



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

3/8/2016 Board Meeting

8-1

Subject

Adopt Master Subordinate Resolution authorizing the issuance of subordinate water revenue bonds and other forms of indebtedness; and adopt the First Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of subordinate water revenue refunding bonds

Executive Summary

Metropolitan's current Senior Debt Resolution does not easily or practicably allow for certain structural features that are now preferred by investors for certain types of bonds. The proposed Master Subordinate Resolution in **Attachment 1** incorporates features which could broaden the investor base and reduce debt interest costs on certain types of short- and medium-term debt. The Master Subordinate Resolution provides a framework under which bonds can be issued in the future on a basis subordinate to the Senior Debt Resolution. The subordinate bonds would be issued from time to time in series pursuant to supplemental resolutions. Metropolitan expects to also issue long-term fixed rate debt under the existing Senior Debt Resolution, when it is deemed advantageous to do so. The Master Subordinate Resolution would allow for new short- and medium-term debt structures with no expected change in Metropolitan's strong short-term bond ratings. Under the Master Subordinate Resolution, Metropolitan may enter into other forms of indebtedness, including state revolving fund loans, federal loans, swap agreements, and other financial products. The Master Subordinate Resolution would also provide more flexible security provisions which better reflect industry standards. The proposed First Supplemental Subordinate Resolution to the Master Subordinate Resolution (the First Supplemental Subordinate Resolution) in **Attachment 2** would authorize refunding of certain indebtedness or obligations for Metropolitan's borrowed money.

Details

Metropolitan's Senior Debt Resolution was adopted in 1991 to modernize and replace an outdated structure of issuing debt. Similarly, the Master Subordinate Resolution will allow Metropolitan to issue a wider variety of debt products that utilize structures and security provisions that cannot be easily accommodated by the Senior Debt Resolution. Bonds issued under the Master Subordinate Resolution would be secured by a subordinate lien pledge of net operating revenues that comes after first lien debt issued under the Senior Debt Resolution. Metropolitan is proposing the Master Subordinate Resolution to allow for more efficient issuance of certain types of short- and medium-term debt that has interest rates that are significantly lower than long-term fixed rate bonds. In addition, these debt structures generally do not require costly bank liquidity support. The Master Subordinate Resolution will allow Metropolitan to more effectively access a broader range of low-cost debt structures and provide a greater opportunity to reduce debt service costs. Under the Master Subordinate Resolution, Metropolitan may enter into other forms of indebtedness, including state revolving fund loans, federal loans, swap agreements, and other financial products. The Master Subordinate Resolution will also provide for more flexible security provisions, including the rate covenant and additional bonds test, which better reflect industry standards.

One key objective of the Master Subordinate Resolution is to incorporate a "hard put" structure with an event of default. For example, many short- and medium-term debt products are structured with a "put feature" that requires bondholders to tender their bonds for payment (the "Purchase Price") on a given date. This date is usually when

the bonds are re-priced and remarketed. If the Purchase Price cannot be paid, there is an event of default, which reflects a “hard put” structure. Many investors are now requiring a hard put structure for these debt products. Metropolitan’s Senior Debt Resolution does not easily allow for a hard put structure so alternative structures must be used when issuing certain types of short- and medium-term debt, such as Metropolitan’s index tender bonds. These bonds are structured with “soft puts” that extend the repayment period upon the failure to pay the Purchase Price, and the failure to pay the Purchase Price is not an event of default. Recently, when Metropolitan remarketed its index tender bonds, some investors would not purchase the bonds because the soft put does not result in an event of default. Metropolitan was, therefore, not accessing all potential investors for this product. While difficult to quantify, Metropolitan likely missed opportunities to pay lower interest costs by not having the preferred hard put structure. The Master Subordinate Resolution incorporates a hard put structure with an event of default and should allow Metropolitan to access a larger and more diverse investor base that could result in lower bond costs.

Metropolitan would utilize the Master Subordinate Resolution to implement new security provisions, as discussed above and in [Attachment 3](#), as the terms and conditions of the Senior Debt Resolution cannot be amended to incorporate these new features. As a result, bonds issued and indebtedness incurred under the Master Subordinate Resolution will have a security pledge, or lien, that is subordinate to indebtedness incurred under the Senior Debt Resolution. Debt service on the subordinate lien bonds will be funded after debt service is paid on the senior lien debt issued under the Senior Debt Resolution. Investor concerns regarding the subordinate lien pledge are expected to be offset by the new, preferred, structural provision allowed under the Master Subordinate Resolution.

Metropolitan will request ratings from the bond rating agencies for short- and medium-term bonds issued under the Master Subordinate Resolution. The rating agencies will evaluate the new security provisions in addition to their standard evaluation of Metropolitan’s finances, debt profile and operating issues, such as water supply conditions. The rating categories for short- and medium-term debt are broader-based and have less delineation than ratings for long-term debt. The ratings for short- and medium-term bonds issued under the Master Subordinate Resolution are expected to be the same as if the bonds were issued under the Senior Debt Resolution.

In contrast, long-term fixed rate bonds issued under the Master Subordinate Resolution would likely receive a lower long-term bond rating than bonds issued under the Senior Debt Resolution. The rating decrease, however, should be no more than one rating notch. Therefore, long-term fixed rate debt and other long-dated obligations, issued under the Master Subordinate Resolution, may have higher interest costs due to lower bond ratings. Other long-dated obligations include bank liquidity agreements, such as standby bond purchase and revolving credit agreements, whose fees reflect an issuer’s long-term bond rating. Metropolitan will continue to issue long-term fixed rate debt, and other long-dated obligations, under the existing Senior Debt Resolution, when it is deemed advantageous to do so.

The Master Subordinate Resolution has been reviewed by Metropolitan’s financial advisor and several investment banking firms. These experienced financial professionals believe that the proposed legal provisions will broaden market access for certain types of short- and medium-term debt, and that there should be no change in the short-term bond ratings for these bonds. The Master Subordinate Resolution will be used where the new structure would enhance the marketability and broaden the investor base for Metropolitan’s debt. Examples of debt structures that may be issued under the Master Subordinate Resolution include Metropolitan’s index tender bonds (eight series with \$536.5 million outstanding), which may be refunded under the First Supplemental Subordinate Resolution, as well as new structures such as extendable commercial paper and short- and medium-term notes. These debt structures have the advantage of not requiring bank liquidity agreements.

In order to authorize the issuance of subordinate water revenue bonds under the Master Subordinate Resolution, an ordinance must be adopted by the Board that determines that the interests of Metropolitan require the use of revenue bonds. Separate board approval would also be required through supplemental bond resolutions. The Board’s approval of the Master Subordinate Resolution allows for the option to present future subordinate water revenue bond issues to the Board.

Staff is also requesting board adoption of the First Supplemental Subordinate Resolution. The First Supplemental Subordinate Resolution outlines the terms and conditions for the issuance of refunding bonds under the Master

Subordinate Resolution. This is similar to the Fourth Supplemental Resolution to the Senior Debt Resolution, which established the terms and conditions for refunding bonds issued under the Senior Debt Resolution. Additional board authority would not be required to issue subordinate water revenue refunding bonds under the Master Subordinate Resolution. Such refunding bonds may be issued to take advantage of lower interest rates or to restructure existing debt, such as by refunding Metropolitan's outstanding index tender bonds under the Master Subordinate Resolution.

Policy

Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

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

Metropolitan Board Resolution 8329 (Senior Debt Resolution) as amended and supplemented

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

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

The CEQA determination is: Determine that the proposed action is not defined as a project and is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

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

- a. Adopt the Master Subordinate Resolution authorizing the issuance of subordinate water revenue bonds to finance any legal purpose of the District and providing the terms and conditions for the issuance of said bonds, as contained in [Attachment 1](#); and
- b. Adopt the First Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of subordinate water revenue refunding bonds, providing the terms and conditions of such bonds and authorizing the approval of other related documents, as contained in [Attachment 2](#).

Fiscal Impact: Cannot be determined. It is expected that new security provisions will increase investor interest for certain types of debt structures, but specific debt service savings will depend on market conditions at the time of bond issuance.

Business Analysis: The Master Subordinate Resolution will allow Metropolitan to more effectively issue a broader range of short- and medium-term debt, at expected lower interest cost.

Option #2

Do not adopt the CEQA determination, the Master Subordinate Resolution or the First Supplemental Subordinate Resolution.

Fiscal Impact: Cannot be determined

Business Analysis: Certain types of debt cannot be effectively issued under the existing Senior Debt Resolution. Therefore Metropolitan will have reduced flexibility to issue a broader range of debt structures.

Staff Recommendation

Option #1



Gary Breaux 2/25/2016
Assistant General Manager/Chief Financial Date
Officer



Jeffrey Lightlinger 2/25/2016
General Manager Date

- Attachment 1 – Resolution Authorizing the Issuance of Subordinate Water Revenue Bonds to Finance Any Legal Purpose of the District and Providing the Terms and Conditions for the Issuance of Said Bonds (Master Subordinate Resolution)**
- Attachment 2 – Resolution Authorizing the Issuance of Subordinate Water Revenue Refunding Bonds, Providing the Terms and Conditions of Such Bonds and Authorizing the Approval of Other Related Documents (First Supplemental Subordinate Resolution)**
- Attachment 3 – Resolution Comparison**

Ref# cfo12641584

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RESOLUTION _____,

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AUTHORIZING THE ISSUANCE OF
SUBORDINATE WATER REVENUE BONDS OF SAID DISTRICT
TO FINANCE ANY LEGAL PURPOSE OF THE DISTRICT
AND PROVIDING THE TERMS AND CONDITIONS FOR THE
ISSUANCE OF SAID BONDS**

MASTER SUBORDINATE RESOLUTION

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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RESOLUTION ____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AUTHORIZING THE ISSUANCE OF SUBORDINATE WATER REVENUE BONDS OF
SAID DISTRICT TO FINANCE ANY LEGAL PURPOSE OF THE
DISTRICT AND PROVIDING THE TERMS AND CONDITIONS
FOR THE ISSUANCE OF SAID BONDS**

MASTER SUBORDINATE RESOLUTION

WHEREAS, pursuant to the Act (as defined herein), the Board of Directors of The Metropolitan Water District of Southern California is authorized to provide for the issuance of revenue bonds for any purpose permitted under the Act; and

WHEREAS, the public interest and necessity require the Board to authorize the issuance of revenue bonds as hereinafter set forth.

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

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Resolution and of any Supplemental Resolution and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined. Unless otherwise defined in this Resolution, all terms used herein shall have the meanings assigned to such terms in the Act.

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

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

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

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

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

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

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

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

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

interest rate equal to the product of 0.70 multiplied by the average yield of the Ten-Year Treasury Yield for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by the District.

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

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

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

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

“Board” or “Board of Directors” means the Board of Directors of the District.

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

“Bond Counsel” means Nixon Peabody LLP or any other firm of attorneys specializing in the field of municipal finance law, selected by the District.

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

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

“Bond Register” means the Bond Register as defined in Section 2.07 of this Resolution.

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

“Calculation Date” means any date on which the District delivers any Certificate of the District to satisfy the requirements of Section 6.08.

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

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

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

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

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

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

“Commercial Paper Program” means a program established by the District pursuant to Section 6.08(b) that provides for the issuance from time to time of Commercial Paper Notes.

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

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

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

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

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

“Debt Service” means, as of any Calculation Date and with respect to any Fiscal Year, the sum of (1) the interest scheduled to be due on any Covered Obligations during such Fiscal Year, (2) the principal or Mandatory Sinking Account Payments required to be paid with respect to such Covered Obligations during such Fiscal Year, and (3) any other regularly scheduled payments of Covered Obligations during such Fiscal Year to the extent not included in clauses (1) and (2) of this definition, all of which are to be computed on the assumption that no portion of such Covered Obligations shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such calculation:

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

(b) if the District establishes a Commercial Paper Program pursuant to Section 6.08(b), for so long such Commercial Paper Program remains in effect, all payments of principal and interest of any Covered Obligations issued or incurred in connection with such Commercial Paper Program (including the principal and interest of any Commercial Paper Notes and any principal and interest payments in connection with any Commercial Paper Support) shall be excluded from the calculation of Debt Service, and Commercial Paper Debt Service shall be included into the calculation of Debt Service;

(c) if the District enters into a Revolving Credit Agreement pursuant to Section 6.08(c), for so long as such Revolving Credit Agreement remains in effect, all payments of principal and interest under any Covered Obligations issued or incurred in connection with such Revolving Credit Agreement shall be excluded from the calculation of Debt Service, and Revolving Credit Agreement Debt Service shall be included into the calculation of Debt Service;

(d) if any Covered Obligations are Variable Rate Indebtedness, the interest rate on such Covered Obligations shall be assumed to be equal to the average of the Municipal Swap Index of Securities Industry and Financial Markets Association for the twelve-week period immediately preceding the Calculation Date;

(e) principal and interest payments on Covered Obligations shall be excluded to the extent that the District expects to make such payments from amounts on deposit (and investment earnings thereon) as of the Calculation Date with the Treasurer, any Fiscal Agent or any other fiduciary, as set forth in a Certificate of the District;

(f) if the Covered Obligations are Paired Obligations, the interest rate on such Covered Obligations shall be the collective fixed interest rate to be paid by the District with respect to such Paired Obligations;

(g) in determining the principal amount due on Covered Obligations 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 Covered Obligations on the basis of Accreted Value;

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

(i) 0 and

(ii) (a) if the swap rate applicable to the District under such interest rate swap agreement is fixed, an amount equal to (1) (x) such fixed swap rate less (y) an average of the variable swap rate applicable to the counterparty to such interest rate swap agreement for the 12-week period immediately preceding the

Calculation Date, times (2) the notional amount of such interest rate swap agreement, or

(b) if the swap rate applicable to the District under such interest rate swap agreement is variable, an amount equal to (1)(x) 1.20 times the average of the variable swap rate for the 12-week period immediately preceding the Calculation Date less (y) the fixed swap rate applicable to the counterparty to such interest rate swap agreement, times (2) the notional amount of such interest rate swap agreement;

(i) if the District creates a Covered Obligation (including, without limitation, a revolving credit agreement entered into for the purpose of supporting the payment of any principal, interest or Purchase Obligation of any Covered Obligation) (each, a “Supporting Debt”) for the purpose of purchasing or supporting the purchase of a Covered Obligation (as evidenced by a Certificate of the District on or before the applicable Calculation Date) (each, a “Supported Debt”), then the District shall calculate both the Supporting Debt and Supported Debt under this definition of Debt Service, and shall only include into the calculation of Debt Service the amount that would otherwise be included into the definition of Debt Service for either the Supporting Debt and Supported Debt and shall only include the one that causes the amount of Average Annual Debt Service to be the highest; and

(j) If the District issues Covered Obligations and payments of principal and interest and Purchase Obligations of such Covered Obligations are secured as Covered Obligations of any kind, then any Purchase Obligations secured as Covered Obligations shall be disregarded and not included in any calculation under this definition of Debt Service.

Notwithstanding any other subsection of this definition of Debt Service, except as set forth in subsection (h) above, no amounts payable (including any settlement amounts or termination payments) under any interest rate swap agreement constituting a Covered Obligation shall be included in the calculation of Debt Service. Except as otherwise provided in this definition of Debt Service, to the extent that any calculation under this definition requires an index, interest rate or other amount to make such calculation, and such index, interest rate or other amount is not published, is not available or is not capable of being included in such calculation, then the District shall use such other index, interest rate, or other amount in its reasonable discretion in order to complete such calculation and that calculation shall be binding on District, the Owners of all Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, the Fiscal Agent and all other affected parties, absent manifest error.

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

“District” means The Metropolitan Water District of Southern California.

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

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

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

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

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

“GAAP” means generally accepted accounting principles, as in effect in the United States with respect to governmental entities similar to the District.

“General Manager” means the General Manager of the District or other chief officer of the District with substantially the same duties and responsibilities.

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

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

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

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

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

“Municipal Obligations” means municipal obligations meeting the following conditions:

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

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

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

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

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

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

“Operating Expenses” means the operating expenses of the District, as determined by GAAP, provided that (a) “Operating Expenses” shall not include any expenses attributable to amortization, depreciation, and debt service, (b) “Operating Expenses” shall not include any

amounts recognized as operating expenses of the District according to GAAP that are attributable to pension benefits that constitute non-cash items and post-employment benefits other than pensions that constitute non-cash items and (c) the cost of any acquisition of water shall be recognized as an operating expense of the District at a time that the District determines, but shall not be recognized at any time later than the time the District sells such water.

“Operating Revenues” means all revenues of the District from charges for the sale and availability of water as determined in accordance with GAAP.

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

“Outstanding” means (1) when used as of any particular time with reference to Bonds (subject to the provisions of Section 11.09), all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under this Resolution except (A) Bonds theretofore canceled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (B) Bonds with respect to which all liability of the District shall have been discharged in accordance with Section 9.02, including Bonds (or portions of Bonds) referred to in Section 11.10; (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 this Resolution; and (D) Bonds no longer deemed to be outstanding hereunder as provided in the Supplemental Resolution pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Senior Debt, all Senior Debt deemed outstanding within the meaning of the respective Senior Debt Resolutions; (3) when used as of any particular time with reference to First Tier Parity Obligations, all First Tier Parity Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such First Tier Parity Obligations; and (4) when used as of any particular time with reference to Second Tier Subordinate Obligations, all Second Tier Subordinate Obligations deemed outstanding or not satisfied within the meaning of the documents authorizing such Second Tier Subordinate Obligations.

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

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

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

“Pledge Change Designation” means the delivery of a Certificate of the District meeting the requirements of Section 5.10.

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

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

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

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

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

“Refunding Bonds” means all Bonds whether issued in one or more Series, authorized pursuant to Section 3.03 of this Resolution, to the extent the proceeds thereof are used to pay or to provide for the payment of Senior Debt, Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or any other obligations or indebtedness of the District.

“Resolution” or “this Resolution” means this Resolution adopted by the Board on _____, as amended, modified or supplemented from time to time by any Supplemental Resolution.

“Revolving Credit Agreement” means any revolving credit agreement, line of credit agreement or similar agreement executed pursuant to Section 6.08(c).

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

the Ten-Year Treasury Yield for the five Business Days immediately preceding the Calculation Date, as reasonably determined and calculated by the District.

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

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

“Senior Debt” means Bonds and Parity Obligations (as such terms are defined in the Senior Debt Resolution).

“Senior Debt Resolution” means Resolution 8329, adopted by the Board on July 9, 1991, as amended from time to time.

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

“Series,” whenever used herein 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 herein provided.

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

“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.

“Subordinate Bond Service Fund” means the Water Revenue Subordinate Bonds, Bond Service Fund established pursuant to Section 5.02.

“Subordinate Redemption Fund” means the Water Revenue Subordinate Bonds, Redemption Fund established pursuant to Section 5.08.

“Supplemental Resolution” means any resolution or ordinance hereafter duly adopted by the Board, supplementing, modifying or amending this Resolution in accordance with Section 8.01 hereof.

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

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

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

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

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

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

“Water Revenue Fund” means the fund of that name required to be established, continued and maintained pursuant to Section 5.02.

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

SECTION 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in this Resolution with respect to compliance with any provision hereof shall include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement (a) that, in the opinion of such Person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed

opinion with respect to the subject matter or (b) that he or she had made or caused to be made his or her examination or investigation with respect to the subject matter in accordance with specified professional standards; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with.

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

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds. Bonds may be issued hereunder, in book-entry form or otherwise, from time to time as the issuance thereof is approved by the Board. The maximum principal amount of Bonds which may be issued hereunder is not limited; subject, however, to the limitations contained in the Act and to the right of the Board, which is hereby reserved, to limit the aggregate principal amount of Bonds which may be issued or Outstanding hereunder. The Bonds are designated generally as "The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds," and each Series thereof shall bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds. The Bonds may be issued in such Series as from time to time shall be established and authorized by the Board, each such Series issued pursuant to a Supplemental Resolution authorizing one or more Series and each such Series subject to the covenants, provisions and conditions therein and herein contained.

SECTION 2.02. Terms of the Bonds: Sale of the Bonds. The Bonds of each Series shall bear interest, if any, at such rate or rates or determined in such manner and payable at such intervals as may be determined by the Board at the time of issuance thereof pursuant to the Supplemental Resolution creating such Series, not to exceed the maximum rate of interest permitted by law, and shall mature and become payable on such date or dates and in such year or years as the Board may determine by the Supplemental Resolution creating such Series. Principal and Accreted Value of and interest on such Bonds shall be payable in such manner as

may be specified in the Supplemental Resolution creating such Series. The Bonds of each Series may be subject to mandatory or optional tender and purchase and/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 each Series may be sold at either negotiated or competitive sale, as the Board shall determine.

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

SECTION 2.03. Form of Bonds. The Bonds of any Series shall be in such form or forms as may be specified in the Supplemental Resolution creating such Series.

SECTION 2.04. Execution of Bonds. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds of each Series shall be executed on behalf of the District by the Chairman of the Board of Directors or by such other officer as said Board shall, by Resolution adopted by a majority vote of its members, authorize and designate for the purpose. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, the Bonds shall also be signed by the Controller or Assistant Controller and countersigned by the Secretary of said Board. Unless otherwise provided in the Supplemental Resolution providing for the issuance thereof, all such signatures and countersignatures may be printed, lithographed, engraved or electronic. In case any of such officers, whose signatures or countersignatures appear on the Bonds, shall cease to be such officer before the delivery of such Bonds to the purchaser, such signatures or countersignatures shall nevertheless be valid and sufficient for all purposes, the same as if they had remained in office until the delivery of such Bonds.

Except as provided in the Supplemental Resolution providing for the issuance thereof, only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form recited in the Supplemental Resolution creating such Series, manually executed by the Fiscal Agent for such Series, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution, and such certificate of authentication when manually executed by such Fiscal Agent shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Resolution.

Notwithstanding the foregoing, the Bonds may be executed, countersigned, authenticated and printed in such other manner as may be authorized or permitted by the Act.

SECTION 2.05. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of Section 2.07, by the Person in whose name it is registered, in Person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent for such Bond.

Whenever any Bond or Bonds of a Series shall be surrendered for transfer, the District shall execute and the Fiscal Agent for that Series shall authenticate and deliver a new

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

SECTION 2.06. Exchange of Bonds. Bonds of any Series may be exchanged at the designated office of the Fiscal Agent for that Series for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, tenor and maturity; provided that, unless otherwise provided in any Supplemental Resolution, a Fiscal Agent is not required to exchange Bonds within 15 days before the date of selection of Bonds for redemption, or exchange any Bond or portion of a Bond so selected for redemption. The Fiscal Agent shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

SECTION 2.07. Bond Register. The Fiscal Agent for each Series of Bonds will keep or cause to be kept at its designated office sufficient books for the registration and transfer of the Bonds of that Series, which shall at all times be open to inspection during normal business hours by the District; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

SECTION 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the District, shall be in registered form and may contain such reference to any of the provisions of this Resolution as may be appropriate. A temporary Bond may be in the form of a single Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the District and authenticated by the Fiscal Agent upon the same conditions and in substantially the same manner as the definitive Bonds. If the District issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the designated office of the Fiscal Agent for such Series and that Fiscal Agent shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same Series, tenor and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Resolution as definitive Bonds authenticated and delivered hereunder.

SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the District at the expense of the Owner of said Bond, shall execute, and the Fiscal Agent for such Bond shall thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent for that Bond shall be canceled by it and destroyed. If any Bond shall be lost, destroyed

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

ARTICLE III

ISSUANCE OF BONDS

SECTION 3.01. Series of Bonds: Terms of Supplemental Resolutions. The Board may from time to time by Supplemental Resolution establish one or more Series of Bonds, and the District may issue, and a Fiscal Agent may authenticate and deliver to the purchaser thereof, Bonds of any Series so established, in such principal amount as shall be determined by the Board, but only upon compliance by the District with the provisions of this Resolution and any additional requirements set forth in said Supplemental Resolution.

A Supplemental Resolution authorizing one or more Series of Bonds shall specify, among other things: (i) the authorized principal amount and distinguishing designation of such Series; (ii) the general purpose or purposes for which such Series of Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the Bonds of such Series; (iii) the date or dates, and the maturity date or dates of the Bonds of such Series, and the principal amount maturing on each maturity date and any Mandatory Sinking Account Payments for the Bonds of such Series; (iv) the interest rate or rates on the Bonds of such Series (which may be a rate of zero) and the interest payment date or dates therefor, and whether such interest rate or rates shall be fixed, variable or a combination of both and, if necessary, the manner of determining such rate or rates; (v) the denominations of, and the manner of dating, numbering, and, if necessary, authenticating, the Bonds of such Series; (vi) the Fiscal Agent and any paying agent or paying agents for the Bonds of such Series and the duties and obligations thereof, (vii) the place or places of payment of the principal, Accreted Value, redemption price, if any, or purchase price, if any, or the interest on, the Bonds of such Series, (viii) the tender agent or tender agents for the Bonds of such Series, if any, and the duties and obligations thereof;

(ix) the remarketing agent or remarketing agents for the Bonds of such Series, if any, and the duties and obligations thereof, (x) the form or forms of the Bonds of such Series and any coupons attached thereto, which may include but shall not be limited to, registered form, bearer form with or without coupons, and book-entry form, and the methods, if necessary, for the registration, transfer and exchange of the Bonds of such Series; (xi) the terms and conditions, if any, for the redemption of the Bonds of such Series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms, (xii) the terms and conditions, if any, for the purchase of the Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms; (xiii) if so determined by the Board, the authorization of and any terms and conditions with respect to any Credit Facility for the Bonds of such Series and the pledges or provision of moneys, assets or security other than Net Operating Revenues to or for the payment of the Bonds of such Series or any portion thereof; (xiv) the creation and maintenance of one or more special funds or accounts, if any, to provide for the payment or purchase of the Bonds of such Series and, if so determined by the Board, any other special funds or accounts, including, without limitation, a reserve fund or account, for the Bonds of such Series and the application of moneys therein; (xv) instructions for the application of the proceeds of the Bonds of such Series; (xvi) any Designated Investments for the Bonds of that Series; (xvii) if so determined by the Board, the authorization of and any terms and conditions with respect to any interest rate swap by the District with respect to the Bonds of such Series and the pledges or provision of moneys, assets or security for any payments by the District with respect to any such interest rate swap; (xviii) the creation and maintenance of one or more special funds or accounts, if any, to provide for the payments, if any, to be made by the District with respect to any interest rate swap with respect to the Bonds of such Series; (xix) if so determined by the Board, the authorization of and any terms and conditions with respect to any municipal bond insurance policy insuring the payment of the Bonds; and (xx) any other provisions which the Board deems necessary or desirable in connection with the Bonds of such Series not inconsistent with the terms of this Resolution. In lieu of expressly stating any of the foregoing, it shall be sufficient if such Supplemental Resolution shall provide the method or procedure for determination of any of the foregoing.

SECTION 3.02. General Provisions for the Issuance of Bonds. The Bonds of each Series shall be executed by the District for issuance under this Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to the District on its order, but only upon receipt by that Fiscal Agent of the following:

(a) A copy of this Resolution, including the Supplemental Resolution creating such Series, certified by the Secretary of the Board;

(b) An opinion of Bond Counsel to the effect that (i) the Bonds of such Series are valid and binding limited obligations of the District enforceable against the District in accordance with their terms, and (ii) that the Resolution, including the Supplemental Resolution creating such Series, is a valid and binding obligation of the District enforceable in accordance with its terms; provided that such opinions may be qualified to the extent that the enforceability of the Bonds and the Resolution, including the Supplemental Resolution creating such Series,

may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles; and

- (c) An order of the District as to the delivery of such Series of Bonds.

SECTION 3.03. Issuance of Refunding Bonds.

(A) Refunding Bonds may be authorized and issued by the District in an aggregate, principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of any or all of the following:

(1) All or any portion of the principal or Redemption Price of the Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or any obligation or indebtedness of the District to be refunded (including the purchase price of any Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded);

(2) All expenses incident to the calling, retiring or paying of such Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness and the cost of issuance of such Refunding Bonds;

(3) Interest on all Outstanding Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt, or obligation or indebtedness to be refunded to the date such Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or Senior Debt will be called for redemption or paid at maturity; and

(4) Interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations, Senior Debt or obligation or indebtedness to be refunded.

(B) A Series of Refunding Bonds may be executed by the District for issuance under this Resolution and delivered to the Fiscal Agent for that Series and thereupon authenticated by the Fiscal Agent and delivered to the District or its order, but only upon receipt by that Fiscal Agent of the documents required by Section 3.02 and, if applicable, satisfaction of the requirements contained in Section 6.08.

SECTION 3.04. Application of Proceeds. Proceeds of each Series of Bonds shall be applied as specified in the Supplemental Resolution pursuant to which such Series of Bonds is created. All Bonds, First Tier Parity Obligations, Second Tier Subordinate Obligations or Senior Debt paid, purchased, redeemed or retired by use of funds received from the sale of Refunding Bonds, and all Bonds surrendered to a Fiscal Agent against the issuance of Refunding Bonds, shall be forthwith canceled and shall not be reissued.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. Terms of Redemption. Each Series of Bonds may be made subject to redemption before its respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Resolution creating such Series of Bonds.

SECTION 4.02. Redemption at the Direction of District. In the case of any redemption of Bonds at direction of the District, the District will select Series, maturities and principal amounts thereof to be redeemed and the District shall give written notice to the Fiscal Agent for each Series of Bonds to be redeemed specifying the redemption date and the maturities and Bond Obligation amounts of such Series to be redeemed, and directing the Fiscal Agent to give notice of redemption to the Owners of Bonds selected for redemption.

SECTION 4.03. Redemption Otherwise than at the District's Direction. Whenever by the terms of the Supplemental Resolution pursuant to which any Series of Bonds is issued the Fiscal Agent is required or authorized to redeem Bonds otherwise than at the direction of the District, the Fiscal Agent shall, subject to receipt of any notice from the District pursuant to Section 4.04, select the Bonds to be redeemed as provided in the applicable Supplemental Resolution and shall give the notice of redemption.

SECTION 4.04. 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 the District. If the District 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.

SECTION 4.05. Notice of Redemption.

(A) Unless otherwise specified in a Supplemental Resolution establishing the terms and provisions of a Series of Bonds, each notice of redemption shall be given by the Fiscal Agent to each Owner and the Securities Depository not less than 20 nor more than 60 days before the redemption date. Notice of redemption shall be given by first-class mail, electronic means, or such other method as may be required with respect to a Series of Bonds in the Supplemental Resolution creating such Series of Bonds. Each notice of redemption shall state the date of such notice, the date of issue of the Series of Bonds to which such notice relates, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number (if any) of the maturity or maturities, and, in the case of Bonds to be redeemed in part only, the portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the

redemption date, if the conditions to the redemption are satisfied, there will become due and payable on each of the Bonds the Redemption Price thereof (or of the 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, that from and after such redemption date interest thereon shall cease to accrue, and that such Bonds shall be surrendered on the redemption date at the address or addresses of the Fiscal Agent specified in the redemption notice. Neither the District nor Fiscal Agent 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 the District nor Fiscal Agent shall be liable for any inaccuracy in such CUSIP numbers.

(B) The sufficiency or validity of the proceedings for redemption shall not be affected by the Fiscal Agent's failure to give notice to any Owner or the Securities Depository; or by the failure of any Owner or any Securities Depository to receive notice; or by any defect in any such notice.

(C) Unless, upon the giving of a notice of redemption such Bonds shall be deemed to have been paid within the meaning of Article IX, such notice shall state that such redemption shall be conditional upon the receipt by the Fiscal Agent, escrow agent or other fiduciary on or prior to the date fixed for such redemption of amounts sufficient to pay the Redemption Price of and interest on such Bonds to be redeemed and that if such amounts shall not have been so received the notice shall be of no force and effect and the District shall not be required to redeem such Bonds. The District may also instruct the Fiscal Agent to provide conditional notice of optional redemption, which may be conditioned on the occurrence of any other event if such notice states that if such event does not occur the notice shall be of no force and effect and the District shall not be required to redeem such Bonds. In the event that such notice of optional redemption contains such a condition and such amounts are not so received or such event does not occur, the optional redemption shall not be made. Such failure to optionally redeem such Bonds shall not constitute an Event of Default.

(D) Any notice of optional redemption given pursuant to this Section 4.05 may be rescinded by written notice or electronic means given to the Fiscal Agent by the District no later than two Business Days prior to the date specified for redemption (or such other period specified in the Supplemental Resolution authorizing such Bonds). The Fiscal Agent shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given pursuant to this Section 4.05.

SECTION 4.06. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 4.05 and moneys for the payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Fiscal Agent, an escrow agent or other fiduciary for such purpose, 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, for Current Interest Bonds, 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, the District 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.

ARTICLE V

REVENUES

SECTION 5.01. (A) Pledge of Net Operating Revenues. The Bonds of each Series are special limited obligations of the District 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) Net Operating Revenues, subordinate to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions and on parity with the First Tier Parity Obligations, and (ii) the other funds, assets and security, if any, described hereunder and under the Supplemental Resolution creating that Series. The District hereby pledges and places a charge upon all Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions, to secure the payment of the principal and Accreted Value of, premium, if any, and interest on the Bonds and First Tier Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of this Resolution permitting the application thereof for the purposes and on the terms and conditions set forth herein, and the Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions, constitute a trust for the security and payment of the interest and any premium on and principal and Accreted Value of the Bonds and First Tier Parity Obligations. The District hereby pledges and places a charge upon all Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions, and the lien thereon of the Bonds and the payment of the First Tier Parity Obligations, to secure the payment of Second Tier Subordinate Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of this Resolution permitting the application thereof for the purposes and on the terms and conditions set forth herein, and the Net Operating Revenues, subordinate only to the lien thereon of the Senior Debt pursuant to the Senior Debt Resolutions and the lien thereon of the Bonds and First Tier Parity Obligations, constitute a trust for the security and payment of the Second Tier Subordinate Obligations. There are hereby 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 Subordinate Bond Service Fund, subject only to the provisions of this Resolution permitting the application thereof for the purposes and on the terms and conditions set forth herein. The

pledges of Net Operating Revenues herein made shall be irrevocable until no Bonds, First Tier Parity Obligations or Second Tier Subordinate Obligations are Outstanding.

(B) Equality of Security. In consideration of the acceptance of the Bonds by the Owners thereof from time to time, this Resolution shall be deemed to be and shall constitute a contract between the District and the Owners from time to time of the Bonds, and the covenants and agreements herein set forth to be performed by or on behalf of the District 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 herein. Notwithstanding the foregoing, nothing herein shall prevent additional security being provided to particular Bonds under any Supplemental Resolution.

SECTION 5.02. Establishment of Funds and Accounts; Application.

(A) The District shall establish, continue and maintain, as appropriate, in accordance with the terms of the Senior Debt Resolutions and of this Resolution, the following funds and accounts:

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

(B) All funds and accounts established or continued hereunder or by any Supplemental Resolution shall be held by the Treasurer or, if applicable, a Fiscal Agent and shall be accounted for separate and apart from all other funds and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with Article IX of this Resolution and any Supplemental Resolution.

SECTION 5.03. Water Revenue Fund. The District shall allocate all Operating Revenues to the Water Revenue Fund.

SECTION 5.04. Subordinate Bond Service Fund.

So long as any Bonds are Outstanding, the District shall transfer into the following funds and accounts in the following amounts and in the following order of priority, the requirements of each such fund or account at the time of deposit to be satisfied before any deposit is made to any fund or account subsequent in priority; provided that (i) the District may set aside or transfer, on a parity with such deposits, amounts with respect to First Tier Parity Obligations (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such First Tier

Parity Obligations); (ii) in the event any of the deposits or transfers requires more than one such deposit or payment and there are insufficient moneys to make all such deposits and payments, then such deposits and payments shall be made *pro rata* (based on the total amount of such deposits and payments then due) to the extent of available moneys:

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

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

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

SECTION 5.05. Reserve Funds. Upon the occurrence of any deficiency in any Reserve Fund, the District shall transfer to such Reserve Fund the amount required by the terms of the Supplemental Resolution creating such Bonds on the dates required by such Supplemental Resolution.

SECTION 5.06. Excess Earnings Funds. The District 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.

SECTION 5.07. Application of Funds and Accounts.

(A) All amounts in the Subordinate Bond Service Fund shall be used and withdrawn by the District solely for the purposes of paying (i) interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers;

(ii) the Bond Obligation and any Mandatory Sinking Account Payment when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of principal of Bonds made by such providers; and (iii) to the extent amounts have been set aside in the Subordinate Bond Service Fund with respect to First Tier Parity Obligations, amounts due in respect to First Tier Parity Obligations.

(B) Notwithstanding paragraph (A) of this Section 5.07, moneys in the Subordinate Bond Service Fund may be applied to the purchase of Bonds maturing or subject to Mandatory Sinking Account Payment (1) within the next six months in the case of Bonds subject to semi-annual maturity dates or (2) within the next twelve months in the case of Bonds subject to annual maturity dates but only to the extent of amounts deposited in the Subordinate Bond Service Fund in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges) as is directed by the District, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this subsection shall be delivered to the Fiscal Agent for such Bonds and canceled and destroyed by that Fiscal Agent and a certificate of destruction shall be delivered to the Treasurer by the Fiscal Agent for such Series.

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

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

SECTION 5.08. Establishment Funding and Application of Subordinate Redemption Fund. The District shall establish and the Treasurer shall maintain and hold in trust a special fund designated as the “Water Revenue Subordinate Bonds, Redemption Fund.” All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds shall, unless otherwise directed by the Board, be deposited in the Subordinate Redemption Fund. All amounts deposited in the Subordinate 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 Subordinate Bond Service Fund) as is directed by the District except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Subordinate Redemption Fund shall be allocated to (and thereby reduce the amount of) Mandatory Sinking Account Payments then applicable to such Series and maturity of Term Bonds as may be specified in a Request of the District.

SECTION 5.09. Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to this Resolution shall be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

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

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

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

SECTION 5.10. Pledge Change Designation. If, on any date, the District delivers a Certificate of the District to the Fiscal Agent satisfying each of the following requirements:

(A) The District sets forth in such Certificate of the District that it has elected to effect a Pledge Change Designation;

(B) The District certifies that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt; and

(C) The District certifies that, after giving effect to the Pledge Change Designation, it can satisfy Section 6.08(A) as though it were issuing all Bonds and First Tier Parity Obligations Outstanding on such date;

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

ARTICLE VI

COVENANTS OF THE DISTRICT

SECTION 6.01. Covenants. The District makes the following covenants with the Owners (to be performed by the District or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners; provided, however, that said covenants do not require or obligate the District to use any of its moneys other than the Operating Revenues. Said covenants shall be in effect so long as any of the Bonds issued hereunder are Outstanding.

SECTION 6.02. Compliance with Senior Debt Resolution. The District shall comply in all material respects with the Senior Debt Resolution.

SECTION 6.03. Punctual Payment. The District covenants that it shall duly and punctually pay or cause to be paid the principal and Accreted Value of and interest on every Bond issued hereunder, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with this Resolution, and that the payments into the Subordinate Bond Service Fund and any reserve fund or account will be made, all in strict conformity with the terms of said Bonds and of this Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Resolution and any Supplemental Resolutions and of the Bonds issued hereunder, and that time of such payment and performance is of the essence of the District's contract with the Owners of the Bonds. The District covenants that it will duly and punctually pay or cause to be paid all First Tier Parity Obligations and all Second Tier Subordinate Obligations all in strict conformity with the terms of said First Tier Parity Obligations and Second Tier Subordinate Obligations and of this Resolution and any Supplemental Resolutions.

SECTION 6.04. Maintenance and Operation of the Water System. The District will cause the Water System to be maintained in good repair, working order, and condition at all times and will continuously operate the Water System in an efficient and economical manner so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the District shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Water System.

SECTION 6.05. Records and Accounts. The District 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. Said books shall at all times be subject to the inspection of the Owners of not less than 25 percent of the Outstanding Bonds, or their representatives authorized in writing.

The District 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 the District, and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

SECTION 6.06. Rates and Charges. The District shall prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which shall provide Operating Revenues, together with any other revenues of the District and any amounts available in any Unrestricted Reserves of the District, at least sufficient to pay the following amounts (“collectively, the “Rate Covenant Amounts”):

- (a) Operating Expenses;
- (b) From and after any Pledge Change Designation, SWC Capital Payments;
- (c) The Bond Obligation (as such term is defined in the Senior Debt Resolution) and interest on Senior Debt as the same shall become due and payable; and
- (d) The interest on and Bond Obligation (including Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) and amounts payable on First Tier Parity Obligations and Second Tier Subordinate Obligations as they become due and payable;

provided, however, that, in determining the amounts payable with respect to any of the Rate Covenant Amounts and the amounts of rates and charges, the District may make such allowances for contingencies and error in estimates and may incorporate and use such reasonable assumptions as the District determines are appropriate and reasonable.

SECTION 6.07. No Priority for Additional Bonds. Except for Senior Debt, 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 First Tier Parity Obligations.

SECTION 6.08. Additional Bonds and First Tier Parity Obligations.

- (a) Except Bonds and First Tier Parity Obligations to the extent incurred to pay or discharge Outstanding Senior Debt, Bonds or First Tier Parity Obligations and which do not result in an increase in the Average Annual Debt Service on all Senior Debt, Bonds or First Tier Parity Obligations to be Outstanding after the issuance of such Bonds or First Tier Parity Obligations, and except for any Bonds or First Tier Parity Obligations issued or incurred in connection with any Commercial Paper Program or Revolving Credit Agreement (which are addressed in clauses (b) and (c) below), the District shall not issue or incur any additional Bonds or First Tier Parity Obligations unless it delivers a Certificate of the District to the Fiscal Agent to the effect that, as of the Calculation Date (which date shall not be any earlier than 60 days preceding the date of delivery of the Bonds or incurrence of First Tier Parity Obligations):

(1) No Event of Default has occurred and is continuing under the terms of this Resolution; and

(2) The sum obtained from (A) at the option of the District, either the amount of (I) the Net Operating Revenues as shown by the books and records of the District for the applicable NOR Period, or (II) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Water System financed with the proceeds of the additional Bonds or First Tier Parity Obligations shall be in operation, as estimated by and set forth in a Certificate of the District, plus (B) at the option of the District, any or all of the items hereinafter in this covenant designated in subsection (d) below, shall have amounted to not less than Average Annual Debt Service on all Covered Obligations to be Outstanding immediately after the issuance or incurrence of such additional Bonds or First Tier Parity Obligations.

(b) If the District delivers a Certificate of the District to the Fiscal Agent to the effect that, as of the Calculation Date (which date shall not be any earlier than 60 days preceding the effective date of any such Commercial Paper Program and no later than such effective date):

(1) No Event of Default has occurred and is continuing under the terms of this Resolution;

(2) The District is establishing a Commercial Paper Program and setting forth the maximum principal amount of Commercial Paper Notes issuable under such Commercial Paper Program; and

(3) The requirements set forth in clause (2) of Section 6.08(a) are satisfied on the Calculation Date assuming that the amount included in the definition of Debt Service with respect to all Bonds and First Tier Parity Obligations issued or incurred in connection with the Commercial Paper Program (including the Commercial Paper Notes and any Commercial Paper Support) for each Fiscal Year is equal to the amount of Commercial Paper Debt Service based on the principal amount of Commercial Paper Notes that the District reasonably estimates on the Calculation Date will be Outstanding on the effective date of such Commercial Paper Program;

then, for all purposes of this Section 6.08, any Bonds and First Tier Parity Obligations issued in connection with a Commercial Paper Program including any Bonds or First Tier Parity Obligations issued under any Commercial Paper Support shall be deemed to be issued and incurred on the effective date of establishing the Commercial Paper Program and the District shall not be required to satisfy any of the requirements set forth in Section 6.08(a) the time of the issuance of any Commercial Paper Notes or the incurrence of any First Tier Parity Obligations in connection with any Commercial Paper Support under such Commercial Paper Program.

If the District delivers a Certificate of the District to the Fiscal Agent to the effect that any Commercial Paper Program has been terminated, the Commercial Paper Program shall be deemed terminated for purposes of this Resolution (including for purposes of calculating Debt Service). The District shall not deliver any such Certificate at any time at which there are Bonds

or First Tier Parity Obligations Outstanding under such Commercial Paper Program, including under any Commercial Paper Support.

(c) If the District delivers a Certificate of the District to the Fiscal Agent to the effect that, as of the Calculation Date (which date shall not be any earlier than 60 days preceding the effective date of any such Revolving Credit Agreement and no later than such effective date):

(1) No Event of Default has occurred and is continuing under the terms of this Resolution; and

(2) The requirements set forth in clause (2) of Section 6.08(a) are satisfied assuming that the amount included in the definition of Debt Service with respect to all Bonds and First Tier Parity Obligations issued or incurred in connection with the Revolving Credit Agreement for each Fiscal Year is equal to the amount of Revolving Credit Agreement Debt Service based on the principal amount that the District reasonably estimates on the Calculation Date will be Outstanding on the effective date of the Revolving Credit Agreement;

then, for all purposes of this Section 6.08, any Bonds and First Tier Parity Obligations issued in connection with a Revolving Credit Agreement shall be deemed to be issued and incurred on the effective date of the execution of the Revolving Credit Agreement, and the District shall not be required to satisfy any of the requirements set forth in Section 6.08(a) the time of the issuance or incurrence of any Bond or First Tier Parity Obligations in connection with such Revolving Credit Agreement.

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

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

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

(3) Any Additional Revenues for the NOR Period.

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

(e) Any calculation required to be made under this Section 6.08 (including any of the terms used in this Section 6.08) shall be made by the District in its discretion and any calculation made by the District for these purposes shall be conclusive and binding on the Owners and any other affected Persons for all purposes, absent manifest error.

Nothing in this Resolution shall limit the ability of the District to issue or incur Second Tier Subordinate Obligations and obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all First Tier Parity Obligations and Second Tier Subordinate Obligations, and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside hereunder from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all First Tier Parity Obligations and Second Tier Subordinate Obligations, as the same become due and payable and at the times and in the manner as required in this Resolution or the instruments creating any First Tier Parity Obligations and Second Tier Subordinate Obligations.

SECTION 6.09. Insurance.

(A) The District shall procure or provide and maintain, at all times while any of the Bonds remain Outstanding or any First Tier Parity Obligations or Second Tier Subordinate Obligations remain unpaid, insurance or self-insurance against such risks as are usually insured against by other providers of water services similar to those provided by the District through the Water System. Such insurance or self-insurance shall be in an adequate amount as to the risk insured against as determined by the District.

(B) Any self-insurance shall be established in accordance with applicable law and shall include reserves or reinsurance in amounts the District determines to be adequate to protect against risks assumed under such self-insurance including any potential retained liability in the event of the termination of such self-insurance.

ARTICLE VII

THE FISCAL AGENT

SECTION 7.01. Appointment: Duties of Fiscal Agent.

(A) The District may appoint a Fiscal Agent, who may be the Treasurer or the Controller, or a combination thereof, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent shall act as the agent of the District

and shall perform such duties and only such duties as are specifically set forth in this Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants shall be read into this Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent shall exercise such of the rights and powers vested in it by this Resolution or the Supplemental Resolution pursuant to which it was appointed.

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

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

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

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of this Section in succession to a Fiscal Agent shall be either the Treasurer or the Controller or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company shall be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of this subsection the combined

capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor shall be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

Upon merger, consolidation, or reorganization of a Fiscal Agent, the District will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent shall cease to be eligible in accordance with the provisions of this subsection (E), such Fiscal Agent shall resign immediately in the manner and with the effect specified in this Section.

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

SECTION 7.02. Liability of Fiscal Agent.

(A) The recitals of facts herein, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained shall be taken as statements of the District, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of this Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of this Resolution thereon, or as to the financial or technical feasibility of any Project and shall not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly herein or in the Bonds assigned to or imposed upon it. Each Fiscal Agent shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence, willful misconduct or breach of the express terms and conditions hereof. A Fiscal Agent and its directors, officers, employees or Agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of the District, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the District and make disbursements for the District and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, but such Fiscal Agent shall be answerable for the negligence or misconduct of any such attorney-in-

fact, agent, or receiver selected by it; provided that such Fiscal Agent shall not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

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

(D) A Fiscal Agent shall not be required to ascertain, monitor or inquire as to the performance or observance by the District of the terms, conditions, covenants or agreements set forth in the Article VI hereof or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of the District to make payments with respect to the Bonds when due as set forth in Section 6.03 and to file with such Fiscal Agent when due, such reports and certifications as District is required to file with each Fiscal Agent hereunder.

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent hereunder shall be construed to impose a duty to exercise such power, right or remedy.

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

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

SECTION 7.03. Right of Fiscal Agent to Rely on Documents. A Fiscal Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. A Fiscal Agent may consult with counsel, including, without limitation, counsel of or to the District, with regard to legal questions, and the written opinion of such counsel addressed to the particular Fiscal Agent shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith unless it shall be proved that a Fiscal Agent was negligent in ascertaining the pertinent facts.

Whenever in the administration of the duties imposed upon it by this Resolution a Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the District, and such Certificate shall be full warrant to a Fiscal Agent for any action taken or suffered in good faith under the provisions of this Resolution in reliance upon

such Certificate. A Fiscal Agent may also rely conclusively on any report or certification of any certified public accountant, investment banker, financial consultant, or other expert selected by the District or selected by such Fiscal Agent with due care in connection with matters required to be proven or ascertained in connection with its administration of the duties created hereby.

ARTICLE VIII

MODIFICATION OR AMENDMENT OF THIS RESOLUTION

SECTION 8.01. Amendments Permitted.

(A) (1) This Resolution and the rights and obligations of the District, 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 under this Section.

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

It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it shall be sufficient if such consent shall approve the substance thereof. It shall not be necessary for all Bondholders consenting to any amendments or modifications of this Resolution to consent on one date and the District may obtain consents from Owners of different Bonds and different Series of Bonds at different times. Promptly after the adoption by the Board of any Supplemental Resolution pursuant to this subsection (A), the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment shall mail a notice provided by the District, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the

addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

(B) This Resolution and the rights and obligations of the District, 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 the District in this Resolution thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the District, in each case which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

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

(3) to modify, amend or supplement this Resolution in such manner as to permit the qualification hereof 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 Bonds;

(4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as the District may deem desirable; subject to the provisions of Article III and Section 6.08;

(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 any of the Bonds;

(6) if the District has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and

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

SECTION 8.02. Underwriter Consent. The underwriter (as such term is defined in Section 2(a)(11) of the Securities Act of 1933, as amended) of the Bonds of any Series may

consent to any amendment on behalf of the Owners of the Bonds of the Series for which it is serving as underwriter with the full force and effect as any other Owner of Bonds.

SECTION 8.03. Consents Effective on Tender. . Notwithstanding any provision of this Article VIII to the contrary, the Owners of any Series of Bonds shall be deemed to consent to any modification or amendment of this Resolution and for any other purposes if (a) such amendment becomes effective upon or after the date on which, under the terms and conditions of the Supplemental Resolution under which the Bonds of such Series were issued, the Owners of all Bonds of such Series are required to tender their Bonds for purchase, (b) such amendment does not affect the right of the tendering Owners to receive the payment of the purchase price payable upon such mandatory tender for purchase of the Bonds of such Series, and (c) the content to the amendment is included in a notice of mandatory tender delivered to the Owners.

SECTION 8.04. Amendment to Name of the Bonds and Resolution. Notwithstanding any provision of this Article VIII to the contrary, the District may modify or amend the name of the Bonds and the name of this Resolution without the consent of the Owners of the Bonds from time to time and at any time by filing with each Fiscal Agent a Supplemental Resolution and a Certificate of the District certifying that, under the terms of the Senior Debt Resolution, it is prohibited from issuing or incurring any additional Senior Debt.

SECTION 8.05. Effect of Supplemental Resolution. From and after the time any Supplemental Resolution becomes effective pursuant to this Article, this Resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Resolution of the District, each Fiscal Agent and all Owners of Bonds, First Tier Parity Obligations and Second Tier Subordinate Obligations Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Resolution shall be deemed to be part of the terms and conditions of this Resolution for any and all purposes.

SECTION 8.06. Endorsement of Bonds: Preparation of New Bonds. Bonds delivered after any Supplemental Resolution becomes effective pursuant to this Article may, and if a Fiscal Agent so determines shall, bear a notation by endorsement or otherwise in form approved by the Board and such Fiscal Agent as to any modification or amendment provided for in such Supplemental Resolution, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such execution and presentation of his Bond for such purpose at the Corporate Trust Office of such Fiscal Agent or at such additional offices as such Fiscal Agent may select and designate for that purpose, a suitable notation shall be made on such Bond. If a Supplemental Resolution shall so provide, new Bonds so modified as to conform, in the opinion of the Board and the Fiscal Agent for such Series, to any modification or amendment contained in such Supplemental Resolution, shall be prepared and executed by the District and authenticated by such Fiscal Agent, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Corporate Trust office of such Fiscal Agent, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same Series, tenor and maturity.

SECTION 8.07. Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him (even if the effect of the amendment is to increase the amount of debt service on Bonds), provided that due notation thereof is made on such Bonds.

ARTICLE IX

DEFEASANCE

SECTION 9.01. Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by the District in any of the following ways:

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

(b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 9.03) to pay or redeem all Bonds Outstanding of the Series; or

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

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

SECTION 9.02. Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or another fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 9.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in Article IV or provision satisfactory to such Fiscal Agent shall have been made for the giving of such notice, then all liability of this District 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 the District shall remain liable

for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of Section 9.04 and the continuing duties of the Fiscal Agent for such Series hereunder including, without limitation, the provisions of Section 2.05 and Section 2.06. Upon defeasance and discharge of any Bond as provided in this Section 9.02, the Fiscal Agent shall provide notice thereof to the Owner of such Bond.

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

SECTION 9.03. Deposit of Money or Securities with Treasurer. Unless otherwise provided in a Supplemental Resolution (and then only with respect to the Bonds of the Series authorized thereby), whenever in this Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the funds and accounts established pursuant to this Resolution for such Bonds and shall be one or more of the following:

(a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV of this Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series shall have been irrevocably instructed (by the terms of this Resolution or by Request of the District) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

SECTION 9.04. Payment of Bonds After Discharge of Resolution. Any moneys held by the Fiscal Agent of a Series, an escrow agent or other fiduciary in trust for the payment of the principal or Accreted Value of, premium, if any, or interest on, any Bond of such Series

and remaining unclaimed for two years after such principal or Accreted Value of, premium, if any, or interest on such Bond of such Series has become due and payable (whether at maturity or upon call for redemption as provided in this 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 the District, be released from the trusts created by this 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 the District) 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 the District) 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 the District and shall be promptly deposited into the Water Revenue Fund.

ARTICLE X

DEFAULTS AND REMEDIES

SECTION 10.01. Events of Default. Each of the following events shall be an “Event of Default”:

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

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

(c) Failure of the District to pay any First Tier Parity Obligation when due and payable and such failure continues for a period of 5 Business Days following written notice by any Owner of such First Tier Parity Obligation;

(d) Failure of the District to pay any Second Tier Subordinate Obligations when due and payable and such failure continues for a period of 30 Business Days following written notice by any Owner of such Second Tier Subordinate Obligations;

(e) Failure of the District to observe and perform any of its other covenants, conditions or agreements under this Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the

Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the District to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(f) The occurrence of an “event of default” under the Senior Debt Resolution;

(g) (1) Failure of the District generally to pay its debts as the same become due, (2) commencement by the District 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 the District to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the District, the Water System or any substantial part of the District’s property, or to the taking possession by any such official of the Water System or any substantial part of the District’s property, (4) making by the District of any assignment for the benefit of creditors, or (5) taking of corporate action by the District in furtherance of any of the foregoing;

(h) The entry of any (1) decree or order for relief by a court having jurisdiction over the District 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 the District, the Water System or any substantial part of the District’s property, or (3) order for the termination or liquidation of the District or its affairs; or

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

The provisions of subsection (e) of this Section are subject to the limitation that if by reason of force majeure the District is unable in whole or in part to observe and perform any of its covenants, conditions or agreements hereunder, the District shall not be deemed in default during the continuance of such disability. The term “force majeure” as used herein 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; 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 the District. The District 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 the District, and the District 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.

SECTION 10.02. Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may call a meeting of the Owners for the purpose of electing a Bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) 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 hereby declared to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Resolution on any Owner, provided, however, that whenever any provision hereof 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 this 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. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the Authorized Representative.

SECTION 10.03. Acceleration.

(A) Upon the occurrence and continuation of an Event of Default specified in subsections (g), (h) or (i) of Section 10.01, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to the District, 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 the District 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 herein specifically pledged 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 this Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to the District, 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.

(B) Any Bank Obligations may be subject to acceleration on the terms and conditions set forth in the Supplemental Resolution authorizing such Bonds or the instrument creating such First Tier Parity Obligations. Except for Bank Obligations and except as provided in Section 10.03(A), no principal due and payable on any Bonds or First Tier Parity Obligations may be accelerated as a result of an Event of Default under this Resolution or default or event of default under the terms of such Bonds or First Tier Parity Obligations. Any Second Tier Subordinate Obligations may be subject to acceleration on the terms and conditions set forth in the instrument creating such Second Tier Subordinate Obligations.

SECTION 10.04. Receiver. Upon the occurrence and continuation of an Event of Default for a period of 60 days, the Bondholders' Committee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding shall be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Water System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the District itself might do. No bond shall be required of such receiver.

SECTION 10.05. Other Remedies, Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement herein contained.

No remedy conferred by this 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 hereunder 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 herein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default hereunder by the Owners shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

SECTION 10.06. Unconditional Rights To Receive Principal, Accreted Value, Premium and Interest. Nothing in this Resolution shall, however, affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as herein provided, or the obligation of the District to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued hereunder to the respective holders thereof at the time and place, from the source and in the manner herein and in the Bonds expressed.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Liability of District Limited to Net Operating Revenues. Notwithstanding anything in this Resolution or in the Bonds contained, the District shall not be required to advance any moneys derived from any source other than the Net Operating Revenues and other money, assets and security pledged hereunder for any of the purposes in this Resolution mentioned, whether for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or for any other purpose of this Resolution.

The general fund of the District is not liable for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the District pledged for the payment of any Bonds, any premium thereon upon redemption prior to maturity or their interest. The Owner of any Bond shall not compel the exercise of the taxing power by the District or the forfeiture of any of its property. The principal and Accreted Value of and interest on any Bonds and any premiums upon the redemption of any thereof prior to maturity are not a debt of the District nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the Bonds, interest thereon and any premiums upon redemption.

SECTION 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in this Resolution either the District, the Treasurer or any Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Resolution contained by or on behalf of the District or any Fiscal Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.03. Limitation of Rights to District Fiscal Agents and Bondholders. Nothing in this Resolution or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the District, each Fiscal Agent, and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Resolution or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, each Fiscal Agent, and the Owners of the Bonds.

SECTION 11.04. Waiver of Notice. Whenever in this Resolution the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05. Destruction or Delivery of Canceled Bonds. Whenever in this Resolution provision is made for the cancellation by a Fiscal Agent and the delivery to the Treasurer of any Bonds, such Fiscal Agent may, in its sole discretion, in lieu of such cancellation

and delivery, destroy such Bonds (in the presence of a representative of the Treasurer, if the Treasurer shall so require), and deliver a certificate of such destruction to the Treasurer.

SECTION 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in this Resolution or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Resolution, and this Resolution shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Board hereby declares that it would have adopted this Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Resolution may be held illegal, invalid or unenforceable.

SECTION 11.07. Notices. Any notice to or demand upon any Fiscal Agent may be served or presented, and such demand may be made, at the corporate trust office of any such Fiscal Agent. Any notice to or demand upon the District shall be deemed to have been sufficiently given or served for all purposes by being deposited, first-class mail postage prepaid, in a post office letter box, addressed, as the case may be, to the District at 700 North Alameda Street Los Angeles, CA 90012-2944, Attention: Chief Financial Officer (or such other addresses as may have been filed in writing by the District with each Fiscal Agent).

SECTION 11.08. Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Resolution to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Resolution and shall be conclusive in favor of the Fiscal Agent for such Series and of the District if made in the manner provided in this Section.

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

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

Except as may be provided in the Supplemental Resolution authorizing a Series of Bonds, any request, consent, or other instrument or writing of the Owner of any Bond shall bind

every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Fiscal Agent for such Series or the District in accordance therewith or reliance thereon.

SECTION 11.09. Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Resolution, Bonds which are owned or held by or for the account of the District, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the Bonds (except for any remarketing or other underwriting agent), shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Fiscal Agent for such Series the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the Bonds. In case of a dispute as to such right, any decision by such Fiscal Agent taken upon the advice of counsel shall be full protection to such Fiscal Agent.

SECTION 11.10. Money Held for Particular Bonds. The money held by the Treasurer or a Fiscal Agent for the payment of the interest, principal, Accreted Value or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of registered Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on the District's books and held in trust by the Treasurer for the Owners of the Bonds entitled thereto, subject, however, to the provisions of Section 9.04.

SECTION 11.11. Funds and Accounts. Any fund required by this Resolution to be established and maintained by the District or a Fiscal Agent may be established and maintained in the accounting records of the District or a Fiscal Agent, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every holder thereof.

SECTION 11.12. Proceedings Constitute Contract. The provisions of this Resolution shall constitute a contract between the District and the Bondholders of such Bonds, and the provisions hereof and thereof shall be enforceable by any Bondholder for the equal benefit and protection of all Bondholders similarly situated by mandamus, accounting, mandatory injunction or any other suit, action or proceeding at law or in equity that is now or may hereafter be authorized under the laws of the State in any court of competent jurisdiction.

No remedy conferred hereby upon any Bondholder is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy and may be exercised without exhausting and without regard to any other remedy conferred by any law of the State. No waiver of any default or breach of duty or contract by any Bondholder shall affect any subsequent default or breach of duty or contract or shall impair any rights or remedies

on said subsequent default or breach. No delay or omission of any Bondholder to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed as a waiver of any such default or acquiescence therein. Every substantive right and every remedy conferred upon the Bondholders may be enforced and exercised as often as may be deemed expedient. In case any suit, action or proceeding to reinforce any right or exercise any remedy shall be brought or taken and the Bondholder shall prevail, said Bondholder shall be entitled to receive from the Water Revenue Fund reimbursement for reasonable costs, expenses, outlays and attorney's fees and should said suit, action or proceeding be abandoned, or be determined adversely to the Bondholder then, and in every such case, the District and the Bondholder shall be restored to their former positions, rights and remedies as if such Suit, action or proceeding had not been brought or taken.

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

SECTION 11.13. Future Contracts. Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from the general fund of the District, as the case may be, or from taxes or any source other than the Net Operating Revenues, and from and after the sale of the Bonds of any Series, the general fund of the District shall not include the Net Operating Revenues and no contract or other obligation payable from the general fund of the District shall be payable from the Net Operating Revenues, except as provided herein.

SECTION 11.14. Article and Section Heading and References: Interpretation. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Resolution.

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

SECTION 11.15. Waiver of Personal Liability. No Board member, officer, agent or employee of the District or any Fiscal Agent shall be individually or personally liable for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof, but nothing herein contained shall relieve any such Board member, officer, agent or employee of the District or any Fiscal Agent from the performance of any official duty provided by law or by this Resolution.

SECTION 11.16. Governing Law. This Resolution shall be construed and governed in accordance with the laws of the State of California.

SECTION 11.17. Payment and Performance on a Business Day. Except as specifically set forth in a Supplemental Resolution, any payments or transfers which would otherwise become due on any day which is not a Business Day shall become due or shall be made on the next succeeding Business Day and no interest shall accrue for such period.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the affirmative votes of members representing more than 50 percent of the total number of votes of all members of the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on March 8, 2016.

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AUTHORIZING THE ISSUANCE OF
SUBORDINATE WATER REVENUE REFUNDING BONDS,
PROVIDING THE TERMS AND CONDITIONS OF SUCH BONDS
AND AUTHORIZING THE APPROVAL OF OTHER RELATED DOCUMENTS
(FIRST SUPPLEMENTAL SUBORDINATE RESOLUTION)**

(ADOPTED MARCH __, 2016)

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EXHIBIT A: FORM OF SUBORDINATE REFUNDING BOND A-1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA AUTHORIZING THE ISSUANCE OF SUBORDINATE WATER REVENUE REFUNDING BONDS PROVIDING THE TERMS AND CONDITIONS OF SUCH BONDS AND AUTHORIZING THE APPROVAL OF OTHER RELATED DOCUMENTS (FIRST SUPPLEMENTAL SUBORDINATE RESOLUTION)

(ADOPTED MARCH __, 2016)

WHEREAS, pursuant to the Act, the Board of Directors of The Metropolitan Water District of Southern California (the “District”) may authorize the issuance of revenue bonds for any purpose permitted under the Act;

WHEREAS, pursuant to Resolution ___ adopted by the District on March __, 2016 (as amended and supplemented from time to time, the “Master Subordinate Resolution”), the Board of Directors of the District authorized the issuance of Subordinate Water Revenue Bonds by the District by adoption of supplemental resolutions from time to time;

WHEREAS, the District proposes to issue and sell from time to time Subordinate Water Revenue Refunding Bonds (the “Subordinate Refunding Bonds”) in one or more Series for the purpose of refunding Covered Obligations and any other indebtedness or obligation for borrowed money of the District;

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

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. All terms which are defined in Section 1.01 of the Master Subordinate Resolution shall, unless otherwise defined herein, have the same meanings, respectively, in this First Supplemental Subordinate Resolution. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this First Supplemental Subordinate Resolution and of any certificate, opinion or other document herein mentioned, have

the meanings herein specified, to be equally applicable to both the singular and the plural forms of any of the terms herein defined.

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

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

“Bond Reserve Requirement” means the amount, if any, to be deposited in a Reserve Fund established for a Series of Subordinate Refunding Bonds, which shall be set forth in the terms of the Bond Purchase Contract for such Series pursuant to the terms of Section 4.04 hereof, subject to the provisions of this First Supplemental Subordinate Resolution permitting deposit of a Reserve Fund Credit Policy.

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

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

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

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

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

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

“Escrow Agent” means the escrow agent selected and appointed by an Authorized Representative in accordance with Section 4.03 hereof to act in accordance with and to carry out the Escrow Instructions relating to a Series of Subordinate Refunding Bonds.

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

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

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

“Excess Earnings Fund” means the Subordinate Water Revenue Refunding Bonds Excess Earnings Fund established for such Series pursuant to Section 4.05 hereof.

“First Supplemental Subordinate Resolution” means this resolution of the District.

“Fiscal Agent” means the Treasurer.

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

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

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

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

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

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

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

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

“Reserve Fund Credit Policy” means an insurance policy, surety bond, letter of credit or other credit facility deposited with the Fiscal Agent pursuant to Section 4.04 hereof.

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

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

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

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

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

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

ARTICLE II

THE SUBORDINATE REFUNDING BONDS

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

SECTION 2.02. Terms of the Subordinate Refunding Bonds.

(A) **Subordinate Refunding Bonds.** Subordinate Refunding Bonds of each Series shall be issued in the aggregate principal amount set forth in the Trust Agreement or Bond Purchase Contract for such Series, shall be delivered in fully registered form in the minimum denominations for the Subordinate Refunding Bonds of such Series set forth in the Trust Agreement or Bond Purchase Contract for such Series, and shall be numbered in such manner as the Fiscal Agent determines. The Subordinate Refunding Bonds of any Series shall be dated

such date and shall mature on the dates and in the principal amounts set forth in the Trust Agreement or Bond Purchase Contract for such Series.

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

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

SECTION 2.03. Interest. The Subordinate Refunding Bonds of any Series shall bear interest at the rates specified in or determined pursuant to the Trust Agreement or Bond Purchase Contract for such Series (calculated on the basis of a set forth in such Trust Agreement or Bond Purchase Contract), and shall be payable on the dates set forth in such Trust Agreement or Bond Purchase Contract. Each Subordinate Refunding Bond of a Series shall bear interest from date specified in the Trust Agreement or Bond Purchase Contract for such Series.

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

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

SECTION 2.05. Redemption.

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

(B) Mandatory Sinking Account Payments. The Subordinate Refunding Bonds of any Series which are Term Bonds shall be called before maturity and redeemed at a redemption price equal to the par amount thereof plus accrued interest from Mandatory Sinking Account Payments which shall have been deposited in the Subordinate Bond Service Fund, in the amounts and upon the dates established for each such maturity, as set forth in the Trust Agreement or Bond Purchase Contract for such Series.

(C) Special Mandatory Redemption. The Subordinate 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 Trust Agreement or Bond Purchase Contract for such Series.

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

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

SECTION 2.07. CUSIP Identification Numbers. The Underwriters shall order, and the District shall cause to be printed on the Subordinate Refunding Bonds, CUSIP identification numbers. However, CUSIP identification numbers shall be deemed to not be part of the Subordinate Refunding Bonds or a part of the contract evidenced thereby and no liability shall attach to the District or its officers, employees or agents because of or on account of such CUSIP identification numbers.

SECTION 2.08. Book-Entry System. Except as otherwise provided in the Trust Agreement or Bond Purchase Contract with respect to Subordinate Refunding Bonds of any Series, the Subordinate Refunding Bonds of each Series shall be initially issued in the form of a single (unless more than a single Subordinate Refunding Bond is required by the Securities Depository), separate, fully registered Subordinate Refunding Bond (which may be typewritten) for each maturity of the Subordinate Refunding Bonds of such Series. Upon initial issuance, the ownership of each Subordinate Refunding Bond of a Series shall be registered in the Bond Register of the Fiscal Agent in the name of Cede & Co., as nominee of the Securities Depository. Except as provided in Section 2.10 hereof, the ownership of each Outstanding Subordinate Refunding Bond of any Series shall be registered in the Bond Register of the Fiscal Agent in the name of the Nominee.

With respect to the Subordinate Refunding Bonds of any Series registered in the Bond Register of the Fiscal Agent in the name of the Nominee, the District and the Fiscal Agent shall have no responsibility or obligation to any Participant or to any person on behalf of which a Participant holds an interest in the Subordinate Refunding Bonds of such Series. Without limiting the immediately preceding sentence, the District and the Fiscal Agent shall have no responsibility or obligation (unless the Fiscal Agent is at such time the Securities Depository) with respect to (a) the accuracy of the records of the Securities Depository, the Nominee or any

Participant with respect to any ownership interest in the Subordinate Refunding Bonds of any Series, (b) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register of the Fiscal Agent, of any notice with respect to the Subordinate Refunding Bonds of any Series, or (c) the payment to any Participant or any other person, other than an Owner as shown in the Bond Register of the Fiscal Agent, of any amount with respect to principal of or interest and premium, if any, on the Subordinate Refunding Bonds of any Series. The District and the Fiscal Agent may treat and consider the person in whose name each Subordinate Refunding Bond of any Series is registered in the Bond Register of the Fiscal Agent as the holder and absolute Owner of such Subordinate Refunding Bond for the purpose of payment of principal of, and interest on, such Subordinate Refunding Bond, for the purpose of giving notices and other matters with respect to such Subordinate Refunding Bond, and for all other purposes whatsoever.

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

SECTION 2.09. Representation Letter. To qualify the Subordinate Refunding Bonds of any Series for the Securities Depository's book-entry system, each Authorized Representative is hereby authorized to execute and deliver on behalf of the District to such Securities Depository a letter, if necessary, from the District representing such matters as shall be necessary to so qualify the Subordinate Refunding Bonds of such Series (the "Representation Letter"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.08 hereof or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the Subordinate Refunding Bonds other than the Owners, as shown on the Bond Register of the Fiscal Agent. In the Representation Letter, the Fiscal Agent shall agree to take all actions necessary to comply with all representations of the District in the Representation Letter. In addition to the execution and delivery of the Representation Letter, each Authorized Representative of the District is hereby authorized to take any other actions, not inconsistent with this First Supplemental Subordinate Resolution, to qualify the Subordinate Refunding Bonds of any Series for the Securities Depository's book-entry program.

SECTION 2.10. Transfers Outside Book-Entry System. In the event (a) the Securities Depository determines not to continue to act as securities depository for the Subordinate Refunding Bonds of any Series, or (b) the District determines that the Securities

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

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

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

ARTICLE III

AUTHORIZATION OF AD HOC COMMITTEE

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

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

SECTION 3.03. Approval of Trust Agreements and Bond Purchase Contracts. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Trust Agreements and Bond Purchase Contracts for each Series of Subordinate Refunding Bonds.

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

SECTION 3.04. Waiver of Section 225 and Section 226 of the Act. The Board hereby finds and determines that the interests of the District and the public interest and necessity require that the provisions of Section 225 and of Section 226 of the Act be waived.

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

SECTION 3.06. Approval of Revolving Credit Facilities. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Revolving Credit Facilities from time to time in an aggregate principal amount not to exceed the aggregate principal amount of the District's then-outstanding Subordinate Refunding Bonds. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District any terms and conditions of each Revolving Credit Facility, including, but not limited to, any fees and charges, interest rates, covenants, events of default and events of termination. The Ad Hoc Committee or its designee may approve and the District may execute and deliver any Revolving Credit Facility separately and independently from the issuance of any Series of Subordinate Refunding Bonds or any Series of other Bonds authorized by any Supplemental Resolution.

SECTION 3.07. Approval of Credit/Liquidity Support Arrangements. In connection with the issuance of any Series of Subordinate Refunding Bonds, the Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District the terms and conditions of, and the execution and delivery of, one or more Credit/Liquidity Support Arrangements for such Series. The Ad Hoc Committee or its designee is authorized and directed to determine, establish and approve on behalf of the District any terms and conditions of any Credit/Liquidity Support Arrangements, including, but not limited to, any fees and charges, interest rates, covenants, events of default and events of termination.

SECTION 3.08. Determination of Ad Hoc Committee. Any determination, establishment or approval of any terms and conditions of, or the execution and delivery of, any Series of Subordinate Refunding Bonds, any Trust Agreement, any Bond Purchase Contract, any Remarketing Agreement, any Revolving Credit Facility, any Credit/Liquidity Support Arrangement or any other document, agreement or certificate, or any other action or approval by the Ad Hoc Committee pursuant to this Article III, shall be determined, established or approved by the Ad Hoc Committee as being in the best interests of the District, subject only to the provisions of the Act and of this First Supplemental Subordinate Resolution, and the Ad Hoc Committee shall be empowered as provided in this Article III to implement the fundamental policies established by this First Supplemental Subordinate Resolution in a manner that is most advantageous to the District.

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

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

SECTION 3.11. Further Action. The Chairman of the Board, the General Manager and Chief Financial Officer of the District be and each of them is hereby authorized, empowered and directed to execute such other documents in addition to those enumerated herein and take such other actions as they deem necessary or advisable in order to carry out and perform the purposes of this First Supplemental Subordinate Resolution.

ARTICLE IV

SALE OF SUBORDINATE REFUNDING BONDS; APPLICATION; FUNDS; COVENANTS

SECTION 4.01. Application of the Proceeds of the Subordinate Refunding Bonds. The proceeds of the sale of any Series of Subordinate Refunding Bonds and such other

moneys as are available and necessary to accomplish the purposes of this First Supplemental Subordinate Resolution from time to time shall be deposited with the Treasurer and shall be held in trust and, unless otherwise specified in a certificate of an Authorized Representative, be set aside by the Treasurer in the following accounts and funds, as applicable:

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

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

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

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

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

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

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

SECTION 4.03. Establishment and Application of Escrow Funds.

(A) Establishment of Escrow Funds. In connection with the issuance of any Series of Subordinate Refunding Bonds, the District shall establish a special trust fund with respect to the Refunded Bonds. Such special fund shall be designated as the “Subordinate Water Revenue Refunding Bonds Escrow Fund” and shall bear such additional designation as shall be

determined by an Authorized Representative. Each Escrow Fund established pursuant to the terms of this Section 4.03(A) shall be held by the Escrow Agent for such Series of Subordinate Refunding Bonds pursuant to the Escrow Instructions for such Series of Subordinate Refunding Bonds. Moneys in the Escrow Fund for such Series of Subordinate Refunding Bonds shall be applied solely as provided in the Escrow Instructions for such Series of Subordinate Refunding Bonds.

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

The Escrow Instructions for each Series of Subordinate Refunding Bonds shall specify which Covered Obligations or other indebtedness or obligations for borrowed money are to be refunded by such Series. The Covered Obligations or other indebtedness or obligations which are specified by the Escrow Instructions for such Series of Subordinate Refunding Bonds as the obligations to be refunded by a Series of Subordinate Refunding Bonds are referred to herein as the "Refunded Bonds."

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

Obligations does not cause interest on either the related Refunded Bonds or the Subordinate Refunding Bonds of the related Series to be included in gross income for purposes of federal income taxation under relevant provisions of the Code.

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

(B) The District shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the Reserve Fund established with respect to any Series of Subordinate Refunding Bonds until such Series is discharged in accordance with the provisions of Article IX of the Master Subordinate Resolution. The amount of the Bond Reserve Requirement applicable to any Series of Subordinate Refunding Bonds shall be set forth in the Bond Purchase Contract for such Series. In the event of any deficiency in a Reserve Fund, the Treasurer shall replenish such deficiency in accordance with the provisions of Section 5.05 of the Master Subordinate Resolution.

(C) All amounts in the Reserve Fund established with respect to any Series of Subordinate Refunding Bonds shall be used and withdrawn by the Treasurer solely for the purpose of (i) paying principal of and interest on such Series of Subordinate Refunding Bonds in the event moneys in the Subordinate 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 Subordinate Refunding Bonds. Any amounts in the Reserve Fund established with respect to a Series of Subordinate Refunding Bonds in excess of the Bond Reserve Requirement for such Series shall be transferred to the Subordinate Bond Service Fund established for such Series unless otherwise specified in a Certificate of an Authorized Representative.

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

(D) Notwithstanding anything in this Section 4.04 or in Section 4.01(D) to the contrary, at the option of the District amounts required to be held in a Reserve Fund may be substituted, in whole or in part, by the deposit with the Fiscal Agent of a Reserve Fund Credit Policy in a stated amount equal to the amounts so substituted, provided that before the substitution of such Reserve Fund Credit Policy the Rating Agencies shall have been notified of such proposed substitution and the substitution shall not result in a downgrading or withdrawal

of any rating of such Reserve Fund then in effect by the Rating Agencies. Any such substituted moneys shall be applied as provided in a Certificate of an Authorized Representative.

So long as a Reserve Fund Credit Policy shall be in force and effect, any deposits required to be made with respect to the applicable Reserve Fund pursuant to Section 5.05 of the Master Subordinate Resolution shall include any amounts due to the provider of such Reserve Fund Credit Policy resulting from a draw on such Reserve Fund Credit Policy (which amounts shall constitute a “deficiency” from the applicable Reserve Fund within the meaning of Section 5.05 of the Master Subordinate Resolution). Any such amounts shall be paid to the provider of such Reserve Fund Credit Policy as provided in such Reserve Fund Credit Policy or any related agreement.

SECTION 4.05. Establishment and Application of Excess Earnings Funds. To ensure proper compliance with the tax covenants contained in Section 4.06 hereof, if required by the related Tax and Nonarbitrage Certificate, the District shall establish and the Treasurer shall maintain a fund for each Series of Subordinate Refunding Bonds issued hereunder, which fund shall be separate from any other fund or account established and maintained hereunder or under the Master Subordinate Resolution and shall be designated as the “Subordinate Water Revenue Refunding Bonds Excess Earnings Fund” and shall bear such additional designation as shall be determined by an Authorized Representative. All money at any time deposited in the Excess Earnings Fund for such Series of Subordinate Refunding Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series shall be held by the Treasurer for the account of the District in trust for payment to the federal government of the United States of America, and neither the District nor any Owner of Subordinate Refunding Bonds of such Series shall have any rights in or claim to such money. All amounts deposited into or on deposit in any such Excess Earnings Fund shall be governed by this First Supplemental Subordinate Resolution and by the Tax and Nonarbitrage Certificate with respect to such Series. 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 Subordinate Refunding Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

SECTION 4.06. Tax Covenants. Except with respect to Subordinate Refunding Bonds the interest of which is included in the gross income of the Owners thereof, to maintain the exclusion from gross income of the interest on the Subordinate Refunding Bonds for federal income tax purposes, the District covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and the District agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate which by this reference is incorporated herein, as a source of guidance for compliance with such provisions.

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

Supplemental Subordinate Resolution on the basis of the District's failure to observe, or refusal to comply with, such covenant.

ARTICLE V FISCAL AGENT AND PAYING AGENT

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

ARTICLE VI UNDERTAKINGS

SECTION 6.01. Municipal Securities Disclosure. The District is authorized to enter into a Continuing Disclosure Certificate with respect to a Series of Subordinate Refunding Bonds if necessary or appropriate in order for the Underwriters to comply with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, or if the Ad Hoc Committee otherwise determines that it is appropriate that the District do so. The District hereby agrees to provide or cause to be provided certain annual financial information and notices of certain material events with respect to each Series of Subordinate Refunding Bonds in accordance with the terms of a related Continuing Disclosure Certificate, if any, delivered by the District in connection with such Series of Subordinate Refunding Bonds.

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

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

ARTICLE VII MISCELLANEOUS

SECTION 7.01. Subordinate Refunding Bonds Subject to the Master Subordinate Resolution. Except as expressly provided in this First Supplemental Subordinate Resolution, every term and condition contained in the Master Subordinate Resolution shall apply to this First Supplemental Subordinate Resolution and to the Subordinate Refunding Bonds with the same force and effect as if it were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this First Supplemental Subordinate Resolution. The Master Subordinate Resolution, as amended and

supplemented by this First Supplemental Subordinate Resolution, is in all respects ratified and approved.

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

SECTION 7.03. Severability of Invalid Provisions. If any one or more of the provisions contained in this First Supplemental Subordinate Resolution or in the Subordinate Refunding Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this First Supplemental Subordinate Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this First Supplemental Subordinate Resolution, and this First Supplemental Subordinate Resolution shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have adopted this First Supplemental Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Subordinate Refunding Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this First Supplemental Subordinate Resolution may be held illegal, invalid or unenforceable.

SECTION 7.04. Article and Section Headings and References; Interpretation. The headings or titles of the several Articles and Sections hereof shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this First Supplemental Subordinate Resolution.

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

SECTION 7.05. Governing Law. This First Supplemental Subordinate Resolution shall be construed and governed in accordance with the laws of the State of California.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the affirmative votes of members representing more than 50 percent of the total number of votes of all members of the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on March 8, 2016.

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

EXHIBIT A

[FORM OF SUBORDINATE REFUNDING BOND]

No. 1 \$ _____

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE REFUNDING BOND
SERIES _____

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

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

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

PRINCIPAL AMOUNT: _____ DOLLARS (\$ _____)

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

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

This Series _____ Subordinate Refunding Bond is one of a duly authorized issue of “The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds, Series _____” (the “Series _____ Subordinate Refunding Bonds”) issued in the aggregate principal amount of \$_____ pursuant to the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented (the “Act”), Resolution _____ of the District adopted on March 8, 2016 (as amended and supplemented, the “Master Subordinate Resolution”), Resolution _____ adopted by the District on March 8, 2016 (the “First Supplemental Subordinate Resolution,” and the Master Subordinate Resolution as supplemented by the First Supplemental Subordinate Resolution is referred to herein as the “Resolutions”). Reference is hereby made to the Master Subordinate Resolution, the First Supplemental Subordinate Resolution and the Act for a description of the terms on which the Series _____ Subordinate Refunding Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Net Operating Revenues (as defined in the Resolutions), and all of the terms of the Resolutions and the Act are hereby incorporated herein and constitute a contract between the District and the registered owner from time to time of this Series _____ Subordinate Refunding Bond, and by acceptance hereof the registered holder of this Series _____ Subordinate Refunding Bond assents to said terms and conditions. The Resolutions are adopted under, and this Series _____ Subordinate Refunding Bond is issued under, and all are to be construed in accordance with, the laws of the State of California. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Resolutions, as applicable.

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

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

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

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

The rights and obligations of the District, the Fiscal Agent and of the owners of the Series _____ Subordinate Refunding Bonds may be modified or amended from time to time in the manner, to the extent and upon the terms provided in the Resolutions.

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

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

[Remainder of Page Intentionally Left Blank]

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

[SEAL]

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

Controller of The Metropolitan Water
District of Southern California

COUNTERSIGNED:

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

FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION

This Series _____ Subordinate Refunding Bond is one of The Metropolitan Water District of Southern California Subordinate Water Revenue Refunding Bonds delivered pursuant to the Master Subordinate Resolution and the First Supplemental Subordinate Resolution.

Date: _____, 20__

_____,
as Fiscal Agent

By _____
Authorized Signatory

ASSIGNMENT

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

TEN COM: as tenants in common

TEN ENT: as tenants by the entireties

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

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

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

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

the within-mentioned registered Series _____ Subordinate Refunding Bond and hereby
irrevocably constitute(s) _____ and appoint(s)

attorney, to transfer the same on
the books of the Fiscal Agent with full power of substitution in the premises.

Dated: _____

SIGNATURE GUARANTEED:

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

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

Resolution Comparison

The proposed Master Subordinate Resolution includes covenant security provisions that differ from the existing Senior Debt Resolution. These new provisions will allow Metropolitan to issue a broader range of short- and medium-term debt products to better meet the needs of investors. The Master Subordinate Resolution will also provide for more flexible legal provisions of key security features, such as the rate covenant and the additional bonds test, which better reflect today's industry standards. Key differences between the proposed Master Subordinate Resolution and the existing Senior Debt Resolution include the following:

Issue	Existing Senior Debt Resolution	Proposed Master Subordinate Resolution
Purchase Price of Tendered Bonds and Events of Default (short- and medium term debt products)	<ul style="list-style-type: none"> • Hard put structure cannot be easily utilized. • Purchase Price is an unsecured obligation. The failure to pay Purchase Price does not result in an event of default • Bonds with this soft put structure cannot be purchased by certain investors. 	<ul style="list-style-type: none"> • Hard put structure can be utilized. • Purchase Price is a secured obligation. However, Purchase Price is not required to be included in annual rates and charges to comply with the rate covenant. • Failure to pay the Purchase Price does result in an event of default. • This hard put structure is preferred by certain investors.
Rate Covenant requires rates and charges, and other available pledged revenues, to be sufficient to pay operating expenses and debt service	<ul style="list-style-type: none"> • All secured obligations must be incorporated into rates and charges. If Purchase Price obligation was secured, it must be included in annual rates and charges. • Unrestricted reserves cannot be used to meet rate covenant. 	<ul style="list-style-type: none"> • Metropolitan can incorporate assumptions, such as the Purchase Price is a secured obligation, but is not included in annual rates and charges. • Unrestricted reserves can be used to meet the rate covenant. This ensures that all debt payments are made, in the event of unexpected financial difficulties, such as caused by an earthquake, thereby preventing a potential bond default.

<p>Additional Bonds Test specifies amount that Net Operating Revenues (NOR) less Operation and Maintenance Expenses, must cover debt service on outstanding and new proposed debt</p>	<ul style="list-style-type: none"> • Debt service test uses maximum annual debt service • NOR test is 1.20 times • Revenues incorporate only rate increases in effect at time of test • Interest on variable rate bonds, supported by a standby bond purchase agreement, assumed at the prime rate (currently 3.50%) • Revolving credit agreements assumed as long-term fixed rate debt, inclusive of supported variable rate debt service 	<ul style="list-style-type: none"> • Debt service test uses average annual debt service, which is generally lower than maximum annual debt service. • NOR test is 1.00 times. • Revenues incorporate adopted, but not effective, rate increases. • All projected variable interest rates assumed at current market rates (currently 0.1%). • Revolving credit agreements assumed as long-term fixed-rate debt, but supported variable rate debt service is excluded. • New provisions provide added flexibility for new debt issuance.
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