interest Mode of the 2015A Bonds to the Daily Mode, Short-Term Mode or Long Mode), Metropolitan shall cause to be executed and delivered a Liquidity Facility providing for the purchase of 2015A Bonds tendered pursuant to an optional or mandatory tender as described in the Official Statement under the caption "DESCRIPTION OF THE 2015A BONDS – Tender and Purchase of the 2015A Bonds." In connection with the execution and delivery of a Liquidity Facility, Metropolitan shall satisfy all of the conditions set forth in the Paying Agent Agreement. Notwithstanding the foregoing, any Liquidity Facility (and any Alternate Liquidity Facility) may provide for conditions under which the Liquidity Provider's obligation to purchase 2015A Bonds are automatically terminated or suspended. Metropolitan has directed the Paying Agent to take such actions under any Liquidity Facility then in effect as may be required to cause the Liquidity Provider to purchase tendered 2015A Bonds for which there are not sufficient remarketing proceeds from the sale of such 2015A Bonds to purchase such tendered 2015A Bonds. During any Flexible Index Mode or Index Mode or at any time on or after the Fixed Rate Date, Metropolitan shall have no obligation to provide or to maintain a Liquidity Facility. Further, Metropolitan shall have no obligation to provide or maintain a Liquidity Facility for the 2015A Bonds during any Daily Mode, Weekly Mode, Short-Term Mode or Long Mode in which the 2015A Bonds have been designated as Self-Liquidity Bonds.

At any time during which any Liquidity Facility is in force and effect, Metropolitan may deliver an Alternate Liquidity Facility satisfying the requirements set forth in the Paying Agent Agreement; provided, however, that Metropolitan shall deliver any Alternate Liquidity Facility no later than five (5) days before the scheduled expiration date of the Liquidity Facility then in effect. In connection with the execution and delivery of an Alternate Liquidity Facility, Metropolitan shall satisfy all of the conditions set forth in the Paying Agent Agreement.

If during any period in which the 2015A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode, (i) Metropolitan changes the designation of the 2015A Bonds from Liquidity Supported Bonds to Self-Liquidity Bonds (either in accordance with Metropolitan's election or in connection with a change in the Interest Mode of the 2015A Bonds), (ii) Metropolitan delivers an Alternate Liquidity Facility and otherwise satisfies the requirements of the Paying Agent Agreement, or (iii) Metropolitan converts the 2015A Bonds to a Fixed Interest Rate, then the Paying Agent shall surrender the Liquidity Facility previously in effect on the effective date of the change, the Alternate Liquidity Facility or the conversion, as applicable; *provided, however*, that if the 2015A Bonds are subject to mandatory tender for purchase under the Paying Agent Agreement upon such change or upon the effectiveness of such Alternate Liquidity Facility, then the Paying Agent shall surrender such Liquidity Facility only after the Purchase Price of all 2015A Bonds tendered on such date has been fully paid. The Paying Agent shall comply with the procedure set forth in the Liquidity Facility relating to the termination thereof.

Conditions to the Effectiveness of Liquidity Facilities and Alternate Liquidity Facilities

If (a) in connection with a change in the Interest Mode for the 2015A Bonds to the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode, or (b) at any time while the 2015A Bonds bear interest in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode and are designated as Liquidity Supported Bonds, or (c) upon a change in the then applicable designation of 2015A Bonds in the Daily Mode, Weekly Mode, Short-Term Mode or Long Mode from Self-Liquidity Bonds to Liquidity Supported Bonds, there shall be delivered to the Paying Agent:

(i) a Liquidity Facility or an Alternate Liquidity Facility covering the 2015A Bonds which shall contain administrative provisions reasonably satisfactory to the Paying Agent;

(ii) a Favorable Opinion of Bond Counsel;

(iii) an opinion of counsel satisfactory to the Remarketing Agent to the effect that such Liquidity Facility or such Alternate Liquidity Facility is a valid and enforceable obligation of the proposed Liquidity Provider thereof;

(iv) an opinion of Bond Counsel addressed to the Paying Agent and Remarketing Agent that no registration of the Bonds is required under the Securities Act of 1933, as amended (the "1933 Act"), and no qualification of the Paying Agent Agreement under the Trust Indenture Act of 1939, as amended (the "TIA"), is required in connection with the delivery of such Liquidity Facility or such Alternate Liquidity Facility (provided, that Bond Counsel shall not be required to deliver any opinion with respect to the applicability of the 1933 Act and the TIA to the Liquidity Facility or the Alternate Liquidity Facility);

(v) an opinion of counsel to the proposed Liquidity Provider addressed to the Paying Agent and the Remarketing Agent that no registration of such Liquidity Facility or such Alternate Liquidity Facility is required under the 1933 Act, and no qualification of the Paying Agent Agreement under the TIA is required in connection with the delivery of such Liquidity Facility or such Alternate Liquidity Facility; and

(vi) all information required to give the notice by the Paying Agent to the Owners required by the Paying Agent Agreement;

then the Paying Agent shall accept such Liquidity Facility or such Alternate Liquidity Facility.

In lieu of the opinions required as set forth above, there may be delivered an opinion of counsel reasonably satisfactory to Metropolitan to the effect that either (a) at all times during the term of the Liquidity Facility or the Alternate Liquidity Facility, the 2015A Bonds will be offered, sold and held by Owners in transactions not constituting a public offering of the 2015A Bonds or the Alternate Liquidity Facility under the 1933 Act, and accordingly neither the registration of the 2015A Bonds under the 1933 Act nor the qualification of an indenture in respect thereof under the TIA, will be required in connection with the execution and delivery of the Liquidity Facility or the Alternate Liquidity Facility or the remarketing of the 2015A Bonds with the benefits thereof, or (b) the obligation of the Liquidity Provider under the Liquidity Facility or the Alternate Liquidity Facility has been registered under the 1933 Act, and any indenture required to be qualified with respect thereto under the TIA has been so qualified, and accordingly neither the registration of the 2015A Bonds under the 1933 Act nor the qualification of an indenture in respect thereof under TIA will be required in connection with the issuance of such Liquidity Facility or such Alternate Liquidity Facility or the remarketing of the 2015A Bonds with the benefits thereof.

Qualifications of Remarketing Agent and Paying Agent; Resignation; Removal

The Remarketing Agent shall be a member of the Financial Industry Regulatory Authority, Inc., or a bank dealer regulated by the Office of the Comptroller of the Currency and shall have a combined capital stock, surplus and undivided profits of at least $10,000,000 and authorized by law to perform all the duties that the Paying Agent Agreement imposes on it. The Remarketing Agent may at any time resign and be discharged of its duties and obligations under the Paying Agent Agreement by giving notice to Metropolitan, the Fiscal Agent, the Paying Agent and the Liquidity Provider, if any. Such resignation shall take effect on the sixtieth (60th) day after the receipt by Metropolitan of the notice of resignation. Metropolitan may remove the Remarketing Agent for any reason upon thirty (30) days' written notice to the Remarketing Agent and the other Notice Parties*; provided, however*, if the Remarketing Agent is in default under the Remarketing Agreement, Metropolitan may immediately remove the Remarketing Agent at any time by giving written notice to the Remarketing Agent and the other Notice Parties.

Paying Agent

Appointment. Metropolitan shall appoint any successor Paying Agent for the Bonds, subject to the conditions set forth below. Each successor Paying Agent shall designate its Corporate Trust Office(s) for delivery of notices and delivery of 2015A Bonds and signify its acceptance of the duties and obligations imposed upon it under the Paying Agent Agreement by a written instrument of acceptance delivered to the Fiscal Agent, Metropolitan, the Liquidity Provider, if any, and the Remarketing Agent. By acceptance of its appointment under the Paying Agent Agreement, the Paying Agent agrees:

(a) to hold all 2015A Bonds tendered to it pursuant to any optional or mandatory tender, as agent and bailee of, and in escrow for the benefit of, the respective Owners which shall have so delivered such 2015A Bonds until moneys representing the Purchase Price of such 2015A Bonds and shall have been delivered to or for the account of or to the order of such Owners;

(b) to establish and maintain a separate segregated trust fund designated as the "Purchase Fund" containing a Remarketing Proceeds Account, a Purchase Account and a District Account until such time as it has been discharged from its duties as Paying Agent under the Paying Agent Agreement;

(c) to hold all moneys (without investment or commingling thereof delivered to it under the Paying Agent Agreement in the Purchase Fund for the purchase of the 2015A Bonds pursuant to any optional or mandatory tender, as agent and bailee of, and in escrow for the benefit of, the person or entity which shall have so delivered such moneys until the 2015A Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(d) to hold all moneys that Metropolitan delivers to the Paying Agent pursuant to the Paying Agent Agreement, for the purchase of 2015A Bonds pursuant to any optional or mandatory tender, as agent and bailee of, and in escrow for the benefit of, the Owners or former Owners who shall tender 2015A Bonds to it for purchase until Owners of the tendered 2015A Bonds purchased with such moneys shall have been delivered to or for the account of Liquidity Provider;

(e) to establish and maintain a separate segregated trust fund designated as the "Redemption Fund" to hold and invest moneys for the redemption of the 2015A Bonds pursuant to the Paying Agent Agreement until such time as it has been discharged from its duties as Paying Agent under the Paying Agent Agreement;

(f) to establish and maintain such additional funds and accounts as may be necessary in its judgment to carry out its duties and responsibilities under the Paying Agent Agreement;

(g) to hold all 2015A Bonds registered in the name of the new Owners thereof for delivery to the Remarketing Agent; and

(h) to keep such books and records as shall be consistent with prudent corporate trust industry practice and to make such books and records available for inspection by Metropolitan, the Fiscal Agent, the Liquidity Provider, if any, and the Remarketing Agent at all reasonable times.

Metropolitan shall cooperate with the Paying Agent to cause the necessary arrangements to be made and to be thereafter continued to enable the Paying Agent to perform its duties and obligations described above. The Paying Agent undertakes to perform such duties and only such duties as are specifically set forth in the Paying Agent Agreement.

Qualifications of Paying Agent. The Paying Agent shall be a banking association or corporation with trust powers duly organized under the laws of the United States of America or any state or territory thereof, and authorized by law to perform all the duties imposed upon it by the Paying Agent Agreement, having a combined capital (exclusive of borrowed capital) and surplus of at least $100,000,000 and shall be subject to supervision or examination by a federal or State banking authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Paying Agent Agreement, the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published. Notwithstanding the foregoing, a bank or trust company which does not have a combined capital and surplus of at least $100,000,000 may become a Paying Agent under the Paying Agent Agreement if its obligations thereunder are guaranteed by an affiliate which meets the qualifications of a Paying Agent thereunder and such guaranty is acceptable in form and substance to Metropolitan.

Compensation of Paying Agent. Subject to the terms of any compensation agreement, Metropolitan shall from time to time, on demand, pay to the Paying Agent reasonable compensation for its services and shall reimburse the Paying Agent for all its advances and expenditures, including but not limited to advances to and reasonable fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties under the Paying Agent Agreement; provided that the fees of the initial Paying Agent shall be paid in accordance with the Paying Agent Agreement.

Removal of Paying Agent. Metropolitan may, so long as no Event of Default has occurred and is continuing, upon thirty (30) days' notice to the Paying Agent, or the Owners of a majority of the 2015A Bonds Outstanding may by written request at any time upon thirty (30) days' notice to Metropolitan and the Paying Agent and for any reason, remove the Paying Agent and any successor thereto, and Metropolitan shall thereupon appoint a successor or successors thereto, subject to the qualifications set forth in the Paying Agent Agreement. Any removal of the Paying Agent shall become effective upon acceptance of appointment by the successor Paying Agent and the transfer of any Liquidity Facility. Upon the effective date of removal of the Paying Agent, the Paying Agent shall deliver any 2015A Bonds and moneys held by it in such capacity to its successor.

Resignation of Paying Agent. The Paying Agent or any successor may at any time resign by giving at least sixty (60) days' written notice to Metropolitan, the Fiscal Agent, any Liquidity Provider and the Remarketing Agent, and by giving notice by Mail to the Owners of its intention to resign and of the proposed date of resignation. Upon receiving such notice of resignation, Metropolitan shall promptly appoint a successor Paying Agent by an instrument in writing; *provided, however*, that in the event Metropolitan fails to appoint a successor Paying Agent within forty-five (45) days following receipt of such written notice of resignation, the resigning Paying Agent may petition the appropriate court having jurisdiction to appoint a successor paying agent. Any resignation of the Paying Agent shall become effective upon acceptance of appointment by the successor Paying Agent and the transfer of any Liquidity Facility. Upon the effective date of resignation of the Paying Agent, the Paying Agent shall deliver any 2015A Bonds and moneys and all books and records related to the 2015A Bonds, including without limitation the books and records described in the Paying Agent Agreement, held by it in such capacity to its successor.

Merger or Consolidation. Any company into which the Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Paying Agent may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under the Paying

Agent Agreement), shall be the successor to the Paying Agent without the execution or filing of any papers or further act, anything in the Paying Agent Agreement to the contrary notwithstanding.

Protection and Rights of the Paying Agent. The Paying Agent shall be protected and shall incur no liability in acting upon or processing in good faith any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Paying Agent Agreement, and the Paying Agent shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Paying Agent may consult with counsel, who may or may not be counsel to Metropolitan, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it in good faith reliance thereon; provided, however, the Paying Agent shall receive Metropolitan's prior written consent (which consent shall not be unreasonably withheld) prior to incurring legal fees and expenses estimated in good faith in excess of $2,500.

The Paying Agent shall not be liable for any error in judgment made by a responsible officer of the Paying Agent, unless it shall be proved that the Paying Agent was negligent in ascertaining the pertinent facts. The Paying Agent shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written direction of the Owners of not less than a majority of the Outstanding 2015A Bonds relating to the exercise of any trust or power conferred upon the Paying Agent under the Paying Agent Agreement.

Whenever in the administration of its duties under the Paying Agent Agreement the Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Paying Agent Agreement, such matter (unless other evidence in respect thereof be therein specifically prescribed) shall be deemed to be conclusively proved and established by a certificate of Metropolitan Representative and such certificate shall be full warranty to the Paying Agent for any action taken or suffered under the provisions of the Paying Agent Agreement in good faith reliance thereon, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Paying Agent may become an Owner of 2015A Bonds with the same rights it would have if it were not the Paying Agent; may acquire and dispose of 2015A Bonds or other evidences of indebtedness of Metropolitan and enforce its rights as Owner thereof to the same extent as if it were not the Paying Agent; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of 2015A Bonds, whether or not such committee shall represent the Owners of a majority of the 2015A Bonds Outstanding.

No provision in the Paying Agent Agreement shall require the Paying Agent to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Paying Agent Agreement if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the appointment as Paying Agent under the Paying Agent Agreement, the Paying Agent acts solely as agent for Metropolitan and not in its individual capacity and all persons, including without limitation the Owners and Metropolitan having any claim against the Paying Agent arising from the Paying Agent Agreement shall look only to the funds and accounts held by the Paying Agent under thereunder for payment except as otherwise provided therein. The Paying Agent does not assume any

obligation or relationship of agency or trust for the Owners, except that all funds held by the Paying Agent for the payment of principal of, or premium, if any, or interest on the 2015A Bonds or for the payment of the Purchase Price for the 2015A Bonds shall be held in trust for such Owners as set forth in the Paying Agent Agreement and in the 2015A Bonds. Under no circumstances shall the Paying Agent be liable in its individual capacity for the obligations evidenced by the 2015A Bonds.

The Paying Agent shall not be deemed to have knowledge of any Event of Default unless and until the corporate trust department of the Paying Agent shall have actual knowledge thereof. Upon the occurrence of any Event of Default the Paying Agent shall have no duty or obligation to exercise any right, power or remedy, except as specifically set forth in the Paying Agent Agreement, unless it has been first indemnified to its satisfaction from any costs, liabilities or expenses to be incurred thereby.

The recitals contained in the Paying Agent Agreement and in the 2015A Bonds, except the Paying Agent's certificates of authentication, shall be taken as the recitals of Metropolitan, and the Paying Agent assumes no responsibility for the correctness of the same or for the accuracy or completeness of any information set forth or required to be set forth in any offering material, including any Official Statement or other disclosure document, used in connection with the offering for sale or the sale of the 2015A Bonds. The Paying Agent shall not be accountable for the use or application by Metropolitan or any other person of any funds which the Paying Agent has released under the Paying Agent Agreement.

The Paying Agent (i) may execute any of the trusts or powers and perform the duties required of it under the Paying Agent Agreement by or through attorneys, agents or receivers, (ii) shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Paying Agent Agreement and rely conclusively on such advice, and (iii) the Paying Agent shall not be answerable for the default or misconduct of any such attorney, agent, or receiver selected by it with reasonable care.

Paying Agent to Act as Set Forth in the Paying Agent Agreement. The Paying Agent has the power to receive, to hold and to disburse moneys in accordance with the terms of the Paying Agent Agreement. The Paying Agent has no power to vary, alter or substitute the corpus of any trust created pursuant to the Paying Agent Agreement at any time, except as specifically authorized therein.

Indemnification. To the extent permitted by law, Metropolitan agrees to indemnify and save the Paying Agent harmless from and against all claims, suits and actions brought against it, or to which it is made a party, and from all losses and damages (including the reasonable fees and expenses of counsel) suffered by it as a result thereof, including where and to the extent such claim, suit or action arises out of the actions of any other party to the Paying Agent Agreement, except to the extent such claims arise from the negligence or willful misconduct of the Paying Agent. In the event Metropolitan is required to indemnify the Paying Agent as provided in the Paying Agent Agreement, Metropolitan shall be subrogated to the rights of the Paying Agent to recover such losses or damages from any other person or entity.

Modification or Amendment of Paying Agent Agreement

Amendments Permitted With Consent. The Paying Agent Agreement and the rights and obligations of Metropolitan, the Owners of the 2015A Bonds, the Paying Agent and the Fiscal Agent may be modified or amended from time to time and at any time by the execution and delivery by Metropolitan and the Paying Agent of a Supplemental Agreement so long as the Owners of a majority in aggregate principal amount of the 2015A Bonds then Outstanding consent to such Supplemental Agreement in writing; *provided, however,* that if such modification or amendment will, by its terms, not take effect so long as any 2015A Bonds of any particular maturity remain Outstanding, the consent of the Owners of

such 2015A Bonds shall not be required and such 2015A Bonds shall not be deemed to be Outstanding for the purpose of any calculation of 2015A Bonds Outstanding under the Paying Agent Agreement.

No such modification or amendment shall (a) extend the fixed maturity of any 2015A Bond, or reduce the principal amount thereof, or extend the time of payment, 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 2015A Bond so affected, (b) reduce the aforesaid percentage of principal amount the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the 2015A Bonds then Outstanding, or (c) modify any rights or duties of the Paying Agent or the Fiscal Agent without its consent.

It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Agreement, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery of any Supplemental Agreement, the Paying Agent shall mail a notice provided by Metropolitan, setting forth in general terms the substance of any Supplemental Agreement to the Owners of the 2015A Bonds at the addresses shown on the Bond Register. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Agreement.

Amendments Not Requiring Consent. The Paying Agent Agreement and the rights and obligations of Metropolitan, the Paying Agent, the Fiscal Agent and the Owners of the 2015A Bonds may also be modified or amended from time to time and at any time by a Supplemental Agreement, which Metropolitan and the Paying Agent may execute and deliver without the consent of any Owners but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of Metropolitan in the Paying Agent Agreement thereafter to be observed, to pledge or assign additional security for the 2015A Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon Metropolitan, which in each case shall not materially and adversely affect the interests of the Owners of any of the 2015A Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Paying Agent Agreement, or in regard to matters or questions arising under the Paying Agent Agreement, as Metropolitan may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of any of the 2015A Bonds;

(3) to modify, amend or supplement the Paying Agent Agreement in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of any of the 2015A Bonds;

(4) to maintain the exclusion of interest on the 2015A Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and

(5) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the 2015A Bonds.

Notwithstanding any provision under this caption "Modification or Amendment of the Paying Agent Agreement" to the contrary, any provision or term of the Paying Agent Agreement may be modified or amended without the consent of the Owners of the 2015A Bonds if (a) such amendment becomes effective upon the Mandatory Purchase Date of any mandatory tender for purchase of the 2015A Bonds pursuant to the Paying Agent Agreement, (b) such amendment does not affect the right of the tendering Owners to receive the payment of the Purchase Price payable upon such mandatory tender for purchase of the 2015A Bonds, and (c) the content of the amendment is included in a notice of mandatory tender the Paying Agent delivers to the Owners as set forth in the Paying Agent Agreement.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to the Paying Agent Agreement, the Paying Agent Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Paying Agreement of Metropolitan, the Paying Agent, the Fiscal Agent and all Owners of the 2015A Bonds Outstanding shall thereafter be determined, exercised and enforced under the Paying Agent Agreement subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Paying Agent Agreement for any and all purposes.

Endorsement of 2015A Bonds; Preparation of New 2015A Bonds. 2015A Bonds delivered after any Supplemental Agreement becomes effective pursuant to the Paying Agent Agreement may, and if the Paying Agent so determines shall, bear a notation by endorsement or otherwise in form approved by Metropolitan and the Paying Agent as to any modification or amendment provided for in such Supplemental Agreement, and, in that case, upon demand of the Owner of any 2015A Bond Outstanding at the time of such execution and presentation of their 2015A Bond for such purpose at the Corporate Trust Office of the Paying Agent, a suitable notation shall be made on such 2015A Bond. If a Supplemental Agreement shall so provide, new 2015A Bonds so modified as to conform, in the opinion of Metropolitan and the Paying Agent, to any modification or amendment contained in such Supplemental Agreement, shall be prepared and executed by Metropolitan and authenticated by the Paying Agent, and upon demand of the Owners of any 2015A Bonds then Outstanding shall be exchanged at the Corporate Trust Office of the Paying Agent, without cost to any Owner, for 2015A Bonds then Outstanding, upon surrender for cancellation of such 2015A Bonds, in equal aggregate principal amounts, tenor and maturity.

Amendment of Particular 2015A Bonds. The provisions of the Paying Agent Agreement shall not prevent any Owner from accepting any amendment as to the particular 2015A Bonds held by him, provided that due notation thereof is made on such 2015A Bonds.

Liability of District Limited to Net Operating Revenues

Notwithstanding anything in the Paying Agent Agreement to the contrary, Metropolitan shall not be required to advance any moneys derived from any source other than the Net Operating Revenues for any of the purposes in the Paying Agent Agreement mentioned, whether for the payment of the Purchase Price, principal, or Redemption Price of or interest on the 2015A Bonds or for any other purpose of the Paying Agent Agreement.

No Personal Liability of Metropolitan Officials; Limited Liability of Metropolitan to Owners of 2015A Bonds

No covenant or agreement contained in the 2015A Bonds or in the Paying Agent Agreement shall be deemed to be the covenant or agreement of any present or future official, officer, agent or employee of Metropolitan in his or her individual capacity, and neither the members of the Board of Directors of

Metropolitan nor any person executing the 2015A Bonds shall be liable personally on the 2015A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Except for the payment when due of the payments required under the Paying Agent Agreement and the observance and performance of the other agreements, conditions, covenants and terms required to be performed by it contained in the Paying Agent Agreement, Metropolitan shall not have any obligation or liability to the Owners with respect to the Paying Agent Agreement or the preparation, execution, delivery, transfer, exchange or cancellation of the 2015A Bonds or the receipt, deposit or disbursement of the payments by the Paying Agent, or with respect to the performance by the Paying Agent of any obligation required to be performed by it contained in the Paying Agent Agreement.

Metropolitan shall not have any obligation or liability to the Owners with respect to the Paying Agent Agreement, including, but not limited to, the payment of principal and interest on the 2015A Bonds and the payment of the Purchase Price of any Self-Liquidity Bonds, other than from Net Operating Revenues.

Investment of Amounts Under the Paying Agent Agreement

Moneys held in funds and accounts established pursuant to the Paying Agent Agreement (other than moneys held in the Purchase Fund which shall be held uninvested) shall be invested and reinvested as directed by the Treasurer solely in Authorized Investments and Metropolitan's investment policy then in effect, subject to the restrictions set forth in the Master Resolution and the Paying Agent Agreement and subject to the investment restrictions imposed upon Metropolitan by the laws of the State. The Treasurer shall direct such investments by written certificate or by telephone instruction followed by prompt written confirmation of the Treasurer or an authorized designee. The Paying Agent shall have no responsibility or liability in respect of the selection of any investment made in accordance with the instructions of the Treasurer or the Treasurer's authorized designee.

Investments in any fund or account established pursuant to the Paying Agent Agreement shall be deemed at all times to be a part of such fund or account, and the interest accruing thereon and any profit realized from such investment shall be credited to such fund or account and any loss resulting from such investment shall be charged to such fund or account.

Defeasance

The 2015A Bonds may be defeased in whole or in part upon satisfaction of the provisions of the Master Resolution.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

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 2015A 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 2015A 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 2015A BONDS, IF APPLICABLE; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE 2015A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2015A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2015A Bonds. Each Subseries of 2015A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of each Subseries of 2015A Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to DTC's system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks,

trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Standard & Poor's has rated DTC "AA+." DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*. The information set forth on such website is not incorporated herein by reference.

Purchases of the 2015A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015A 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 2015A 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 2015A Bonds, except in the event that use of the book-entry system for the 2015A Bonds is discontinued.

To facilitate subsequent transfers, all 2015A 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 2015A 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 2015A Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015A 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 2015A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2015A Bonds documents. For example, Beneficial Owners of the 2015A Bonds may wish to ascertain that the nominee holding the 2015A 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 2015A Bonds of like 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 2015A 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 2015A 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 2015A 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 2015A 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.

Metropolitan, the Fiscal Agent and the Underwriter cannot and do not give any assurances that DTC, the DTC Participants or others will distribute payments of principal or interest on the 2015A 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 Underwriter 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 2015A Bonds or for an error or delay relating thereto.

A Beneficial Owner shall give notice to elect to have its 2015A Bonds purchased or tendered, if applicable, through its Direct Participant, to the Paying Agent, and shall effect delivery of such 2015A Bonds by causing the Direct Participant to transfer the Direct Participant's interest in the 2015A Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of 2015A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2015A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2015A Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2015A 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, 2015A 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, 2015A 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 2015A 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 2015A Bonds will be payable as described in this Official Statement under the "DESCRIPTION OF THE 2015A BONDS – General."

APPENDIX E

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION FOR METROPOLITAN'S SERVICE AREA

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 area consisting of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties ("Six County Area"). 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 April 2015 were nearly 3.5 million above the pre-recession peak level, including a gain of over 800,000 manufacturing jobs and 737,000 construction jobs since the recession low. The unemployment rate in the nation has declined from near 9.8% in November 2010 to 5.4% in April 2015.

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 well below 2% annually aided by the decline in oil prices and the Federal Reserve Bank has reaffirmed that it will keep interest rate targets low until the economic outlook warrants a more accommodative monetary policy. The UCLA Anderson Forecast expects that national GDP will increase by 3.2% in 2015 and 3.0% in 2016.

The Six County Area has regained all the jobs lost during the recession and more. Revised job estimates released in March 2015 show that job gains in 2013 and 2014 were much larger than previously reported and higher than the national growth rate. Year-over-year job gains are continuing into 2015 and between April 2014 and April 2015 job growth for the entire Six County Area was 256,800 jobs or a gain of 3.0% compared to a 2.3% increase in jobs for the nation.

Unemployment rates in the Six County Area have declined sharply between 2010 and April 2015. In April 2015 unemployment rates ranged from a low of 4.1% in Orange County to a high of 7.1% in Los Angeles County. Income, taxable sales, assessed valuation and housing prices rose in 2013 and 2014. Residential building permits rebounded in 2013 and 2014 and are up 41% for the first three months of 2015. Nonresidential permit levels reached a record $12.3 billion in 2014 and are up 8% in the first three months of 2015.

The Six County Area is experiencing growth in both domestic and foreign visitors. Hotel rates and occupancy are increasing in the Six County Area and the same is true for employment in the hotel and amusement park sectors. In 2014 Los Angeles County set tourism records in visitors (44.2 million), hotel occupancy rates (78.9%) and average daily rate ($147.30). Foreign travel to the region is outpacing domestic travel with large gains in visitors from China of +20.4% in 2014 to 686,000 visitors.

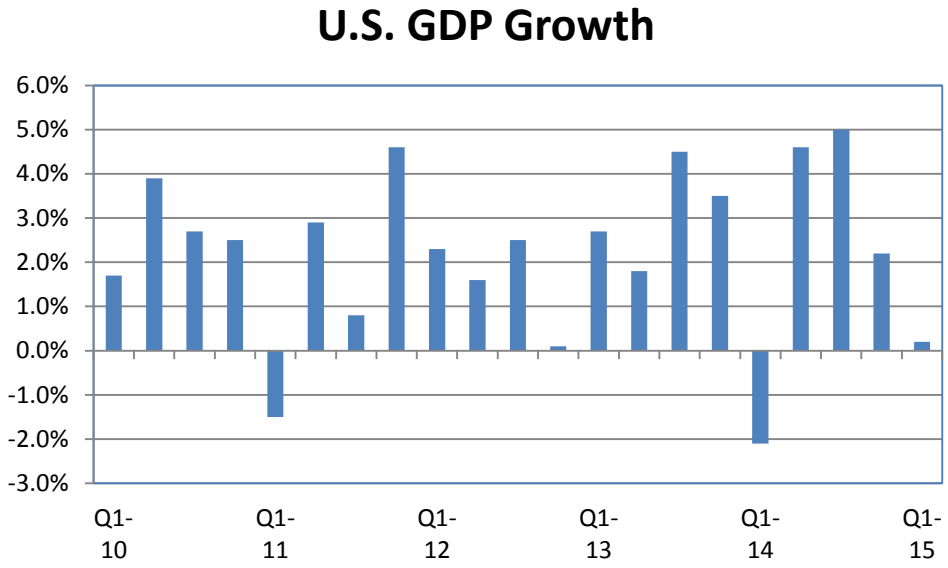
Population growth in the Six County Area since 2010 has exceeded the national average according to both the California Department of Finance ("DOF") estimates and those published by the U.S. Census Bureau. However, population growth in California and the Six County Area has been slowing since 2000 compared with previous decades. The Six County Area added an average of 230,000 residents per year between 2000 and 2005 but only an additional 154,000 residents per year in the next nine years although gains in the past three years have averaged 190,000 residents per year.

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. The challenge is to provide housing sites and approvals so the housing can be built.

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

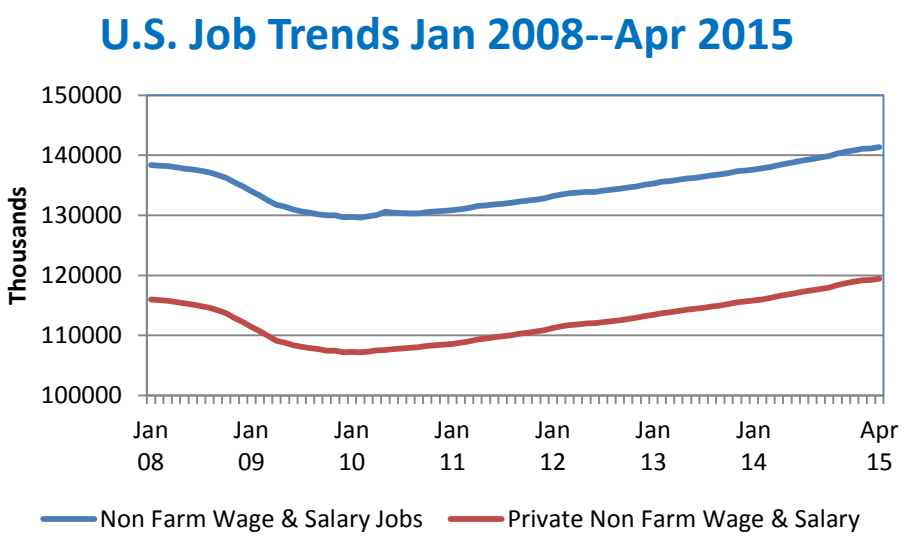
The national economy has expanded since 2009 although at growth rates below the historical average for economic recoveries. GDP increased by 4.6% in the second quarter of 2014 and 5.0% in the third quarter but growth was much slower in the following two quarters. First quarter GDP was weak in both 2014 and 2015 in part due to temporary factors. On the other hand, private sector job levels have increased substantially since March 2010 and the unemployment rate declined to 5.4% in April 2015 and is nearly back to the pre-recession low in unemployment rates.



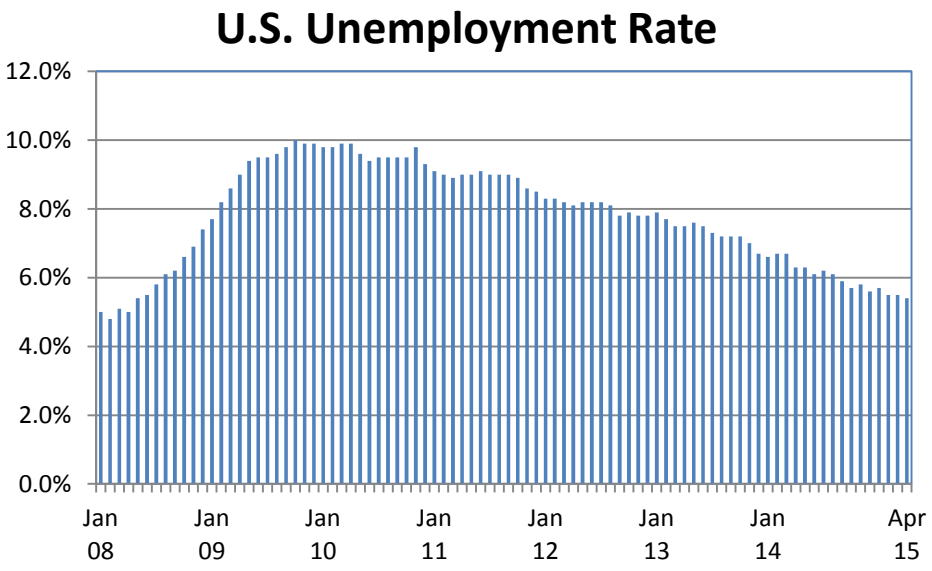
Source: Bureau of Economic Analysis, U.S. Department of Commerce

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 April 2015 totaled 12.3 million including an increase of just over 800,000 manufacturing and 737,000 construction jobs (see figure below). In April 2015, nonfarm wage and salary job levels were 3.0 million above the pre-recession peak, driven by average gains of over 227,000 jobs per month for the preceding 24 months. Private sector nonfarm wage and salary jobs surpassed the prerecession peak by nearly 3.5 million jobs in April 2015, but government sector jobs were still more than 400,000 below the pre-recession peak level.

The unemployment rate in the nation has declined from near 9.8% in November 2010 to 5.4% in April 2015 (see figure below). The last time the unemployment rate was this low was in May 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. The number of people who work part-time but want full-time work and the number of residents unemployed for more than 26 weeks were reduced during the past year but remain above pre-recession levels.



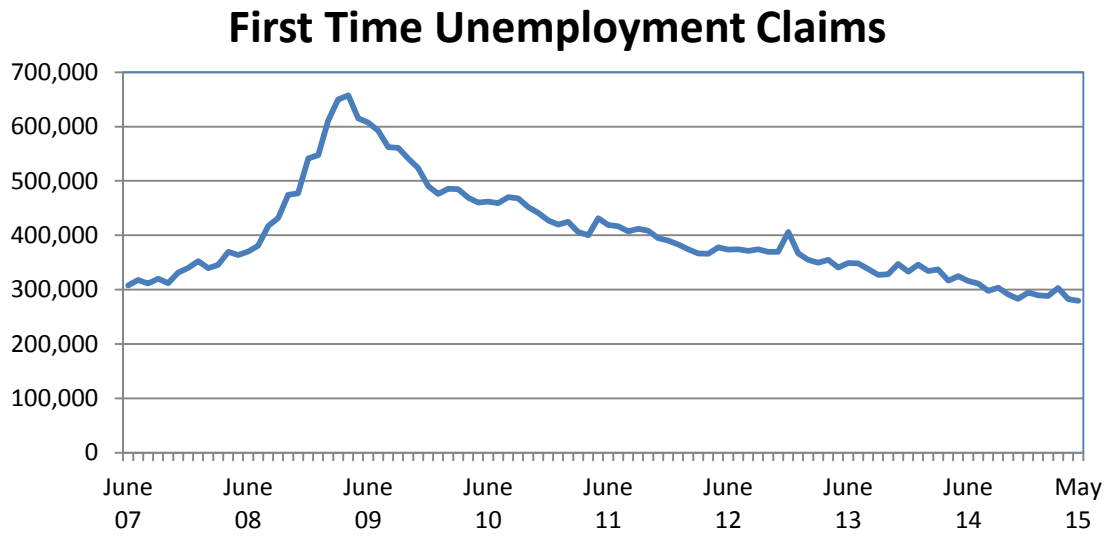
Source: Bureau of Labor Statistics, U.S. Department of Labor



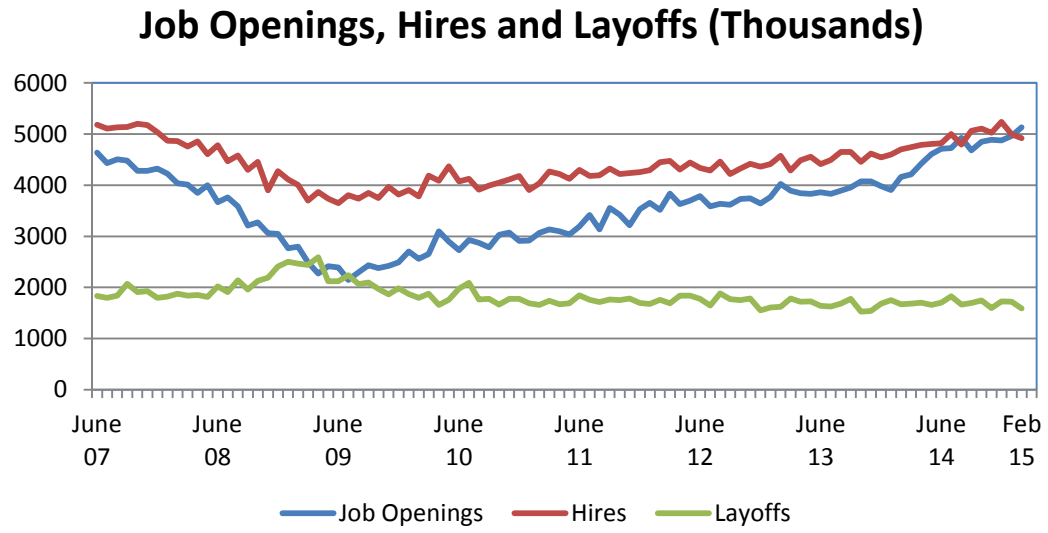
Source: Bureau of Labor Statistics, U.S. Department of Labor

Two other labor market indicators confirm that the job market is continuing to strengthen. 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 May 2, 2015 was 279,500, a level last seen in February 2006.

The number of job openings in February 2015 was over 5.1 million, exceeding the number in June 2007 (see figure below). The number of new hires has been rising steadily and reached 4.9 million in February 2015 but was still slightly less than the 5.2 million new hires in June 2007. The number of layoffs has been fairly steady. In February 2015, there were 1.6 million layoffs, which was below the level in June 2007 (1.8 million).



Source: U.S. Department of Labor



Source: U.S. Department of Labor

Most forecasts for 2015 and 2016 expect stronger, but moderate, GDP growth compared to 2014 and continued moderate job growth. For example, the UCLA Anderson Forecast released in March 2015 forecasts GDP growth of 3.2% in 2015 and 3.0% in 2016, with the national unemployment rate falling to 5.0% in 2016. The Congressional Budget Office forecast published in January 2015 forecasts GDP growth of 2.9% in 2015 and 3.0% in 2016 with the unemployment rate falling to 5.4% in 2016.

There are some positive trends for near term economic growth in addition to the job growth and unemployment trends. The Federal Reserve Bank has not raised the federal funds rate as of May 2015 although a small rate hike later this year is expected. Treasury bond rates and 30-year mortgage rates remain low compared to historical averages. 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. Wage growth has increased slightly and is growing faster than consumer prices. Housing prices are still recovering and foreclosures are back to pre-recession levels in most areas.

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 has regained all the jobs lost during the recession and more. Revised job estimates released in March 2015 show that job gains in 2013 and 2014 were much larger than previously reported. Year-over-year job gains (see the table below) are continuing into 2015 and between April 2014 and April 2015 ranged from a high of 4.1% in Riverside-San Bernardino metro area to a low of 1.2% in Ventura County. Job growth for the entire Six County Area was 256,800 jobs or a gain of 3.0% compared to a 2.2% 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)

	2007	2010	2013	2014	Apr 14	Apr 15	Apr 14-15 % Change
Los Angeles	4,227.4	3,888.4	4,129.8	4,226.4	4,209.1	4,318.7	2.6%
Orange	1,521.0	1,366.0	1,459.4	1,495.9	1,485.5	1,536.0	3.4%
Riverside-San Bernardino	1,286.0	1,144.2	1,231.9	1,285.1	1,278.7	1,330.9	4.1%
San Diego	1,319.7	1,236.4	1,317.8	1,348.0	1,340.0	1,380.9	3.1%
Ventura	297.8	274.6	287.9	293.0	292.6	296.2	1.2%
Total Six County Area	8,651.9	7,909.6	8,426.8	8,648.4	8,605.9	8,862.7	3.0%

Source: California Employment Development Department (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)

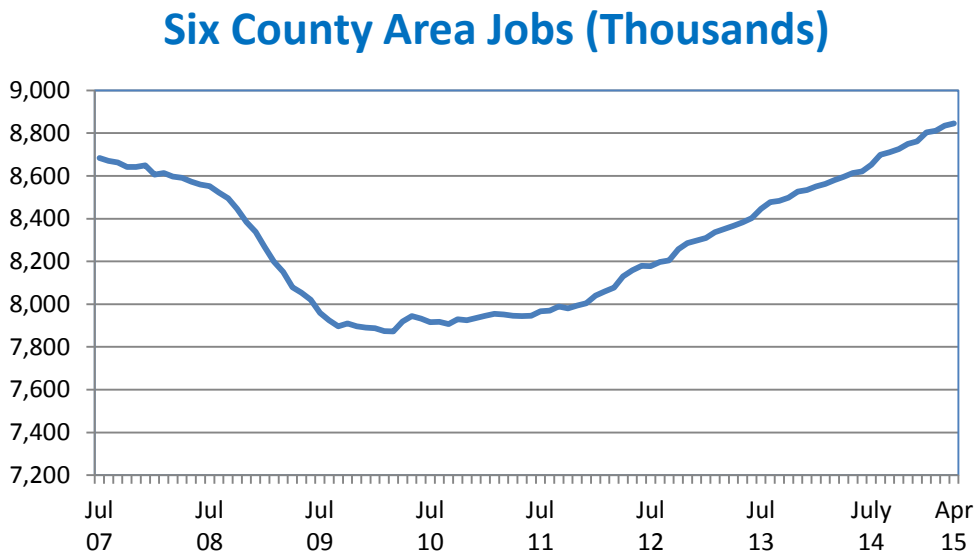
Unemployment rates in the Six County Area have declined sharply between 2010 and April 2015. In April 2015 unemployment rates ranged from a low of 4.1% in Orange County to a high of 7.1% in Los Angeles County. Rates in Orange, San Diego and Ventura counties are now below the national average. In April 2015 the state unemployment rate was 6.3% compared to the U.S. rate of 5.4%. Unemployment rates in the Six County Area in April 2015 remained above 2006 levels.

UNEMPLOYMENT RATES

	2000	2006	2010	2013	2014	Apr 14	Apr 15
Los Angeles County	5.4%	4.8%	12.5%	9.8%	8.3%	7.8%	7.1%
Orange County	3.5%	3.4%	9.7%	6.5%	5.5%	5.1%	4.1%
Riverside County	5.4%	5.0%	14.5%	10.3%	8.2%	7.8%	6.2%
San Bernardino County	4.8%	4.8%	14.2%	10.3%	8.0%	7.7%	6.1%
San Diego County	3.9%	4.0%	10.7%	7.8%	6.4%	6.1%	4.8%
Ventura County	4.5%	4.3%	10.8%	7.9%	6.7%	6.1%	5.1%
United States	4.0%	4.6%	9.6%	7.4%	6.2%	6.2%	5.4%
State of California	4.9%	4.9%	12.2%	8.9%	7.5%	7.8%	6.3%

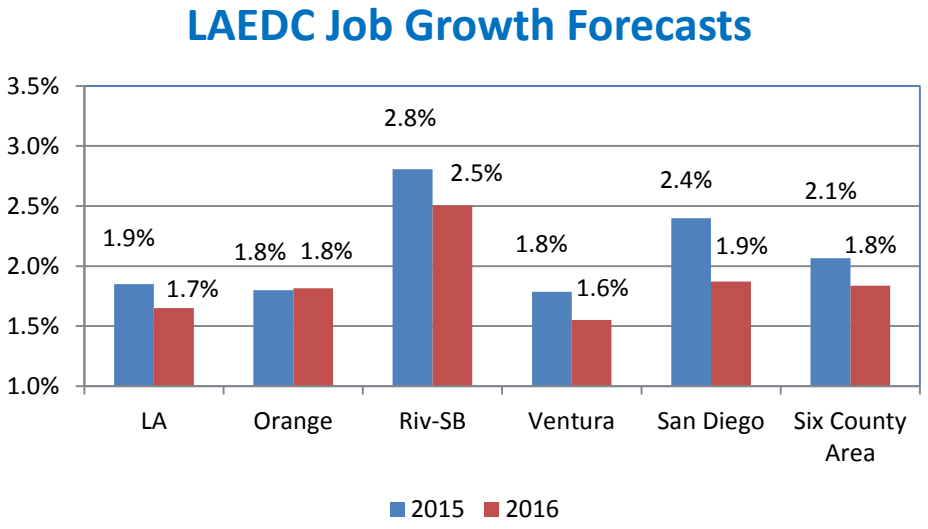
Source: U.S. Bureau of Labor Statistics and EDD; U.S. and California estimates for April are seasonally adjusted.

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 4 years. (See the figure below) The Six County Area is outpacing the nation in job growth since the beginning of 2013 although unemployment rates have not fully recovered the pre-recession levels. By April 2015 job levels were 162,600 above the pre-recession peak level in July 2007.



Source: EDD; data are seasonally adjusted

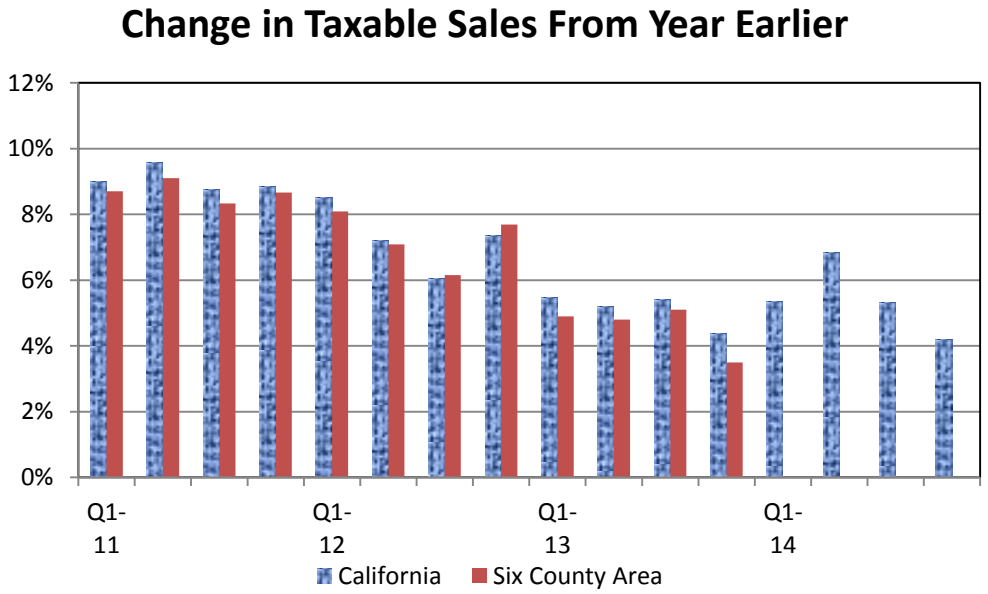
Continued job growth in 2015 and 2016 in the Six County Area is forecast by the Los Angeles Economic Development Corporation ("LAEDC"). In February 2015, LAEDC forecasted a growth of approximately 175,000 jobs (+2.1%) in 2015 and another 160,000 jobs (+1.8%) in 2016. These forecasts, though, were made before the strong upward revisions to 2014 job growth estimates were released in March 2015.



Source: 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. Taxable sales increased by 9.1% in California in 2011, 7.3% in 2012, 5.1% in 2013 and 5.4% in 2014. Taxable sales rose by 7.2% in the Six County Area in 2012 and 4.6% in 2013, slightly below the state growth rate. The Six County Area accounts for 55% of statewide taxable sales and 2014 and 2015 results are forecast to reflect the pattern of statewide gains.



Source: California Board of Equalization

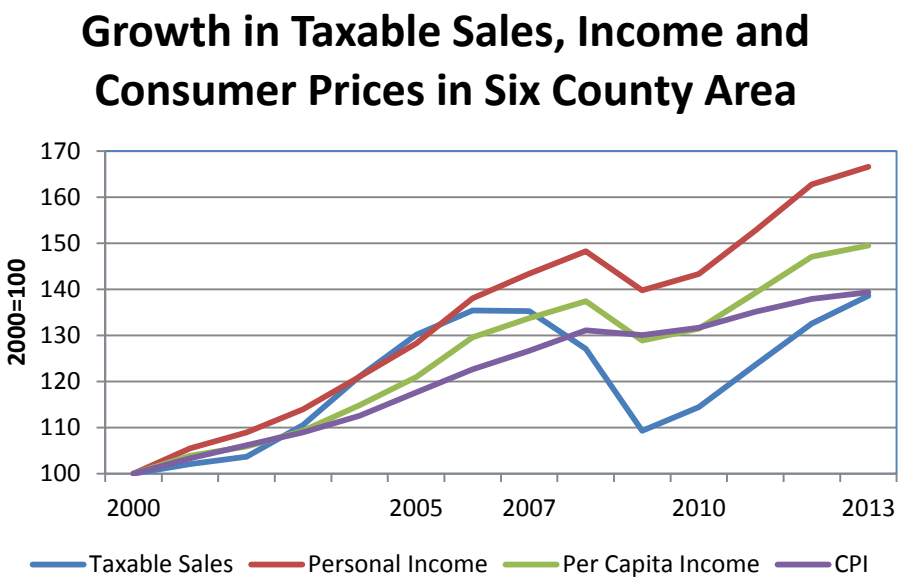
Taxable sales in the Six County Area have rebounded and recovered all the recession losses in 2013, helping local government revenues. The slowdown in consumer price increases means that taxable sales have kept pace with inflation since 2000, although this is not true for the period after 2006. Taxable sales rose in all counties in each year since 2010 and based on data for the state in 2014, taxable sales in the Six County Area increased in 2014 by between 4% and 5% while consumer prices rose by 1.3%.

TAXABLE SALES
(Dollars in Billions)

	2000	2006	2010	2012	2013	% Change 2000 - 13	% Change 2006 - 13
Los Angeles County	$106.7	$136.2	$116.9	$135.3	$140.1	31%	3%
Orange County	44.5	57.2	47.7	55.2	57.6	29%	1%
Riverside County	17.0	29.8	23.2	28.1	30.1	77%	1%
San Bernardino County	18.9	31.3	24.7	29.5	31.2	65%	0%
San Diego County	36.2	47.8	41.6	47.9	50.3	39%	5%
Ventura County	9.1	12.3	10.2	12.0	12.8	41%	4%
Total Six County Area	$232.4	$314.6	$264.3	$308.0	$322.1	39%	2%
Los Angeles Area Consumer Price Index (1982-84 = 100.0)	171.6	210.4	225.9	236.6	239.2	39%	14%

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 $988 billion in 2013 in the Six County Area. Per capita income surpassed the pre-recession peak in 2013 but the gain in per capita income between 2000 and 2013 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 2014 and 2015 and most future years.



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 46,906 in 2014. Permit levels increased by 41% for the first three months of 2015 with most of the growth in multi-family unit permits. Since 2011 more than half of all new permits have been for multi-family residential building with more than 2/3 in 2014. Projected long-term job and population growth will support a much higher level of residential construction than is currently occurring.

RESIDENTIAL BUILDING PERMITS

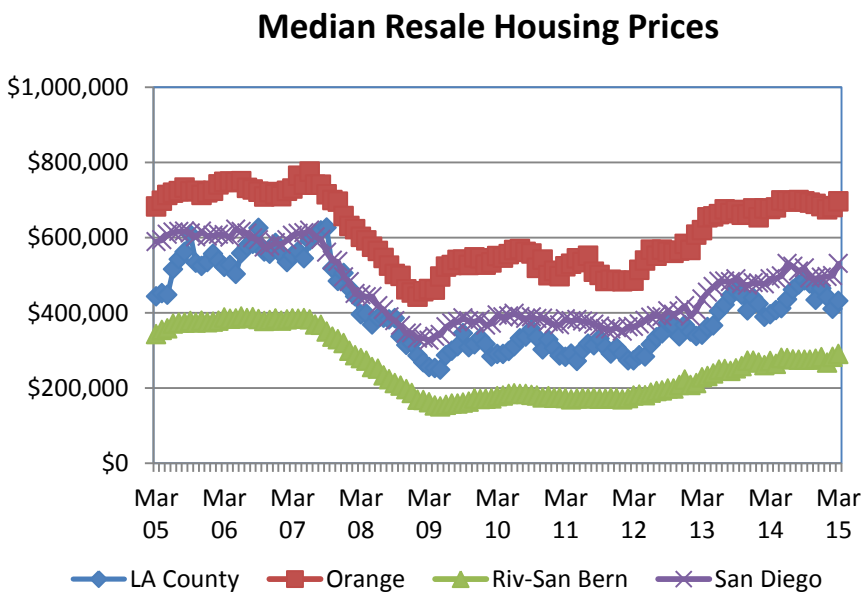
	2004	2009	2012	2013	2014
Los Angeles County	26,395	5,653	11,715	16,895	18,728
Orange County	9,322	2,200	6,163	10,453	10,568
Riverside County	34,226	4,190	7,629	6,220	6,843
San Bernardino County	18,470	2,495	1,810	3,313	3,230
San Diego County	17,306	2,990	6,419	8,382	6,583
Ventura County	2603	404	322	1048	954
Total Six County Area	108,322	17,932	34,058	46,311	46,906

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.

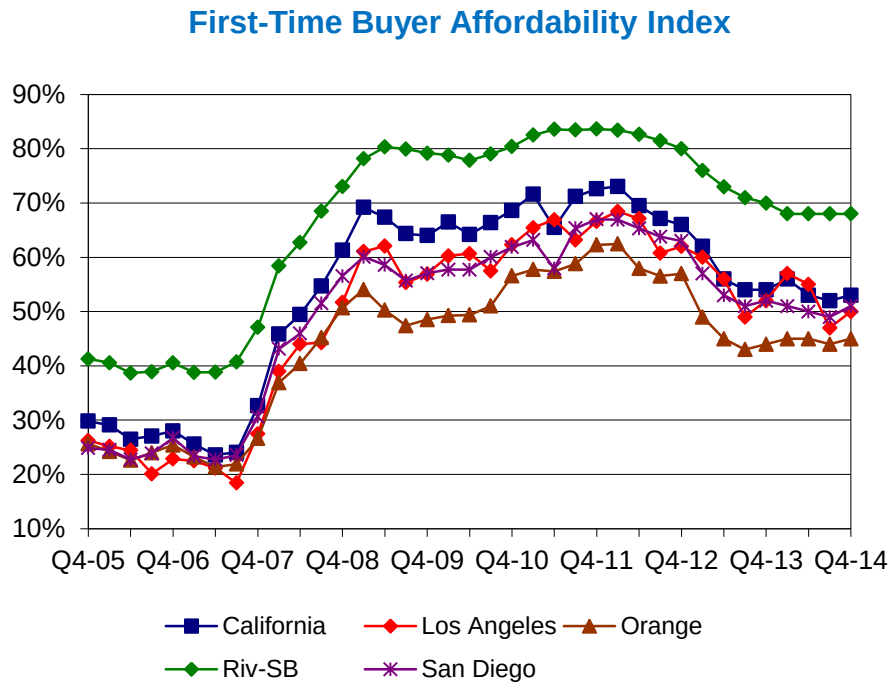
Median resale housing prices in Six County Area markets were near 2003 levels at the lowest recent levels in March 2009. Median prices fluctuated in a narrow range until the summer of 2012 and then began a rebound that has continued into 2015. In March 2015 median prices throughout the Six County Area were near the top of the recent range with increases of between 43% and 62% since March 2012. CAR reported that the share of distressed properties declined from 37% of total sales in September 2012 to 9% in March 2015. 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 February 2015 gaining 40% in the Los Angeles market area and 36% in the San Diego market area during this period.



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 and continued to decline in early 2013 as prices rose. Affordability in the Six County Area stabilized since the summer of 2013 and remains well above the 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.



Source: California Association of Realtors

Nonresidential Construction

Permit levels reached a record $12.3 billion in 2014 and are up 8% in the first three months of 2015.

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. The increase in residential and nonresidential building is supporting job growth in construction and related industries.

TOTAL NONRESIDENTIAL CONSTRUCTION PERMIT VALUATION

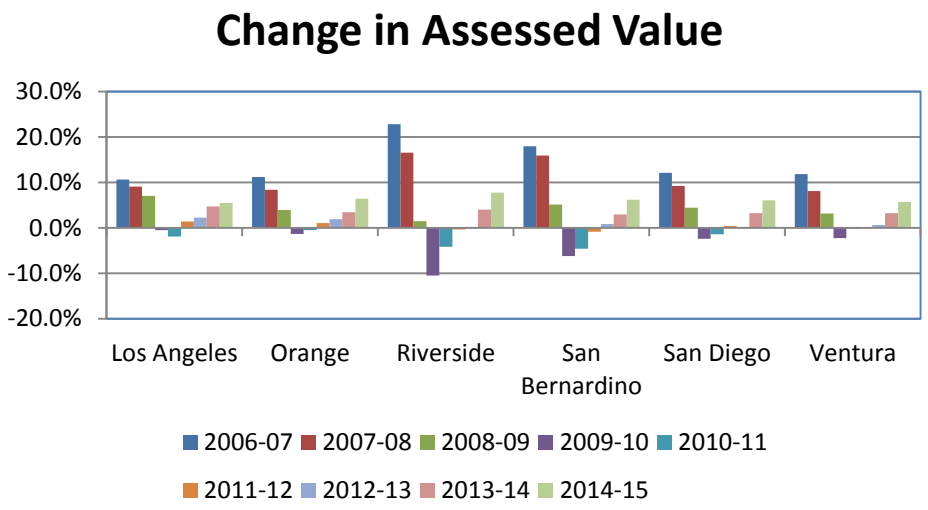
(Dollars in Billions)

	2000	2007	2009	2012	2013	2014
Los Angeles County	$3.3	$4.7	$2.7	$3.7	$4.3	$6.6
Orange County	1.8	2.0	1.0	1.3	1.6	2.0
Riverside County	0.8	1.5	0.4	0.7	0.8	0.8
San Bernardino County	0.8	1.4	0.3	0.6	0.7	0.9
San Diego County	1.4	1.4	0.6	1.2	1.4	1.9
Ventura County	0.3	0.3	0.2	0.1	0.1	0.1
Total Six County Area	$8.4	$11.3	$5.1	$7.6	$8.9	$12.3

Source: Construction Industry Research Board and California Homebuilding Foundation

Assessed Valuation

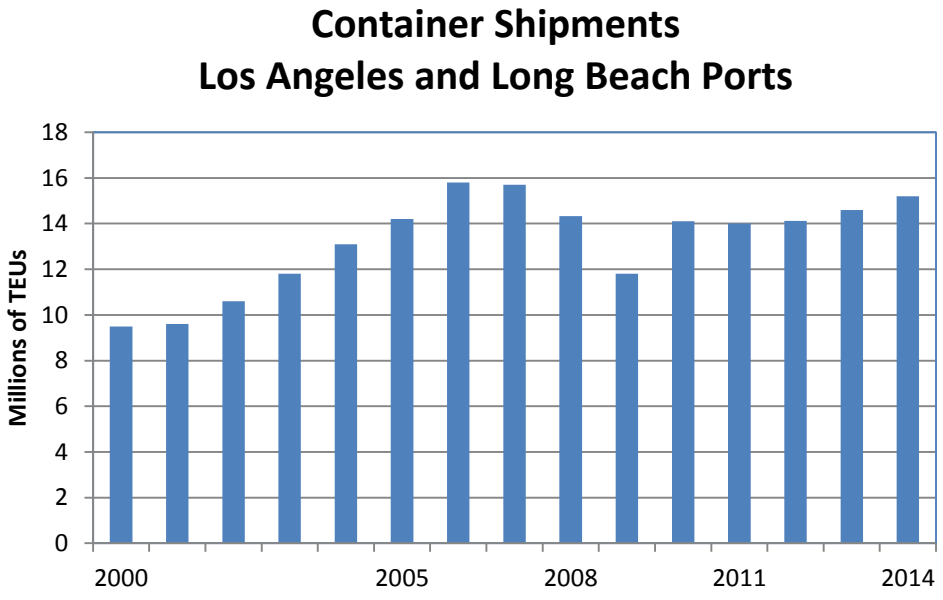
The downturn in residential and nonresidential construction led to a sharp decline in the rate of growth in assessed valuation throughout the Six County Area with some counties experiencing an actual decline in the assessed value of properties. These declines were another source of fiscal pressure on 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.



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 have recovered since 2009 and neared pre-recession levels in 2014. Container volumes in early 2015 have been volatile as a result of strikes with a strong recovery in March after sharp declines in January and February.



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 60% between 2000 and 2014 despite the large drop in 2008 and 2009. 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. For example, in the Riverside-San Bernardino metro area, from where many imports are stored and shipped, saw an increase in warehousing jobs from 18,300 to 35,600 between April 2010 and April 2015 along with 18,900 jobs added in trucking and wholesale trade.

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.

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. Recently truckers are trying to change status from independent contractors to employees.

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.

Per capita income is based on total personal income divided by population while median household income is based on money income, which is lower than total personal income.

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

	Per Capita Income (2013)	Median Household Income (2013)	Average Wage (2013)
Los Angeles County	$46,530	$54,529	$54,960
Orange County	54,519	74,163	55,105
Riverside County	33,278	54,095	39,517
San Bernardino County	32,747	52,323	41,307
San Diego County	51,384	61,426	54,836
Ventura County	50,507	77,363	50,466
California	48,434	60,190	57,111
United States	44,765	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. 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 2014 according to the DOF estimates, averaging 161,000 per year. The Six County Area had 21.6 million residents in 2014, approximately 56% of the state's population.

SIX COUNTY AREA POPULATION
(In Thousands)

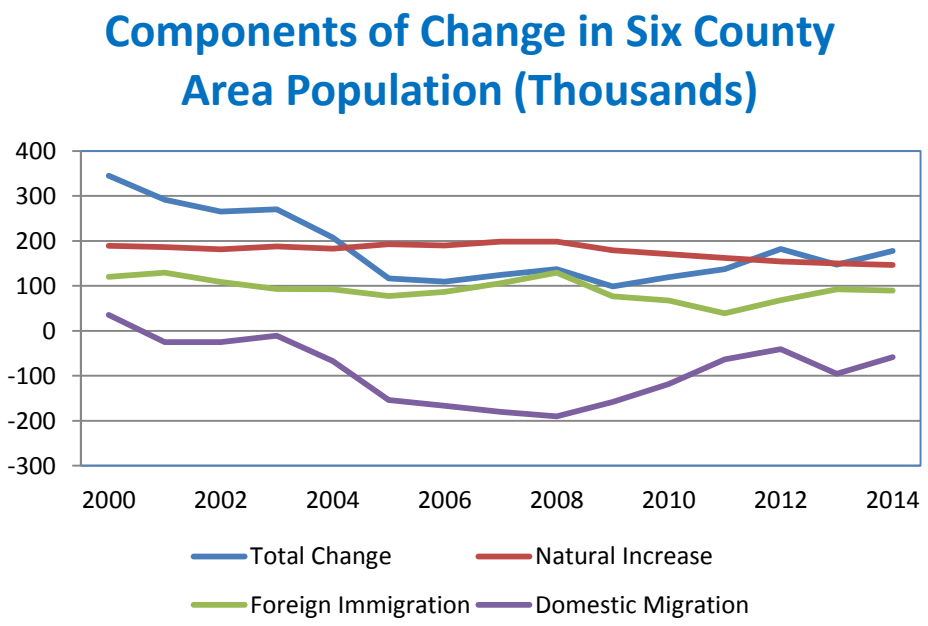
	1990	2000	2005	2010	2012	2013	2014
Los Angeles County	8,860	9,544	9,810	9,825	9,945	10,013	10,069
Orange County	2,412	2,854	2,957	3,017	3,074	3,100	3,133
Riverside County	1,188	1,557	1,935	2,192	2,249	2,265	2,295
San Bernardino County	1,432	1,719	1,943	2,039	2,064	2,074	2,092
San Diego County	2,505	2,828	2,970	3,103	3,153	3,177	3,212
Ventura County	669	757	797	825	833	839	844
Total Six County Area	17,066	19,259	20,412	21,001	21,318	21,468	21,645

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 2014 averaging near 182,000 per year. Declining birth rates have reduced natural increase to near 161,000 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 -88,000 per year. Foreign immigration declined during the recession but rebounded in 2012, 2013 and 2014. Net out migration is still negative but at lower levels than during the recession.



Source: California Department of Finance as of July 1

Population growth in the Six County Area has increased since 2011. (See the table below). Annual growth increased from 126,500 (0.6%) from 2011 to 2012 to 204,300 (0.9%) between 2014 and 2015.

SIX COUNTY AREA POPULATION
(In Thousands)

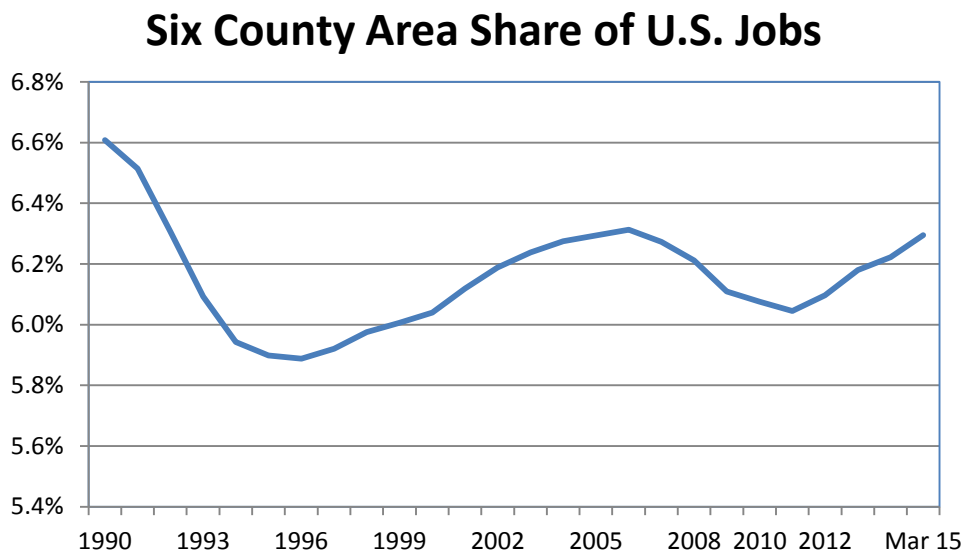
	2012	2013	2014	2015
Total	21,207.3	21,393.2	21,568.2	21,772.5
Gain from Prior Year	134.7	185.9	175.1	204.3
Gain from Prior Year	0.6%	0.9%	0.8%	0.9%

Source: California Department of Finance; estimates for 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 has now recovered all of the losses in the area's share of national jobs that occurred during the recession after 2007. In March 2015 the Six County Area accounted for 6.3% of the nation's non-farm wage and salary jobs, the highest share since 1991. The pattern of larger percentage job losses compared to the nation during a recession 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%. As in the economic growth period after 1994, the Six County Area's share of national jobs has grown steadily during the current expansion period.



Sources: EDD, Bureau of Labor Statistics, U.S. Dept. Of Labor, CCSCE

In 2014 Education and Health Services was the largest major industry sector in the Six County Area measured by jobs, with just fewer than 1.4 million jobs or almost 16% of the Six County Area total (see the table on the following page).

The next largest sectors in 2014 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 2014 were nearly identical to 2007 levels despite large losses in Construction and Manufacturing. Between 2010 and 2014 the Six County Area added more than 830,000 jobs.

Since 2010 most sectors have seen job growth and Construction jobs have rebounded but are still below pre-recession levels. There was strong growth in Professional and Business Services reversing all of the recession job losses. Wholesale Trade activity also rebounded along with port traffic and the growing economy.

SIX COUNTY AREA
EMPLOYMENT BY MAJOR SECTOR
(In Thousands)

	2000	2007	2010	2014	Change 2000-2014	Change 2007-2014
Farm	67.7	63.8	59.8	58.0	-9.7	-5.8
Natural Resources and Mining	6.3	7.8	7.3	8.4	2.1	0.6
Construction	373.8	479.0	298.9	356.4	-17.4	-122.6
Manufacturing	1,113.3	888.6	733.6	740.8	-372.5	-147.8
Wholesale Trade	385.2	429.2	382.4	421.1	35.9	-8.1
Retail Trade	834.5	948.5	849.5	915.1	80.6	-33.4
Transp, Warehousing and Utilities	286.8	298.9	275.7	309.6	22.8	10.7
Information	343.3	293.5	262.5	263.8	-79.5	-29.7
Financial Activities	448.3	524.3	441.6	455.7	7.4	-68.6
Professional and Business Services	1,171.9	1,285.5	1,138.2	1,288.5	116.6	3.0
Educational and Health Services	828.1	1,060.2	1,151.2	1,359.8	531.7	299.6
Leisure and Hospitality	740.4	897.2	861.0	1,014.2	273.8	117.0
Other Services	271.0	293.9	272.4	304.8	33.8	10.9
Government	1,170.9	1,245.8	1,240.9	1,213.1	42.2	-32.7
Total Wage and Salary Jobs	8,041.5	8,716.2	7,975.0	8,709.3	667.8	-6.9

Source: 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.

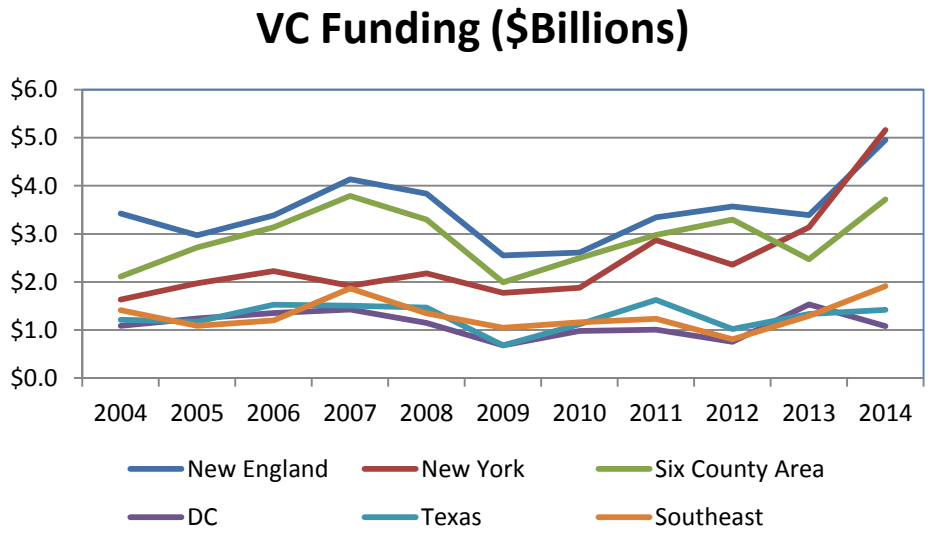
The diversity of the Six County Area economy has led to GDP growth since 2001 that slightly outpaces the state and national growth rate despite the fact that the area had below average growth during the recession. Average GDP growth in nominal dollars (see the table on the following page) was 3.7% per 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%

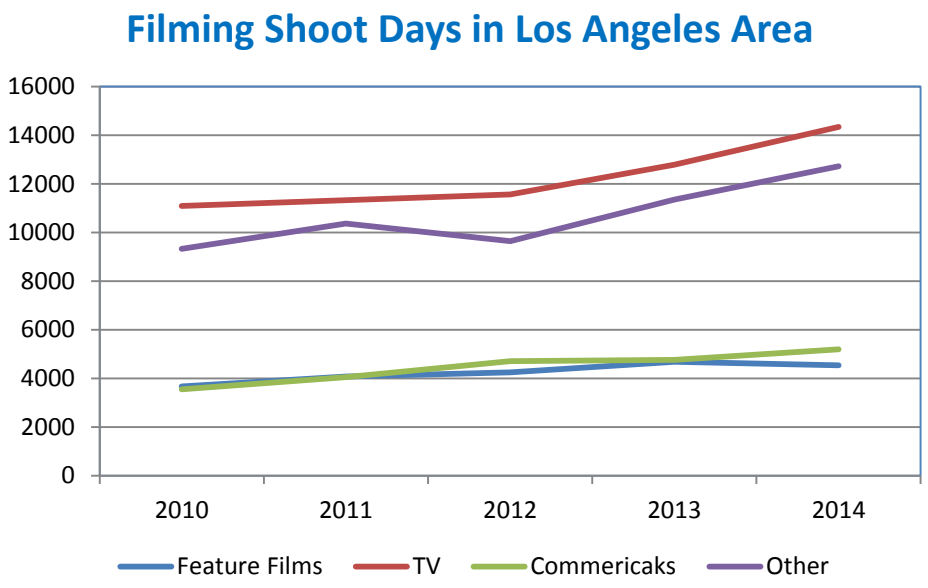
Source: U.S. Department of Commerce

The Bay Area is by far the largest recipient of new venture capital funding and with $24.6 billion in 2014 funding. The Six County Area has been one of the top three VC markets behind the Bay Area for the past decade outpacing Texas; the Southeast and Washington D.C. areas in total funding (see the figure below). In 2014 the Six County Area accounted for $3.7 billion in funding and received an additional $1.9 billion in funding in the first quarter of 2015.



Source: PWC, Thomson Reuters, National Venture Capital Association

The motion picture and tourism sectors are two major components of the Six County Area's economic base. Film LA reports an increase in the number of filming shoot days since 2010. (See the chart on the following page) 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 2015.



Source: Film LA

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 Area and the same is true for employment in the hotel and amusement park sectors. In 2014 Los Angeles County set tourism records in visitors (44.2 million), hotel occupancy rates (78.9%) and average daily rate ($147.302) 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 +20.4% in 2014 to 686,000 visitors following a gain of 21.3% in 2013. In 2014 passenger travel at Los Angeles International Airport was up 6.0% to 70.7 million trips 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

FORM OF CO-BOND COUNSEL OPINION

APPENDIX F

FORM OF OPINION OF CO-BOND COUNSEL

Upon issuance of the 2015A Bonds Bonds, *Hawkins Delafield & Wood LLP, Los Angeles, California, and Curls Bartling P.C., Oakland, California, Co-Bond Counsel to The Metropolitan Water District of Southern California, will render their respective approving opinions with respect to the 2015A Bonds in substantially the following form:*

[Closing Date]

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

Re: *The Metropolitan Water District of Southern California*
Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A

Ladies and Gentlemen:

We have examined certified copies of proceedings of the issuance by The Metropolitan Water District of Southern California ("Metropolitan") of its Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A (the "2015A Bonds"), consisting of $[A-1 Principal Amount] principal amount of 2015 Series A-1 Bonds (the "2015A-1 Bonds") and $[A-2 Principal Amount] principal amount of 2015 Series A-2 Bonds (the "2015A-2 Bonds" and, together with the 2015A-1 Bonds, the "2015A Bonds").

The 2015A Bonds are issued under and pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209 (the "Metropolitan Act"), 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 (together with the Metropolitan Act, the "Law"), Resolution 8329 of the Board of Directors of Metropolitan (the "Board") adopted on July 9, 1991, as heretofore amended and supplemented (the "Master Resolution"), including as amended and supplemented by Resolution 9104 adopted by the Board on December 8, 2009 (the "Nineteenth Supplemental Resolution" and, together with the Master Resolution, the "Resolutions"). The 2015A-1 Bonds are further described in the Paying Agent Agreement for the 2015A-1 Bonds, dated as of July 1, 2015 (the "2015A-1 Paying Agent Agreement"), by and between Metropolitan and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"). The 2015A-2 Bonds are further described in the Paying Agent Agreement for the 2015A-2 Bonds, dated as of July 1, 2015 (the "2015A-2 Paying Agent Agreement", together with the 2015A-1 Paying Agent Agreement, the "Paying Agent Agreements" and each a "Paying Agent Agreement"), by and between Metropolitan and the Paying Agent. The 2015A Bonds mature in the amounts and in the years and bear interest in accordance with the terms of the Resolutions and as described in the related Paying Agent Agreements. The 2015A Bonds are subject to redemption prior to maturity on the dates, at the price and upon the notice authorized by the Resolutions and as provided in the Paying Agent

Agreements. All terms used herein and not otherwise defined shall have the meanings given such terms in the Resolutions and the related Paying Agent Agreement.

On the basis of the foregoing examination and in reliance upon the certified proceedings, we are of the opinion that:

(i) The 2015A Bonds have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State of California and, when issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding obligations of Metropolitan, enforceable in accordance with their terms, payable solely from the Net Operating Revenues and the other sources provided therefor in the Resolutions.

(ii) Metropolitan is obligated by law and the Resolutions to fix rates for the sale of water which shall be sufficient, together with Additional Revenues, 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, premium, if any, and interest on the 2015A Bonds) and Parity Obligations as they become due and payable, (c) all other payments required for compliance with the Resolutions, and (d) any other obligations of Metropolitan which are charges, liens or encumbrances upon or payable from the Net Operating Revenues.

(iii) The Resolutions have been duly adopted by, and constitute valid and binding obligations of, Metropolitan, enforceable in accordance with their terms.

(iv) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein; (a) interest on the 2015A 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 2015A 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 2015A 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 2015A Bonds in order that, for Federal income tax purposes, interest on the 2015A 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 2012G Bond proceeds, restrictions on the investment of 2012G 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 2015A 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 2015A 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 2015A Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph (iv), 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 2015A Bonds, and (b) compliance by Metropolitan with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

(v) Under existing statutes, interest on the 2015A Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs (iv) and (v) above, we express no opinion regarding any Federal, state or local tax consequences arising with respect to the 2015A 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 2015A 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 2015A 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 materials relating to the 2015A 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 facts or circumstances, or any changes in law or in interpretations 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 2015A 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

FORM OF CONTINUING DISCLOSURE UNDERTAKING

APPENDIX G

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking") is dated July 1, 2015 by The Metropolitan Water District of Southern California ("Metropolitan") in connection with the issuance of its $[Principal Amount] aggregate principal amount of Water Revenue Refunding Bonds, 2015 Series A (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 of Division 2 of 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 9104 adopted by the Board on December 8, 2009 (the "Nineteenth 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, DEBT SERVICE AND INVESTMENT PORTFOLIO – 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 Hawkins Delafield & Wood LLP, Los Angeles, California and/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, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of Metropolitan (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for Metropolitan in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of Metropolitan, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of Metropolitan);

(xiii) the consummation of a merger, consolidation, or acquisition involving Metropolitan or the sale of all or substantially all of the assets of Metropolitan, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(9) "Official Statement" means the Official Statement dated June 24, 2015, of Metropolitan relating to the Bonds.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "State" means State of California.

(13) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE II
The Undertaking

Section 2.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the Bonds and is being executed and delivered solely to assist the underwriter of the Bonds in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information.

(a) Metropolitan shall provide Annual Financial Information with respect to each fiscal year of Metropolitan, commencing with such information with respect to fiscal year 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 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: _____
Gary Breaux
Assistant General Manager/Chief Financial Officer

APPROVED AS TO FORM:

MARCIA SCULLY, General Counsel

By: _____
Assistant General Counsel