



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

5/8/2018 Board Meeting

8-3

Subject

Adopt CEQA determination and adopt Fourth Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of up to \$80 Million of Subordinate Water Revenue Bonds, 2018 Series; and approve expenditures to fund the costs of issuance of the Bonds

Executive Summary

The Fourth Supplemental Subordinate Resolution to the Master Subordinate Resolution (the Fourth Supplemental Subordinate Resolution) in **Attachment 1** would authorize the issuance of up to \$80 million of Subordinate Water Revenue Bonds, 2018 Series. In April 2018, the Board adopted the proposed biennial budget for fiscal years (FYs) 2018/19 and 2019/20 (FYs 2018/19 and 2019/20 Biennial Budget), which includes a capital investment plan projecting annual capital expenditures of \$200 million per year for FYs 2018/19 and 2019/20, of which 40 percent (\$80 million annually) is anticipated to be debt-financed. Bond proceeds would fund a portion of projected capital expenditures primarily for fiscal year (FY) 2018/19 and all or a portion of the costs of issuance of the bonds, consistent with the FYs 2018/19 and 2019/20 Biennial Budget.

Details

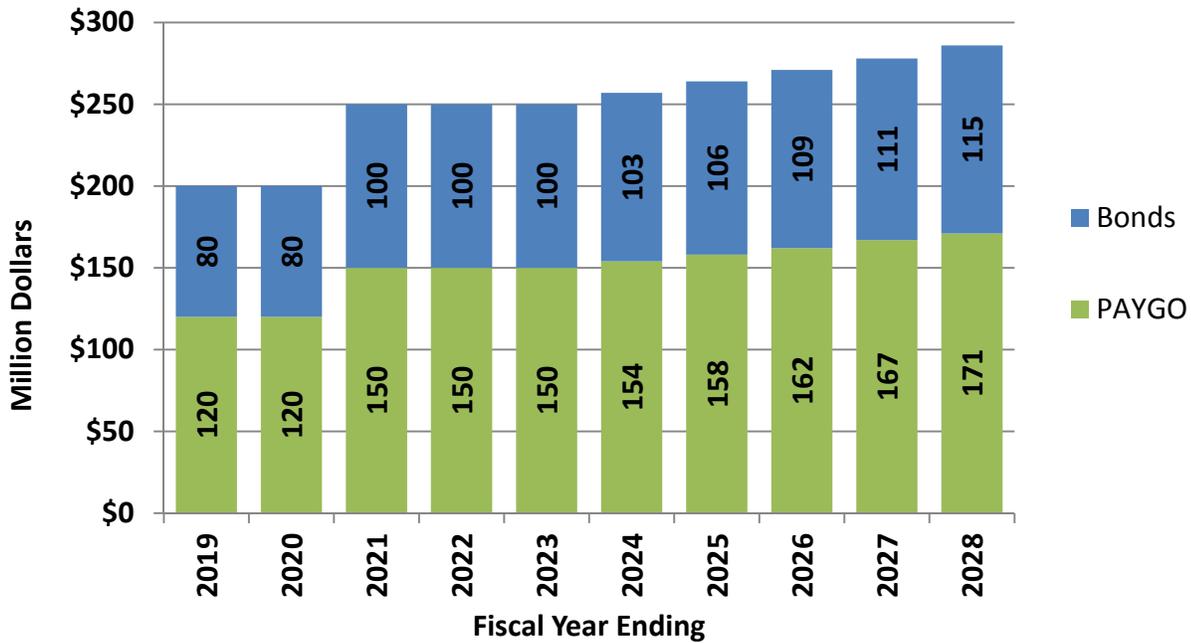
This letter proposes that the Board authorize the issuance of up to \$80 million in Subordinate Water Revenue Bonds, 2018 Series. The issuance of up to \$80 million is proposed under the remaining authority of Ordinance No. 150, which was adopted by the Board on June 13, 2017. Of the \$400 million of authority under Ordinance No. 150, \$43.3 million was utilized for the issuance of Metropolitan's Subordinate Water Revenue Bonds, 2017 Series C. The proposed financing would use up to \$80 million of the remaining \$356.7 million authorized by Ordinance No. 150.

If authorized, the bonds are expected to be issued in one or more series. Annual debt service on up to \$80 million is \$3.4 million per year. The costs of issuance, estimated to not exceed \$150,000, would be funded from bond proceeds or Metropolitan funds.

Use of Proceeds

The proceeds from the sale of bonds under the Fourth Supplemental Subordinate Resolution would be used to pay for capital expenditures, primarily for FY 2018/19, as projected in the FYs 2018/19 and 2019/20 Biennial Budget. Funding a portion of capital expenditures with revenue bonds instead of exclusively using operating revenues is consistent with sound financial policy and provides flexibility to finance a portion of board-approved capital expenditures. The capital expenditure funding as presented in the FYs 2018/19 and 2019/20 Biennial Budget, and shown in *Figure 1* below, consists of \$120 million from operating revenues and \$80 million from revenue bonds for each fiscal year. Therefore, funding a portion of capital expenditures from bond proceeds is consistent with the FYs 2018/19 and 2019/20 Biennial Budget, and meets a prudent long-term goal of funding 40 percent of capital expenditures from debt.

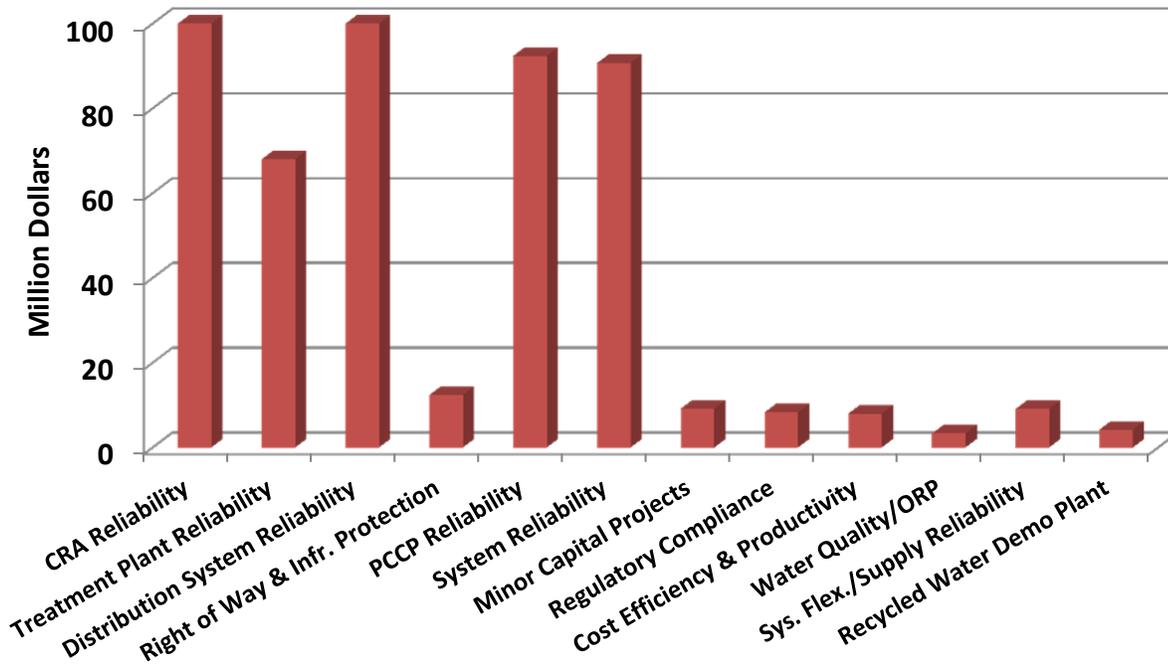
Figure 1: Capital Expenditures, FYs 2018/19 and 2019/20 Biennial Budget (operating revenues = PAYGO)¹



The planned capital spending as developed by Engineering Services and presented in the capital expenditures section of the FYs 2018/19 and 2019/20 Biennial Budget is estimated to be \$514 million over the biennium. Over the last several years, actual expenditures for those planned capital projects have been about 20 percent below planned spending. In keeping with that trend, the capital expenditures in the FYs 2018/19 and 2019/20 Biennial Budget are 80 percent of planned engineering spending, or \$200 million in each fiscal year. The largest capital expenditures in the FYs 2018/19 and 2019/20 Biennial Budget are for infrastructure and system reliability, either as upgrades to existing capital assets or replacements and refurbishments. Figure 2 below shows planned capital expenditures for the biennial period by program.

¹ Proposed Biennial Budget for FYs 2018/19 and 2019/20; Ten-Year Financial Forecast, Workshop #1 (Budget, Rates and Charges), Finance & Insurance Committee, February 12, 2018, slide 60; see also adopted Biennial Budget for FYs 2018/19 and 2019/20, p. 191.

Figure 2: FYs 2018/19 and 2019/20 Capital Spending by Program²



The proposed issuance of up to \$80 million is consistent with the Board’s adopted plans for the financing of capital expenditures. The Board’s adopted budget anticipated 40 percent of debt financing (\$80 million annually for the biennial period) to fund its capital expenditure budget and to maintain modest rate increases. The ratio of operating revenues and debt financing (60/40) will result in lower capital financing costs in the future and provides increased financial flexibility and resiliency. Without the ability to bond finance a portion of capital expenditures in FY 2018/19, Metropolitan may have to curtail funding capital projects, use additional reserves to fund capital costs, and/or increase water rates higher than projected in future years.

Bond financing increases Metropolitan’s flexibility to finance capital expenditures that carry out Metropolitan’s purposes by using revenue bond proceeds, rather than operating revenues or financial reserves. A balanced approach to financing capital expenditures with both operating revenues and revenue bond funding helps mitigate increases in water rates, provide financial flexibility, and supports sound revenue bond debt service and fixed charge coverage ratios. These factors will help Metropolitan maintain strong bond credit ratings, which provide tangible benefits to ratepayers in the form of reduced debt service cost. Strong credit ratings provide better access to capital markets, lower interest rates, and better terms on a broad range of debt products. Prudent financial management policies have resulted in bond ratings of AAA from Standard & Poor’s, Aa1 from Moody’s, and AA+ from Fitch Ratings for Metropolitan’s senior lien revenue bonds. Metropolitan’s subordinate lien revenue bond ratings are AA+ from Standard & Poor’s and AA+ from Fitch Ratings.

² *Proposed Capital Investment Plan for Fiscal Years 2018/19 and 2019/20, Budget Workshop #3, Finance & Insurance Committee, March 12, 2018, slide 15, amended to include only the FYs 2018/19 and 2019/20 capital spending; see also adopted Biennial Budget for FYs 2018/19 and 2019/20, p. 210.*

Consistent with past board practice, the Fourth Supplemental Subordinate Resolution establishes an Ad Hoc Committee of the Board with authority to determine the aggregate principal amount and the terms and conditions of each sale of bonds. The Ad Hoc Committee consists of the Chairman of the Board, the Chairman of the Finance and Insurance Committee, and the General Manager.

Policy

Metropolitan Water District Act Section 57: Vote Required for Board Action

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

Metropolitan Water District Act Section 123: Borrowing, Limitation

Metropolitan Water District Act Sections 235-239.4: Revenue Bonds

Metropolitan Board Ordinance No. 126, dated March 12, 1974: Revenue Bond Election

Metropolitan Board Ordinance No. 150, dated June 13, 2017: Determining that the Interests of the District Require the Use of Revenue Bonds in the Aggregate Principal Amount of \$400,000,000 to Finance a Portion of Capital Expenditures

By Minute Item 51163, dated April 10, 2018, the Board approved the FYs 2018/19 and 2019/20 Biennial Budget, and approved appropriations for debt service and approved budget for capital expenditures

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because the proposed action will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and 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 defined as a project under CEQA because it involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not defined as a project under Public Resources Code Section 21065 and State CEQA Guidelines Sections 15378(b)(2) and 15378(b)(4).

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

- a. Adopt the Fourth Supplemental Subordinate Resolution to the Master Subordinate Resolution authorizing the issuance of up to \$80 million of Subordinate Water Revenue Bonds, 2018 Series and providing the terms and conditions for the sale and issuance of said Subordinate Water Revenue Bonds; and
- b. Approve up to \$150,000 for the payment of the costs of issuance of the Subordinate Water Revenue Bonds, 2018 Series to be paid from bond proceeds or Metropolitan funds.

Fiscal Impact: Estimated increase in debt service payments of approximately \$3.4 million per year for the issuance of up to \$80 million of Subordinate Water Revenue Bonds, 2018 Series. The estimated increase in debt is already taken into consideration in the FYs 2018/19 and 2019/20 Biennial Budget.

Business Analysis: Would enable Metropolitan to access capital markets to provide funding for ongoing capital expenditures, consistent with the debt assumptions in the FYs 2018/19 and 2019/20 Biennial Budget.

Option #2

Do not adopt the Fourth Supplemental Subordinate Resolution to the Master Subordinate Resolution.

Fiscal Impact: May miss the opportunity to fund capital expenditures at favorable interest rate levels, thereby resulting in higher debt service costs and/or higher water rates.

Business Analysis: Capital market access would be delayed, thereby limiting Metropolitan's options or ability to fund ongoing capital expenditures, or Metropolitan may have to curtail funding capital projects.

Staff Recommendation

Option #1



Gary Breaux
Chief Financial Officer/
Assistant General Manager

4/27/2018
Date



Jeffrey Kightlinger
General Manager

4/27/2018
Date

Attachment 1 - Resolution Authorizing the Issuance of up to \$80,000,000 of Subordinate Water Revenue Bonds and Providing the Terms and Conditions for the Sale and Issuance of Said Subordinate Water Revenue Bonds and Providing for Transaction Documents (Fourth Supplemental Subordinate Resolution)

Ref# cfo12657248

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
RESOLUTION [_____]**

**RESOLUTION AUTHORIZING THE ISSUANCE OF UP TO \$80,000,000 OF
SUBORDINATE WATER REVENUE BONDS AND
PROVIDING THE TERMS AND CONDITIONS FOR THE SALE AND ISSUANCE OF
SAID SUBORDINATE WATER REVENUE BONDS AND PROVIDING FOR
TRANSACTION DOCUMENTS
(FOURTH SUPPLEMENTAL SUBORDINATE RESOLUTION)**

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**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

RESOLUTION [_____]

**RESOLUTION AUTHORIZING THE ISSUANCE OF UP TO \$80,000,000 OF
SUBORDINATE WATER REVENUE BONDS AND
PROVIDING THE TERMS AND CONDITIONS FOR THE SALE AND ISSUANCE OF
SAID SUBORDINATE WATER REVENUE BONDS AND PROVIDING FOR
TRANSACTION DOCUMENTS
(FOURTH SUPPLEMENTAL SUBORDINATE RESOLUTION)**

The Board of Directors of The Metropolitan Water District of Southern California (the “Board”) hereby finds that:

1. Pursuant to the Act (as defined below), 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;
2. Pursuant to Resolution 9199 adopted by the District on March 8, 2016, as amended and supplemented (the “Master Subordinate Resolution”), the District has authorized the issuance of The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds (the “Bonds”) by adoption of supplemental resolutions from time to time, with the payment of the principal of, interest on, and any redemption premiums thereon being secured by and payable solely from the Net Operating Revenues (as defined in the Master Subordinate Resolution) of the District;
3. Pursuant to Ordinance 150 adopted by the District on June 13, 2017, the District determined that the interests of the District require the use of revenue bonds in the aggregate principal amount of \$400,000,000 to finance a portion of the District’s capital expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District;
4. \$43,255,000 aggregate principal amount of revenue bonds have been issued under the authority of Ordinance 150;
5. The interests of the District require the District to proceed under the Master Subordinate Resolution and Ordinance 150 and issue and sell the Subordinate Water Revenue Bonds, 2018 Series (the “2018 Subordinate Water Revenue Bonds”) in an aggregate principal amount not to exceed \$80,000,000, in one or more Series, to finance all or a portion of the costs of acquisition, construction and improvements to

- the Water System (as defined in the Master Subordinate Resolution) and any other cost or expense permitted under Section 237 of the Act;
6. The District desires to adopt this Fourth Supplemental Subordinate Resolution to the Master Subordinate Resolution (the “Fourth Supplemental Subordinate Resolution”) for the purposes of authorizing the issuance of the 2018 Subordinate Water Revenue Bonds;

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

ARTICLE I

DEFINITIONS

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

“Act” means the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended and supplemented by applicable provisions of the Government Code of the State of California, including by Chapter 3 (Section 53400 *et seq.*) and Chapter 6 (Section 54300 *et seq.*) of Part 1 of Division 2 of Title 5.

“Ad Hoc Committee” has the meaning set forth in Section 3.01.

“Bank Documents” means a) any continuing covenant agreement, bondholder agreement or other agreement between the District and a commercial bank or other financial institution providing for the purchase by such commercial bank or financial institution of one or more Series of 2018 Subordinate Water Revenue Bonds, and b) any Credit/Liquidity Support Arrangement.

“Bond Reserve Requirement” means the amount, if any, to be deposited in a Reserve Fund established for a Series of 2018 Subordinate Water Revenue Bonds under the terms of the Transaction Documents for such Series and pursuant to the terms of Section 4.04.

“Capitalized Interest Fund” means, with respect to a Series of 2018 Subordinate Water Revenue Bonds, the 2018 Subordinate Water Revenue Bonds Capitalized Interest Fund established for such Series pursuant to Section 4.06.

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

“Construction Costs” means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Water System and any facilities related thereto.

“Construction Fund” means, with respect to a Series of 2018 Subordinate Water Revenue Bonds, the 2018 Subordinate Water Revenue Bonds Construction Fund established for such Series pursuant to Section 4.03.

“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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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, underwriter discounts, fees and disbursements of consultants and professionals, municipal advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of the 2018 Subordinate Water Revenue Bonds of such Series, and any other cost, charge or fee in connection with the delivery of the 2018 Subordinate Water Revenue Bonds of such Series.

“Costs of Issuance Fund” means, with respect to a Series of 2018 Subordinate Water Revenue Bonds, the 2018 Subordinate Water Revenue Bonds Costs of Issuance Fund established for such Series pursuant to Section 4.02.

“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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds.

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

“Excess Earnings Fund” means, with respect to a Series of 2018 Subordinate Water Revenue Bonds, the 2018 Subordinate Water Revenue Bonds Excess Earnings Fund established for such Series pursuant to Section 4.05.

“Fiscal Agent” means the fiscal agent appointed pursuant to Section 5.01.

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

“Master Subordinate Resolution” means Resolution 9199 adopted by the District on March 8, 2016, as from time to time amended and supplemented.

“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 directly or indirectly holds certificates as securities depository.

“Paying Agent” means any paying agent appointed pursuant to Section 5.01.

“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 2018 Subordinate Water Revenue Bonds of a Series and, if applicable, to determine the daily, weekly or other periodically determined interest rate of 2018 Subordinate Water Revenue Bonds of such Series.

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

“Reserve Fund” means the 2018 Subordinate Water Revenue Bonds Reserve Fund established for a Series of 2018 Subordinate Water Revenue Bonds pursuant to Section 4.04.

“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.

“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 2018 Subordinate Water Revenue Bonds of one or more Series or (b) any other tendered Bonds of one or more Series authorized by any Supplemental Resolution.

“Sales Documents” means, in the case of a negotiated sale, any bond purchase contract or other agreement for the purchase of one or more Series of 2018 Subordinate Water Revenue Bonds between the District and the Underwriters for such Series or, in the case of a competitive sale, any notice of sale, bid form and other documents providing for the sale of one or more Series of 2018 Subordinate Water Revenue Bonds.

“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 2018 Subordinate Water Revenue Bonds.

“Transaction Documents” means, with respect to any Series of 2018 Subordinate Water Revenue Bonds, any related Tax and Nonarbitrage Certificate, Trust Agreement, Bank Documents and Sales Documents.

“Trust Agreement” means the trust agreement, paying agent agreement or such other instrument or instruments executed and delivered in connection with the issuance of any Series of 2018 Subordinate Water Revenue Bonds which sets forth the terms and conditions of such 2018 Subordinate Water Revenue Bonds and which appoints any Paying Agent, Remarketing Agent or other agent with respect to such Series.

“Underwriters” means, with respect to a 2018 Subordinate Water Revenue Bond, in the case of a negotiated sale, the original purchaser or purchasers of such Series of 2018 Subordinate Water Revenue Bonds and in the case of a competitive sale, the successful bidder or bidders for such Series of 2018 Subordinate Water Revenue Bonds.

“2018 Subordinate Water Revenue Bonds” has the meaning ascribed thereto in Section 2.01.

ARTICLE II

THE 2018 SUBORDINATE WATER REVENUE BONDS

SECTION 2.01 Authorization. Bonds are hereby authorized to be issued pursuant to the Act and the Master Subordinate Resolution to pay for the costs of acquiring, constructing, reconstructing, replacing, extending and improving the Water System and any other cost or expense permitted under Section 237 of the Act and any facilities related thereto, which Bonds are designated as “The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds, 2018 Series” (the “2018 Subordinate Water Revenue Bonds”). 2018 Subordinate Water Revenue Bonds may be issued in one or more Series from time to time in accordance with the terms hereof, and each Series of 2018 Subordinate Water Revenue Bonds shall bear such additional designation as may be set forth in the Transaction Documents for such Series. Each Series of 2018 Subordinate Water Revenue Bonds shall consist of Current Interest Bonds under the Master Subordinate Resolution. A Series of 2018 Subordinate Water Revenue Bonds shall be issued in the aggregate principal amount specified in the Transaction Documents for such Series; provided, however, in no event shall the total aggregate principal amount of the 2018 Subordinate Water Revenue Bonds exceed \$80,000,000.

SECTION 2.02 Terms of the 2018 Subordinate Water Revenue Bonds.

(A) 2018 Subordinate Water Revenue Bonds. 2018 Subordinate Water Revenue Bonds of each Series shall be issued in the aggregate principal amount set forth in the Transaction Documents for such Series, shall be delivered in fully registered form in the minimum denominations for the 2018 Subordinate Water Revenue Bonds of such Series set forth in the Transaction Documents for such Series, and shall be numbered in such manner as the Fiscal Agent determines. The 2018 Subordinate Water Revenue Bonds of any Series shall be dated such date and shall mature on the dates and in the principal amounts set forth in the Transaction Documents for such Series.

The Transaction Documents for any Series of 2018 Subordinate Water Revenue Bonds shall designate which, if any, of the 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 Fourth Supplemental Subordinate Resolution and the Transaction Documents for such Series.

SECTION 2.03 Interest. The 2018 Subordinate Water Revenue Bonds of any Series shall bear interest at the rates and in the manner set forth in the Transaction Documents for such Series, and shall be payable on the dates set forth in such Transaction Documents. Each 2018 Subordinate Water Revenue Bond of a Series shall bear interest from the date specified in the Transaction Documents for such Series.

Each 2018 Subordinate Water Revenue Bond shall bear interest until the principal thereof has been paid; provided, however, that if at the maturity date of any 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bond shall then cease to bear interest.

SECTION 2.04 Place of Payment. The principal of each Series of 2018 Subordinate Water Revenue Bonds shall be payable in lawful money of the United States of America upon presentation and surrender of such 2018 Subordinate Water Revenue Bonds at the location or locations specified in the Transaction Documents with respect to such Series. Interest on the 2018 Subordinate Water Revenue Bonds of any Series shall be paid in the manner as, and to the persons, specified in the Transaction Documents for such Series.

SECTION 2.05 Redemption.

(A) Optional Redemption. The 2018 Subordinate Water Revenue Bonds of any Series may 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 Transaction Documents for such Series.

(B) Mandatory Sinking Account Payments. The 2018 Subordinate Water Revenue Bonds Term Bonds of any Series, if any, 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 2018 Subordinate Water Revenue Bonds, Bond Service Fund, in the amounts and upon the dates established for each such maturity, as set forth in the Transaction Documents for such Series.

(C) Special Mandatory Redemption. The 2018 Subordinate Water Revenue 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 Transaction Documents 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds to be redeemed, all liability of the District in respect of such 2018 Subordinate Water Revenue Bonds shall be discharged as provided in Section 9.02 of the Master Subordinate Resolution.

SECTION 2.06 **Form of 2018 Subordinate Water Revenue Bonds.** Except as otherwise provided in the Transaction Documents for a Series, the 2018 Subordinate Water Revenue Bonds of any Series shall be issued in substantially the form set forth in Exhibit A hereto or as otherwise approved by the Ad Hoc Committee.

SECTION 2.07 **CUSIP Identification Numbers.** The Underwriters or the District's municipal advisor shall order, and the District shall cause to be printed on the 2018 Subordinate Water Revenue Bonds, CUSIP identification numbers. However, CUSIP identification numbers shall be deemed to not be part of the 2018 Subordinate Water Revenue 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 Transaction Documents with respect to 2018 Subordinate Water Revenue Bonds of any Series, the 2018 Subordinate Water Revenue Bonds of each Series shall be initially issued in the form of a single (unless more than a single 2018 Subordinate Water Revenue Bond is required by the Securities Depository), separate, fully registered 2018 Subordinate Water Revenue Bond (which may be typewritten) for each maturity of the 2018 Subordinate Water Revenue Bonds of such Series. Upon initial issuance, the ownership of each 2018 Subordinate Water Revenue 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, the ownership of each Outstanding 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds of any Series. The District and the Fiscal Agent may treat and consider the person in whose name each 2018 Subordinate Water Revenue Bond of any Series is

registered in the Bond Register of the Fiscal Agent as the holder and absolute Owner of such 2018 Subordinate Water Revenue Bond for the purpose of payment of principal of, and interest on, such 2018 Subordinate Water Revenue Bond, for the purpose of giving notices and other matters with respect to such 2018 Subordinate Water Revenue Bond, and for all other purposes whatsoever.

The Fiscal Agent shall pay all principal of and interest on the 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bond of any Series evidencing the obligation to make payments of principal and interest and premium, if any, pursuant to this Fourth 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 Fourth Supplemental Subordinate Resolution shall refer to such new nominee of the Securities Depository.

SECTION 2.09 **Representation Letter.** To qualify the 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the 2018 Subordinate Water Revenue 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 Fourth Supplemental Subordinate Resolution, to qualify the 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds of any Series, or (b) the District determines that the Securities Depository shall, subject to the provisions of the Trust Agreement for the 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate

Water Revenue Bond for each maturity of the 2018 Subordinate Water Revenue 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 Fourth Supplemental Subordinate Resolution. If the District fails to identify another qualified securities depository to replace the Securities Depository, then the 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 Fourth Supplemental Subordinate Resolution or the Master Subordinate Resolution to the contrary, so long as any 2018 Subordinate Water Revenue Bond is registered in the name of the Nominee, all payments with respect to principal of, and interest and premium, if any, on, such 2018 Subordinate Water Revenue Bond and all notices with respect to such 2018 Subordinate Water Revenue 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 Fourth 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds, the terms and conditions of, and the execution and delivery of, each Series of 2018 Subordinate Water Revenue Bonds, and the terms and conditions of the sale of each Series of 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds.

SECTION 3.03 Approval of Transaction Documents. 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, each Transaction Document for each Series of 2018 Subordinate Water Revenue Bonds.

The provisions of each Transaction Document for each Series of 2018 Subordinate Water Revenue Bonds are hereby incorporated by reference into this Fourth Supplemental Subordinate Resolution with the same force and effect as if set forth herein.

SECTION 3.04 Approval of Remarketing Agreement and other Documents. In connection with the sale of 2018 Subordinate Water Revenue 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, if any, and (b) such other documents, agreements and certificates related to or necessary or advisable to the issuance of any Series of 2018 Subordinate Water Revenue Bonds or the execution and delivery of any Transaction Documents.

SECTION 3.05 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 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds or any Series of other Bonds authorized by any Supplemental Resolution.

SECTION 3.06 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 2018 Subordinate Water Revenue Bonds, any Transaction Document, 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 Fourth 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 Fourth Supplemental Subordinate Resolution in a manner that is most advantageous to the District.

SECTION 3.07 **Filing of Ad Hoc Committee Certificate.** The Ad Hoc Committee shall file a certificate concerning its actions pursuant to this Fourth Supplemental Subordinate Resolution with the District together with a copy of any Transaction Document for each Series of 2018 Subordinate Water Revenue 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 3.08 **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 3.09 **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 Fourth Supplemental Subordinate Resolution.

ARTICLE IV

SALE OF 2018 SUBORDINATE WATER REVENUE BONDS; APPLICATION OF PROCEEDS; FUNDS; COVENANTS

SECTION 4.01 **Application of the Proceeds of the 2018 Subordinate Water Revenue Bonds.** The proceeds of the sale of any Series of 2018 Subordinate Water Revenue Bonds and such other moneys as are available and necessary to accomplish the purposes of this Fourth Supplemental Subordinate Resolution from time to time shall be deposited with the District and shall be held in trust and be set aside by the District as provided in the Transaction Documents.

SECTION 4.02 **Establishment of Costs of Issuance Funds.** The District shall establish, maintain and hold in trust a separate fund with respect to each Series of the 2018 Subordinate Water Revenue Bonds, which shall be designated as the “2018 Subordinate Water Revenue Bonds Costs of Issuance Fund” and shall bear such additional designation as shall be determined by the District.

SECTION 4.03 **Establishment of Construction Funds.** The District shall establish, maintain and hold in trust a special trust fund with respect to each Series of the 2018 Subordinate Water Revenue Bonds, which shall be designated as the “2018 Subordinate Water Revenue Bonds Construction Fund” and shall bear such additional designation as shall be determined by the District.

SECTION 4.04 **Establishment, Pledge, Funding and Application of Reserve Funds.**

(A) In connection with the issuance of a Series of 2018 Subordinate Water Revenue Bonds pursuant to this Fourth Supplemental Subordinate Resolution, if required by any Transaction Documents for such Series, the District shall establish maintain and hold in trust a separate fund which shall be designated as the “2018 Subordinate Water Revenue Bonds Reserve Fund” and shall bear such additional designation as shall be determined by the District. Each 2018 Subordinate Water Revenue Bonds Reserve Fund shall be funded as set forth in this Section 4.04. All amounts held by the District in the 2018 Subordinate Water Revenue Bonds Reserve Fund established with respect to such Series of 2018 Subordinate Water Revenue Bonds shall be pledged to secure the payment of the principal of and interest on such Series of 2018 Subordinate Water Revenue Bonds.

(B) The District shall at all times maintain an amount equal to the applicable Bond Reserve Requirement in the 2018 Subordinate Water Revenue Bonds Reserve Fund established with respect to any Series of 2018 Subordinate Water Revenue 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 2018 Subordinate Water Revenue Bonds shall be set forth in the Transaction Documents for such Series. In the event of any deficiency in a 2018 Subordinate Water Revenue Bonds Reserve Fund, the District shall replenish such deficiency in accordance with the provisions of Section 5.05 of the Master Subordinate Resolution.

(C) All amounts in the 2018 Subordinate Water Revenue Bonds Reserve Fund established with respect to any Series of 2018 Subordinate Water Revenue Bonds shall be used and withdrawn by the District solely for the purpose of (i) paying principal of and interest on such Series of 2018 Subordinate Water Revenue Bonds in the event moneys in 2018 Subordinate Water Revenue Bonds, 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 2018 Subordinate Water Revenue Bonds. Any amounts in the 2018 Subordinate Water Revenue Bonds Reserve Fund established with respect to a Series of 2018 Subordinate Water Revenue Bonds in excess of the Bond Reserve Requirement for such Series shall be transferred to the 2018 Subordinate Water Revenue Bonds, Bond Service Fund established for such Series unless otherwise specified by the District.

All Authorized Investments credited to a 2018 Subordinate Water Revenue Bonds 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 at the District’s discretion.

(D) Notwithstanding anything in this Section 4.04 to the contrary, at the option of the District, amounts required to be held in a 2018 Subordinate Water Revenue Bonds 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 2018 Subordinate Water Revenue Bonds Reserve Fund then in

effect by the Rating Agencies. Any such substituted moneys shall be applied as provided by the District.

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 2018 Subordinate Water Revenue Bonds 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 2018 Subordinate Water Revenue Bonds 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 4.08, if required by the related Tax and Nonarbitrage Certificate, the District shall establish and maintain a fund for each Series of 2018 Subordinate Water Revenue 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 “2018 Subordinate Water Revenue Bonds Excess Earnings Fund” and shall bear such additional designation as shall be determined by the District. All money at any time deposited in the 2018 Subordinate Water Revenue Bonds Excess Earnings Fund for such Series of 2018 Subordinate Water Revenue Bonds in accordance with the provisions of the Tax and Nonarbitrage Certificate applicable to such Series shall be held in trust by the District for payment to the federal government of the United States of America, and neither the District nor any Owner of 2018 Subordinate Water Revenue Bonds of such Series shall have any rights in or claim to such money. All amounts deposited into or on deposit in any such 2018 Subordinate Water Revenue Bonds Excess Earnings Fund shall be governed by this Fourth Supplemental Subordinate Resolution and by the Tax and Nonarbitrage Certificate with respect to such Series. The District shall invest all amounts held in any such 2018 Subordinate Water Revenue Bonds Excess Earnings Fund in accordance with the applicable Tax and Nonarbitrage Certificate. Money shall not be transferred from the 2018 Subordinate Water Revenue Bonds Excess Earnings Fund established for a Series of 2018 Subordinate Water Revenue Bonds except in accordance with the Tax and Nonarbitrage Certificate with respect to such Series.

SECTION 4.06 **Establishment and Application of Capitalized Interest Funds.** If required by the Transaction Documents for a Series of 2018 Subordinate Water Revenue Bonds, the District may establish, maintain and hold in trust a separate fund with respect to a Series of the 2018 Subordinate Water Revenue Bonds, which shall be designated as the “2018 Subordinate Water Revenue Bonds Capitalized Interest Fund” and shall bear such additional designation as shall be determined by the District. Proceeds of a Series of 2018 Subordinate Water Revenue Bonds shall be deposited in the related 2018 Subordinate Water Revenue Bonds Capitalized Interest Fund for application to the interest payment due on an Interest Payment Date for such Series of 2018 Subordinate Water Revenue Bonds or such proceeds shall be deposited as otherwise provided in the Transaction Documents.

SECTION 4.07 **Establishment and Application of Additional Funds.** In addition to the funds established pursuant to the Master Subordinate Resolution and this Fourth

Supplemental Subordinate Resolution, there shall be established and maintained such additional funds and/or accounts as shall be set forth in any of the Transaction Documents for such purposes as the District deem necessary or desirable.

SECTION 4.08 **Tax Covenants.** In order to maintain the exclusion from gross income of the interest on the 2018 Subordinate Water Revenue 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 Fourth 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 2018 Subordinate Water Revenue 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 Fourth 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 2018 Subordinate Water Revenue Bonds. In addition, with respect to the 2018 Subordinate Water Revenue Bonds of a Series, the District 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 2018 Subordinate Water Revenue 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 events with respect to each Series of 2018 Subordinate Water Revenue Bonds in accordance with the terms of a related Continuing Disclosure Certificate, if any, delivered by the District in connection with such Series of 2018 Subordinate Water Revenue Bonds.

SECTION 6.02 **Default.** Failure to comply with the provisions of Section 6.01 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 2018 Subordinate Water Revenue Bonds.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01 **2018 Subordinate Water Revenue Bonds Subject to the Master Subordinate Resolution.** Except as expressly provided in this Fourth Supplemental Subordinate Resolution, every term and condition contained in the Master Subordinate Resolution shall apply to this Fourth Supplemental Subordinate Resolution and to the 2018 Subordinate Water Revenue 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 Fourth Supplemental Subordinate Resolution. The Master Subordinate Resolution, as amended and supplemented by this Fourth Supplemental Subordinate Resolution, is in all respects ratified and approved.

SECTION 7.02 **Terms Specified in Transaction Documents.** Any terms and conditions of the 2018 Subordinate Water Revenue Bonds of a Series required or permitted by this Fourth Supplemental Subordinate Resolution to be specified in, set forth in or determined pursuant to any Transaction Document for a Series may be specified in, set forth in or determined in any one of the Transaction Documents for such Series.

SECTION 7.03 **Severability of Invalid Provisions.** If any one or more of the provisions contained in this Fourth Supplemental Subordinate Resolution or in the 2018 Subordinate Water Revenue 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 Fourth Supplemental Subordinate Resolution and such invalidity, illegality or unenforceability shall not affect any other provision of this Fourth Supplemental Subordinate Resolution, and this Fourth 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 Fourth Supplemental Subordinate Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2018 Subordinate Water Revenue Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Fourth 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 Fourth Supplemental Subordinate Resolution.

All references herein to “Article,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Fourth Supplemental Subordinate Resolution; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Fourth 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 Fourth 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 May __, 2018.

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

EXHIBIT A

FORM OF 2018 SUBORDINATE WATER REVENUE BOND

No. 1

\$ _____

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SUBORDINATE WATER REVENUE BOND
2018 SERIES _____

UNLESS THIS 2018 SUBORDINATE WATER REVENUE BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE SECURITIES DEPOSITORY (AS DEFINED IN THE FOURTH SUPPLEMENTAL SUBORDINATE RESOLUTION) TO THE FISCAL AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY 2018 SUBORDINATE WATER REVENUE 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 Subordinate Water Revenue Bond, 2018 Series _____ is authenticated during the period after a record date but on or before the next Interest Payment Date, in which event this Subordinate Water Revenue Bond, 2018 Series _____ shall bear interest from that Interest Payment Date, or unless this Subordinate Water Revenue Bond, 2018 Series _____ is authenticated prior to the first record date, in which event this Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ is one of a duly authorized issue of “The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds, 2018 Series _____” (the “Subordinate Water Revenue Bonds, 2018 Series _____”) 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 May [___], 2018 (the “Fourth Supplemental Subordinate Resolution,” and the Master Subordinate Resolution as supplemented by the Fourth Supplemental Subordinate Resolution is referred to herein as the “Resolutions”). Reference is hereby made to the Master Subordinate Resolution, the Fourth Supplemental Subordinate Resolution and the Act for a description of the terms on which the Subordinate Water Revenue Bonds, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____, and by acceptance hereof the registered holder of this Subordinate Water Revenue Bond, 2018 Series _____ assents to said terms and conditions. The Resolutions are adopted under, and this Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bonds, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ or any interest hereon.

The Subordinate Water Revenue Bonds, 2018 Series _____ 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 Fourth Supplemental Subordinate Resolution.

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

This Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bonds, 2018 Series _____ may be modified or amended from time to time in the manner, to the extent and upon the terms provided in the Resolutions.

This Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____, 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 Subordinate Water Revenue Bonds, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____, 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 Subordinate Water Revenue Bonds, 2018 Series _____ permitted to be issued under the Resolutions.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the District has caused this Subordinate Water Revenue Bond, 2018 Series _____ 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
of The Metropolitan Water District
of Southern California

Controller of The Metropolitan
Water District of Southern California

COUNTERSIGNED:

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

FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION

This Subordinate Water Revenue Bond, 2018 Series _____ is one of The Metropolitan Water District of Southern California Subordinate Water Revenue Bonds delivered pursuant to the Master Subordinate Resolution and the Fourth 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 Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ 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 Subordinate Water Revenue Bond, 2018 Series _____ 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.